

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 21-350

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/20/21

Filing Description: Acceptance of SARON Denominated Interest Rate Swaps for Clearing

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 type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers:

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 checked="" type="checkbox"/> | Swap Submission | § 39.5 |

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:

July 20, 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 39.5(b) Certification. Acceptance of Swiss Average Rate Overnight (“SARON”) Denominated Interest Rate Swaps for Clearing.
CME Submission No. 21-350**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “CME Clearing”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or “Act”) hereby submits to the Commodity Futures Trading Commission (“CFTC”) pursuant to Commission Regulation 39.5(b), its acceptance of Swiss Average Rate Overnight (“SARON”) denominated overnight index swaps (“SARON Swaps”) and related amendments to CME Rule 90102.E.1. (“Interest Rate Swaps Rate Options”) of Chapter 901 (“Interest Rate Swaps Contract Terms”), effective on trade date Monday, July 26, 2021.

SARON is administered and calculated by SIX Swiss Exchange Financial Information AG (“SIX”) in Switzerland. SARON is an overnight benchmark rate based on overnight transactions and quotes posted in the Swiss Franc repo market. Publication of SARON began on August 25, 2009, with historical data available since June 30, 1999. SIX is committed to the IOSCO Principles for Financial Benchmark and SARON is endorsed for use in the European Union and listed in the European Securities and Markets Authority (“ESMA”) Register pursuant to the EU Benchmarks Regulation.¹

As part of regulatory and industry initiatives to transition away from certain key interbank offered rates (“IBORs”) and interest rate benchmarks, in October 2017 the Swiss National Working Group (“NWG”) on Swiss Franc Reference Rates recommended SARON as an alternative “risk-free rate” (“RFR”) to Swiss Franc (“CHF”) London Inter-bank Offered Rate (“LIBOR”) (“CHF LIBOR”) for new contracts and as the alternative reference rate to replace CHF LIBOR as a “fallback” for references to CHF LIBOR in legacy derivative contracts.² Following a period of consultation, in January 2021 ISDA amended certain “floating rate options” in the 2006 ISDA Definitions to include fallbacks that would apply on the discontinuation of key IBORs, providing that ISDA referencing OTC CHF LIBOR interest rate swaps (“IRS”) should “fall-back” to a term and spread adjusted SARON rate on the permanent discontinuation or non-representativeness of CHF LIBOR. At the same time, CME Clearing introduced similar fallback provisions into the CME Rulebook providing for the fall-back to a term and spread adjusted SARON for both “new” and “legacy”

¹ See <https://www.six-group.com/en/products-services/the-swiss-stock-exchange/market-data/indices/swiss-reference-rates.html#scrollTo=governance-regulation>

² The Swiss NWG is the key forum to foster the transition to SARON and to discuss international developments relating to SARON transition. See https://www.snb.ch/en/ifor/finmkt/fnmkt_benchn/id/finmkt_reformrates

300 Vesey Street New York, NY 10282 T 212 299 2200 F 212 301 4645 christopher.bowen@cmegroup.com cmegroup.com

cleared OTC IRS referencing CHF LIBOR in the event of permanent discontinuation or non-representativeness of that rate.³

Following industry consultation, on March 5, 2021, the UK Financial Conduct Authority (“FCA”) announced that all settings of CHF LIBOR will cease to be provided by ICE Benchmark Administration, the UK administrator of LIBOR (“IBA”), immediately after publication on December 31, 2021.⁴

Following the FCA announcement, market participants are preparing for the forthcoming transition of bilateral and cleared OTC IRS from CHF LIBOR to SARON. CME currently supports CHF LIBOR interest rate swaps and proposes to launch SARON overnight index swaps (“OIS”) to facilitate market participants in this transition process in good time ahead of the scheduled discontinuation of CHF LIBOR after December 31, 2021.

As shown in Exhibit 2, CME’s cleared OTC IRS product scope will be increased to include SARON OIS.

