

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 19-283 (4 of 5)

**Organization:** New York Mercantile Exchange, Inc. ("NYMEX")

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

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

**Filing Date (mm/dd/yy):** 07/29/19 **Filing Description:** Amendments to CME, CBOT, NYMEX/COMEX Rule 820 ("Performance Bonds") Permitting Clearing Members to Deposit COMEX Gold Warrants as Performance Bond, Amendments to CME Rule 8G930.C ("Acceptable Performance Bond Deposits for IRS Products") Permitting IRS Clearing Members to Accept COMEX Gold Warrants as Performance Bond from Account Holders; Amendments to List of Acceptable Collateral

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

- |                                     |                                     |            |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" 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:** 820;8G930.C.

**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:**

July 29, 2019

**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 40.6(a) Certification. Notification Regarding Amendments to CME, CBOT, NYMEX/COMEX Rule 820. (“Performance Bonds”) Permitting Clearing Members to Deposit COMEX Gold Warrants as Performance Bond; Amendments to CME Clearing Rule 8G930.C. (“Acceptable Performance Bond Deposits for IRS Products”) Permitting IRS Clearing Members to Accept COMEX Gold Warrants as Performance Bond from Account Holders; Amendments to List of Acceptable Collateral  
NYMEX Submission 19-283 (4 of 5)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc., in its capacities as both a designated contract market (“DCM”) (“CME”) and a derivatives clearing organization (“DCO”) (“CME Clearing”), The Board of Trade of the City of Chicago, Inc., (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”), and Commodity Exchange, Inc. (“COMEX”), each in their capacities as a DCM (each an “Exchange” and collectively, the “Exchanges”) hereby notify the Commission that they are self-certifying amendments to CME, CBOT, NYMEX/COMEX Rule 820. (“Performance Bonds”) to permit clearing members to deposit COMEX gold warrants (“gold warrants”) with CME Clearing as acceptable performance bond in the clearing member’s House origin, to CME Clearing Rule 8G930.C. (“Acceptable Performance Bond Deposits for IRS Products”) to permit IRS clearing members to accept gold warrants as performance bond from their account holders, and to CME Clearing’s List of Acceptable Collateral (collectively, the “Rule Amendments”). The Rule Amendments in this submission shall be self-certified on August 12, 2019 for trade date August 13, 2019 and implemented later in 2019. CME Clearing and the Exchanges will advise the marketplace and the Commission of such date closer to actual implementation.

**CME, CBOT, NYMEX/COMEX Rule 820. (“Performance Bonds”)**

COMEX offers a variety of physically-delivered metal futures contracts, including the COMEX Gold Futures contract. Before gold is eligible for delivery to satisfy an obligation, the gold must meet Exchange specifications, be deposited at a COMEX approved depository, and placed on warrant by the clearing member. Gold warrants are classified as electronic documents of title under the Uniform Commercial Code and are issued by approved depositories that hold gold deposited by clearing members and their customers. These warrants are currently utilized by clearing members to satisfy their delivery requirements under the COMEX Gold Futures contract. Permitting clearing members to deposit gold warrants with CME Clearing as performance bond would provide them with funding efficiencies as they could utilize this generally idle asset to meet performance bond requirements. CME Clearing will not give clearing members performance bond credit for gold warrants that are pledged to CME Clearing until the relevant depository confirms that

the warrants have been transferred to CME Clearing, thus ensuring that CME Clearing has control of the warrants under the Uniform Commercial Code.

Currently, CME Clearing accepts physical gold as collateral, and the addition of gold warrants will further diversify its collateral program and increase flexibility for clearing members by expanding the type of collateral that CME Clearing accepts as performance bond. Overall market liquidity risks of gold warrants are minimized as evidenced by large daily volumes for trading gold-related exposures in both spot, forward, and derivatives markets, and CME Clearing's ability to use gold warrants to secure a draw under CME Clearing's \$7 billion 364-day committed credit facility.

Physical gold is currently subject to a post-haircut limit of \$250 million per clearing member and its affiliates. Under this proposal, gold warrants and physical gold (collectively) will be subject to a post-haircut limit of \$750 million U.S. dollar equivalent for each clearing member and its affiliates, which represents approximately 1.27% of the average daily market turnover across derivatives, spot, and forward markets for gold.<sup>1</sup> The proposed haircut for gold warrants mirrors that of physical gold at 15%. The haircut is based on the observed volatility of the spot market price of gold<sup>2</sup> which assumes a two-day liquidation period, as well as a qualitative buffer designed to address additional costs of liquidation, such as transportation costs.

