

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 17-303

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/28/17 **Filing Description:** Changes to Collateral Haircut Model

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: See filing.

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 |

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 28, 2017

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. Notification Regarding Changes to the Collateral Haircut Model.
CME Submission No. 17-303**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC or “Commission”) Regulation 40.6(a), the clearing division of Chicago Mercantile Exchange Inc. (“CME Clearing” or the “Clearing House”) hereby notifies the Commission that it is self-certifying a replacement of its existing haircut model (the “current Collateral Haircut Model”) with a new haircut model (the “proposed Collateral Haircut Model”). The planned implementation date for this change is August 14, 2017.

CME Clearing conducts initial and ongoing qualitative and quantitative analyses of acceptable collateral to ensure collateral haircut levels are appropriately conservative to address market and liquidity risks. The current Collateral Haircut Model employs a series of Value-at-Risk (“VaR”) calculations using a 99% confidence interval over one- and four-year lookback periods, which are utilized by Risk Management staff to inform an appropriate collateral haircut level.

Similar to the current Collateral Haircut Model, the proposed Collateral Haircut Model utilizes a series of VaR calculations with a 99% confidence interval and a four-year lookback period. Under the proposed Collateral Haircut Model, additional risk adjustments will continue to be overlaid on the VaR calculations’ outputs, though the calculation of these adjustments has been clarified and enhanced. The proposed Collateral Haircut Model includes both adjustments levied on all collateral types and adjustments to particular assets based on idiosyncratic risks.

The proposed Collateral Haircut Model, in conjunction with the applied adjustments, enhances CME Clearing’s capabilities to more precisely account for the market, liquidity, and operational risks relevant to the collateral it accepts and will therefore serve as a valuable tool in informing CME Clearing’s collateral haircuts. The proposed Collateral Haircut Model provides explicit minimum collateral haircuts that are set exogenously from the model’s calculations and are applied to each asset class individually. These minimums have the benefit of effectively addressing procyclical risk, which can be associated with extended periods of low volatility and can result in model outputs at a level that risks requiring significant increases to haircut levels during changing market conditions. The proposed Collateral Haircut Model will not be the final determinant of collateral haircuts, but will be utilized by CME Clearing’s Risk Management staff to inform appropriate levels for collateral haircuts and as a floor to the collateral haircut levels. Implementation of the proposed Collateral Haircut Model will not materially affect CME Clearing’s performance of essential clearing and settlement functions or the overall nature or level of risk, financial

or otherwise, presented by CME Clearing. The amount of collateral on deposit at the Clearing House will remain largely unchanged following the implementation of the new model. Both the current and proposed Collateral Haircut Models utilize a combination of model outputs and discretionary risk adjustments to establish appropriate haircut levels.

A comparison of the current Collateral Haircut Model and the proposed Collateral Haircut Model shows that the model outputs are generally consistent. Based on the model outputs alone, application of the proposed Collateral Haircut Model would result in a theoretical net change of 0.45% of the clearing house's entire collateral portfolio versus the output derived under the current Collateral Haircut Model. Consequently, the overall haircuts will remain more than adequate after implementation of the new model and the Clearing House proposes changes only to haircuts with respect to the Norwegian Krone. CME Clearing intends to raise the Norwegian Krone haircut to 7% from the current 5% as the proposed Collateral Haircut Model output for this collateral suggests the haircut of 5% is too low.

Core Principle Review

CME Clearing reviewed the derivatives clearing organization core principles ("DCO Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that the proposed Collateral Haircut Model may have some bearing on the following DCO Core Principles:

- DCO Core Principle B - Financial Resources: The proposed Collateral Haircut Model will not impact the Clearing House's ability to discharge its financial, operational, or managerial responsibilities as a DCO. The current and proposed Collateral Haircut Model outputs are generally consistent. The one exception is for Norwegian Krone. Accordingly, CME Clearing is revising its haircut for Norwegian Krone to account for the differential in model outputs under the new and proposed Collateral Haircut Models, notwithstanding CME Clearing's continued ability to apply discretionary risk adjustments for all acceptable collateral types as it does today under the current Collateral Haircut Model. As such, CME Clearing's financial resources will not be impacted by the change.
- DCO Core Principle D – Risk Management. The proposed Collateral Haircut Model would ensure that the Clearing House has the ability to manage its risks and responsibilities as a DCO, through the use of appropriate policies and procedures. Specifically, the Proposed Model, in conjunction with the applied risk adjustments, enhances CME Clearing's capabilities to more precisely account for the market, liquidity, and operational risks relevant to the collateral it accepts.
- DCO Core Principle L – Public Information. As required by CFTC Regulation 39.21(c)(3), CME will disclose publicly the information concerning the proposed changes to the collateral haircut model by posting this submission on the CME Group website.

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

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 me at 212-299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

Christopher Bowen
Managing Director and Chief Regulatory Counsel