

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

**Registered Entity Identifier Code (optional):** 23-234

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

**Filing as a:**  DCM  SEF  DCO  SDR

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy):** 06/29/23 **Filing Description:** Amendments to the Risk Management Framework ("RMF"), Liquidity Risk Management Framework ("LRMF"), Model Validation Framework ("MVF"), Credit Policy, Collateral Policy, and Investment Policy

**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:**

June 29, 2023

**VIA ELECTRONIC PORTAL**

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

**Re: CFTC Regulation 40.6(a) Certification. Amendments to the Risk Management Framework (“RMF”), Liquidity Risk Management Framework (“LRMF”), Model Validation Framework (“MVF”), Credit Policy, Collateral Policy, and Investment Policy  
CME Submission No. 23-234**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or the “Clearing House”), a derivatives clearing organization (“DCO”), certifies to the Commission amendments to the Risk Management Framework (“RMF”), Liquidity Risk Management Framework (“LRMF”), Model Validation Framework (“MVF”), Credit Policy, Collateral Policy, and Investment Policy (collectively, the “Policies”) (collectively, the “Amendments”) effective on July 17, 2023.

The Policies are maintained by the Clearing House. As described below, the Policies are each reviewed and approved on at least an annual basis. The Amendments were primarily approved as part of the annual review process.

*RMF*

The RMF, maintained in accordance with CFTC Regulation 39.13(b), was approved, as part of the annual review process, by CME’s Board of Directors (“Board”) and the Clearing House Oversight Committee (“CHOC”) (i.e., committee established by the Board) on May 3, 2023 and April 3, 2023. Amendments in connection with the RMF primarily relate to the following areas:

- **Organizational Changes:** With respect to the critical functions of the Clearing House, as defined in the RMF, the references to certain functions and related descriptions are being amended to reflect previous organizational changes made relating to the functions responsible for the Clearing House’s operations and banking and separately, clearing solutions and business architecture.
- **Operational Risk Management Committee:** In line with updates to the CME Clearing Operational Risk Management Framework that were effective in February 2023, Amendments to the RMF also include updates to reflect the formalization of the Operational Risk Management Committee that is responsible for internal oversight of the Clearing House’s operational risk management practices.<sup>1</sup>

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<sup>1</sup> CME Submission, No. 23-098 (Feb. 2023), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2023/2/23-098.pdf>.

- **Collateral Valuation Practices:** While the Clearing House’s practices have not changed, consistent with CFTC Regulation 39.13(g)(11), a description of the Clearing House’s procedures for valuing collateral posted as performance bond is being included in the RMF to further codify these practices.
- **Settlement Cycles for Products Covered by the IRS Guaranty Fund:** While the Clearing House’s settlement procedures for products covered by the IRS Guaranty Fund have not changed, the RMF is being updated to codify the Clearing House’s existing practice of conducting an intraday settlement cycle for exchange-traded derivatives that are covered by the IRS Guaranty Fund.
- **Delisting of Swaptions:** Amendments to the RMF reflect the delisting of European-style Swaptions referencing USD LIBOR as the floating rate, which was completed in October 2022.<sup>2</sup>
- **Business Resilience:** Amendments to the RMF reflect updates to the descriptions of the Clearing House’s business resilience plans (previously referred to as business continuity plans in the RMF), in line with CME Group’s broader business resilience plans.

#### *LRMF*

The LRMF was approved, as part of the annual review process, by the Board, CHOC, and Clearing House Risk Committee (“CHRC”) on May 3, 2023, April 3, 2023, and March 16, 2023, respectively. Amendments to the LRMF covered in this year’s annual approval, similar to other risk management policies, detail the governance that would be followed where rules filed with the CFTC are subject to minor modification in that review process. In addition, certain non-substantive changes provide clarification to existing processes, requirements, and responsibilities were made to the LRMF that were approved outside of the annual review process, which primarily relate to the governance arrangements for the LRMF (e.g., similar to the RMF, approval authority of the Chief Compliance Officer (“CCO”) of the Clearing House),<sup>3</sup> scenario selection process for liquidity resources, and means by which certain assets are qualifying liquidity resources.

