

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-106681; File No. SR-CMESC-2026-011]

Self-Regulatory Organizations; CME Securities Clearing Inc.; Notice of Filing of Proposed Rule Change to Amend the CMESC Risk Management Framework (“RMF”) Related to CMESC’s Default Management Practices

October 16, 2026.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 9, 2026, CME Securities Clearing Inc. (“CMESC”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change described in Items I, II, and III below, which Items have been substantially prepared by CMESC. CMESC filed the proposed rule change pursuant to Section 19(b)(2) of the Act.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. CMESC’s Statement of the Terms and Substance of the Proposed Rule Change

(a) The proposed rule change of CME Securities Clearing Inc. (“CMESC”) is provided in Exhibit 5. The proposed rule change includes amendments to the CMESC Risk Management Framework (“RMF”) related to CMESC’s default management practices, which provides for necessary transparency to and clarity for CMESC staff in managing a default.⁴ Each modification is described in more detail below.

¹ 15 U.S.C. §78s(b)(1).

² 17 CFR §240.19b-4.

³ 15 U.S.C. §78s(b)(2).

⁴ Capitalized terms used herein and not defined have the meanings assigned to such terms in the CMESC Rulebook (the “Rules”), as applicable, available at <https://www.cmegroup.com/rulebook/CMESC/CMESC%20Rulebook.pdf>.

II. CMESC’s Statement of the Purpose of, and Statutory Basis for the Proposed Rule Change

In its filing with the Commission, CMESC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. CMESC has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. CMESC’s Statement of the Purpose of, and Statutory Basis for the Proposed Rule Change

1. Purpose

Background

CMESC’s default management procedures cover the management of a default of either a Member or User (collectively, “Participants”) and are designed to ensure the continuity of CMESC’s clearance and settlement functions and particularly, the ongoing maintenance of the services provided to non-defaulting Participants, while supporting market integrity and minimizing market disruptions. The primary purpose of the proposed rule change is to enhance the default management process by further codifying the documentation of the default management procedures in the RMF. In particular, the proposed rule change would amend the RMF to (i) provide additional detail around arrangements involving a third-party liquidation agent for managing a Participant default, and (ii) make certain clarifying and administrative changes, where appropriate, in the RMF; and (iii) to clarify the role of CMESC’s Risk Management Committee (“CSRMC”) in designing the default management procedures.

Liquidation Agent and Execution Brokers

Section 14.1.1 (“Participant Default Management Process”) of the RMF would be

amended to specify that the close-out process of a defaulted Participant's portfolio may include the use of a liquidation agent and one or more execution brokers.⁵ Broadly, the amended RMF would provide that, in managing a default, CMESC and any liquidation agent will collaborate to assess the exposures of the defaulted Participant's portfolio, including associated settlement obligations as they come due, and formulate a close-out strategy under the prevailing market conditions to minimize potential losses and market disruptions and to support market integrity. More specifically, the amended RMF would describe the expectations for a third-party liquidation agent, if used, to assist CMESC with designing and executing the close-out strategy for the defaulted Participant's portfolio. In accordance with the amended RMF, the liquidation agent will be expected to coordinate with CMESC to reconcile positions of the defaulted Participant and assess the outstanding exposure of the defaulted Participant over the course of managing the default.

The amended RMF also would provide that the liquidation agent may use various methods to execute close-out trades, including, but not limited to, executing open market transactions; enter into hedging transactions to mitigate the risk of the defaulted Participant's portfolio; and perform other related tasks appropriate to assist CMESC in managing the risk from the Participant's default. In addition, Section 14.1.1 of the RMF would recognize that CMESC may engage one or more execution brokers to coordinate with the liquidation agent and CMESC to provide certain operational services related to the close-out trades arranged or executed by the liquidation agent in managing a default.

⁵ For context, Rule 405 ("Default Management Process") provides that the "Corporation's default management process may involve the Corporation's consultation with third parties and may involve these third parties acting as agents on the Corporation's behalf to manage the Member Default or User Default." See Rule 405 of the Rules, *supra* note 1.

The amended RMF would include new language to specify that, where appropriate, CMESC would maintain an account with the execution broker where it would be the principal, and the execution broker may submit back-to-back trades that mirror the liquidation agent's close-out trades. CMESC would further specify in the RMF that the submission of back-to-back trades is expected to ensure that CMESC's account at the execution broker maintains a net flat position and facilitate CMESC's ability to meet the settlement obligations of the defaulted Participant as they come due.

Clarifying and Administrative Changes

The proposed rule change would also include certain clarifying and administrative changes.

