

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 16-170 (5 of 5)

Organization: The Board of Trade of the City of Chicago, Inc. ("CBOT")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 8/08/2016 Filing Description: Amendments to CME/CBOT/NYMEX/COMEX Rule 816.; CME Rules 8G07. and 8H07.

**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: 816, 8G07 and 8H07

**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:

Rule Numbers:

August 8, 2016

**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 Amendments to CME, CBOT, NYMEX and COMEX Rule 816. (“Guaranty Fund Deposit”), CME Rule 8G07. (“IRS Financial Safeguards and Guaranty Fund Deposit”) and CME Rule 8H07. (“CDS Financial Safeguards and Guaranty Fund Deposit”).  
CBOT Submission No. 16-170 (5 of 5)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”), The Board of Trade of the City of Chicago, Inc. (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”), and Commodity Exchange, Inc. (“COMEX”) (collectively, the “Exchanges”) hereby notify the Commodity Futures Trading Commission (“CFTC” or “Commission”) that they are self-certifying amendments to CME/CBOT/NYMEX/COMEX Rule 816. (“Guaranty Fund Deposit”), CME Rules 8G07. (“IRS Financial Safeguards and Guaranty Fund Deposit”) and 8H07. (“CDS Financial Safeguards and Guaranty Fund Deposit”), effective on August 23, 2016.

In accordance with CFTC Regulations 39.11 and 39.33, the sizes of each financial resource (including Guaranty Funds) for Base, IRS and CDS products are determined to cover the exposures arising from its two (2) largest clearing members and their affiliates (“Cover 2”). The Exchanges are implementing amendments which will harmonize the frequency of resizing of the Base Guaranty<sup>1</sup> with the monthly resizing of the IRS and CDS Guaranty Funds. The Exchanges believe that resizing the base guaranty fund on a monthly basis will reflect the accurate size more frequently. Further, the amendments allow CME to collect additional funds when the differential between funds on deposit and the Cover 2 shortfall has eroded and release excess funds upon request from the clearing member.

The Exchanges are reducing the payment window for additional Base Guaranty Fund deposits from five (5) days to two (2) days in order to reduce the risk that a clearing member may default during the window before all required guaranty fund contributions have been deposited. The amendments will align the Base Guaranty Fund rule with the guaranty fund payment timing contained in the existing IRS and CDS rules.

It is important to note that the amendments will only change the frequency of resizing and timeframe of payment and will not change the Base Guaranty Fund sizing or allocation methodologies.

Amendments to CME Rules 8G07. and 8H07. governing the timing of resizing of the IRS Guaranty Fund and CDS Guaranty Fund are also being implemented at this time. The current rules require recalculation of

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<sup>1</sup> Currently the Base Guaranty Fund is regularly resized quarterly and may be resized intra-quarter if the exposure to the two largest Base Clearing Members could cause an under-coverage.

the IRS Guaranty Fund and CDS Guaranty Fund on a monthly basis and limit intra-month recalculations except when the risk profile of the two (2) largest exposures is greater than 10% from the prior month's calculation. While CME maintains a buffer within the guaranty funds, the amendments are designed to ensure that CME remains Cover 2 compliant. In order to ensure CME can maintain sufficient financial resources to be Cover 2 compliant at all times, the amendments remove the 10% limitation and specify that the recalculations can occur "at least" monthly to allow for intra-month recalculations where the amount on deposit for the IRS Guaranty Fund or the CDS Guaranty Fund erodes the buffer.

Lastly, conforming amendments to CME Rules 8G07.4 and 8H07.4 to cross reference to CME Rules 8G07.1-2 and 8H07.1-2, respectively, for the guaranty fund and assessment methodologies are being implanted at this time.

The Exchanges reviewed the derivatives clearing organization core principles ("DCO Core Principles") and the designated contract market core principles ("DCM Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that the rule amendments may have some bearing on the following principles:

- DCM Core Principle 2 – Compliance with Rules: The rule amendments harmonize the frequency of resizing of the Guaranty Funds as applicable for base, CDS and IRS clearing member access.
- DCM Core Principle 7 – Availability of General Information: The rule amendments will be posted publicly on the CME Group website in satisfaction of this core principle. In addition, the Exchanges will release a notice to the marketplace regarding this proposal in advance of the effective date.
- DCO Core Principle B – Financial Resources: No change is being made to the overall financial resources. The changes will only impact the frequency of sizing and timing of payments of the guaranty fund.
- DCO Core Principle C – Participant and Product Eligibility: CME has determined that a shorter time frame is appropriate in order to protect both the DCO and its participants. The rule amendments specify the rules and responsibilities of all clearing members.
- DCO Core Principle L – Public Information: The rule amendments will be posted publicly on the CME Group website in satisfaction of this core principle. In addition, CME will release a notice to the marketplace regarding this proposal in advance of the effective date.

Exhibits A, B and C which are attached hereto, set forth the applicable amendments to the rules, with additions underscoring and deletions ~~overstruck~~.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchanges certify that the rule amendments comply with the Act and regulations thereunder. There were no substantive opposing views to this proposal.

