

01/24/2022

## VIA ELECTRONIC SUBMISSION

Christopher Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street NW  
Washington  
DC 20581

### **Re: Commodity Futures Trading Commission Request for Information and Comment regarding Swap Clearing Requirement To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates, 17 CFR Part 50, RIN 3038-AF18**

Dear Mr. Kirkpatrick

CME Group Inc. (“CME Group”) appreciates the opportunity to comment on the Commodity Futures Trading Commission (“Commission” or “CFTC”) Request for Information and Comment on the Swap Clearing Requirement To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates (the “Request for Information and Comment”).<sup>1</sup>

Chicago Mercantile Exchange Inc. (“CME Inc.” or “CME”), a wholly-owned subsidiary of CME Group Inc., is registered with the CFTC as a derivatives clearing organization (“DCO”) and operates its clearinghouse (“CME Clearing” or the “Clearing House”). CME Inc. is also registered with the CFTC as a designated contract market (“DCM”). In July 2012, CME Inc. was designated as a systemically important financial market utility under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act by the Financial Stability Oversight Council because of its clearing activities. Due to this designation, CME Clearing is a systemically important DCO or “SIDCO” pursuant to CFTC regulations.

We provide below general feedback from CME Group on the Request for Information and Comment, with detailed responses provided in the Appendix to this letter.

#### The Benefits of Central Clearing

CME Group supports the CFTC’s initiative to review the U.S. clearing mandates in light of the ongoing industry transition of swaps referencing the London Interbank Offered Rate (“LIBOR” or “ICE LIBOR”)<sup>2</sup> to the relevant nominated successor “risk-free rates” (“RFRs” or “Alternative Reference Rates”). We welcome the Commission’s recognition of the importance of central clearing in facilitating this transition process and also its acknowledgement of the interconnectedness of the interest rate swaps market and the corresponding need for international regulatory authorities to cooperate across jurisdictions as they consider and adopt new clearing mandates.

Central clearing of swaps through central counterparties (“CCPs”) was a critical part of the 2009 Pittsburgh G20 commitments. The advantages of CCP clearing over bilateral arrangements in reducing systemic risk and providing a more transparent infrastructure for post-trade risk management, for interest rate swaps in particular, have been widely recognized by global regulatory authorities and also by market participants. In addition to promoting these global systemic risk management considerations, interest rate swap clearing through CCPs also provides a range of direct benefits to market participants that have incentivized and will continue to encourage these firms to utilize CCP clearing, including CCP risk management protections, the benefits arising from multilateral netting and also those arising from reduced capital requirements for exposures to CCPs under regulatory capital frameworks.

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<sup>1</sup> Federal Register, Vol. 86, No. 223 / Tuesday, November 23, 2021 / Proposed Rules, <https://www.cftc.gov/sites/default/files/2021/11/2021-25450a.pdf>.

<sup>2</sup> ICE LIBOR is administered by ICE Benchmark Administration Limited (“IBA”), which is regulated and supervised by the UK Financial Conduct Authority as administrator of the benchmark.

## LIBOR Transition and Interest Rate Swap Clearing

CME Group has been active in supporting the transition away from LIBOR rates in derivatives markets, working alongside industry groups, market participants and regulatory bodies to promote an orderly transition to the successor rates in listed futures and over-the-counter (“OTC”) interest rate swaps markets. Amongst a range of initiatives designed to facilitate the transition, CME Group has:

- launched new cleared interest rate swap and futures contracts referencing RFRs to enable market participants to manage their exposures to these RFRs as markets develop;
- introduced industry standard “fallback” language to CME Inc. swap and futures contracts to promote transition away from LIBOR rates; and
- most recently in December 2021, provided a conversion service operated by CME Clearing for GBP, CHF and JPY LIBOR interest rate swaps to effect a transition of those swaps into corresponding CME-cleared standardized RFR swaps (the “CME GBP/CHF/JPY LIBOR Conversion”).<sup>3</sup>

As the remaining steps in the transition from LIBOR rates continue towards the anticipated discontinuation of publication of a “representative” USD LIBOR rate at the end of June 2023, CME Group will continue to support market participants in managing their risks and promoting a smooth and orderly transition to alternative reference rates.

