



Sean Downey
Senior Director and Associate General Counsel
Legal Department

June 13, 2014

VIA E-MAIL

Ms. Melissa Jurgens
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) Self-certification: CME Clearing Advisory Notice for Performance Bond Collateral Categorization Changes
CME Clearing Submission No. 14-240**

Dear Ms. Jurgens:

Pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.6(a), Chicago Mercantile Exchange Inc. ("CME") hereby self-certifies the attached draft CME Clearing Advisory Notice regarding changes to the categorization of performance bond assets, to be effective Friday, July 11, 2014. We are self-certifying changes to the categorization of Letters of Credit and the IEF5 program. Please note the advisory notice also includes changes to the limits on Letters of Credit.

CME is expanding the number of eligible performance bond collateral categories for the Base and IRS Guaranty Funds from three to four and re-categorizing the eligible collateral types into four categories. Category 1 currently consists of assets that independently meet the criteria of qualifying liquidity resources, specifically cash, U.S. Treasuries, the IEF5 program, and Letters of Credit (Base Guaranty Fund only). Category 2 and Category 3 currently consist of assets that are qualifying liquidity resources due to being supported by CME's credit facility.

The eligible performance bond collateral types in Category 1 will be divided into two categories; Category 1 will consist of cash and U.S. Treasuries and the new Category 2 will consist of the IEF5 program (for the Base and IRS Guaranty Funds) and Letters of Credit (Base Guaranty Fund only). The assets in the current Category 2 will move to the new Category 3 and the assets in the current Category 3 will move to the new Category 4. The reason for the changes is to form a new category for assets that are sponsored by banks as these assets have limits established at the bank and clearing member levels (unlike cash and US Treasuries). CME seeks to minimize bank risk and the expansion of collateral categories will provide for further flexibility to CME for the operational management of limits for bank dependent collateral types. Therefore, the current bank sponsored programs Letters of Credit and IEF5 will be moved to the new Category 2 to account for operational differences between different types of highly liquid collateral.

The re-categorization does not materially impact the nature or level of risks presented by CME as the post-haircut value of deposited performance bond collateral deposits will be unchanged. Further, while the categorization changes are designed to allow CME to better manage potential wrong-way risk with its bank and clearing member counterparties, only a small percentage of CME's collateral on deposit will be impacted by these changes.

A summary of the changes is set forth in the charts below.

Performance Bond Acceptable Collateral Categories for Base Guaranty Fund

Current	Category 2 & 3 Capped at \$7bn Per Firm	
<u>Category 1</u> Cash U.S. Treasuries IEF5 (Interest Bearing Cash) Letters of Credit* <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 2*</u> U.S. Government Agencies Strips TIPS (capped at \$1bn per firm) Select MBS <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 3**</u> IEF2 [†] (Money Market Mutual Funds) Gold (capped at \$500mm per firm) Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm) <i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i> [†] Not included in the 40% requirement

New	Category 3 & 4 Capped at \$7bn Per Firm		
<u>Category 1</u> Cash U.S. Treasuries	<u>Category 2</u> IEF5 (Interest Bearing Cash) Letters of Credit* <i>*LOCs are capped at the lesser of 25% of core requirement per currency requirement or \$500M per firm. LOCs are not permitted to meet house performance bond requirements for financial affiliated clearing members.</i>	<u>Category 3*</u> U.S. Government Agencies Strips TIPS (capped at \$1bn per firm) Select MBS <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 4**</u> IEF2 [†] (Money Market Mutual Funds) Gold (capped at \$500mm per firm) Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm) <i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i> [†] Not included in the 40% requirement

Performance Bond Acceptable Collateral Categories for IRS Guaranty Fund

Current	Category 2 & 3 Capped at \$7bn Per Firm	
<u>Category 1</u> Cash U.S. Treasuries IEF5 (Interest Bearing Cash)	<u>Category 2*</u> U.S. Government Agencies Strips TIPS (capped at \$1bn per firm) Select MBS <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 3**</u> IEF2 [†] (Money Market Mutual Funds) Gold (capped at \$500mm per firm) Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm) <i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i> [†] Not included in the 40% requirement