#### *MVF*

The MVF was approved, as part of the annual review process, by the CHOC on May 2, 2023. Amendments to the MVF covered in this year’s annual approval primarily reflect the practices for the independent validation of the margin model used for the cross-margining arrangement with The Options Clearing Corporation. In addition, certain non-substantive changes that provide clarification to existing processes, requirements, and responsibilities were made to the MVF that were approved outside of the annual review process, which primarily relate to the governance arrangements for the MVF (e.g., similar to the RMF, approval authority of the CCO of the Clearing House).<sup>4</sup>

#### *Credit Policy*

The Credit Policy was approved, as part of the annual review process, by the CHRC and CHOC on May 2, 2023 and March 16, 2023, respectively. Amendments to the Credit Policy covered in this year’s annual approval primarily relate to the following areas:

- **Organizational Changes:** The references to the roles of specific teams are being updated in the Credit Policy to align with the references in the RMF to critical functions, including to reflect previous organizational changes made, as described above.
- **Monitoring:** While the Clearing House’s practices have not changed, Amendments to the Credit Policy provides further detail on the Clearing House’s ongoing counterparty monitoring procedures.

<sup>2</sup> CME Submission, No. 22-406 (Oct. 2022), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2022/10/22-406.pdf>.

<sup>3</sup> CME Submission, No. 22-492 (Nov. 2022), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2022/11/22-492.pdf>.

<sup>4</sup> *Id.*

- **Clearing Member Risk Reviews:** Amendments to the Credit Policy recognize that while the Clearing House will continue to make its best efforts to conduct risk reviews of Clearing Members on-site, they may also occur virtually.

In addition, certain non-substantive changes that provide clarification to existing processes, requirements, and responsibilities were made to the Credit Policy that were approved outside of the annual review process, which primarily relate to the governance arrangements for the Credit Policy (e.g., similar to the RMF, approval authority of the CCO of the Clearing House).<sup>5</sup>

#### *Collateral Policy*

The Collateral Policy was approved, as part of the annual review process, by the CHOC and CHRC on May 2, 2023 and March 16, 2023, respectively. Amendments to the Collateral Policy covered in this year's annual approval primarily relate to the following areas:

- **Collateral Limits:** While the approach to setting collateral limits, as described in the Collateral Policy, has not changed, the numerical values for the collateral limits are being deleted from the Collateral Policy, which aligns with the approach taken in CME Clearing's other risk management policies, including with respect to collateral haircuts. This is designed to ensure that CME Clearing can dynamically adjust collateral limits in response to limit reviews to effectively manage risk as market conditions evolve. For avoidance of doubt, current collateral limits continue to be published on the CME Group website<sup>6</sup> and any changes to limits will be published via a Clearing House Advisory Notice. Additionally, CME Clearing's Credit & Liquidity Committee (i.e., management committee) will continue to review and approve any changes to collateral limits.
- **Collateral Haircuts:** References to metrics used for establishing collateral haircuts are being deleted from the Collateral Policy since they are described in greater detail in other documentation maintained by the Clearing House.
- **Letters of Credit:** Amendments to the Collateral Policy remove the legacy 40% limit applied based on the issuing bank limit for letters of credit posted as collateral since the Clearing House determined that the counterparty risk to issuing banks is effectively managed through the other limits on the acceptance of letters of credit and counterparty risk management practices the Clearing House employs, as more specifically described in the Credit Policy.
- **General Documentation:** While the Clearing House's practices have not changed, the Collateral Policy's structure is being amended and certain documentation enhancements are being made. To enhance readability, the description of certain practices was consolidated in their own respective sections and clarifying information on certain types of collateral already accepted is being added, as currently described on the CME Group website.<sup>7</sup>