As noted by the Commission in the Request for Information and Comment, due to the implementation of important transition milestones in recent months in particular, data related to the transition away from IBORs is changing and developing on a daily basis. Since the publication of the Request for Information and Comment, after final publication on December 31, 2021, IBA, the administrator of LIBOR, has ceased to publish, or ceased to publish in a representative manner, all CHF, GBP, JPY and EUR LIBOR settings, prompting transition away from these rates in OTC bilateral and CCP cleared swap markets.<sup>4</sup> In addition, as noted above, the CME GBP/CHF/JPY LIBOR Conversion took place in December 2021 / January 2022, during which CME Clearing successfully completed the conversion of CME-cleared OTC IRS referencing CHF, GBP and JPY LIBOR settings into cleared standardized swaps referencing the relevant nominated replacement RFR. Other CCPs effected similar exercises as part of the industry approach to transition driven by market participant needs. As a result of these critical transition initiatives, data relating to CHF, GBP, JPY and EUR LIBOR interest rate swap contracts from January 2022 onwards will be markedly different from the data relating to 2021 requested by the Commission in the Request for Information and Comment.

At the same time, the ongoing industry transition from USD LIBOR to the Secured Overnight Financing Rate (“SOFR”) continues to see significant changes in market participant exposures to USD LIBOR and

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<sup>3</sup> CME Clearing conducted initial conversion events for CME-cleared swaps referencing GBP, JPY and CHF LIBOR rates on December 3, 2021 (JPY LIBOR, CHF LIBOR) and December 17, 2021 (GBP LIBOR) and subsequent conversion events on January 3, 2022 (CHF LIBOR) and January 4, 2022 (GBP LIBOR, JPY LIBOR). USD LIBOR and SGD SOR-VWAP swaps which reference USD LIBOR were not included in the conversion process as USD LIBOR will continue to be published in representative form up to and including June 30, 2023. For details on the CME GBP/CHF/JPY LIBOR Conversion process, see <https://www.cmegroup.com/notices/clearing/2021/11/Chadv21-434.html>. Note that CME Clearing did not offer clearing services for EUR LIBOR swaps and therefore did not offer a conversion process for such trades.

<sup>4</sup> After final publication on December 31, 2021, IBA ceased to publish:

- all CHF and EUR LIBOR settings
- the 1 Week and 2 Months USD LIBOR settings and
- the Overnight/Spot Next, 1 Week, 2 Months and 12 Months GBP and JPY LIBOR settings.

IBA has announced that it will continue to determine and publish the Overnight and the 1-, 3-, 6- and 12-Months USD LIBOR settings on a representative basis until end-June 2023. See: <https://www.theice.com/iba/libor>. The UK Financial Conduct Authority (“FCA”) has required IBA to publish the 1-, 3- and 6-Months GBP and JPY LIBOR settings from January 1, 2022 until 31 December 2022, utilizing a “synthetic” and “non-representative” methodology. See: <https://www.fca.org.uk/publication/libor-notices/article-23d-benchmarks-regulation.pdf>



SOFR rates, with the marked acceleration in SOFR exposure seen in Q4 2021 continuing into January 2022. This global trend, driven by the CFTC's "SOFR-First" program and other global regulatory initiatives incentivizing and requiring regulated firms to transition away from USD LIBOR prior to its scheduled cessation at the end of June 2023, has contributed to rapid growth in CME Group's SOFR interest rate product complex:

- CME SOFR futures ADV increased to 277K contracts per day in Q4 2021, more than doubling Q3 2021 volumes.
- CME SOFR futures open interest rose 83% in Q4 2021, closing the year at 1.85M contracts.
- With a record \$219B cleared in December 2021, CME SOFR swaps volume exceeded \$429B in Q4 2021, more than doubling volume from the first three quarters of 2021 combined.<sup>5</sup>
- For the month-to-date in January 2022, CME SOFR Futures ADV has increased further to 586k contracts per day and open interest is over 2.5M contracts.

Following the significant growth in CME Group's SOFR products in Q4 2021 and the acceleration of the transition being seen into January 2022, CME Group expects to see our SOFR products continue to grow in terms of volume and open interest as market participants utilize these products to manage their growing exposures to SOFR and as firms continue along the path of transition away from USD LIBOR in line with global regulatory initiatives.

