

July 6, 2017

VIA Electronic Mail

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 39.5(b) Submission: Acceptance of KRW and INR IRS for Clearing.
CME Submission No. 17-277**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (the “Act”), hereby submits to the Commodity Futures Trading Commission (“CFTC” or “Commission”), pursuant to Commission Rule 39.5(b), its plan to accept interest rate swaps (“IRS”) denominated in Korean Won (“KRW”) and India Rupee (“INR”) for clearing, beginning July 10, 2017.

39.5(b)(3)(i): Eligibility to Clear

Pursuant to Regulation 39.5(b)(3)(i), CME states that it is eligible to accept KRW and INR IRS for clearing. Should the commission determine that such swaps are required to be cleared, CME will be able to maintain compliance with the DCO core principles set forth in Section 5b(c)(2) of the Act and the regulations promulgated thereunder.

In accordance with Regulation 39.5(b)(3)(ii)-(viii), we are providing the following information in support of this submission:

39.5(b)(3)(ii)(A): Statement on Outstanding Derivatives Notional Exposure, Trading Liquidity and Pricing Data

The most recent Triennial Central Bank Survey of the Bank of International Settlements (“BIS”) (<http://www.bis.org/publ/rpfx16.htm>) reported turnover in KRW IRS averaged \$11.9 billion US dollar equivalent (“USDE”) per day in April 2016, and average turnover in INR of \$5.6 billion (“USDE”) per day in April 2016.

SDRView, the Swaps Data Repository viewer of Clarus Financial Technology, reported the average daily notional transacted and reported to United States SDRs in KRW IRS to be \$1.29 billion (USDE) in the fourth quarter of 2016 and \$1.21 billion (USDE) in the first quarter of 2017. SDRView also reported the average daily notional transacted and reported to US SDRs in INR to be \$0.77 billion (USDE) in the fourth quarter of 2016 and \$0.80 billion (USDE) in the first quarter of 2017. Since January 1st, 2013 the total notional reported to US SDRs in KRW was \$1 trillion (USDE) and \$668 billion (USDE) for INR as of June 1, 2017.

39.5(b)(3)(ii)(B): Rule Framework, Capacity, Operational Expertise and Resources, and Credit Support Infrastructure

The rule framework for KRW and INR IRS is the same as all other IRS cleared by CME and can be found in the CME Rulebook. This Rulebook is available at www.cmegroup.com/market-regulation/rulebook.index.html, which includes links to pertinent product chapters in the CME Rulebook and incorporates the Manual of Operations for CME Cleared Interest Rate Swaps (the “IRS Manual”). CME Clearing’s “Risk Management and Financial Safeguards” brochure (the “Risk Management Brochure”) available at <http://www.cmegroup.com/clearing/files/financialsafeguards.pdf> contains information regarding CME’s risk management capacity, expertise, resources, and financial safeguards system.

39.5(b)(3)(ii)(C): Statement on the Mitigation of Systemic Risk

While markets in certain OTC derivatives asset classes continued to function well during the financial crisis, the crisis demonstrated the potential for systemic risk arising from the interconnectedness of OTC derivatives market participants and the limited transparency of bilateral counterparty relationships. To help mitigate systemic risk in the OTC derivatives markets, the G-20 Leaders agreed that all standardized OTC derivatives contracts should be cleared through central counterparties by the end of 2012. One of the key goals of the Dodd-Frank Act is the reduction of systemic risk through the use of central clearing for OTC derivatives.

As a central counterparty, CME interposes itself between counterparties to the swaps (and other derivatives products) that it clears, becoming the buyer to every seller and the seller to every buyer. For each swap that it clears, CME provides all clearing house services, including a market-to-market function, on a daily basis. Depending upon the particular asset class, CME may standardize contract-critical dates (e.g., start dates, last trade dates, expiry dates) and other contract terms. This may enable customers who hold positions to liquidate or to adjust positions simply by buying back or selling the relevant contracts. The associated benefits are considerable:

- *Centralized clearing.* Clearing KRW and INR IRS through CME allows market participants to free up counterparty credit lines. The daily mark-to-market process employed by CME enhances customer risk management.
- *Operational efficiencies.* Centralized clearing of swaps reduces operational burdens in several ways. Standardization and centralized clearing enables consolidation of collateral management and cash flows and eliminates the need for novation or tear-ups.
- *Ease of position adjustment.* In non-cleared markets, the only means to completely eliminate the risk of a swap is to (i) enter into a tear-up agreement with the swap counterparty, or (ii) enter into a novation (i.e., find another entity willing to assume its side of the swap). In either case, the tear-up or the novation must be approved by the bilateral swap counterparty. For most asset classes, central clearing may be used to offset by a contra trade.

As further described in the Risk Management Brochure, CME has the necessary resources available to clear KRW and INR IRS.