CME Clearing anticipates that the collateral composition of specific clearing members may shift as a result of the proposed changes; however, CME does not believe the proposal materially impacts the risk profile of the Clearing House. CME's analysis of specific clearing member collateral profiles demonstrates the limited impact of gold warrants at the \$750 million limit. Even if gold warrant utilization exceeds CME's assumptions for clearing members that have expressed interest in the proposal, CME estimates that gold warrants and physical gold will account for a minority of their collateral composition and less than 1.5% of all performance bond on deposit at the CME Clearing.

CME is also implementing administrative amendments to CME Rule 820. to harmonize the rule with CBOT, NYMEX and COMEX Rule 820.

### **CME Rule 8G930.C (“Acceptable Performance Bonds Deposits for IRS Products”)**

Currently, the Exchanges' Rule 930.C. (“Acceptable Performance Bond Deposits”) permits clearing members to accept gold warrants from their account holders for CME, CBOT, NYMEX, and COMEX performance bond requirements. CME is proposing to harmonize CME Clearing Rule 8G930.C. with Exchange Rule 930.C. to permit IRS Clearing Members to accept gold warrants from their account holders for IRS performance bond requirements. The proposed amendment will provide consistency between CME Clearing Rule 8G930.C. and CME, CBOT, and NYMEX/COMEX Rule 930.C.

### **NYMEX/COMEX Rule 703. (“Designation and Obligations of Metal Service Providers”) and Rule 705. (“Metals Warrants”)**

NYMEX and COMEX will amend NYMEX/COMEX Rules 703. and 705., which shall be submitted for self-certification to the Commission under separate cover (see NYMEX/COMEX Submission No. 19-284 also dated July 29, 2019), to reflect the fact that clearing members will be permitted to pledge gold warrants to CME Clearing as performance bond and to prohibit a clearing member from cancelling a warrant that has been pledged to CME Clearing as performance bond to coincide with the implementation of the Rule Amendments.

### **Core Principle Review**

The Exchanges reviewed the DCO and DCM core principles (collectively, the “Core Principles”) as set forth

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<sup>1</sup> Derivatives includes COMEX gold futures average daily turnover of ~\$35.40 billion. CME trade volumes are aggregated across all COMEX gold futures contracts from 1/1/19 to 4/18/19. LBMA spot and forward average daily turnover is ~\$33.89 billion. LBMA trade volumes from 1/1/19 to 4/8/19 are sourced from LBMA-i (<https://www.lbma-i.com/market-data>).

<sup>2</sup> CME plans to value warrants using the front-month COMEX gold futures price; however, the spot gold price was chosen as a proxy to calculate the price volatility of gold warrants.

in the Commodity Exchange Act (“CEA” or “Act”) and identified that the Rule Amendments may have some bearing on the following Core Principles:

### **DCO Core Principles**

- **DCO Core Principle B-Financial Resources** – CFTC Regulation 39.33 provides in relevant part that a DCO qualifying liquid resources may include highly marketable collateral, so long as these assets are readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements under extreme but plausible market conditions. Gold warrants, as specified above, satisfy this liquidity requirement in that CME’s \$7 billion syndicated committed credit facility permits CME to pledge such instruments to secure a draw on the facility.
- **DCO Core Principle D – Risk Management** – CFTC Regulation 39.13(g)(10) requires each DCO to limit the assets it accepts as initial margin to those that have minimal credit, market and liquidity risk. The proposed amendments serve to further diversify the resources available to CME in the event of a clearing member default and reduces potential concentration of CME’s collateral holdings, thus mitigating market and liquidity risk in a stressed market environment. Further, by limiting performance bond credit to \$750 million for each clearing member and its affiliates, gold warrants and physical gold should only account for a de minimis portion of CME Clearing’s overall collateral holdings as cited above.
- **DCO Core Principle L – Public Information** - The Rule Amendments will be publicly available on the CME Group website. In addition, CME Clearing will release a notice to the marketplace regarding the rule amendments in advance of the effective date.
- **DCO Core Principle R – Legal Risk** - CME Clearing has determined that the Rule Amendments are consistent with the requirement to have a well-founded, transparent and enforceable legal framework for each aspect of the activities of the DCO.

### **DCM Core Principle**

- **DCM Core Principle 7 – Availability of General Information** - The Rule Amendments will be publicly available on the CME Group website. In addition, the Exchanges will release a notice to the marketplace regarding the rule amendments in advance of the effective date.

