

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 20-365

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

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

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

**Filing Date (mm/dd/yy):** 08/19/20 **Filing Description:** Expansion of Clearing of Certain OTC Interest Rate Swap Products Denominated in U.S. Dollars Referencing Effective Federal Funds Rate and Secured Overnight Financing Rate to 51 Years.

**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:**

August 19, 2020

**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: Regulation 40.6(a) Certification. Expansion of Clearing of Certain OTC Interest Rate Swap Products Denominated in U.S. Dollars Referencing Effective Federal Funds Rate and Secured Overnight Financing Rate to 51 Years.  
CME Submission No. 20-365**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. ("CME"), a registered derivatives clearing organization ("DCO") under the Commodity Exchange Act, as amended ("CEA" or "Act") is certifying to the Commodity Futures Trading Commission ("CFTC" or "Commission") the expansion of the maximum maturity of the following interest rate swap ("IRS") products denominated in U.S. Dollars ("USD") referencing the Effective Federal Funds Rate ("EFFR") and/or the Secured Overnight Financing Rate ("SOFR") for submission for clearing via CME ClearPort from 30 years to 51 years, effective Wednesday, September 2, 2020 for trade date Thursday, September 3, 2020:

Basis Swaps

- USD-Federal Funds-H.15 vs USD-LIBOR-BBA (1m, 3m and 6m)
- USD-SOFR-COMPOUND vs USD-LIBOR-BBA (1m, 3m and 6m)
- USD-Federal Funds-H.15-OIS-COMPOUND vs USD-SOFR-COMPOUND

Overnight Index Swaps ("OIS")

- USD-Federal Funds-H.15-OIS-COMPOUND
- USD-SOFR-COMPOUND

(together, the "Contracts").

This maturity extension for the Contracts is considered by CME to be critical to support client clearing activity following the upcoming industry transition to SOFR-based price alignment and discounting for USD IRS products scheduled for October 2020 and the implementation of fallbacks for IRS products referencing interbank offered rates ("IBORs").<sup>1</sup>

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<sup>1</sup> In 2014 the Financial Stability Board ("FSB") published a report making recommendations for strengthening existing benchmarks for key IBORs and for promoting the development and adoption of alternative nearly risk-free reference rates where appropriate. In response to these recommendations, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee ("ARRC") which in 2017 identified SOFR as the robust and transaction-based rate to serve as an alternative reference rate to the London Interbank Offered Rate benchmark interest rate for USD ("LIBOR"). Under the ARRC's Paced Transition Plan for the development of markets for SOFR-linked products and to promote a successful transition from LIBOR in USD derivatives and other financial contracts, central counterparties (including CME) will (i) cease to accept for clearing new swap contracts

CME reviewed the DCO core principles (“Core Principles”) as set forth in the Act and identified that the expansion of the maximum maturity of the Contracts may have some bearing on the following principles:

**DCO Core Principle B – Financial Resources:** The expansion changes will not have a material impact on the financial resources of CME. As such, it will not prevent CME Clearing from demonstrating that it has adequate financial, operational, and managerial resources to discharge its responsibilities as DCO.

**DCO Core Principle C – Participant and Product Eligibility:** The expansion changes will be made publicly available on the CME Group website<sup>2</sup> and CME will release a notice to the marketplace regarding the amendments in advance of the effective date which will also be posted on the CME Group website. There are no changes to admission or continuing eligibility standards for members or participants in order to clear the Contracts, which remain objective, publicly disclosed and permit fair and open access. There will be no changes to CME Rule 8G04. (“IRS Clearing Member Obligations and Qualifications”), which specifies the requirements for IRS Clearing Members.

CME Clearing has appropriate procedures for determining the eligibility of contracts for clearing, to ensure the Contracts satisfy the requirements for product eligibility in CFTC Regulation 39.12(b). CME validated that the trading volume and liquidity in the Federal Funds-SOFR basis swap market, as well as the availability of reliable prices from independent third-party market data providers, is sufficient to cover the maximum maturity expansion of the Contracts. CME also ensured that there are no impacts to the operational capacity of the DCO to support this maturity extension and reviewed the tenor extension specifications with our IRS Clearing Members to ensure there are no unusual risk characteristics of this enhancement.

**DCO Core Principle D – Risk Management:** CFTC Regulation 39.13(g)(2)(i) requires that a DCO have initial margin requirements that are commensurate with the risks of each product and portfolio. Consistent with this regulation, CME has performed various tests to ensure the existing IRS margin model and related parameters do not require any enhancements to cover the maximum maturity expansion of the Contracts from 30 years to 51 years. 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 maximum maturity expansion of the Contracts. Further, the existing IRS financial safeguards will be utilized to cover any additional exposures related to the maturity expansion. The IRS financial safeguards will continue to provide risk management protection beyond daily settlement variation and performance bonds.

**DCO Core Principle L – Public Information:** The expansion changes will be made publicly available on the CME Group website.<sup>3</sup> In addition, CME will release a notice to the marketplace regarding the amendments in advance of the effective date which will also be posted on the CME Group website.

**DCO Core Principle R – Legal Risk:** CME has determined that the expansion changes are consistent with the requirement to have a well-founded, transparent and enforceable legal framework for each aspect of the activities of the DCO.

Attached as Exhibit 1 are the relevant product specifications for the Contracts.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), CME hereby certifies that the expansion of the maximum maturity of the Contracts for clearing, comply with the Act, including all regulations under the Act. There were no substantive opposing views to this proposal.

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utilizing EFFR for calculation of price alignment and for the applicable discounting rate and (ii) transition to the use of SOFR for these purposes for existing swap contracts, both of which are currently scheduled to take place in October 2020.

<sup>2</sup> <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html>.

<sup>3</sup> <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html>.

CME certifies that this submission has been concurrently posted CME'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 [CMESubmissionInquiry@cmegroup.com](mailto:CMESubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit 1: Contract Product Specifications

## EXHIBIT 1

### Contract Product Specifications

<b>Instrument Type</b>	<b>Acceptable Currencies</b>	<b>Floating Index 1</b>	<b>Floating Index 2</b>	<b>Maximum Maturity (from Cleared Date)</b>
Basis Swap	USD	USD-Federal Funds-H.15	USD-LIBOR-BBA (1m, 3m, 6m)	Up to 51Y
Basis Swap	USD	USD-SOFR-COMPOUND	USD-LIBOR-BBA (1m, 3m, 6m)	Up to 51Y
Basis Swap	USD	USD-Federal Funds-H.15-OIS-COMPOUND	USD-SOFR-COMPOUND	Up to 51Y
OIS	USD	USD-Federal Funds-H.15-OIS-COMPOUND	N/A	Up to 51Y
OIS	USD	USD-SOFR-COMPOUND	N/A	Up to 51Y