Member Default: For example, Section 14 ("Default Management") of the RMF would be amended to clarify that CMESC analyzes Users' risk profile on an *ex ante* basis. The associated monitoring and analysis serves to improve the likelihood that non-defaulted Users' positions can be transferred to a Member in good standing where their authorizing Member has defaulted. Additionally, the RMF would be amended to clarify that, while CMESC makes its best efforts to transfer non-defaulting Users' positions (i.e., of a defaulted Member) to non-defaulting Members, CMESC continues to monitor Users' positions and the sufficiency of the associated collateral throughout the default management process and based on the prevailing facts and circumstances may close-out (e.g., liquidate) the positions of some or all Users of a defaulted Member.

User Default: Section 14.1 ("Participant Default Event") of the RMF would be updated to specify that an authorizing Member of a defaulted User must respond to CMESC within a period of time prescribed by the Corporation if it wishes to manage the

User's default and, if it elects to do so, CMESC will undertake several operational steps relating to the User's positions and collateral to facilitate the Member's management of the User's default in accordance with the CMESC Rules.⁶ Section 14.1 of the RMF would also be amended to include "close-out" in addition to bidding on or purchasing a defaulted Participant's portfolio when gauging Participants' interest prior to declaring another Participant in default.

Additionally, Section 14.1 of the RMF would be amended to clarify that, for Users with multiple authorizing Members, where CMESC manages the User's default, the default management costs will be allocated on a *pro rata* basis based on the margin requirement for the User's positions authorized by each such Member. Moreover, Section 14.1 would be amended to add that the trades of the Users that are expected to settle on the next day after the day of the Member's default may settle prior to the transfer of any other positions.

Participant Default, Generally: The amended RMF also clarifies certain operational steps CMESC would take if it were to manage a default of a Participant itself. Section 14.1.1 of the amended RMF would provide that CMESC will take appropriate operational steps, as soon as practicable, to contain risk and prevent any unauthorized movement of the default Participant's cash or securities. These operational steps may include appropriate coordination with defaulted Participant's designated Bank(s) and Securities Settlement Bank(s), including enabling CMESC to assume control over outstanding positions and collateral of the defaulter. CMESC will also assess the risk of the defaulted Participant's portfolio, including the maturity of positions and timing for

⁶ See, e.g., Rule 405(c)(ii) of the Rules, *supra* note 1.

when associated obligations come due. Based on this assessment, CMESC would determine the best strategy for managing the Participant default in order to meet the obligations of the defaulted Participant's portfolio as they arise, including the process for closing out the portfolio and, where necessary, purchasing or selling securities and/or facilitating an auction (or multiple auctions) to meet the settlement obligations of the defaulted Participant.

The proposed changes would also relocate language related to hedging a defaulted Participant's portfolio using futures from 14.1.1.2, which relates generally to CMESC's ability to enter into securities transactions to address a defaulted Participant's settlement obligations, to Section 14.1.1, which describes the Participant default management process generally. In connection with this change, the term "Hedging" is being deleted from the header for Section 14.1.1.2. Additionally, the proposed changes would amend Section 14.1.1.2 to clarify that CMESC would only use its acceleration rights for applicable transactions with remaining maturities of greater than two business days such that non-defaulting Participants' delivery obligations become due on dates earlier than the original maturity dates of such transactions, as is consistent with the terms of existing Rule 1507(f).⁷ Finally, Section 14 would be amended to clarify that CMESC notification of a User default is governed by CMESC's Rules.⁸

CSRMC Role in Designing the Default Management Procedures

Section 14 of the amended RMF specifies that CMESC's Risk Management Committee ("CSRMC") shall provide guidance to CMESC on the design of its default

⁷ See Rule 1507(f) of the Rules, *supra* note 1 (establishing CMESC's acceleration rights with respect to non-Defaulting Members and non-Defaulting Users such that their delivery obligations under outstanding Repo Transactions become due on dates earlier than the original maturity dates of such Repo Transactions).

⁸ See, e.g., Rules 405(c) and 1507(b) of the Rules, *supra* note 1.

management procedures, as necessary (i.e., through its ongoing oversight of the RMF).⁹ The current RMF establishes the CSRMC's role in managing a default as discretionary and thus inherently advisory. The proposed amendments clarify the CSRMC's responsibilities prior to and during a default, while preserving its existing power to convene in the latter circumstances.

2. Statutory Basis

For the reasons set forth below, CMESC believes the proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934 ("Act")¹⁰ and SEC Rules 17Ad-22(e)(2)(v),¹¹ 17Ad-22(e)(3),¹² 17Ad-22(e)(13),¹³ and 17Ad-22(e)(18)(iv)(C)¹⁴ thereunder.

Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and, in general, to protect investors and the public interest.¹⁵ Robust documentation of default management practices in the RMF, a core component of CMESC's risk management framework, provides the necessary transparency to and clarity for CMESC staff to help facilitate the orderly management of a Participant default. This, in turn, will ensure CMESC continues

⁹ For the avoidance of doubt and as described in the existing RMF, the Chairperson of the CSRMC may convene the CSRMC in the event of a Participant default.

