

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 17-210

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): November 17, 2017 **Filing Description:** Amendment to List of Acceptable Collateral.

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|-------------------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input checked="" type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers: See filing.

New Product

Please note only ONE product per Submission.

- | | | |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

Official Product Name:

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

- | | | |
|--------------------------|---|----------------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> | Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.24(c) |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | “Non-Material Agricultural Rule Change” | § 40.4(b)(5) |
| <input type="checkbox"/> | Notification | § 40.6(d) |

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

Rule Numbers:

November 17, 2017

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 40.10 Submission. Notification Regarding Amendment to List of
Acceptable Collateral
CME Submission 17-210**

Dear Mr. Kirkpatrick:

The Chicago Mercantile Exchange Inc. ("CME"), in its capacity as a registered derivatives clearing organization ("DCO"), hereby notifies the Commodity Futures Trading Commission ("CFTC") that it intends to change the list of acceptable collateral that is currently published on the CME website (the "Rule Amendment"). As the Commission knows, CME currently permits clearing members to deposit U.S. Treasury securities directly with the CME in order to satisfy their performance bond requirements. Under the Rule Amendment, CME will permit clearing members to deposit U.S. Treasury securities indirectly with the CME through the issuance of letters of credit payable in U.S. Treasuries which are held in an account that is subject to CME's exclusive control. As described below, these letters of credit will be issued under a new "Prefunded Treasury Facility" (hereinafter, the "Facility"), and will be accepted by CME as performance bond (initial margin) for clearing members' proprietary positions in commodity futures contracts.

The proposed change to CME's list of acceptable collateral could materially affect the nature or level of risks presented by CME. Pursuant to CFTC Regulation 40.10(a), CME hereby submits this advance notice in which CME addresses the nature of the change and its expected effect on risks presented by CME and how CME plans to manage such identified risks.

Overview of the Facility/Collateralized Letter of Credit

CFTC Regulation 39.13(g)(10) provides that a derivatives clearing organization shall limit the assets it accepts as initial margin to those that have minimal credit, market, and liquidity risks. This Regulation also provides that a derivatives clearing organization may accept letters of credit as initial margin for futures and options on futures but may not accept letters of credit as initial margin for swaps.

The operation of the Facility will be consistent with the requirements set forth in Regulation 39.13(g)(10). Each clearing member that desires to utilize the Facility would benefit from the establishment of a Delaware statutory trust that is bankruptcy remote and dedicated solely to that clearing member. The trust would issue debt securities to investors which are expected to be rated by two ratings agencies, S&P and Moodys, and use the proceeds of this offering to purchase U.S. Treasury securities. This is similar to how public entities fund their business lines today, including bank affiliated clearing members that issue debt and use the proceeds to purchase collateral to meet their margin requirements at a CCP. Repayment of the notes would be backed by a reversionary interest in any U.S. Treasury securities held by the trust, if any, and also by a reimbursement agreement between the clearing member and the trust (described below).

The trust will deposit the U.S. Treasury securities with a custodian bank that has been approved by CME, and the bank will hold these securities in one or more custody accounts for CME. The trust will issue a letter of credit to CME which is payable not later than ten minutes after demand by delivery of U.S. Treasury securities. In order to secure its payment obligation under this letter of credit, the trust will grant CME a first priority, perfected security interest in the U.S. Treasury securities held in the custody accounts, and CME will perfect its security interest in these securities by entering into an agreement with the bank and the trust which provides that the securities will be subject to the sole and exclusive control of CME. This structure is diagrammed in Exhibit B, attached hereto.

In the event of clearing member default, CME will draw upon the letter of credit and use the U.S. Treasury securities delivered to it to satisfy the clearing member's obligations to CME. Under the reimbursement agreement between the clearing member and the trust, the clearing member would be obligated to repay the trust for any draws made under the letter of credit prior to the expiration date thereof.

CME will receive daily reports from the bank regarding the U.S. Treasury securities held in the custody accounts. CME will mark the underlying U.S. Treasury securities to market and will value the letter of credit for collateral purposes by reference to the haircutted value of the underlying U.S. Treasury securities.

Core Principle Review

CME reviewed the derivatives clearing organization ("DCO") core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act"). During the review, staff identified that the Rule Amendment may have some bearing on the following Core Principles:

DCO Core Principle B – Financial Resources. As noted above, the letter of credit to be issued under the Facility is fully prefunded with U.S. Treasury securities and pays in kind in U.S. Treasury securities which are held in a custody account in the name of CME and controlled by CME. This structure ensures that the Clearing House maintains adequate financial resources sufficient to ensure that the Clearing House discharges its responsibilities as a DCO. Similarly, the Clearing House's minimum financial resources would continue to exceed the total amount that would enable the Clearing House to meet its financial obligations to its members and participants notwithstanding a default by its largest two clearing members in extreme but plausible market conditions.