Exhibits A and B which are attached hereto, set forth the proposed changes to CME, CBOT, and NYMEX/COMEX Rule 820. with additions underlined and deletions ~~struck through~~.

Exhibit C, which is attached hereto, sets forth the proposed changes to CME Clearing Rule 8G930.C.

The Exchanges certify that the Rule Amendments 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](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director & Chief Regulatory Counsel

Attachments: Exhibit A – CME Rule 820. (“Performance Bonds”) (blackline format)  
Exhibit B – CBOT, NYMEX/COMEX Rule 820. (“Performance Bonds”) (blackline format)  
Exhibit C – CME Clearing Rule 8G930.C. (“Acceptable Performance Bond Deposits for  
IRS Products”) (blackline format)

## EXHIBIT A

### **CME Rulebook Chapter 8 ("Clearing House and Performance Bonds")**

(additions underlined; deletions ~~struck through~~)

#### **820. Performance Bonds**

Performance bond requirements will be as determined by ~~Exchange~~Clearing House staff from time to time.

Subject to the terms and conditions as approved by ~~Exchange~~Clearing House staff, the Clearing House will accept as performance bond, cash, equity securities, shares of mutual funds, United States Treasury and agency Securities, Letters of Credit, units in CME's Interest Earning Facility Program, shares in CME's Interest Earning Facility 2 Program, permitted investments allowable under CFTC Regulation 1.25, "readily marketable securities" as defined by Securities and Exchange Commission Rules, as applicable, gold warrants that are registered as deliverable for gold futures contracts traded on Commodity Exchange, Inc., and "London Good Delivery" gold, as defined by the London Bullion Market Association (as used in this Rule 820, such assets and any proceeds thereof are collectively referred to as "Assets"), all of which must be and remain unencumbered. The Clearing House may include other forms of collateral within the definition of "Assets" upon the approval of the Clearing House Risk Committee and notice to clearing members.

All performance bond collateral, as herein described, shall be placed to the credit of the member paying the same for its customers' trades or its own (so-called "house") trades as designated by the clearing member. The Clearing House shall value performance bond collateral as it deems appropriate. The clearing member shall transfer the performance bond collateral to the ~~Exchange~~Clearing House or to an approved depository for safekeeping in ~~an Exchange~~a Clearing House account and the ~~Exchange~~Clearing House shall retain control over such performance bond collateral. Neither the Exchange nor the Clearing House shall have any obligation or responsibility to preserve, protect, collect or realize upon, and under no circumstances shall the Exchange or Clearing House be liable for, any loss or diminution in value or depreciation in the performance bond collateral maintained pursuant to this rule. A clearing member who maintains performance bond collateral for its benefit pursuant to this rule shall hold the Exchange and Clearing House harmless from all liability, losses and damages which may result from or arise with respect to the care and sale of such performance bond collateral. All initial and additional performance bonds shall be retained by the Clearing House in whole or in part, as ~~Exchange~~Clearing House staff may deem necessary, until the trades for which such performance bond collateral has been deposited, have been offset, cash settled, delivered or otherwise closed out as determined by ~~Exchange~~Clearing House staff.

Each clearing member shall reimburse the Clearing House for all fees, expenses, charges and costs assessed by a depository against the ~~Exchange~~Clearing House with respect to all performance bond collateral maintained in its account, and shall make deposits as may be required by the Clearing House by reason of any depreciation in the market value of such performance bond collateral. If a clearing member defaults to the Clearing House with respect to performance bonds, the performance bond collateral maintained in its account pursuant to this rule shall be taken over by the Clearing House and sold without notice and the proceeds of the performance bond collateral deposited for customers' trades shall be applied against the performance bond requirements for the clearing members' customers' accounts, and the proceeds of performance bond collateral deposited for the house trades shall be applied against the requirements for the clearing member's own (so-called "house") account.

## **EXHIBIT B**

### **CBOT and NYMEX/COMEX Rulebooks Chapter 8 ("Clearing House and Performance Bonds")**

(additions underlined)

#### **820. Performance Bonds**

Performance bond requirements will be as determined by Clearing House staff from time to time.

