

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 21-351

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/20/21 **Filing Description:** Acceptance of €STR Denominated Interest Rate Swaps for Clearing

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:

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:

July 20, 2021

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 39.5(b) Certification. Acceptance of Euro Short-Term Rate (“€STR”) Denominated Interest Rate Swaps for Clearing. CME Submission No. 21-351

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “CME Clearing”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or “Act”) hereby submits to the Commodity Futures Trading Commission (“CFTC”) pursuant to Commission Regulation 39.5(b), its acceptance of Euro Short-Term Rate (“€STR”) denominated interest rate swaps (“€STR Swaps”) and related amendments to CME Rule 90102.E.1. (“Interest Rate Swaps Rate Options”) of Chapter 901 (“Interest Rate Swaps Contract Terms”), effective on trade date Monday, July 26, 2021.

In September 2018 the European Central Bank (“ECB”) convened a private sector working group on Euro risk free rates (the “ECB Working Group”),¹ which determined that €STR should replace the European Money Markets Institute (“EMMI”) Euro overnight index average (“EONIA”) as the new euro (“EUR”) risk free rate for all cash and derivative market products and contracts. The ECB Working Group has recommended that publication of EONIA be discontinued on January 3, 2022 and therefore market participants must shift to reference €STR in OTC swaps before this time.² CME currently supports EONIA overnight index swaps (“OIS”) and therefore wishes to support clearing of €STR interest rate swaps in good time ahead of the discontinuation of EONIA in order to support firms seeking to transition to €STR.

€STR is calculated by the ECB and is based on the money market statistical reporting of the Eurosystem. Publication of €STR by the ECB began on October 2, 2019 under a reformed methodology for the calculation of EONIA, where EONIA is calculated as €STR plus a fixed spread of 8.5 basis points. €STR provides a broad measure of the cost of borrowing unsecured EUR cash on an overnight basis in wholesale

¹ The ECB Working Group was also convened by the Financial Services and Markets Authority (“FSMA”), the European Securities and Markets Authority (“ESMA”) and the European Commission.

² See EMMI announcement: <https://www.emmi-benchmarks.eu/euribor-eonia-org/about-eonia.html>. In August 2019 the ECB Working Group published a report analyzing the impact of the required transition from EONIA to €STR for EUR cash and derivatives products, which included a recommendation that cleared derivatives contracts transition from discounting methodology utilizing EONIA to €STR to help promote liquidity in €STR cash and derivative contracts and prepare the market for discontinuation of EONIA in January 2022. CME completed this transition on July 24, 2020 for EUR denominated cleared swaps and CME now therefore utilizes €STR for the purposes of calculation of price alignment (the adjustment used to reflect the overnight cost of funding collateral for a bilateral over the counter (“OTC”) swap contract to mitigate the basis risk between cleared and uncleared swaps) and for the applicable discounting rate (used for the discount curve to calculate swap value).

markets based on a large number of banks contributing data and a significant transaction volume.³ €STR reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area and is published on each TARGET2 business day, based on transactions conducted and settled on the previous TARGET2 business day with a maturity date of T+1. The transactions are arm's length market transactions and therefore €STR is deemed to reflect market rates. €STR is governed by the €STR Guideline which sets out the responsibility of the ECB for the administration and oversight of the €STR, as well as the tasks and responsibilities of the ECB and Eurosystem national central banks. The €STR Guideline also establishes a €STR Oversight Committee which is responsible for the review, challenge and reporting on all aspects of the €STR determination process as established by the €STR Guideline.

The ECB administers the €STR in compliance with the international best practices set out in the Principles for Financial Benchmarks of the International Organisation of Securities Commissions ("IOSCO").⁴

As shown in Exhibit 2, CME's cleared OTC IRS product scope will be increased to include €STR OIS and €STR /EURIBOR Basis Swaps. The same daily compounded €STR floating leg is used in both product types. It is important for CME to support clearing of €STR Swaps prior to the proposed mandatory conversion of EONIA to €STR OIS by CME on October 15, 2021, subject to regulatory review. This will ensure an orderly transition to the €STR risk-free replacement rate.