In addition, certain non-substantive changes that provide clarification to existing processes, requirements, and responsibilities were made to the Collateral Policy that were approved outside of the annual review process, which primarily relate to the governance arrangements for the Collateral Policy (e.g., similar to the RMF, approval authority of the CCO of the Clearing House).<sup>8</sup>

#### *Investment Policy*

The Investment Policy was approved, as part of the annual review process, by the CHOC on May 2, 2023. Amendments to the Investment Policy covered in this year's annual approval primarily relate to the following areas:

- **Organizational Changes:** The references to the roles of specific teams are being updated in the Investment Policy to align with the references in the RMF to critical functions, including to reflect previous organizational changes made, as described above.

<sup>5</sup> *Id.*

<sup>6</sup> See <https://www.cmegroup.com/clearing/financial-and-collateral-management/summary-of-collateral.html>.

<sup>7</sup> *Id.*

<sup>8</sup> CME Submission, No. 22-492 (Nov. 2022), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2022/11/22-492.pdf>.

- **Daily Reporting:** Amendments to the Investment Policy update the approval process for the issuance of the daily investment portfolio report.

In addition, certain non-substantive changes that provide clarification to existing processes, requirements, and responsibilities were made to the Investment Policy that were approved outside of the annual review process, which primarily relate to the governance arrangements for the Investment Policy (e.g., similar to the RMF, approval authority of the CCO of the Clearing House).<sup>9</sup>

*Amendments Applicable to All of the Policies*

The Clearing House also took the opportunity to correct for grammatical errors and amend the language in the Policies to provide clarity without changing the meaning, where appropriate. In addition, the Amendments also align language across the Policies (e.g., descriptions of Clearing House management committees).

**DCO Core Principle Review**

CME reviewed the DCO core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the Amendments may impact the following core principles:

- **DCO Core Principle D – Risk Management:** The Amendments further describe the Clearing House’s risk management practices and enhance the ability of the Clearing House to effectively manage the risks associated with discharging the responsibilities of the DCO.
- **DCO Core Principle F – Treatment of Funds:** The Amendments further describe the Clearing House’s management of funds in a manner which minimizes the risk of loss or delay in access to funds.
- **DCO Core Principle O – Governance Fitness Standards:** The Amendments more clearly articulate the Clearing House’s governance arrangements.

CME has requested confidential treatment with respect to the Policies, which have been submitted concurrently with this certification. Exhibits A to F provide the Policies in blackline format under separate cover.

Pursuant to Section 5(c) of the Act and CFTC Regulation 40.6(a), CME certifies that the Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to the proposal.

CME certifies that this submission has been concurrently posted on the CME Group website at <http://www.cmegroup.com/market-regulation/rule-fillings.html>.

Should you have any questions concerning the above, please contact the undersigned at (312) 930-8167 or [sean.downey@cmegroup.com](mailto:sean.downey@cmegroup.com).

Sincerely,

/s/ Sean Downey  
 Managing Director – Clearing Chief Compliance Officer, Enterprise Risk Officer & Policy  
 CME Clearing

Attachments: Exhibit A: Amendments to Risk Management Framework (blackline format) (confidential treatment requested)  
 Exhibit B: Amendments to Liquidity Risk Management Framework (blackline format) (confidential treatment requested)

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<sup>9</sup> *Id.*

Exhibit C: Amendments to Model Validation Framework (blackline format)  
(confidential treatment requested)  
Exhibit D: Amendments to Credit Policy (blackline format) (confidential treatment  
requested)  
Exhibit E: Amendments to Collateral Policy (blackline format) (confidential treatment  
requested)  
Exhibit F: Amendments to Investment Policy (blackline format) (confidential  
treatment requested)

**Exhibits A, B, C, D, E & F**  
**CONFIDENTIAL TREATMENT REQUESTED**

(ATTACHED UNDER SEPARATE COVER)