Subject to the terms and conditions as approved by Clearing House staff, the Clearing House will accept as performance bond, cash, equity securities, shares of mutual funds, United States Treasury and agency Securities, Letters of Credit, units in CME's Interest Earning Facility Program, shares in CME's Interest Earning Facility 2 Program, permitted investments allowable under CFTC Regulation 1.25, "readily marketable securities" as defined by Securities and Exchange Commission Rules, as applicable, gold warrants that are registered as deliverable for gold futures contracts traded on Commodity Exchange, Inc., and "London Good Delivery" gold, as defined by the London Bullion Market Association (as used in this Rule 820, such assets and any proceeds thereof are collectively referred to as "Assets"), all of which must be and remain unencumbered. The Clearing House may include other forms of collateral within the definition of "Assets" upon the approval of the Clearing House Risk Committee and notice to clearing members.

All performance bond collateral, as herein described, shall be placed to the credit of the member paying the same for its customers' trades or its own (so-called "house") trades as designated by the clearing member. The Clearing House shall value performance bond collateral as it deems appropriate. The clearing member shall transfer the performance bond collateral to the Clearing House or to an approved depository for safekeeping in a Clearing House account and the Clearing House shall retain control over such performance bond collateral. Neither the Exchange nor the Clearing House shall have any obligation or responsibility to preserve, protect, collect or realize upon, and under no circumstances shall the Exchange or Clearing House be liable for, any loss or diminution in value or depreciation in the performance bond collateral maintained pursuant to this rule. A clearing member who maintains performance bond collateral for its benefit pursuant to this rule shall hold the Exchange and Clearing House harmless from all liability, losses and damages which may result from or arise with respect to the care and sale of such performance bond collateral. All initial and additional performance bonds shall be retained by the Clearing House in whole or in part, as Clearing House staff may deem necessary, until the trades for which such performance bond collateral has been deposited, have been offset, cash settled, delivered or otherwise closed out as determined by Clearing House staff.

Each clearing member shall reimburse the Clearing House for all fees, expenses, charges and costs assessed by a depository against the Clearing House with respect to all performance bond collateral maintained in its account, and shall make deposits as may be required by the Clearing House by reason of any depreciation in the market value of such performance bond collateral. If a clearing member defaults to the Clearing House with respect to performance bonds, the performance bond collateral maintained in its account pursuant to this rule shall be taken over by the Clearing House and sold without notice and the proceeds of the performance bond collateral deposited for customers' trades shall be applied against the performance bond requirements for the clearing members' customers' accounts, and the proceeds of performance bond collateral deposited for the house trades shall be applied against the requirements for the clearing member's own (so-called "house") account.

## Exhibit C

### **CME Rulebook Chapter 8G ("Interest Rate Derivative Clearing")**

(additions underlined)

#### **8G930.C. Acceptable Performance Bond Deposits for IRS Products**

IRS Clearing Members may accept from their account holders as performance bond cash currencies of any denomination, readily marketable securities (as defined by SEC Rule 15c3-1(c)(11) and applicable SEC interpretations), money market mutual funds allowable under CFTC Regulation 1.25, bank-issued letters of credit, gold warrants that are registered as deliverable for gold futures contracts traded on Commodity Exchange, Inc., and "London Good Delivery" gold, as defined by the London Bullion Market Association.

IRS Clearing Members shall not accept as performance bond from an account holder securities that have been issued, sponsored or otherwise guaranteed by the account holder or an affiliate of the account holder unless the IRS Clearing Member files a petition with and receives permission from Clearing House staff.

Unless permitted (either not restricted or specifically authorized) by OFAC and/or any Sanctioning Body, as applicable, IRS Clearing Members may not accept from their account holders as performance bond any debt or equity issued by Sanctioned Parties as defined in Rule 543, assets in which Sanctioned Parties have an interest, or any other assets that are or would be subject to blocking restrictions or sectoral sanction restrictions imposed by the U.S. Department of Treasury's Office of Foreign Assets Control or are subject to similar restrictions imposed by another Sanctioning Body.

Bank-issued letters of credit must be in a form acceptable to the Clearing House. Such letters of credit must be drawable in the United States. IRS Clearing Members shall not accept as performance bond from an account holder letters of credit issued by the account holder, an affiliate of the account holder, the clearing member, or an Affiliate of the clearing member.

All assets deposited by account holders to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing account holder. Except to the extent that Clearing House staff shall prescribe otherwise, cash currency performance bond deposits shall be valued at market value. All other performance bond deposits other than letters of credit shall be valued at an amount not to exceed market value less applicable haircuts as set forth in SEC Rule 240.15c3-1. Warrants shall be valued at an amount not to exceed the market value of the commodities represented by the warrants less a deduction in the same amount as the inventory haircut specified in Commission Regulation 1.17(c)(5)(ii).