SUBMISSION COVER SHEET

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

Registered Entity Identifier Code (optional): 24-426

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

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): October 2, 2024 Filing Description: Concentration Margin Program Updates

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

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:

Timothy Elliott
Managing Director and Chief Regulatory Counsel
Legal Department

October 2, 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, D.C. 20581

Re: CFTC Regulation 40.6(a) Certification. Concentration Margin Program Updates. CME Submission No. 24-426

Dear Mr. Kirkpatrick:

The clearing house division of Chicago Mercantile Exchange Inc. ("CME" or the "Clearing House"), in its capacity as a registered derivatives clearing organization ("DCO"), hereby certifies to the Commodity Futures Trading Commission ("CFTC" or "Commission") updates to parameters used in the concentration margin program, as it applies to portfolios containing products that are margined in accordance with the SPAN 2 framework,[1] effective October 18, 2024.[2]

Pursuant to a phased migration of products from the Standard Portfolio Analysis of Risk ("SPAN") framework ("SPAN framework"), which began in July 2023 with energy products, certain CME-cleared products are margined under CME's SPAN 2 framework. The next migration is scheduled for the equity product group. CME will continue to apply the SPAN framework to non-migrated futures and options on futures products as well as certain commodity-based swaps. Pursuant to this certification, CME is adopting updates to parameters used in the concentration margin program for portfolios containing CME-cleared products that are margined under the SPAN 2 framework.

1. Current Approach to Concentration Margin

In addition to the calculation of performance bond requirements embedded in the SPAN framework and SPAN 2 framework, the Clearing House maintains a separate concentration margin program that is used to calculate additional performance bond requirements for concentrated portfolios at a Clearing Member-level ("Clearing Member-Level Concentration Program"). This program captures the concentration risk of liquidating a Clearing Member's entire portfolio, per origin, using both (i) absolute stress loss thresholds and (ii) relative Clearing Member adjusted net capital ("ANC") thresholds.

Portfolios represent the net positions, per origin, at the Clearing Member-level (e.g., customer segregated or house), and are subject to stress tests on a product group-level. The results are then compared, per product group, to the predetermined absolute stress loss and relative Clearing Member ANC thresholds to

[1] The initial margin requirements discussed in this certification refer to the actual risk performance bond amounts calculated by the Clearing House. Such amounts, commonly known as the maintenance portion of an initial performance bond requirement, coincide with the minimum amount of performance bond equity that must be maintained in any account with open positions.
[2] This certification is accompanied by supporting documentation and analysis for which confidential treatment has been requested.

determine if performance bond will be required under the Clearing Member-Level Concentration Program. Where performance bond is required under this program, the Clearing House collects the additional performance bond at the Clearing Member account-level (e.g., customer segregated and/or house).

The SPAN 2 framework also accounts for concentration risk, but differently than the Clearing Member-Level Concentration Program. The SPAN 2 framework includes embedded liquidity and concentration risk components that are designed to capture the costs to liquidate an individual portfolio (including a concentrated portfolio), as opposed to a portfolio at the Clearing Member-level.

Absent modification, requiring performance bond for house accounts based on the absolute stress loss component of the Clearing Member-Level Concentration Program, in conjunction with the SPAN 2 framework's liquidity and concentration risk components, may result in portfolios containing products margined under the SPAN 2 framework being subject to duplicative performance bond requirements. Additionally, CME will modify the Clearing Member-Level Concentration Program for customer accounts to recognize that the SPAN 2 framework's liquidity and concentration risk components have been calculated at an individual customer account level, while still capturing the risk of liquidating the entire portfolio of customers cleared by a Clearing Member (e.g., customer segregated account).

2. <u>Updates to the Clearing Member-Level Concentration Program</u>

To enhance its approach for addressing concentration and liquidity risks, CME is modifying its Clearing Member-Level Concentration Program where it applies to portfolios containing products margined under the SPAN 2 framework. Specifically, the Clearing House will modify its calculation of the absolute stress loss component under the Clearing Member-Level Concentration Program as follows:

- For Clearing Members' house accounts, the absolute stress loss thresholds within the Clearing Member-Level Concentration Program will no longer apply for product groups margined under the SPAN 2 framework. That is, performance bond will not be required based on the Clearing Member-Level Concentration Program's absolute stress loss thresholds for house accounts carrying positions that are margined under the SPAN 2 framework because the SPAN 2 framework's liquidity and concentration risk components will appropriately capture these risks, since the house account is more akin to an individual account (i.e., calculation-level for the SPAN 2 framework's liquidity and concentration risk components).