39.5(b)(3)(ii)(D): Statement on Competition and Appropriate Fees and Charges

CME does not believe that the clearance of KRW or INR IRS will have any negative impact, or impose any burden, on competition. CME’s schedule of fees for IRS can be found at <http://www.cmegroup.com/trading/interest-rates/files/cleared-otc-irs-customer-fees.pdf>.

39.5(b)(ii)(E): Statement on Legal Certainty and Insolvency

The bankruptcy of a DCO is governed by subchapter IV of Chapter 7 of the U.S. Bankruptcy Code (11 U.S.C. §§ 761-767), and by Part 190 (Bankruptcy) of the commission's regulation. Also relevant in the event that CME were to enter into bankruptcy proceedings is CME Rule 818 (Close-Out Netting) included in Chapter 8 (Clearing House and Performance Bonds) of the CME Rulebook. CME Rule 818 (Close-Out Netting) is included in CME Rulebook Chapter 8.¹

The bankruptcy of a clearing member that is a U.S. futures commission merchant ("FCM") would be governed by subchapter IV of Chapter 7 of the U.S. Bankruptcy Code (11 U.S.C. §§ 761-767) and Part 190 (Bankruptcy) of the Commission's regulations. If an FCM is registered as a broker-dealer, certain aspects of its insolvency proceeding may also be governed by the Securities Investor Protection Act.

39.5(b)(3)(iii): Product Specification

Attached under separate cover as Exhibit 2 are the product-specifications for KRW and INR IRS, which will be added to CME's IRS product scope on its website at www.cmegroup.com/irs. KRW and INR IRS will settle in USD.

39.5(b)(3)(iv): Participant Eligibility Standards

CME Rule 8G04 (IRS Clearing Member Obligations) and the IRS Manual specify the requirements for IRS Clearing Members.

39.5(b)(3)(v): Pricing Sources

We have concurrently submitted in CME Submission 17-277S, a document, marked for confidential treatment, describing the curve building for INR and KRW IRS. Additionally, Chapter 8 (End of Day Valuations) of the IRS Manual describes IRS pricing.

39.5(b)(3)(vi): Risk Management Procedures

The Risk Management Brochure² summarizes CME's risk management procedures applicable to the clearing of KRW and INR IRS.

39.5(b)(3)(vii): Rules, Manuals, Policies, or Procedures

The product rules for KRW and INR IRS are being added to Chapters 901 of the CME Rulebook and are enclosed in Exhibit 1 which is attached hereto. The product rules (i) define Non-Deliverable Swap Settlement Currency; (ii) add KRW-CD-KSDA-Bloomberg and INR-FBIL-MIBOR-OIS-COMPOUND as a new rate option in Rule 90102.E (Rate Options); (ii) add a new Rule 90102.F. which incorporate the Settlement Rate Option where the settlement is Non-Deliverable; and (iii) add a new Rule 90102.G. which incorporate the Fallback Reference Price where the settlement is Non-Deliverable. Additions to existing rules are underscored.

39.5(b)(3)(viii): Notice of Submission

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

¹ <http://www.cmegroup.com/rulebook/CME/1/8/8.pdf>

² <http://www.cmegroup.com/clearing/files/financialsafeguards.pdf>

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

Sincerely,

Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit 1 – CME Rulebook Amendments, KRW and INR IRS Product Rules
Exhibit 2 – KRW and INR IRS Product Specifications (attached under separate cover)

EXHIBIT 1

CME RULEBOOK KRW and INR Product Rules

(Additions underlined; deletions ~~overstruck~~)

Chapter 901 Interest Rate Swaps Contract Terms

90102.E. Rate Options

With respect to an IRS Contract, the Rate Option elected by the IRS Clearing Participant in accordance with Rule 90002.F from the following Rate Options or combination of Rate Options:

