

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 21-487

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 11/08/21 Filing Description: Modifications to CME Clearing's Schedule of Acceptable Performance Bond

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: See filing.

New Product

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

Product Terms and Conditions (product related Rules and Rule Amendments)

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

Official Name(s) of Product(s) Affected:

Rule Numbers:

November 8, 2021

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**Re: CFTC Regulation 40.6(a) Certification. Modifications to CME Clearing's Schedule of Acceptable Performance Bond
CME Submission No. 21-487**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. ("CME" or "CME Clearing"), in its capacity as a derivatives clearing organization ("DCO") pursuant to Commodity Futures Trading Commission (the "Commission") Regulation 40.6(a), hereby certifies the attached draft CME Clearing Advisory Notice which sets forth modifications to CME Clearing's Schedule of Acceptable Performance Bond Collateral for Base and IRS Performance Bond Requirements (collectively, the "Rule Amendments"), effective November 24, 2021.

The CME Clearing Advisory Notice informs clearing members and market participants that, effective November 24, 2021, CME Clearing will modify its Schedule of Acceptable Performance Bond Collateral in the following manner:

- CME Clearing currently limits the aggregate amount of money market mutual funds, COMEX gold warrants, London gold bullion, stocks, exchange-traded funds, corporate bonds, supranational debt, foreign sovereign debt, Canadian provincials, U.S. government agencies, agency MBS, U.S. Treasury Strips, and U.S. Treasury Inflation-Protected Securities (TIPS) to meet performance bond requirements up to \$7 billion USDE per clearing member and affiliates. As explained in more detail below, going forward, TIPS deposited as performance bond will no longer be included in the \$7 billion USDE aggregate limit. TIPS will continue to be subject to the current \$1 billion TIPS collateral limit, per clearing member and affiliates.
- CME Clearing currently accepts non-USD cash to meet performance bond requirements denominated in a different currency up to \$250 million USDE per clearing member and affiliates, (\$200 million for Offshore Chinese Renminbi) subject to cross-currency haircuts. Going forward, CME Clearing will permit clearing members to deposit additional CAD, EUR, GBP, and JPY up to a limit of \$500 million USDE per clearing member and affiliates. The limit increase will be enabled in the Clearing 21 system only upon request by a clearing member and based on commercial bank capacity.

The Rule Amendments are intended to provide additional flexibility to clearing members when managing performance bond collateral. Furthermore, the Rule Amendments do not require any modification to CME's existing \$7 billion committed credit facility or CME's \$750 million committed FX facility.

In connection with these changes, CME reviewed the DCO core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”) and identified the following Core Principles as potentially being impacted:

Core Principle B - Financial Resources: Regulation 39.33 provides in relevant part that a DCO’s financial resources may include highly marketable collateral, so long as these assets are readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements under extreme but plausible market conditions. Pursuant to CME Clearing’s Liquidity Risk Management Framework, U.S. Treasuries are deemed to meet such requirement in that they are highly marketable and convertible into cash pursuant to prearranged and highly reliable funding arrangements under extreme but plausible market conditions. CME Clearing has extended its analysis to TIPS and concluded that these instruments can be characterized in the same manner as other U.S. Treasuries and CME Clearing can fund TIPS via repurchase agreements with the same counterparties that CME Clearing has in place currently. Additionally, the ability and willingness for market participants to conduct TIPS repurchase agreements with CME Clearing follows the same estimation process that exists for other U.S. Treasuries¹.

Additionally, non-USD (“FX”) cash satisfies the aforementioned liquidity requirement as FX cash can be exchanged for cash denominated in a different currency under CME’s committed FX facility and other established FX relationships.

Core Principle D - Risk Management: Regulation 39.13(g)(10) requires each DCO to limit the assets it accepts as initial margin to those that have minimal credit, market, and liquidity risk. CME Clearing believes that the modification to the FX limit structure does not materially affect risk management due to the liquidity of these assets², the applicable haircuts, and the ability to exchange FX cash for another currency under CME’s committed FX facility and other established FX relationships. Additionally, as indicated above, there are no changes to the \$1 billion TIPS collateral limit (per clearing member and affiliates), minimizing the market and liquidity risk while monetizing the assets.

The text of the draft CME Clearing Advisory Notice, which provides additional information regarding the Rule Amendments, is attached hereto as Exhibit A.

CME certifies that the Rule Amendments and the issuance of the CME Clearing Advisory Notice complies with the CEA and the regulations thereunder. There were no substantive opposing views.

Notice of this submission has been concurrently posted on CME Group’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact me at (212) 299-2200 or via e-mail at CMEGSubmissionInquiry@cmegrup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A – CME Clearing Advisory Notice

¹ The estimation process is based on the size of the TIPS repo market. The average daily volume (“ADV”) in TIPS repo is significant and has averaged approximately \$144 billion ADV year-to-date. See TIPS Securities Out data at <https://www.newyorkfed.org/markets/counterparties/primary-dealers-statistics#>

² The ADVs in foreign currency markets are significant and have most recently averaged over \$100 billion per currency as of the most recent BIS Triennial Survey; <https://www.bis.org/statistics/rpfx19.htm>

Exhibit A



TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

ADVISORY #: 21-XXX

SUBJECT: Modifications to Schedule of Acceptable Performance Bond

DATE: November XX, 2021

Effective November 24, 2021, and pending all relevant CFTC regulatory review periods, CME Clearing will implement the following changes to its schedule of acceptable performance bond collateral for Base and IRS performance bond requirements:

- CME Clearing currently limits the aggregate amount of money market mutual funds, COMEX gold warrants, London gold bullion, stocks, exchange-traded funds, corporate bonds, supranational debt, foreign sovereign debt, Canadian provincials, U.S. government agencies, agency MBS, U.S. Treasury Strips, and U.S. Treasury Inflation-Protected Securities (TIPS) to meet performance bond requirements up to \$7 billion USDE per clearing member and affiliates. Going forward, TIPS deposited as performance bond will no longer be included in the \$7 billion USDE aggregate limit. TIPS will continue to be subject to the current \$1 billion TIPS collateral limit, per clearing member and affiliates.
- CME Clearing currently accepts non-USD cash to meet performance bond requirements denominated in a different currency up to \$250 million USDE per clearing member and affiliates (\$200 million for Offshore Chinese Renminbi), subject to cross-currency haircuts. Going forward, CME Clearing will permit clearing members to deposit additional CAD, EUR, GBP, and JPY up to a limit of \$500 million USDE per clearing member and affiliates. The limit increase will be enabled in the Clearing 21 system only upon a request from a clearing member and based on commercial bank capacity. To request a limit increase for the aforementioned currencies, please contact CME Financial Operations at ClearingHouseFinancial@cmegroup.com.

For collateral acceptance criteria as well as information regarding limits and haircuts, please see the [Standard Acceptable Collateral and Resources website](#).

For information related to non-cash collateral fees, please see the [Cash Interest Rates and Non-Cash Collateral Fees website](#).

For further information related to collateral, please contact CME Credit Risk at CreditRisk@cmegroup.com.