39.5(b)(3)(i): Eligibility to Clear

Pursuant to CFTC Regulation 39.5(b)(3)(i), CME states that it is eligible to accept €STR Swaps for clearing. Should the Commission determine that such swaps are required to be cleared, CME will be able to maintain compliance with the DCO core principles set forth in Section 5b(c)(2) of the Act and the Regulations promulgated thereunder.

In accordance with CFTC Regulation 39.5(b)(3)(ii)-(viii), we are providing the following information in support of this submission:

39.5(b)(3)(ii)(A): Statement on Outstanding Derivatives Notional Exposure, Trading Liquidity and Pricing Data

Publication of €STR by the ECB began on October 2, 2019.⁵ €STR provides a broad measure of the cost of unsecured euro overnight borrowing costs of banks located in the euro area, published on each TARGET2 business day, based on transactions conducted and settled on the previous TARGET2 business day with a maturity date of T+1.

The ECB provides data on transactions providing inputs for the calculation of €STR. On reference date June 15, 2021, 30 banks were active, completing 456 transactions with a volume of more than EUR 50 billion.⁶

³ Further details on the administration of €STR are available on the ECB website at https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/eurostr_overview.en.html#calc.

⁴ See ECB Statement of Compliance with the IOSCO principles for financial benchmarks available at https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/pwc_disclaimer.en.html.

⁵ The €STR rate is published daily by the ECB at https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/index.en.html

⁶ https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/index.en.html

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A. €STR Swaps

Based on information published by ISDA taken from US Swap Data Repositories, in the week ending June 11, 2021, €STR traded notional was USD 7.1 billion. For the year to date, ending June 11, 2021, €STR traded notional was USD 126.5 billion, including USD 1.7 billion of basis swaps.⁷

Since the €STR Swaps market is a relatively new market, we expect further development in the near future, particularly in the lead up to and following the discontinuation of EONIA in January 2022.

B. EUR IRS Market

€STR is expected to develop alongside other EUR-denominated OTC Interest Rate Swap products, such as EURIBOR swaps, which in the week ending June 11, 2021 saw traded notional of USD 602 billion.

39.5(b)(3)(ii)(B): Rule Framework, Capacity, Operational Expertise and Resources, and Credit Support Infrastructure

The rule framework for €STR Swaps is the same as all other IRS cleared by CME and is set forth in the CME Rulebook.⁸ Furthermore, CME Clearing's "Risk Management and Financial Safeguards" brochure (the "Risk Management Brochure"), contains information regarding CME's risk management capacity, expertise, resources, and financial safeguard system.⁹ Both documents are available to the public on the CME Group website.

39.5(b)(3)(ii)(C): Statement on the Mitigation of Systemic Risk

As a central counterparty, CME interposes itself between counterparties to the swaps (and other derivatives products) that it clears, becoming the buyer to every seller and the seller to every buyer. For each swap that it clears, CME provides all clearing house services, including a market-to-market function, on a daily basis. Depending upon the particular asset class, CME may standardize contract-critical dates (e.g., start dates, last trade dates, expiry dates) and other contract terms. This may enable customers who hold positions to liquidate or to adjust positional exposures simply by buying back or selling the relevant contracts. The associated benefits are considerable:

- *Centralized clearing.* Clearing €STR Swaps through CME allows market participants to free up counterparty credit lines. The daily mark-to-market process employed by CME enhances customer risk management opportunities.
- *Operational efficiencies.* Centralized clearing of swaps reduces operational burdens in several ways. Standardization and centralized clearing enables consolidation of collateral management and cash flows and eliminates the need for novation or tear-ups.
- *Ease of position adjustment.* In non-cleared markets, the only means to completely eliminate the risk of a swap is to (i) enter into a tear-up agreement with the swap counterparty, or (ii) enter into a novation (i.e., find another entity willing to assume its side of the swap). In either case, the tear-up or the novation must be approved by the bilateral swap counterparty. For most asset classes, central clearing may be used to offset exposures by a contra trade.

As further described in the Risk Management Brochure and summarized in the section below titled "Risk Management Procedures," CME has the necessary resources available to clear €STR Swaps.

⁷ Data published weekly by ISDA at <http://analysis.swapsinfo.org/>

⁸ The CME Rulebook is available at <https://www.cmegroup.com/rulebook/CME/>

⁹ The Risk Management Brochure is available at <http://www.cmegroup.com/clearing/files/financialsafeguards.pdf>

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39.5(b)(3)(ii)(D): Statement on Competition and Appropriate Fees and Charges

CME does not believe that the clearing of €STR Swaps will have any negative impact, or impose any burden, on competition. In clearing €STR Swaps, CME will provide market participants with another clearing service provider to support activity in €STR derivative contracts.