Again, as a result of these rapidly changing market dynamics, data relating to USD LIBOR, SOFR and related interest rate swap contracts from January 2022 onwards will be markedly different from the equivalent data from Q4 2021 requested by the Commission in the Request for Information and Comment.

As a result, in addition to the data relating to the month ending November 30, 2021, requested by the Commission in the Request for Information and Comment, in this response to the Commission CME also provides certain relevant, and more recent, information from January 2022 for the Commission to consider.

Specific responses to questions posed by the Commission in the Request for Information and Comment are provided in the Appendix to this letter.

We would be happy to further discuss our comments with the Commission. If any comments or questions regarding this response arise, please feel free to contact me at [sunil.cutinho@cmegroup.com](mailto:sunil.cutinho@cmegroup.com).

Sincerely,

A handwritten signature in blue ink, appearing to read "Sunil Cutinho".

Sunil Cutinho  
President, CME Clearing  
CME Group  
20 South Wacker Drive  
Chicago, IL 60606

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<sup>5</sup> Further details on CME Group's SOFR product offering is available at [https://www.cmegroup.com/trading/interest-rates/secured-overnight-financing-rate-futures.html?utm\\_source=pardot&utm\\_medium=email&utm\\_campaign=rates\\_recap&utm\\_content=012022&utm\\_kxconfid=vpw\\_pdpbbo](https://www.cmegroup.com/trading/interest-rates/secured-overnight-financing-rate-futures.html?utm_source=pardot&utm_medium=email&utm_campaign=rates_recap&utm_content=012022&utm_kxconfid=vpw_pdpbbo).

## Appendix:

### CME Group Response to Commission Request For Information and Comment

In this response we have listed only those questions where CME has a substantive response to the Commission Request for Information and Comment. For each specific request for information of the Commission in the Request for Information and Comment (indicated in *blue italicised text* below) addressed by CME in this response, we include the assigned number of the specific request for information below in order to facilitate Commission staff's review of the information provided.

#### A. Swaps Subject to the Clearing Requirement

*Information related to a DCO's ability to continue clearing or offering clearing services for swaps that reference GBP LIBOR, JPY LIBOR, CHF LIBOR, and 1-week and 2- month USD LIBOR after December 31, 2021, EONIA after January 3, 2022, or in the case of remaining USD LIBOR tenors and SGD SOR-VWAP, after June 30, 2023, including but not limited to the following:*

- 1. The Commission requests that DCOs provide, for swaps currently subject to the Clearing Requirement referencing each of GBP LIBOR, JPY LIBOR, CHF LIBOR, USD LIBOR, and SGD SOR-VWAP, in each of the fixed to-floating swap, basis swap, FRA, and OIS classes, data for the month ending November 30, 2021 concerning: (A) The amount of notional cleared, including as a percentage of total notional cleared of all swaps; (B) total notional outstanding, including as a percentage of total notional outstanding; and (C) total number of clearing members clearing such swaps, including as a percentage of the total population of clearing members.*

CME response: As noted by the Commission in the Request for Information and Comment, information related to the transition away from IBORs is changing and developing on a daily basis. Of particular relevance to CME's clearing services for certain LIBOR swaps, in December 2021 / January 2022, as part of the CME GBP/CHF/JPY LIBOR Conversion, CME Clearing converted all CME-cleared IRS contracts referencing GBP LIBOR, CHF LIBOR and JPY LIBOR into corresponding standardized RFR OIS. Consequently, at the date of this response, CME Clearing no longer holds any open interest in GBP LIBOR, CHF LIBOR and JPY LIBOR interest rate swap contracts and CME Clearing does not accept for clearing any new contracts referencing these rates.<sup>6</sup>

As a result, it follows that CME Clearing data relating to IRS clearing from Q1 2022 will provide the Commission with more up-to-date and relevant data pertinent to the issues addressed in the Request for Information and Comment than the requested equivalent CME Clearing data from November 2021.

