

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 24-253

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 06/14/24 **Filing Description:** Amendments to the Risk Management Framework ("RMF"), Liquidity Risk Management Framework ("LRMF"), Credit Policy, Collateral Policy, Investment Policy, and Model Validation Framework ("MVF")

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

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:

June 14, 2024

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. Amendments to the Risk Management Framework (“RMF”), Liquidity Risk Management Framework (“LRMF”), Credit Policy, Collateral Policy, Investment Policy, and Model Validation Framework (“MVF”).
CME Submission No. 24-253**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or the “Clearing House”), a derivatives clearing organization (“DCO”), certifies to the Commission amendments to the Risk Management Framework (“RMF”), Liquidity Risk Management Framework (“LRMF”), Credit Policy, Collateral Policy, Investment Policy, and Model Validation Framework (“MVF”) (collectively, the “Policies”) (collectively, the “Amendments”) effective on July 2, 2024.

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

RMF

The RMF was approved by the Clearing House Oversight Committee (“CHOC”) on April 3, 2024 and by CME’s Board of Directors (“Board”) on May 8, 2024. Amendments in connection with the RMF primarily relate to the following areas:

- **Governance Arrangements:** Consistent with the finalization of CFTC’s final rule on Governance Requirements for Derivatives Clearing Organizations (“Final Rule”),¹ the amended RMF further documents CME Clearing’s practices relating to the Clearing House Risk Committee (“CHRC”) and Interest Rate Swaps Risk Committee (“IRSRC”) consistent with their respective charters² and formalizes its practices with respect to maintaining a risk working group (i.e., the Clearing House Risk Working Group (or “CHRWG”) with respect to CME Clearing). In particular, the amended RMF: i) explicitly states that the CHRC, IRSRC, and CHOC are required to approve matters consistent with their authority pursuant to their respective charters that could have a significant impact on the risk profile of the Clearing House; ii) specifically requires that CHRC and IRSRC each have at least two Clearing Member representatives and two representatives of customers of Clearing Members and explicitly states that membership on CHRC and IRSRC is rotated on a regular basis,

¹ 88 FR 44675.

² See <https://investor.cmegroup.com/static-files/7445789a-8aaa-46ec-8539-069e8cbf0fab> and <https://investor.cmegroup.com/static-files/50a72d75-6269-41ec-8bec-1799c4ac19e1>.

considering member experience, expertise, and tenure; iii) requires that CHRC and IRSRC review all risk-based input provided by the CHRWG (as described below) on topics consistent with their authority pursuant to their respective charters and requires that CHOC consider and document its response to risk-based input provided by the CHRC and IRSRC; and iv) formalizes the establishment and role of the CHRWG, which provides a forum to seek risk-based input from a broad array of market participants regarding all matters that could have a significant impact on the risk profile of the Clearing House. In addition to the updates related to the Final Rule, in line with recent updates to CHOC's charter,³ the amended RMF also requires that CHOC approve any Clearing House liquidity facility, as opposed to the specific liquidity facilities it would approve, to more clearly define CHOC's oversight of all liquidity facilities.

- **Collateral Limits:** The amended RMF reflects CME Clearing's enhanced practices with respect to setting collateral limits, particularly the quantitative considerations relied upon.
- **Committed Repurchase Agreements:** Consistent with the proposed changes to the LRMF (described below), the amended RMF reflects the addition of committed repurchase agreements as a potential available liquidity resource to the Clearing House.
- **SPAN 2 Framework:** The description of the SPAN 2 framework has been further modified in certain instances to reflect that its implementation may vary for different product groups. Additionally, the amended RMF also recognizes that the liquidity and concentration risk components of the SPAN 2 framework may leverage market-based information from liquidity polls.⁴
- **CME Contributions for the Financial Safeguards Waterfalls:** Given there is not a risk-based reason for comparing the CME contributions for the IRS and Base financial safeguards waterfalls to the average size of each Clearing Member's relevant Guaranty Fund requirement, reference to this practice has been removed in the amended RMF. The sizes of the CME contributions to the IRS and Base financial safeguards waterfalls continue to be established under CME Rules 802.B.1 and 8G802.B.1, respectively.
- **Model Monitoring:** The amended RMF reflects the Policy & Compliance team's enhanced role as a second line function relating to the management of model risk, including model validations. In line with this, the amended RMF also clarifies CME Clearing's practices with respect to conducting model validations (e.g., scope and selection of validator), while also aligning with the amended MVF.

LRMF

The LRMF was approved by the Clearing House Risk Committee ("CHRC"), CHOC and the Board on March 14, 2024, April 3, 2024, and May 8, 2024, respectively. Amendments in connection with the LRMF primarily relate to the following areas:

- **Daily Liquidity Dashboard:** The amended LRMF further clarifies the daily liquidity monitoring that is undertaken with respect to per-currency stresses and mismatches.
- **Committed Line of Credit:** The amended LRMF reflects the currencies that are currently available under the 364-day committed liquidity facility.
- **Committed Repurchase Agreements:** The amended LRMF reflects that the Clearing House may execute committed repurchase agreements with authorized entities as an additional potential available qualifying liquidity resource.

³ See <https://investor.cmegroup.com/static-files/16d6afbf-c684-41eb-ad3f-2abf91234717>.

⁴ See CME Submission, No. 19-213R (July 2019), at pg. 10 (noting, data "could be derived from leveraging the central limit order book or polling market participants"), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2019/7/19-213R.pdf>.