CME's schedule of fees for IRS can be found at <https://www.cmegroup.com/trading/interest-rates/cleared-otc-irs-customer-fees.html>.

39.5(b)(ii)(E): Statement on Legal Certainty and Insolvency

The bankruptcy of a DCO is governed by subchapter IV of Chapter 7 of the U.S. Bankruptcy Code (11 U.S.C. §§ 761-767), and by Subpart C of Part 190 ("Bankruptcy") of the Commission's Regulations. Also relevant in the event that CME were to enter into bankruptcy proceedings is CME Rule 818. ("Close-Out Netting") included in Chapter 8 ("Clearing House and Performance Bonds") of the CME Rulebook.

The bankruptcy of a clearing member that is a U.S. futures commission merchant ("FCM") would be governed by subchapter IV of Chapter 7 of the U.S. Bankruptcy Code (11 U.S.C. §§ 761-767) and Subpart B of Part 190 (Bankruptcy) of the Commission's Regulations. If an FCM is registered as a broker-dealer, certain aspects of its insolvency proceeding will be governed by the Securities Investor Protection Act.

39.5(b)(3)(iii): Product Specification

Attached as Exhibit 2 are the product-specifications for €STR Swaps. These specifications will be added, without the conditional statement of being subject to further regulatory review upon the effectiveness of this submission, to CME's IRS product scope slate at <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html>. €STR Swaps will settle in EUR.

39.5(b)(3)(iv): Participant Eligibility Standards

CME Rule 8G04. ("IRS Clearing Member Obligations and Qualifications") specifies the requirements for IRS Clearing Members.

39.5(b)(3)(v): Pricing Sources

We have concurrently submitted in CME Submission 21-351s, a document marked for confidential treatment, describing the curve building for cleared €STR Swaps.

EUR €STR Swaps rely on a single-curve valuation methodology with the €STR curve used for forecasting and discounting the cash flows of cleared €STR swaps. EUR €STR curve quotes will be sourced at 4:00 p.m. London time.

A. €STR Swap Rate

The €STR Swaps references the €STR. The €STR is computed, and is published daily no later than 9:00 a.m. Central European Time, by the ECB.

€STR is exclusively based on borrowing transactions in euro conducted with financial counterparties reported in accordance with Regulation (EU) No 1333/2014 ("MMSR Regulation"). €STR is calculated using overnight unsecured fixed rate deposit transactions over € 1 million, which are standardized and are the most frequent means of conducting arm's length transactions on the basis of a competitive procedure, thereby limiting idiosyncratic factors potentially influencing the volatility of the rate. €STR is calculated for

each TARGET2 day as a volume weighted trimmed mean rounded to the third decimal. The volume-weighted trimmed mean is calculated by the ECB by:

1. ordering transactions from the lowest rate to the highest rate;
2. aggregating the transactions occurring at each rate level;
3. removing the top and bottom 25% in volume terms; and
4. calculating the mean of the remaining 50% of the volume-weighted distribution of rates.

A pro rata calculation is applied to volumes that span the thresholds for trimming to ensure that exactly 50% of the total eligible volume is used in the calculation of the volume-weighted mean.

Further details on the methodology are publicly available on the ECB website.¹⁰

39.5(b)(3)(vi): Risk Management Procedures

The Risk Management Brochure summarizes CME's risk management procedures applicable to the clearing of €STR Swaps.

CME has performed various tests to ensure the existing IRS margin model and related parameters do not require any enhancements to cover the clearing of €STR Swaps. 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 clearing of €STR Swaps. Further, the existing IRS financial safeguards will be utilized to cover any additional exposures related to the clearing of €STR Swaps. The IRS financial safeguards will continue to provide risk management protection beyond daily settlement variation and performance bonds.