In this response we include the requested data from November 2021 in Table 1 below and, for comparison and completeness purposes, certain relevant data from January 2022 in Table 2 below:

Table 1: CME Clearing data for month ending November 30, 2021 (all notional figures are expressed in MM and in relevant local currency)

Instrument	Total notional	% total notional of all cleared swaps	Total notional outstanding	% total notional outstanding	No. of active clearing members	% of total clearing members
<b>GBP LIBOR</b>						
Fixed to-floating	2,750	.3%	270,717	3%	19	68%
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	-	-	-	-	-	-
<b>JPY LIBOR</b>						
Fixed to-floating	203,329	.14%	30,948,336	2%	17	61%
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-

<sup>6</sup> CME provides a limited service for the clearing of GBP LIBOR, CHF LIBOR and JPY LIBOR swaps where such swaps arise from the exercise of bilateral swaptions. Such swap contracts may be accepted for clearing by CME Clearing where they meet certain conditions and, on acceptance, will be subject to a conversion process into a corresponding standardized RFR OIS on the date of acceptance. Further details are available at <https://www.cmegroup.com/notices/clearing/2021/11/Chadv21-434.html>.

OIS	-	-	-	-	-	-
<b>CHF LIBOR</b>						
Fixed to-floating	1	0%	16,045	.13%	15	54%
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	-	-	-	-	-	-
<b>USD LIBOR</b>						
Fixed to-floating	277,204	23%	5,139,587	38%	27	96%
Basis swap	26	0%	542,829	4%	24	86%
FRA	0	0%	51,033	.37%	8	29%
OIS	-	-	-	-	-	-
<b>SGD SOR-VWAP</b>						
Fixed to-floating	12,148	.07%	12,148	.07%	10	36%
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	-	-	-	-	-	-

Following the CME GBP/CHF/JPY LIBOR Conversion, CME has no open interest in GBP, CHF or JPY LIBOR swaps. As at January 21, 2022, CME Clearing has open interest in USD LIBOR and SGD SOR-VWAP IRS contracts, as summarized in Table 2 below, based on CME Clearing data for the period January 1, 2022 to January 21, 2022.

Table 2: CME Clearing data for period January 1, 2022 to January 21, 2022 for USD LIBOR and SGD SOR-VWAP (all notional figures are expressed in MM and in relevant local currency)

Instrument	Total notional	% total notional of all cleared swaps	Total notional outstanding	% total notional outstanding	No. of active clearing members	% of total clearing members
<b>USD LIBOR</b>						
Fixed to-floating	183,784	20%	4,776,534	38%	27	96%
Basis swap	10,144	1%	555,603	4%	25	93%
FRA	0	0%	47,420	.37%	6	22%
OIS	-	-	-	-	-	-
<b>SGD SOR-VWAP</b>						
Fixed to-floating	0	0%	8,461	.07%	9	33%
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	-	-	-	-	-	-

2. *The Commission requests that DCOs provide an assessment of the DCO's ability to conduct an auction of a defaulting clearing member's positions in swaps referencing LIBOR after December 31, 2021 (not including certain USD LIBOR tenors and SGD SOR-VWAP that will continue until June 30, 2023), if the DCO has not conducted, or is not planning on conducting, a conversion event.*

CME response: As noted above, following the CME GBP/CHF/JPY LIBOR Conversion process, in each case, CME has ceased to accept GBP LIBOR, CHF LIBOR and JPY LIBOR interest rate swap contracts for clearing and CME has no open interest in these swap contracts as at the date of this submission. As a result, a defaulting CME clearing member would not have within its portfolio any IRS contracts referencing JPY, CHF or GBP LIBOR.

3. *The Commission requests that DCOs provide an assessment of the DCO's ability to transfer or port to other clearing members a defaulting clearing member's positions in swaps referencing LIBOR after December 31, 2021 (not including certain USD LIBOR tenors and SGD SOR-VWAP that will continue until June 30, 2023).*

CME response: As noted above in the response to Question 2, following the CME GBP/CHF/JPY LIBOR Conversion process, in each case, CME Clearing has ceased to accept GBP LIBOR, CHF LIBOR and JPY LIBOR interest rate swap contracts for clearing. As a result, a defaulting CME clearing member would not have within its portfolio any IRS contracts referencing JPY, CHF or GBP LIBOR.

4. *The Commission would like to know whether any clearing member firms of DCOs have experienced challenges with respect to the transition from any IBOR to an alternative reference rate, and any related DCO conversion event, including whether and how such challenges were resolved, and whether clearing member firms believe there are any steps the Commission can take to help resolve ongoing challenges.*

CME response: CME is not aware of any material issues experienced by CME Clearing member firms relating to the CME LIBOR conversion processes or otherwise with respect to CME Clearing initiatives relating to the transition from any IBOR to an alternative reference rate.