- For Clearing Members' customer accounts (e.g., customer segregated), performance bond that is calculated based on the Clearing Member-Level Concentration Program's absolute stress loss thresholds for product groups margined in the SPAN 2 framework will be adjusted down—but floored at \$0—by the amount of performance bond calculated under the SPAN 2 framework's liquidity and concentration risk components across all individual customer accounts.[3] As noted above, this modification is intended to recognize that both the Clearing Member-Level Concentration Program and the SPAN 2 framework's liquidity and concentration risk components are designed to account for cost of liquidating a portfolio, but at different levels of granularity (i.e., Clearing Member-level and individual customer account level, respectively). Thus, the modification will still preserve the practice under the Clearing Member-Level Concentration Program of capturing the costs of liquidating the entire portfolio of customers, per product group, cleared by a Clearing Member (e.g., customer segregated account).

There are no changes to the application of the relative Clearing Member ANC thresholds within the Clearing Member-Level Concentration Program. The relative Clearing Member ANC thresholds continue to be

[3] For example, for illustrative purposes, if the absolute stress loss thresholds resulted in \$500 million in performance bond required and liquidity and concentration risk components of the SPAN 2 framework result in \$300 million of performance bond required, the total performance bond collected at the Clearing Member-level attributable to these risk components would still be \$500m, but the requirement arising from the absolute stress loss thresholds would be \$200 million (i.e., \$500 million less \$300 million).

relevant in capturing the concentration risk of a Clearing Member's portfolio relative to its ANC and requiring performance bond accordingly, which is not a feature of the SPAN 2 framework's liquidity and concentration risk components. More specifically, the relative Clearing Member ANC thresholds of the Clearing Member-Level Concentration Program are designed to capture additional performance bond required to protect the Clearing House against potential losses from liquidating an outsized portfolio of a Clearing Member relative to the Clearing Member's ANC.

The modifications to the Clearing Member-Level Concentration Program will be implemented in conjunction with the migration of the equity product group to the SPAN 2 framework. For avoidance of doubt, upon implementation the modifications to the Clearing Member-Level Concentration Program will apply to all product groups migrated to the SPAN 2 framework, inclusive of both energy products and equity products, and also going forward for any future product migrations to the SPAN 2 framework. CME did not determine that these updates were required in conjunction with the prior migration of energy products to the SPAN 2 framework because the performance bond requirements calculated under the Clearing Member-Level Concentration Program for energy products are *de minimis*.

Applying the modifications to the Clearing Member-Level Concentration Program will not impact the Clearing House's risk appetite. Performance bond required under the modified Clearing Member-Level Concentration Program, in conjunction with SPAN 2 framework's liquidity and concentration risk components, will continue to result in the collection of additional performance bond amounts for portfolios that present larger or more concentrated risk. On a collective basis, performance bond requirements calculated under the Clearing Member-Level Concentration Program for energy and equity products currently account for approximately 3% of total margin requirements across all futures and options, an insignificant portion of aggregate financial resources on deposit at CME Clearing. Additionally, the modifications to the Clearing Member-Level Concentration Program result in a 1% to 2% decrease in total margin requirements across all futures and options, without recognizing any additional margin collected via the liquidity and concentration risk components of the SPAN 2 framework.

The proposed modifications will not require the Clearing House to amend: (1) its methodology for calculating settlement variation or options premiums; (2) the types of assets accepted by the Clearing House as performance bon; (3) the manner by which the Clearing House collects and/or holds initial margin and settlement variation; (4) the methodology for assessing the adequacy of Clearing House financial resources; or (5) the Clearing House's default management rules or procedures.

3. Core Principle Analysis

CME has reviewed the DCO core principles ("Core Principles") set forth in the Commodity Exchange Act ("CEA") and identified the following Core Principles as potentially being impacted by the adoption of the changes to the concentration program.

- Core Principle B - Financial Resources: Modifying the Clearing Member-Level Concentration Program is intended to maintain the relationship between the risk of a portfolio and the amount of financial resources collected by the Clearing House in the form of performance bond requirements. The modifications are designed to better ensure that performance bond requirements for portfolios with concentrations in products margined in the SPAN 2 framework continue to reflect the concentration risk of the portfolios that are also subject to requirements under the Clearing Member-Level Concentration Program. The proposed modifications do not result in changes to CME's stress testing methodologies or liquidity risk management practices.

- Core Principle D – Risk Management: The modifications are consistent with the DCO's obligation to establish margin requirements that are commensurate with the risks of each product and portfolio, including unique characteristics or risks associated with particular portfolios (such as liquidity and concentration risks).

- Core Principle F – Treatment of Funds: The modifications have no impact on CME's compliance with this Core Principle or the regulations thereunder. Margin collected related to concentration risk by the Clearing House will continue to be held in accordance with customer segregation requirements.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), CME hereby certifies that the Rule Amendments comply with the Act, including regulations under the Act. 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-filings.html.

Should you have any questions concerning the above, please contact the undersigned at (312) 466-7478 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Timothy Elliott
Managing Director and Chief Regulatory Counsel