39.5(b)(3)(vii): Rules, Manuals, Policies, or Procedures

The product rules for €STR Swaps are being added to Chapter 901 of the CME Rulebook and are enclosed in Exhibit 1 which is attached hereto. The product rules and attendant non-substantive conforming revisions to add EUR-EuroSTR-COMPOUND is reflected in amendments to Rule 90102.E.1. ("Interest Rate Swaps Rate Options"). Exhibit 1 below provides amendments to Rule 90102.E.1. in blackline format.

39.5(b)(3)(viii): Notice of Submission

Notice of this submission has been concurrently posted on CME Group's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

¹⁰ See https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/ecb.ESTER_methodology_and_policies.en.pdf

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director & Chief Regulatory Counsel

Attachments: Exhibit 1 – Amendments to Rule 90102.E.1. (“Interest Rate Swaps Rate Options”)
Exhibit 2 – EUR €STR Swaps Product Specifications

EXHIBIT 1

CME RULEBOOK Chapter 901 Interest Rate Swap Contract Terms

(additions underscored)

90102. CONTRACT TERMS

90102.E. Rate Options

90102.E.1. Interest Rate Swaps Rate Options

With respect to an IRS Contract, the Rate Option elected by the IRS Clearing Participant in accordance with Rule 90002.F from the following Rate Options or combination of Rate Options:

1. USD-LIBOR-BBA
2. USD-Federal Funds-H.15-OIS-COMPOUND
3. USD-Federal Funds-H. 15-LIBOR-BBA
4. EUR-EURIBOR-Reuters
5. EUR-EURIBOR-Telerate (as defined in the 2000 ISDA Definitions, as published by ISDA)
6. EUR-EONIA-OIS-COMPOUND
7. GBP-LIBOR-BBA
8. GBP- SONIA-COMPOUND
9. JPY-LIBOR-BBA
10. JPY-TONA-OIS-COMPOUND
11. CHF-LIBOR-BBA
12. CAD-BA-CDOR
13. CAD-CORRA-OIS-COMPOUND
14. AUD-BBR-BBSW
15. AUD-LIBOR-BBA
16. AUD-AONIA-OIS-COMP
17. SEK-STIBOR-SIDE
18. DKK-CIBOR-DKNA13
19. DKK-CIBOR2-DKNA13
20. NOK-NIBOR-NIBR
21. HKD-HIBOR-HKAB
22. NZD-BBR-FRA
23. SGD-SOR-VWAP
24. HUF-BUBOR-Reuters
25. PLN-WIBOR-WIBO
26. CZK-PRIBOR-PRBO
27. ZAR-JIBAR-SAFEX
28. MXN-TIIE-Banxico
29. USD-SOFR-COMPOUND
- 30. EUR-EuroSTR-COMPOUND**
31. CHR-SARON-OIS-COMPOUND (also effective July 26, 2021—see CME Submission No.21-350)

[Remainder of Rule unchanged.]

EXHIBIT 2

EUR €STR Swaps Product Specifications

€STR Overnight Index Swap (OIS)

Product Type	OIS: Fixed versus €STR
Currency	EUR
Floating Rate Index	EUR-EuroSTR-COMPOUND
Maximum Maturity	51 years
Settlement Convention	EUR will be settled on a next day (T+1) basis
Floating Index Tenor	1D
Price Alignment Rate	€STR
Fixing Calendar	TARGET calendar (EUTA)
Fixing Offset	0D
Day Count	ACT/360
Payment Calendar	EUTA required, others optional
Payment Frequency	1M, 3M, 6M, 1Y, 1T
Payment Offset	1D
Variable Notional, Spreads, Stubs	Yes; to be supported

€STR vs EURIBOR Basis Swap

Product Type	Basis Swap: €STR versus EURIBOR
Currency	EUR
Floating Rate Index	EUR-EuroSTR-COMPOUND versus EUR-EURIBOR-Reuters
Maximum Maturity	51 years
Settlement Convention	EUR will be settled on a next day (T+1) basis
Floating Index Tenor	1M, 3M, 6M Euribor
Price Alignment Rate	€STR
Fixing Calendar	TARGET calendar (EUTA)
Fixing Offset	0D(€STR), -2D(Euribor)
Day Count	ACT/360(€STR), 30/360(Euribor)
Payment Calendar	EUTA required, others optional
Payment Frequency	1M, 3M, 6M, 1Y, 1T
Payment Offset	1D, 0D/1D (Euribor)
Variable Notional, Spreads, Stubs	Yes; to be supported