#### *B. Swaps Not Currently Subject to the Clearing Requirement*

6. *The Commission requests that DCOs file submissions with the Commission under Commission regulation 39.5 for any swaps that have been or may be identified as swaps that reference an alternative reference rate that are not currently subject to the Clearing Requirement and for which a DCO has not previously filed a submission under Commission regulation 39.5(b).*

CME response: CME Clearing will ensure that any appropriate submissions will be filed with the Commission under Commission regulation 39.5(b) as required.

7. *The Commission requests that DCOs provide for swaps that reference one of the alternative reference rates including, GBP SONIA, JPY TONA, CHF SARON, €STR, and USD SOFR in each of the fixed-to-floating swap, basis swap, FRA, and OIS classes, data from the quarter ending September 30, 2021 concerning: (A) The amount of notional cleared, including as a percentage of total notional cleared of all swaps; (B) total notional outstanding, including as a percentage of total notional outstanding; and (C) total number of clearing members clearing such swaps, including as a percentage of the total population of clearing members.*

CME response: As noted by the Commission in the Request for Information and Comment, CME Clearing provides clearing support for overnight index swaps (OIS) referencing:

- SARON
- €STR
- SONIA
- TONA
- SOFR

CME Clearing provides clearing support for basis swaps referencing:

- SOFR
- €STR

CME Clearing does not support clearing of the other types of interest rate swap contract listed in the Commission request.

Data relating to such swaps supported by CME Clearing for the quarter ending September 30, 2021 is set out in Table 3 below:

Table 3: CME Clearing data for quarter ending September 30, 2021 (all notional figures are expressed in MM and in relevant local currency)

Instrument	Total notional	% total notional of all cleared swaps	Total notional outstanding	% total notional outstanding	No. of active clearing members	% of total clearing members
<b>GBP SONIA</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	580	.02%	14,695	.15%	17	63%
<b>JPY TONA</b>						

Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	64	0%	411,684	.15%	14	52%
<b>CHF SARON</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	84	0%	84	0%	15	56%
<b>USD SOFR</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	1,034	0%	51,821	.41%	19	70%
FRA	-	-	-	-	-	-
OIS	156,630	5%	258,104	2%	20	74%
<b>€STR</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	0	0%	42,889	.39%	17	63%

As noted above in the response to Question A.1, as part of the CME GBP/CHF/JPY LIBOR Conversion in December 2021/January 2022, CME converted GBP, CHF and JPY LIBOR swaps into corresponding standardized RFR OIS. As a result, CME Clearing open interest in GBP, CHF and JPY RFR OIS has increased significantly since the quarter ending September 30, 2021, as illustrated in Table 4 below which provides relevant CME Clearing data in the period from January 1, 2022 to January 21, 2022. Table 4 below also demonstrates the growth in open interest of USD SOFR swaps cleared by CME Clearing since end September 2021.

Table 4: CME Clearing data for period January 1, 2022 to January 21, 2022 (all notional figures are expressed in MM and in relevant local currency)

<b>Instrument</b>	<b>Total notional</b>	<b>% total notional of all cleared swaps</b>	<b>Total notional outstanding</b>	<b>% total notional outstanding</b>	<b>No. of active clearing members</b>	<b>% of total clearing members</b>
<b>GBP SONIA</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	13,045	2%	195,520	2%	19	70%
<b>JPY TONA</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	6,617,559	6%	29,101,252	2%	17	63%
<b>CHF SARON</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	0	0%	12,864	.1%	15	56%
<b>USD SOFR</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	10,140	1%	53,444	.42%	25	93%
FRA	-	-	-	-	-	-
OIS	151,910	17%	1,285,393	10%	25	93%
<b>€STR</b>						
Fixed to-floating	-	-	-	-	-	-
Basis swap	-	-	-	-	-	-
FRA	-	-	-	-	-	-
OIS	40.1	0%	41,159	.4%	17	63%

#### *IV. Request for Comment*

##### *B. Specific Requests for Comment*

*ii. Swap Clearing Requirements for Alternative Reference Rates*

*6. Are there any steps related to the SOFR transition that have not been completed that would enable a significant number of market participants to submit swaps referencing SOFR to clearing? Are there specific metrics or products associated with the new SOFR rate that need to be developed before swaps referencing SOFR can be used by a broad range of market participants?*