The Exchanges certify that this submission has been concurrently posted on the CME Group 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](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: Amendments to CME/CBOT/NYMEX/COMEX Rule 816.  
Exhibit B: Amendments to CME Rule 8G07.  
Exhibit C: Amendments to CME Rule 8H07.

## EXHIBIT A

### **CME/CBOT/NYMEX/COMEX Chapter 8 Clearing House and Performance Bonds**

(additions are underscored; deletions are ~~overstruck~~)

#### **816. GUARANTY FUND DEPOSIT**

Each clearing member shall make a Base Guaranty Fund deposit with the Exchange as security for its obligations to the Clearing House. The minimum Base Guaranty Fund deposit of a clearing member shall equal the greater of (a) a minimum amount specified by the Clearing House Risk Committee or (b) the clearing member's proportionate share of the "Aggregate Guaranty Fund Deposit." The Aggregate Guaranty Fund Deposit shall be an amount determined by the Clearing House.

Each clearing member's proportionate share of the Aggregate Guaranty Fund Deposit shall consist of:

- (i) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share (including the total risk performance bond requirement in respect of positions in its cross-margin accounts and any applicable short option value) of the average aggregate risk performance bond requirement (including the risk performance bond requirement in respect of positions in all cross-margin accounts and any applicable short option value) for the preceding three months; plus
- (ii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of the total number of contracts executed on the Exchange and any applicable exchange or market during the preceding three months; plus
- (iii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of foreign currency settlements for the preceding three months.

The percentages in (i) through (iii) above shall be determined and modified by the Clearing House Risk Committee as appropriate. Some contracts may be weighted more heavily than others in order to reflect the greater risk associated with those contracts. The average aggregate risk performance bond requirement, the total number of contracts executed, the gross notional amount of open interest cleared and each clearing member's proportionate share of each will be calculated by the Clearing House, and a report setting forth such information and the clearing member's required Base Guaranty Fund deposit will be given to the clearing member each ~~quarter~~ month, and the Clearing House may provide such reports on an interim basis at any time during the ~~quarter~~ month as the Clearing House staff shall determine. ~~On a quarterly basis~~ If at any time, such report indicates that the clearing member's current Base Guaranty Fund deposit with the Clearing House is smaller than the amount required, the clearing member shall increase its amount within ~~five~~ two business days. If such report indicates that the clearing member's current Base Guaranty Fund deposit with the Exchange is larger than the amount required, the clearing member may withdraw the excess amount. If, prior to the issuance of the ~~quarterly~~ monthly report, the Clearing House determines that an increase in the Base Guaranty Fund deposit is necessary to protect the financial integrity of the Clearing House, the clearing member, upon demand of the Clearing House, shall increase its Base Guaranty Fund deposit amount within ~~five~~ two business days.

A clearing member's Base Guaranty Fund deposit may be in a form as set forth in the Manual. Such Base Guaranty Fund deposit forms and amounts shall be subject to the terms and conditions as approved by Exchange staff.

## **EXHIBIT B**

### **CME Chapter 8-G Interest Rate Derivative Clearing**

(additions are underscored; deletions are ~~overstruck~~)

#### **8G07. IRS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT**

**[8G07.1 remains unchanged]**

##### **8G07.2**

The Clearing House shall calculate the aggregate required IRS Guaranty Fund and IRS Assessments on at least a monthly basis, as well as each IRS Clearing Member's required contribution to the Guaranty Fund and its maximum IRS Assessment. ~~The Clearing House may calculate such requirements more frequently than monthly should the risk profile of the top two largest net debtors change by more than 10% from the calculation for the prior period.~~

Following any recalculation the Clearing House shall provide a report to each IRS Clearing Member showing the detail of its required deposit to the IRS Guaranty Fund and its maximum IRS Assessment. The notice shall specify the amount of any required additional deposit or any excess in the then-existing deposit amount. An IRS Clearing Member shall make any required additional deposit within two business days after delivery of such report and any reported excess may be withdrawn.

**[8G07.3 remains unchanged]**

##### **8G07.4**

Any changes to the methodology for calculating the IRS Guaranty Fund and IRS Assessments as described in this Rule 8G07.1 or 8G07.2 that results in a 15% increase to the IRS Guaranty Fund and IRS Assessments over a 30 day period shall be effective on the earlier to occur of (i) the 20th Business Day following the date the Clearing House provides notice to IRS Clearing Members of such change and (ii) the date reasonably determined by the IRS Risk Committee (which shall be no less than two Business Days following notice of such change to the IRS Clearing Members) if such increase is due to applicable law, regulation or regulatory request. IRS Clearing Members shall make any required additional deposit on or prior to the date such change is effective.