1. USD-LIBOR-BBA
2. USD-Federal Funds-H.15-OIS-COMPOUND
3. USD-Federal Funds-H. 15-LIBOR-BBA
4. EUR-EURIBOR-Reuters
5. EUR-EURIBOR-Telerate (as defined in the 2000 ISDA Definitions, as published by ISDA)
6. EUR-EONIA-OIS-COMPOUND
7. GBP-LIBOR-BBA
8. GBP-WMBA-SONIA-COMPOUND
9. JPY-LIBOR-BBA
10. JPY-TONA-OIS-COMPOUND
11. CHF-LIBOR-BBA
12. CAD-BA-CDOR
13. CAD-CORRA-OIS-COMPOUND
14. AUD-BBR-BBSW
15. AUD-LIBOR-BBA
16. AUD-AONIA-OIS-COMP
17. SEK-STIBOR-SIDE
18. DKK-CIBOR-DKNA13
19. DKK-CIBOR2-DKNA13
20. NOK-NIBOR-NIBR
21. HKD-HIBOR-HKAB
22. NZD-BBR-FRA
23. SGD-SOR-VWAP
24. HUF-BUBOR-Reuters
25. PLN-WIBOR-WIBO
26. CZK-PRIBOR-PRBO
27. ZAR-JIBAR-SAFEX
28. MXN-TIIE-Banxico
29. BRL-CDI (in which case the rate for a Reset Date will be The Overnight Brazilian Interbank Deposit Rate Annualized known as the average (“Media”) of the DI-OVER-EXTRA Grupo as published by The Câmara de Custódia e Liquidação as of no later than 12:00 pm on the next Brazil business Day provided that any adjustments made by The Câmara de Custódia e Liquidação to such rate, if made any time later than the end of the Business Day on such Reset Date, shall not be taken into account by the parties. If BRL-CDI is not published, the Rate Option shall instead by (in the following order of priority): (i) the overnight deposit rate published for the relevant date by the Bolsa de Mercadorias & Futuros; or (ii) determined by the Calculation Agent.)

90102.F. Non-Deliverable Swap Settlement Currency

With respect to Non-Deliverable Interest Rate Swap Transaction (“NDIRSs”), where a Reference Currency is specified, all calculations and determinations shall be made by reference to the Reference Currency but settlement shall be due in the Settlement Currency

90102.G. Non-Deliverable Swap Rate Options

With respect to NDIRSs, the Rate Option elected by the IRS Clearing Participant in accordance with Rule 90002.F from the following Rate Options or combination of Rate Options:

1. KRW-CD-KSDA-Bloomberg
2. INR-FBIL-MIBOR-OIS-COMPOUND

90102.G.1. Settlement Rate Option

With respect to NDIRSs listed in 90102.G., the Settlement Rate Option as applicable shall be:

- (a) KRW.KFTC18/KRW02
- (b) INR.RBIB/INR01

90102.G.2. Fallback Reference Price

With respect to NDIRSs listed in 90102.G., the Fallback Reference Price as applicable shall be determined by:

- (a) SFEMC KRW Indicative Survey Rate (KRW04)
- (b) SFEMC INR Indicative Survey Rate (INR02)

EXHIBIT 2

KRW and INR IRS Product Specifications

(attached under separate cover)

EXHIBIT 2

Attribute	KRW
Maximum Maturity	21 YEARS
Variable Notional	✓
Forward Starting	✓
Spreads above and below index	✓
Negative Floating and Fixed Rates	✓
Different First Fixing	✓
Upfront Payment Dates	T+1 through maturity
Settlement Convention	T+1
Settlement Currency	USD

LEG_TYPE	FIXED FLOAT FLOAT
LEG_CCY	KRW
LEG_START_DATE_ADJ_BUS_DAY_CONV	NONE
LEG_MAT_DATE_ADJ_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_MAT_DATE_ADJ_CAL	KRSE, USNY Required, other calendars optional
LEG_PAY_FREQ	3M
LEG_PAY_REL_TO	BEG_PER END_PER
LEG_PAY_ADJ_BUS_DAY_CONV	FOLLOWING MODFOLLOWING PRECEDING
LEG_PAY_ADJ_CAL	KRSE, USNY Required, other calendars optional
LEG_DAYCOUNT	30/360 ACT/360 ACT/365.FIXED ACT/ACT.ISDA 30E/360 30E/360.ISDA ACT/ACT.ICMA

LEG_CALC_PER_ADJ_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_CALC_PER_ADJ_CAL	KRSE, USNY Required, other calendars optional
LEG_CALC_FREQ	3M
LEG_COMP_METHOD	None Flat Straight SpreadExclusive
LEG_INDEX	KRW-CD-KSDA-Bloomberg
LEG_INDEX_TENOR	3M
LEG_RESET_FREQ	3M
LEG_RESET_REL_TO	BEG_PER
LEG_RESET_DATE_ADJ_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_RESET_DATE_ADJ_CAL	KRSE, USNY Required, other calendars optional
LEG_FIXING_DATE_OFFSET <i>*Market standard fixing offset shown as example but CME accepts any signed/unsigned number</i>	-1D
LEG_FIXING_DAY_TYPE	Business Calendar
LEG_FIXING_DATE_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_FIXING_DATE_CAL	KRSE Required Other Calendars Optional
INITIAL_FIXING_DATE_OFFSET <i>*Market standard fixing offset shown as example but CME accepts any signed/unsigned number</i>	-1D
INITIAL_FIXING_DAY_TYPE	Business Calendar