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

Pursuant to CFTC Regulation 39.5(b)(3)(i), CME states that it is eligible to accept SARON Swaps 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 CFTC 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

Publication of SARON by SIX began on August 25, 2009, with historical data available since June 30, 1999. SARON represents the overnight interest rate of the secured money market for Swiss francs, based on transactions and quotes posted in the Swiss repo market. The Swiss repo market is under the surveillance of SIX Exchange Regulation and is regulated under the Swiss Financial Market Infrastructure Act (“FMIA”) as a multilateral trading facility. Some 160 banks and insurance companies participate in the Swiss repo market. Between 2017 and 2019 the average daily trade volume was around CHF 3.3 billion.⁵

A. SARON Swaps

Based on information published by ISDA taken from US Swap Data Repositories, in the week ending June 11, 2021, SARON traded notional was USD 1.3 billion. For the year to date, ending June 11, 2021, SARON traded notional was USD 12.9 billion.⁶

We expect further development of the SARON Swaps market in the near future, particularly in the lead up to and following the discontinuation of CHF LIBOR scheduled for 31 December 2021.

³ <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2021/01/Chadv21-039.pdf>

⁴ See FCA Announcement, March 5, 2021, available at <https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf>. The FCA further confirmed that it has no intention of using its powers to require IBA to continue the publication of any CHF LIBOR settings on a non-representative basis after end December 2021.

⁵ See <https://www.six-group.com/en/products-services/the-swiss-stock-exchange/market-data/indices/swiss-reference-rates.html#scrollTo=governance-regulation>

⁶ Data published weekly by ISDA at <http://analysis.swapsinfo.org/>

300 Vesey Street New York, NY 10282 t 212 299 2200 f 212 301 4645 christopher.bowen@cmegroup.com cmegroup.com

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

The rule framework for SARON Swaps is the same as all other IRS cleared by CME and is set forth in the CME Rulebook.⁷ Furthermore, CME Clearing's "Risk Management and Financial Safeguards" brochure (the "Risk Management Brochure"), contains information regarding CME's risk management capacity, expertise, resources, and financial safeguard system.⁸ Both documents are available to the public on the CME Group website.

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

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 mark-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 positional exposures simply by buying back or selling the relevant contracts. The associated benefits are considerable:

- *Centralized clearing.* Clearing SARON Swaps through CME allows market participants to free up counterparty credit lines. The daily mark-to-market process employed by CME enhances customer risk management opportunities.
- *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 exposures by a contra trade.

As further described in the Risk Management Brochure and summarized in the section below titled "Risk Management Procedures," CME has the necessary resources available to clear SARON Swaps.

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

CME does not believe that the clearing of SARON Swaps will have any negative impact, or impose any burden, on competition. In clearing SARON Swaps CME will provide market participants with another clearing service provider to support activity in SARON derivative contracts.

CME's schedule of fees for IRS can be found at <https://www.cmegroup.com/trading/interest-rates/cleared-otc-irs-customer-fees.html>.

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 Subpart C of Part 190 ("Bankruptcy") of the Commission's Regulations. Also

⁷ The CME Rulebook is available at <https://www.cmegroup.com/rulebook/CME/>

⁸ The Risk Management Brochure is available at <http://www.cmegroup.com/clearing/files/financialsafeguards.pdf>

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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.

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 Subpart B of Part 190 (Bankruptcy) of the Commission’s Regulations. If an FCM is registered as a broker-dealer, certain aspects of its insolvency proceeding will be governed by the Securities Investor Protection Act.

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

Attached as Exhibit 2 are the product-specifications for SARON Swaps. These specifications will be added, without the conditional statement of being subject to further regulatory review upon the effectiveness of this submission, to CME’s IRS product scope slate at <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html>. SARON Swaps will settle in CHF.

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

CME Rule 8G04. (“IRS Clearing Member Obligations and Qualifications”) specifies the requirements for IRS Clearing Members.

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

We have concurrently submitted in CME Submission 21-350s, a document, marked for confidential treatment, describing the curve building for cleared SARON Swaps.

CHF SARON swaps rely on a single-curve valuation methodology with the SARON curve used for forecasting and discounting the cash flows of cleared SARON swaps. CHF SARON curve quotes will be sourced at 4:00 p.m. Central European Time (“CET”). CME plans to update the valuation methodology for cleared CHF LIBOR swaps as part of clearing support for SARON swaps, aligning the discounting curve used for these swap products. As such, CHF LIBOR swaps will rely on a dual-curve valuation methodology post SARON swap clearing.