Upon receipt of notice of a 15% increase to the IRS Guaranty Fund and IRS Assessments pursuant to the preceding paragraph, an IRS Clearing Member may immediately notify the Clearing House and such IRS Clearing Member's customers of its intent to withdraw from status as an IRS Clearing Member. The notice shall specify that customers must close out or transfer to another IRS Clearing Member their affected open positions, and that the withdrawing IRS Clearing Member shall have the right to liquidate any customer positions that remain open on its books after 10 business days have passed from the customers' receipt of such notice. If any customer fails to close out or transfer to another IRS Clearing Member during such 10 business day period, the IRS Clearing Member shall have the right to liquidate any such customer position that remains open on its books.

For the avoidance of doubt, nothing in this Rule 8G07.4 shall apply to any increase to the IRS Guaranty Fund and IRS Assessments resulting from periodic calculations of the IRS Guaranty Fund and IRS Assessments pursuant to Rule 8G07.2 or any additional deposit to the IRS Guaranty Fund required by an individual IRS Clearing Members pursuant to Rule 8G07.3...

## **EXHIBIT C**

### **CME Chapter 8-H Credit Default Swaps Clearing**

(additions are underscored; deletions are ~~everstruck~~)

#### **8H07. CDS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT**

**[8H07.1 remains unchanged]**

##### **8H07.2**

The Clearing House shall calculate the aggregate required CDS Guaranty Fund and CDS Assessments, as well as each CDS Clearing Member's required contribution to the CDS Guaranty Fund and its maximum CDS Assessment, on at least a monthly basis (other than during a CDS Cooling Off Period). The Clearing House ~~may reset such requirements more frequently than monthly (other than during a CDS Cooling Off Period) should the largest two losses described in Rule 8H07.1(i)(a) above change by more than 10% from the calculation for the prior period and shall reset such requirements~~ (i) following a CDS Cooling Off Period as provided below and (ii) following the termination of CDS Guaranty Fund and CDS Assessments liability of any withdrawing CDS Clearing Member as described in Rule 8H913.B.

Following any recalculation the Clearing House shall, within one Business Day, provide a report to each CDS Clearing Member showing the detail of its required deposit to the CDS Guaranty Fund and its maximum CDS Assessment. The notice shall specify the amount of any required additional deposit or any excess in the then-existing deposit amount. A CDS Clearing Member shall make any required additional deposit within two Business Days after delivery of such report and any reported excess may be withdrawn immediately.

On the first Business Day following (i) a CDS Cooling Off Period or (ii) the day on which the CDS Guaranty Fund and CDS Assessments liability of a withdrawing CDS Clearing Member is terminated, as described in Rule 8H913.B, the Clearing House shall recalculate the required CDS Guaranty Fund and CDS Assessments and shall provide, within one Business Day, a report to each CDS Clearing Member showing the detail of its required deposit to the CDS Guaranty Fund and its maximum CDS Assessment. The notice shall specify the amount of any required additional deposit or any excess in the then-existing deposit amount. Any additional required contribution shall be made by each CDS Clearing Member within two Business Days after delivery of such notice and any reported excess may be withdrawn immediately.

**[8H07.3 remains unchanged]**

##### **8H07.4**

Any changes to the methodology for calculating the CDS Guaranty Fund and CDS Assessments as described in Rule 8H07.1 or 8H07.2 that collectively result in a 15% or greater increase to the aggregate CDS Guaranty Fund and CDS Assessments over a not more than 30 day period shall collectively be effective on the earlier to occur of (i) the 20th Business Day following the date the Clearing House provides notice to CDS Clearing Members of such change and (ii) the date reasonably determined by the CDS Risk Committee (which shall be no less than two Business Days following notice of such change to the CDS Clearing Members) if such increase is due to applicable law, regulation or regulatory request and a shorter period is necessary to comply with such applicable law, regulation or regulatory request. CDS Clearing Members shall make any required additional deposit on or prior to the date such change is effective.

Upon receipt of notice of an at least 15% increase to the CDS Guaranty Fund and CDS Assessments pursuant to the preceding paragraph, a CDS Clearing Member may notify the Clearing House and such CDS Clearing Member's customers of its intent to withdraw from status as a CDS Clearing Member. The notice shall specify that customers must close out or transfer to another CDS Clearing Member their affected open positions, and that the withdrawing CDS Clearing Member shall have the right to liquidate any customer positions that remain open on its books after the lesser of (i) 10 Business Days (or any shorter period determined by the Clearing House in consultation with the CDS Risk Committee) and (ii) the number of Business Days notice given to CDS Clearing Members pursuant to the prior paragraph minus two (in any event, subject to a minimum of two Business Days) have passed from the customers' receipt of such notice. If any customer fails to close out or transfer to another CDS Clearing Member during such period, the CDS Clearing Member shall have the right to liquidate any such customer position that remains open on its books.

For the avoidance of doubt, nothing in this Rule 8H07.4 shall apply to any increase to the CDS Guaranty Fund and CDS Assessments resulting from periodic calculations of the CDS Guaranty Fund and CDS Assessments pursuant to Rule 8H07.2 or any additional deposit to the CDS Guaranty Fund required by or increase in the maximum CDS Assessment of an individual CDS Clearing Member pursuant to Rule 8H07.3.

**[The remainder of 8H07. remains unchanged]**