DCO Core Principle D – Risk Management. The Facility will not impact CME's ability to manage risk in regard to its clearing members. CME currently accepts letters of credit as performance bonds for commodity futures positions and, as described above, the collateralized letters of credit issued under the Facility are materially different than traditional letters of credit (presenting even fewer liquidity risks than traditional letters of credit). For these reasons, the risk profile of collateralized letters of credit issued under the Facility can be viewed as more closely analogous to the acceptance of U.S. Treasury securities (which are presently acceptable as performance bond collateral and as Guaranty Fund collateral) than to the acceptance of letters of credit. CME will manage the risk associated with the Facility. Further, utilizing a bankruptcy remote entity that is not a bank to issue letters of credit under the Facility reduces the potential for wrong-way risk.

DCO Core Principle L – Public Information. The Rule Amendment will be publicly available on the CME Group website. In addition, CME will release a notice to the marketplace regarding the amendment in advance of the effective date.

DCO Core Principle R – Legal Risk. CME has determined that the Rule Amendment is consistent with the requirement to have a well-founded, transparent and enforceable legal framework for each aspect of the activities of the DCO.

Exhibit A, which is attached hereto, sets forth the changes proposed to be made to CME's list of acceptable collateral in blackline format.

CME certifies that proposed changes comply with the Act and regulations thereunder. There were no substantive opposing views to this action.

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 the undersigned at 212-299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director & Chief Regulatory Counsel

Cc: Board of Governors of the Federal Reserve System

Attachments: Exhibit A – CME List of Acceptable Performance Bond Collateral (blackline format)
Exhibit B – Prefunded Treasury Facility Diagram

Exhibit A

Revised Collateral Policy

(additions underlined)

Asset Class	Description	Asset Class Cap	Notes
Cash	USD	No Cap	None
FX Cash	AUD; GBP; CAD; EUR; JPY; NZD; NOK; SEK; CHF; CNH; MXN; ZAR, TRY; CZK; HKD; HUF; SGD; PLN; DKK	Currency Mismatch Limit	\$250m USDE Currency Mismatch limit on all FX cash meeting a performance bond requirement denominated in a different currency. \$200m USDE cap for CNH. ZAR, DKK, CZK, HKD, HUF, PLN, SGD, and TRY can only be used to meet their respective requirements.
U.S. Treasuries	T-Bills	No Cap	T-Bonds that exceed 10 years' time to maturity are not acceptable for Guaranty Fund.
	T-Notes		
	T-FRN		
	T-Bonds		
	Tips	\$1bn	
Strips	\$1bn		
IEF-5	Cash with Interest	Caps at Bank/Firm	Firms must sign agreement to participate. Overall caps exist at the bank and at the firm. Agreements are required for clearing member to participate.
Letters of Credit	Standby or Pass-Thru	\$500m	Capped at the lesser of 25% of margin requirement or \$500 million per clearing member. Commercial exemptions are available for eligible clearing member firms. Not eligible for cleared swaps. Agreements are required for clearing member to participate.
U.S. Agencies & MBS	Discount Notes and Bills: FHLB; FFCB; FNMA; FHLMC	\$2bn	
	Coupon Bearing GSEs		
	Agency MBS	\$1bn	
FX Debt	U.K.	\$1bn	

	Germany	\$1bn	Australia and Singapore debt may not exceed 10 years' time to maturity. Mexico debt can only be used to meet MXN performance bond requirements.
	Canada	\$1bn	
	France	\$1bn	
	Japan	\$1bn	
	Australia	\$250m	
	Singapore	\$100m	
	Sweden	\$100m	
	Mexico	\$100m	
CAD Provincials	Ontario	\$100m	May not exceed 5 years' time to maturity.
	Quebec		
IEF-4	Select Corporate Bonds	\$2bn	Agreements are required for clearing member to participate. List is updated monthly.
Equities/ETFs	Select S&P Stocks	\$500m	List is updated monthly.
	Select ETFs	\$500m	
IEF-2	Money Market Funds	\$5bn	Agreements are required for clearing member to participate.
Gold	Physical Gold	\$250m	Agreements are required for clearing member to participate.
<u>Prefunded Treasury Facility (PTF)</u>	<u>T-Bills, T-Notes, T-Bonds</u>	<u>No cap</u>	<u>Agreements are required for clearing member to participate.</u>

CME may manage specific collateral concentrations in all circumstances. CME may contact members directly to request collateral substitution. Collateral limit changes per Clearing Member firm must be approved by the Collateral Committee.

* FX Debt, CAD Provincials, IEF2, IEF4, Equities, ETFs, and Gold capped at \$5 Billion in aggregate per clearing member (and affiliates)

** Agencies, MBS, TIPS, Strips, FX Debt, CAD Provincials, IEF2, IEF4, Equities, ETFs, and Gold capped at \$7 Billion in aggregate per clearing member (and affiliates)

Exhibit B

Prefunded Treasury Facility Diagram