INITIAL_FIXING_DATE_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
INITIAL_FIXING_DATE_CAL	KRSE Required Other Calendars Optional
LEG_FX_FIXING_RATE_SOURCE	KRW.KFTC18/KRW02
LEG_FX_FIXING_DATE_OFFSET	-2D
LEG_FX_FIXING_DAY_TYPE	Business
LEG_FX_FIXING_DATE_BUS_DAY_CONV	NONE PRECEDING
LEG_FX_FIXING_DATE_CAL	KRSE Required Other Calendars Optional

LEG_START_DATE	YYYYMMDD
LEG_MAT_DATE	YYYYMMDD
LEG_ROLL_CONV	1-30 EOM IMM
*Please note "IMM" refers the third Wednesday of Jan, Mar, June, Dec	
LEG_SPREAD	
LEG_NOTIONAL	
LEG_FIXED_RATE	
LEG_INITIAL_RATE	

LEG_STUB_TYPE	ShortInitial ShortFinal LongInitial LongFinal
LEG_FIRST_REG_PER_START_DATE	
LEG_LAST_REG_PER_END_DATE	
LEG_INITIAL_STUB_RATE	
LEG_INITIAL_STUBRATE_INDEX1	3M
LEG_INITIAL_STUBRATE_INDEX2	3M
LEG_FINAL_STUBRATE_INDEX1	3M

LEG_FINAL_STUBRATE_INDEX2	3M
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LEG_INITIAL_VALUE	
LEG_STEP_DATE	YYYYMMDD
LEG_STEP_VALUE	

EXHIBIT 2

Attribute	INR
Maximum Maturity	10 YEARS
Variable Notional	✘
Forward Starting	✔
Spreads above and below index	✔
Negative Floating and Fixed Rates	✔
Different First Fixing	✔
Upfront Payment Dates	T+1 through maturity
Settlement Convention	T+1

LEG_TYPE	FIXED FLOAT FLOAT
LEG_CCY	INR
LEG_START_DATE_ADJ_BUS_DAY_CONV	NONE
LEG_MAT_DATE_ADJ_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_MAT_DATE_ADJ_CAL	INMU, USNY Required, other calendars optional
LEG_PAY_FREQ	1M 3M 6M 1Y 1T
LEG_PAY_REL_TO	END_PER
LEG_PAY_ADJ_BUS_DAY_CONV	FOLLOWING MODFOLLOWING PRECEDING
LEG_PAY_ADJ_CAL	INMU, USNY Required, other calendars optional
LEG_PAY_DATE_OFFSET	0D
LEG_PAY_DAY_TYPE	Business

LEG_DAYCOUNT	30/360 ACT/360 ACT/365.FIXED ACT/ACT.ISDA 30E/360 30E/360.ISDA ACT/ACT.ICMA
LEG_CALC_PER_ADJ_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_CALC_PER_ADJ_CAL	INMU, USNY Required, other calendars optional
LEG_CALC_FREQ	1M 3M 6M 1Y 1T
LEG_COMP_METHOD	N/A
LEG_INDEX	INR-FBIL-MIBOR-OIS- COMPOUND
LEG_INDEX_TENOR	N/A
LEG_RESET_FREQ	1M 3M 6M 1Y 1T
LEG_RESET_REL_TO	END_PER
LEG_RESET_DATE_ADJ_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
LEG_RESET_DATE_ADJ_CAL	INMU, USNY Required, other calendars optional
LEG_FIXING_DATE_OFFSET	0D
LEG_FIXING_DAY_TYPE	Business Calendar
LEG_FIXING_DATE_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING

LEG_FIXING_DATE_CAL	INMU Required Other Calendars Optional
INITIAL_FIXING_DATE_OFFSET	0D
INITIAL_FIXING_DAY_TYPE	Business Calendar
INITIAL_FIXING_DATE_BUS_DAY_CONV	NONE FOLLOWING MODFOLLOWING PRECEDING
INITIAL_FIXING_DATE_CAL	INMU Required Other Calendars Optional
LEG_FX_FIXING_RATE_SOURCE	INR.RBIB/INR01
LEG_FX_FIXING_DATE_OFFSET	-2D
LEG_FX_FIXING_DAY_TYPE	Business
LEG_FX_FIXING_DATE_BUS_DAY_CONV	NONE PRECEDING
LEG_FX_FIXING_DATE_CAL	INMU Required Other Calendars Optional

LEG_START_DATE	YYYYMMDD
LEG_MAT_DATE	YYYYMMDD
LEG_ROLL_CONV	NONE 1-30 EOM
LEG_SPREAD	
LEG_SETTLEMENT_CCY	USD
LEG_NOTIONAL	
LEG_FIXED_RATE	
LEG_INITIAL_RATE	

LEG_STUB_TYPE	ShortInitial ShortFinal LongInitial LongFinal
LEG_FIRST_REG_PER_START_DATE	
LEG_LAST_REG_PER_END_DATE	

**Initial Stub Rate and Interpolation are not supported for OIS swaps, as tenor = 1D*