New	Category 3 & 4 Capped at \$7bn Per Firm		
<u>Category 1</u> Cash U.S. Treasuries	<u>Category 2</u> IEF5 (Interest Bearing Cash)	<u>Category 3*</u> U.S. Government Agencies	<u>Category 4**</u> IEF2 [†] (Money Market Mutual Funds) Gold (capped at \$500mm per firm)

		Strips TIPS (capped at \$1bn per firm) Select MBS <i>* Capped at 40% of core requirement per currency requirement per firm</i>	Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm) <i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i> [†] <i>Not included in the 40% requirement</i>
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The proposed changes to performance bond categories will not apply to the CDS Guaranty Fund or collateral eligible to meet performance bond requirements for security-based swaps without approval from the Securities and Exchange Commission.

CME reviewed the derivatives clearing organization core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”). During the review, CME identified the following Core Principles as potentially being impacted:

- **Financial Resources:** CFTC Regulation 39.33(c)(1) requires each SIDCO to maintain eligible liquidity resources that, at a minimum, will enable it to meet its intraday, same-day and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress scenarios, including a default by the clearing member creating the largest aggregate liquidity obligation in extreme but plausible market conditions. A change to the performance bond categorization may impact the makeup of the collateral used by a clearing member to meet its margin requirements. However, this change will have no impact on the level of margin collected and further serves to increase the qualifying liquidity resources available to CME in the event of a clearing member default due to the decreased likelihood bank or clearing member wrong-way risk.

The text of the draft CME Clearing Advisory Notice is attached hereto as Exhibit A.

Pursuant to Section 5c(c) of the CEA and CFTC Regulation 40.6(a), CME certifies that the proposed amendments comply with the CEA and regulations thereunder.

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

If you require any additional information regarding this submission, please Suzanne Sprague at (312) 930 3260 or Suzanne.Sprague@cmegroup.com, or you may contact me at (312) 930-8167 or via e-mail at Sean.Downey@cmegroup.com.

Sincerely,

/s/ Sean Downey
 Senior Director & Associate General Counsel

Attachment: Exhibit A: Draft CME Clearing Advisory Notice

Exhibit A



DATE: June 13, 2014
TO: Clearing Member Firms
FROM: CME Clearing
SUBJECT: **Collateral Categorization & Limit Changes – Performance Bond**

Effective July 11, 2014, CME Clearing will expand the categories of acceptable collateral to meet Performance Bond requirements from three to four categories for Base Guaranty Fund and IRS products, pending regulatory approval.¹ Please see the table below for the new asset categorization. In addition, the limit on Letters of Credit will be changed to the lesser of \$500M or 25% of a Clearing Member's core requirement.² Further, financial-affiliated Clearing Members will no longer be able to post Letters of Credit to meet house Performance Bond requirements.

All other limits will remain the same under the new category structure.

<u>Category 1</u>	<u>Category 2</u>	<u>Category 3**</u>	<u>Category 4***</u>
USD Cash	IEF 5	US Government Agencies	IEF 2†
FX Cash ⁺	LOC*	Select MBS	IEF 4 (Corporate Bonds)
US Treasuries		Tstrips	Gold
		TIPS	ETFs and Stocks
			Foreign SOV Debt

⁺\$250 million USD equivalent on FX cash meeting requirement in a different currency

*Capped at the lesser of 25% of core requirement or \$500 million per clearing member

**Capped at 40% of core requirement per clearing member

***Capped at the lesser of 40% of core requirement or \$5 billion per clearing member

†Not subject to the 40% cap

Category 3 and 4 combined cannot exceed \$7 billion in USD equivalent

For more information, please contact CME Clearing Financial Unit at 312-207-2594 or CME Clearing Risk Unit at 312-648-3888.

¹ Expansion of collateral categories for CDS products will take place following separate regulatory approval process.

² Please note that Letters of Credit are not accepted as collateral to meet Performance Bond requirements for CDS and IRS products.