CME response: CME Group has supported the work of the Alternative Reference Rates Committee (“ARRC”) in the development of the ARRC’s Paced Transition Plan for SOFR, including:

- launching CME SOFR Futures in May 2018, which have seen Q4 2021 ADV of 277K contracts per day and open interest of 1.85M contracts,
- supporting clearing of SOFR Swaps from October 2018, for which CME SOFR swaps volume exceeded \$429B in Q4 2021, with a record \$219B cleared in December 2021,
- developing and launching CME Term SOFR, CME Group’s EU Benchmarks Regulation (“BMR”) compliant term SOFR reference rate calculated and published daily in 1-month, 3-month, 6-month and 12-month tenors. CME Term SOFR is calculated based on transactions in CME Group’s deep and liquid underlying CME SOFR Futures, providing a robust and sustainable measure of forward-looking SOFR rates.

As the steps on the Paced Transition Plan have progressed, so has the use of SOFR by market participants, including entry into SOFR swaps and submission of SOFR swaps to CCPs for clearing. This growth has accelerated through 2021, with CME cleared SOFR swaps volume in Q4 2021 representing more than twice the volume from the first three quarters of 2021 combined.

CME Clearing intends to effect a conversion of outstanding CME-cleared USD LIBOR interest rate swaps into corresponding SOFR OIS on or shortly prior to the end-June 2023 date for the scheduled discontinuation of a representative USD LIBOR rate, utilizing a conversion process based on that used for the recent CME GBP/CHF/JPY LIBOR Conversion. While this conversion process will complete the transition from USD LIBOR to SOFR for USD IRS for CME cleared swaps, we expect that the ongoing transition processes of market participants, driven by global regulatory initiatives, will mean that the overwhelming majority of market participants will be utilizing SOFR referencing swaps prior to June 2023 as the use of USD LIBOR in new swap contracts reduces in the next 12-18 months.

As a result, we do not consider that additional products or metrics associated with the SOFR rate need to be developed in order to support the ongoing transition.

*7. Would requiring the clearing of swaps referencing SOFR or other alternative reference rates that are not currently subject to the Clearing Requirement affect the ability of a DCO to comply with the CEA’s core principles for DCOs?*

CME response: CME Clearing currently offers clearing for swaps referencing SOFR and other alternative reference rates that are not currently subject to the Clearing Requirement, as noted above. CME Clearing complies with the CEA’s core principles for DCOs in respect of the clearing of such swaps. CME Group considers that should such swaps become subject to the Clearing Requirement this would not have any impact on CME Clearing’s ability to comply with the relevant core principles for DCOs.

*11. Is there adequate pricing data for DCO risk and default management of swaps referencing SOFR? Why or why not?*

CME response: CME Clearing has accepted SOFR swaps for clearing since October 2018. Throughout this time there has been, and continues to be, adequate pricing data for DCO risk and default management of swaps referencing SOFR given the depth and liquidity of SOFR markets.

*12. What are the challenges that DCOs may face or have faced in accepting new SOFR swaps or swaps referencing other alternative reference rates for clearing that are not currently subject to the Clearing Requirement from a governance, rule framework, operational, resourcing, or credit support infrastructure perspective?*



CME response: As noted above in response to Question A.1, CME Clearing currently accepts OIS referencing SOFR, SARON, €STR, SONIA and TONA, and basis swaps referencing SOFR and €STR. CME Clearing is therefore already in a position to support a Clearing Requirement in relation to these swaps.

CME Clearing does not offer support for the clearing of fixed to-floating swaps or FRAs for these rates.

*13. Would requiring the clearing of swaps referencing SOFR mitigate systemic risk? Please explain why or why not and provide supporting data.*

CME response: Following the G20 Pittsburgh commitments, global regulatory authorities have promoted and supported central clearing of interest rate swaps, recognizing that the reduction of systemic risk is a key advantage of CCP clearing of these instruments over bilateral arrangements. Market participants have also supported CCP clearing for this reason, and for the other benefits of central clearing, including CCP risk management protections and multilateral netting. As evidenced by the high proportion of SOFR swaps that firms are currently choosing to clear on a voluntary basis, illustrated by the data provided by the CFTC in the Request for Information and Comment, clearing of SOFR swaps already has widespread market participant support.

