

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 23-018

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 01/19/23 Filing Description: Modifications to CME's Credit Risk Assessment Methodology and Counterparty Exposure Methodology

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

Official Product Name:

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:

January 19, 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. Modifications to CME's Credit Risk Assessment Methodology and Counterparty Exposure Methodology.
CME Submission No. 23-018**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.6(a), Chicago Mercantile Exchange Inc. ("CME" or "Clearing House"), as a derivatives clearing organization ("DCO"), certifies to the Commission modifications to CME's Credit Risk Assessment Methodology ("CAM") and Counterparty Exposure Methodology ("CEM") (collectively, the "Methodologies") effective on February 3, 2023 (collectively, the "Amendments").

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

CAM

The CAM is approved by CME's Clearing House Oversight Committee ("CHOC") (i.e., committee established by the Board of Directors ("Board")) at least annually. The Amendments covered in this year's annual approval of the CAM that are specific to the CAM relate to the following three areas:

- i. **Governance Arrangements:** The description of the of the governance arrangements for the CAM were updated consistent with the description in other documents maintained by the Clearing House, such as the Risk Management Framework ("RMF") and CHOC's charter. In addition, the governance arrangements have been amended to provide the Chief Compliance Officer of the Clearing House the authority to approve non-substantive changes to the CAM, with the authority approved by the Nominating and Governance Committee (i.e., committee established by the Board).
- ii. **Scorecards:** The Clearing House maintains scorecards that are used to assess and rate the different types of counterparties for which CME faces based on business profile and updates were made to these scorecards, primarily with respect to their quantitative categories to reflect the use of more recent data.¹ In the case of the futures commission merchant/broker-dealer and proprietary trading firm scorecards, this resulted in updating the weights applied to certain quantitative categories of the scorecards. Additionally, one of the measures used for the futures commission

¹ In line with the use of more recent data, where applicable, the backtesting results included in the CAM were also updated.

merchant/broker-dealer and proprietary trading firm scorecards was re-categorized to better align with assessing these counterparties' capital base. Certain measures used for assessing capital, asset quality, and profitability with respect to the bank scorecard were also updated to more accurately capture counterparties' risk in these categories. Additionally, distinct sample periods are used for conducting regression analysis for each of the quantitative categories used in the bank scorecard and one of the sample periods used was amended to support that the rating methodology continues to remain relevant for the current market environment and prevailing trends.

Additionally, the insurance company, mutual fund, and pension fund rating criteria and scorecards were removed from the CAM, since the Clearing House does not have any direct relationships with these counterparty types.

- iii. **Sovereign Risk:** The Clearing House considers sovereign risk in assessing certain counterparties. Consistent with previous updates to the RMF and Credit Policy, references to the CME's sovereign risk methodology were removed to recognize that CME may use external or internal methodologies and analysis to measure and assess sovereign risk.²

CEM

The CEM is approved by the CHOC at least annually. The Amendments covered in this year's annual approval of the CEM that are specific to the CEM relate to the following three areas:

- i. **Governance Arrangements:** Similar to the CAM, the governance arrangements have been amended to provide the Chief Compliance Officer of the Clearing House the authority to approve non-substantive changes to the CEM, with the authority approved by the Nominating and Governance Committee.
- ii. **Sovereign Risk:** The Clearing House considers sovereign risk in determining exposure limits to certain counterparties. As such, similar to the CAM, references to CME's sovereign risk methodology were removed and updates were made to identify the methodology used by the Clearing House relative to exposure limits.
- iii. **Liquidity Factor:** Updates were made to reflect the Clearing House's ongoing practice of applying a cap on the liquidity factor considered when determining cash deposit limits, so that banks with outsized liquidity coverage ratios do not receive inappropriately large limits.

Amendments Applicable to Both Methodologies

Additionally, the Clearing House implemented administrative and non-substantive amendments in the Methodologies to provide enhanced clarity without changing the meaning, where appropriate (e.g., updating teams' names). Additionally, the Methodologies were updated to detail appropriate adherence to governance arrangements in circumstances where the Clearing House certifies rule changes with the CFTC which are subject to minor modifications.

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 have some bearing on the following principles:

- **DCO Core Principle D – Risk Management:** The Amendments further describe the Clearing House's risk management practices with respect to assessing and managing counterparty risk and enhance the ability of the Clearing House to effectively manage the risks associated with discharging the responsibilities of the DCO.

² CME Submission, No. 22-233 (June 2022), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2022/6/22-233.pdf>.

- 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 revised Methodologies, which have been submitted concurrently with this certification.

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 this action.

The Clearing House certifies that this submission has been concurrently posted on the Clearing House’s website at <https://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact me at 312-930-8167 or via email at sean.downey@cmegroup.com.

Sincerely,

/s/ Sean Downey
Clearing Chief Compliance Officer & Head of Policy
CME Clearing

Attachments: Exhibit A – Modifications to the Credit Risk Assessment Methodology
(attached under separate cover) (confidential treatment requested)
Exhibit B – Modifications to the Counterparty Exposure Methodology
(attached under separate cover) (confidential treatment requested)