Credit Policy

The Credit Policy was approved by the CHRC and CHOC on March 14, 2024, and April 3, 2024, respectively. Amendments in connection with the Credit Policy primarily relate to the following areas:

- **Watch List:** The amended Credit Policy further clarifies CME Clearing's current practices with respect to adding counterparties to the Watch List (i.e., tracks creditworthiness of certain counterparties), as well practices for monitoring those counterparties to include trading activity as a criteria.
- **Settlement Bank Review:** The amended Credit Policy specifies that best efforts are made to conduct on-site reviews of settlement banks at least once every two years, opposed to annually, which aligns with the frequency of on-site reviews for Clearing Members; for avoidance of doubt, reviews of settlement banks continue to occur at least annually, but where an on-site review does not occur, the review is conducted virtually.

Collateral Policy

The Collateral Policy was approved by the CHRC and CHOC on March 14, 2024 and April 3, 2024, respectively. Amendments in connection with the Collateral Policy primarily relate to the following areas:

- **Foreign Currency Mismatch Limit:** Consistent with current practices, the amended Collateral Policy reflects that Clearing Members may request a limited exemption to the foreign currency mismatch limit for certain currencies accepted as performance bond collateral.⁵
- **Foreign Sovereign Debt:** Consistent with the current acceptance of foreign sovereign debt for performance bond collateral, the countries for which foreign sovereign debt are accepted from and other related details are included in the amended Collateral Policy.⁶
- **The Options Clearing Corporation (“OCC”) Cross-Margining Program:** Consistent with the current practice regarding the cross-margining program with OCC, the amended Collateral Policy reflects that the collateral haircut applied to U.S. Treasury securities under the program is set at the more conservative of the two haircut schedules determined independently by CME and OCC.
- **Collateral Limits:** Consistent with the proposed changes to the LRMF (described above), the amended Collateral Policy reflects that committed repurchase agreements are considered in establishing collateral limits.

Investment Policy

The Investment Policy was approved by the CHOC on April 3, 2024. Amendments in connection with the Investment Policy primarily relate to clarifying the frequency for the review of money market funds eligible for investment.

MVF

The MVF was approved by the CHOC on May 7, 2024. Amendments in connection with the MVF primarily relate to the following areas:

- **Use of External and Internal Parties as Validators:** Consistent with proposed changes to the RMF with respect to model monitoring practices (described above), the amended MVF clarifies the process for selecting a validator, including explicitly recognizing that validations may be performed by internal (i.e., Policy & Compliance team) or external parties, as long as they are qualified parties that are independent from a model's use and development. Similarly, the amended MVF also describes the procedural differences in completing a validation report where an internal or external

⁵ See <https://www.cmegroup.com/solutions/clearing/financial-and-collateral-management/hard-dollar-limits.html>.

⁶ See <https://www.cmegroup.com/solutions/clearing/financial-and-collateral-management/acceptable-collateral.html>

party completes the validation. Consistent with current practices, the amended MVF also explicitly states which individuals review the validation report.

- **Validation of Scope:** The amended MVF clarifies the expected scope of model validations, particularly as it relates to the validation of a model's theory and assumptions. Similarly, the amended MVF, consistent with the scope of recent validations, clarifies that the focus of assessing implementation is primarily with respect to a model's theory and assumptions, such as calibration of key parameters. The amended MVF also provides further details on the type of independent testing to be conducted by a validator.
- **Validation Frequency:** The amended MVF explicitly provides that changes to a model that could have a significant impact on the risk profile of the Clearing House would trigger an *ad hoc* validation. The amended MVF also more generally affirms that the Model Risk Committee (i.e., management committee) determines the frequency of validation, including any initial and subsequent validations.
- **Findings:** The amended MVF updates the definition of certain types of findings and actions required by CME Clearing to be taken, in order to make such items clearer for validators who use the MVF to confirm the process for conducting a validation.

Amendments Applicable to All of the Policies

The Clearing House also took the opportunity to correct for grammatical errors and amend the language in the Policies to provide clarity without changing the meaning, where appropriate.

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 impact the following core principles:

- **DCO Core Principle B – Financial Resources:** The Amendments further describe the Clearing House's practices with respect to supporting the ongoing adequacy of its financial resources.
- **DCO Core Principle D – Risk Management:** The Amendments further describe the Clearing House's risk management practices and enhance the ability of the Clearing House to effectively manage the risks associated with discharging the responsibilities of the DCO.
- **DCO Core Principle F – Treatment of Funds:** The Amendments further describe the Clearing House's management of funds in a manner which minimizes the risk of loss or delay in access to funds.
- **DCO Core Principle O – Governance Fitness Standards:** The Amendments further describe the Clearing House's governance arrangements and clarify its practices with respect to its risk management committees and risk working group.

CME has requested confidential treatment with respect to the Policies, which have been submitted concurrently with this certification. Exhibits A to F provide the Policies in blackline format under separate cover.

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 the proposal.

CME certifies that this submission has been concurrently posted on the CME Group website at <http://www.cmegroup.com/market-regulation/rule-fillings.html>.

Should you have any questions concerning the above, please contact the undersigned at (312) 930-8167 or sean.downey@cmegroup.com.

Sincerely,

/s/ Sean Downey
Managing Director – Clearing Chief Compliance
Officer, Enterprise Risk Officer & Policy
CME Clearing

Attachments: Exhibit A: Amendments to Risk Management Framework (blackline format)
(confidential treatment requested)
Exhibit B: Amendments to Liquidity Risk Management Framework (blackline format)
(confidential treatment requested)
Exhibit C: Amendments to Credit Policy (blackline format)
(confidential treatment requested)
Exhibit D: Amendments to Collateral Policy (blackline format)
(confidential treatment requested)
Exhibit E: Amendments to Investment Policy (blackline format)
(confidential treatment requested)
Exhibit F: Amendments to Model Validation Framework (blackline format)
(confidential treatment requested)

Exhibits A, B, C, D, E, and F
CONFIDENTIAL TREATMENT REQUESTED

(ATTACHED UNDER SEPARATE COVER)