*14. Would requiring the clearing of swaps referencing SOFR increase risk to DCOs? If so, are DCOs capable of managing that risk? Please explain why or why not and provide supporting data.*

CME response: CME Clearing currently supports clearing of SOFR swaps. Cleared trade volumes and open interest in SOFR swaps at CME Clearing has increased significantly in Q4 2021 and into January 2022. As noted by the Commission based on US Swap Data Repository data, given that the bulk of SOFR swap volumes (approx. 90%) are already cleared and this trend is expected to continue regardless of whether SOFR swaps are subject to a clearing requirement, CME Group considers that CME Clearing has already demonstrated its ability to manage the risk of clearing swaps referencing SOFR and, more generally, CME Clearing has demonstrated a long track record of successfully managing the risks of clearing swaps with significant volumes, representing significant notional amounts and total exposures.

*16. How and when should the Commission evaluate whether to require clearing for interest rate swaps denominated in USD that reference alternative reference rates other than SOFR, such as credit-sensitive benchmark rates (e.g., Ameribor and BSBY)? Provided that one or more DCOs have made such swaps available for clearing, are there additional factors or considerations beyond those specified in Section 2(h)(2)(D)(ii) of the CEA that the Commission should consider in determining whether to adopt a clearing requirement for such swaps?*

CME response: CME Clearing began clearing BSBY OIS and BSBY/SOFR basis swaps in Q4 2021, following the launch of CME BSBY Futures in August 2021.

In relation to factors or considerations for the Commission's determination whether to adopt a clearing requirement for such swaps, we consider that those considerations specified in Section 2(h)(2)(D)(ii) of the CEA are adequate for these purposes.

*17. Would adopting a clearing requirement for a new product that references an alternative reference rate, or expanding the scope of the Clearing Requirement to cover additional maturities, create conditions that increase or facilitate an exercise of market power over clearing services by any DCO that would:*

*(i) Adversely affect competition for clearing services and/or access to product markets for swaps referencing alternative reference rates (including conditions that would adversely affect competition for these product markets and/or increase the cost of such swaps); or*

*(ii) increase the cost of clearing services? Please explain why or why not and provide supporting data.*

CME response: CME Clearing complies with the CEA DCO Core Principles, including Core Principle N (Antitrust Considerations) and will continue to take these requirements into account when adopting any rules or imposing requirements.

*18. What new information, if any, should the Commission consider as it prepares to review whether interest rate swaps linked to the alternative reference rates should be subject to a clearing requirement? Are there specific regulatory requirements that the Commission should consider when reviewing overall market conditions, such as uncleared margin requirements implemented by prudential regulators and/or the uncleared margin requirements for swap dealers and major swap participants under part 23 of the Commission's regulations?*

CME response: We consider that the current requirements under Section 2(h)(2)(D)(ii) of the CEA are sufficient for these purposes.

*iii. New Swap Product Documentation*

*19. With respect to all new swap products, including those referencing alternative reference rates, is there additional documentation that the Commission should require DCOs to submit with swap submissions beyond the documentation that Commission regulation 39.5 currently requires?*

CME response: Based on CME Clearing's submissions under Commission regulation 39.5 relating to swap products referencing alternative reference rates to date, and interaction with Commission staff relating to such submissions, we are not aware of any additional information requirements that should be required by the Commission for these purposes.

*iv. Swap Clearing Requirement Specifications*

*20. The Commission recognizes that at this time a majority of the swaps subject to the Clearing Requirement fall within the fixed-to-floating swap class. That may change as new alternative reference rates are adopted and will be characterized as OIS or other types of swaps. Should the Commission designate any additional classes of swaps or specifications for purposes of classifying swaps under Commission regulation 50.4? Do DCOs or market participants have suggestions about how to reorganize or structure the classes of swaps subject to the clearing requirement under Commission regulation 50.4? Should the Commission include a new class covering variable notional swaps as a table under Commission regulation 50.4(a)?*

CME response: As noted above, CME Clearing provides clearing support for OIS and certain basis swaps amongst the supported alternative reference rates, rather than supporting fixed-to-floating swap classes for those rates.