SARON Swap Rate

The SARON Swaps reference the SARON. The SARON is computed, and is calculated in real-time and published for the same business day every ten minutes from 8:30 a.m. CET by SIX. A fixing is conducted three times a day at 12:00 p.m., 4:00 p.m. and 6:00 p.m. CET. CME will utilize the 6:00 p.m. CET fixing, published on all official trading days of the CHF repo market and based on data of the same day, as the reference rate for SARON Swaps.

Details of the calculation and publication of SARON are available on the SIX website and summarized below. SARON is based on concluded transactions and trade quotes posted on the SIX Repo trading platform, provided they lie within the parameters of the quote filter. The quote filter is parameterized in a way that limits the possibilities for manipulation.⁹ The SARON methodology is based on a continuous calculation throughout the day. Prices of trades are volume weighted used to update the reference price if they do not exceed a 50 basis points difference to the reference price. There is no limit to trade volume. Quotes are volume weighted used if they lie within the quote filter of three basis points around the mid-price. The mid-price is the volume weighted price of the best build and ask quote. A maximum number of 10 quotes of different participants on each orderbook side may be used to update the reference price. If no quotes are available within the quote spread around the mid-price, the mid-price is used as the new

⁹ See https://www.six-group.com/en/products-services/the-swiss-stock-exchange/market-data/indices/swiss-reference-rates.html#scrollTo=calculation_and_publication

reference price. In general quotes are restricted to CHF 100 million. Further details on the methodology are publicly available on the SIX website.¹⁰

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

The Risk Management Brochure summarizes CME's risk management procedures applicable to the clearing of SARON Swaps.

CME has performed various tests to ensure the existing IRS margin model and related parameters do not require any enhancements to cover the clearing of SARON Swaps. These tests included backtesting and correlation analysis where it was validated that CME's existing IRS margin model generates performance bond requirements that are sufficient to cover the clearing of SARON Swaps. Further, the existing IRS financial safeguards will be utilized to cover any additional exposures related to the clearing of SARON Swaps. The IRS financial safeguards will continue to provide risk management protection beyond daily settlement variation and performance bonds.

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

The product rules for SARON Swaps are being added to Chapter 901 of the CME Rulebook and are enclosed in Exhibit 1 which is attached hereto. The product rules and attendant non-substantive conforming revisions to add CHF-SARON-OIS-COMPOUND is reflected in amendments to Rule 90102.E.1. ("Interest Rate Swaps Rate Options"). Exhibit 1 below provides amendments to Rule 90102.E.1. in blackline format.

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>.

Should you have any questions concerning the above, 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

Attachments: Exhibit 1 – Amendments to Rule 90102.E.1. ("Interest Rate Swaps Rate Options")
 Exhibit 2 – SARON Swaps Product Specifications

¹⁰ <https://www.six-group.com/dam/download/market-data/indices/swiss-reference-rates/six-swiss-reference-rates-output-statement-en.pdf>

EXHIBIT 1

CME RULEBOOK Chapter 901 Interest Rate Swap Contract Terms

(additions underscored)

90102. CONTRACT TERMS

90102.E. Rate Options

90102.E.1. Interest Rate Swaps 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- 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. USD-SOFR-COMPOUND
30. EUR-EuroSTR-COMPOUND *(also effective July 26, 2021 – see CME Submission No. 21-351)*
- 31. CHF-SARON-OIS-COMPOUND**

[Remainder of Rule unchanged.]

EXHIBIT 2

CHF Swaps Product Specifications

CHF SARON Overnight Index Swap (OIS)

Product Type	OIS: Fixed versus SARON
Currency	CHF
Floating Rate Index	CHF-SARON-OIS-COMPOUND
Maximum Maturity	31 years
Settlement Convention	CHF will be settled on a two day (T+2) basis
Floating Index Tenor	1D
Price Alignment Rate	SARON
Fixing Calendar	Zurich Holiday calendar (CHZU)
Fixing Offset	0D
Day Count	ACT/360
Payment Calendar	CHZU required, others optional
Payment Frequency	1M, 3M, 6M, 1Y, 1Y
Payment Offset	2D
Variable Notional, Spreads, Stubs	Yes; to be supported