¹⁰ 15 U.S.C. § 78q-1.

¹¹ 17 C.F.R. § 240.17Ad-22(e)(2).

¹² 17 C.F.R. § 240.17Ad-22(e)(3).

¹³ 17 C.F.R. § 17Ad-22(e)(13).

¹⁴ 17 C.F.R. § 17Ad-22(e)(18)(iv)(C).

¹⁵ 15 U.S.C. § 78q-1(b)(3)(F).

to clear and settle securities transactions on a prompt and accurate basis and protect the securities and funds of non-defaulting Members despite a Participant default. For these reasons, CMESC believes the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.

Consistency with SEC Rule 17Ad-22(e)(2)(v)

SEC Rule 17Ad-22(e)(2)(v) requires that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for governance arrangements that specify clear and direct lines of responsibility.¹⁶ The proposed amendments to Section 14 of the RMF are designed to clarify CSRMC's responsibility in guiding the design of CMESC's default management procedures. As such, CMESC believes that the proposed rule change would further specify the clear and direct lines of responsibility of CSRMC, consistent with SEC Rule 17Ad-22(e)(2)(v).

Consistency with SEC Rule 17Ad-22(e)(3)

SEC Rule 17Ad-22(e)(3) requires, in part, that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of

¹⁶ 17 CFR 240.17Ad-22(e)(2)(v).

directors annually.¹⁷ The existing RMF is specifically designed to comply with SEC Rule 17Ad-22(e)(3), and the proposed amendments are designed to provide further enhancements and clarity to the manner in which CMESC manages Participant defaults, including potentially through the use of a liquidation agent and execution brokers and the clarifying changes describing CMESC's potential actions during a Participant default, generally, and Member or User defaults, specifically. As such, CMESC believes that the proposed rule change would support a sound, comprehensive framework designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by CMESC, consistent with SEC Rule 17Ad-22(e)(3).

Consistency with SEC Rule 17Ad-22(e)(13)

SEC Rule 17Ad-22(e)(13) requires, in part, that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to ensure the covered clearing agency has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations.¹⁸ The proposed amendments to the RMF are designed to enhance CMESC's default management process by further documenting CMESC's default management procedures. Having well documented procedures, in turn, will bolster CMESC's rule-based authority and provide further clarity regarding operational steps to contain losses and liquidity demands and continue to meet its obligations, despite a Participant default. Furthermore, the proposed amendments to the RMF would document arrangements with a potential third-party liquidation agent and clarify the default management process

¹⁷ 17 CFR 240.17Ad-22(e)(3)(i).

¹⁸ 17 C.F.R. § 240.17Ad-22(e)(13).

involving such a third-party, which if used, could facilitate CMESC's ability to take timely action to close out a defaulting Participant's positions. Therefore, CMESC believes that the proposed rule change is consistent with SEC Rule 17Ad-22(e)(13).

Consistency with Rule 17Ad-22(e)(18)(iv)(C)

SEC Rule 17Ad-22(e)(18)(iv)(C) requires, in part, that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which, when the covered clearing agency provides central counterparty services for transactions in U.S. Treasury securities, ensure that it has appropriate means to facilitate access to the clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.¹⁹ The clarifying changes to the procedures for a Member default are designed to document CMESC's planned efforts, both ex ante and ex post, to increase the probability that a User continues to maintain access to CMESC's services, despite its authorizing Member's default. Therefore, CMESC believes the proposed rule change is consistent with these requirements in SEC Rule 17Ad-22(e)(18)(iv)(C) regarding facilitating access to the clearance and settlement services of all eligible secondary market transactions, including by indirect participants.

B. CMESC's Statement on Burden on Competition

CMESC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to improve the Rules' accuracy and clarity for Members

¹⁹ 17 C.F.R. § 240.17Ad-22(e)(18)(iv)(C).

and Users, to enhance the default management process, and to be consistent with the Act. These proposed changes would not affect CMESC's operations that are already provided in the existing Rules or create additional rights and obligations of Members and Users. As such, CMESC does not believe the proposed rule change would have any impact on burden on competition that does not already exist under the existing Rules or is not necessary or appropriate in furtherance of the purposes of the Act.

C. CMESC's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

CMESC currently does not have any Members or Users and has not received nor solicited any written comments from others related to this proposal. CMESC has not received any unsolicited written comments from any interested parties. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division

of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777. CMESC reserves the right to not respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CMESC-2026-011 on the subject line.

Paper comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-CMESC-2026-011. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>). Copies of the filing also will be available for inspection and copying at the principal office of CMESC and on CMESC's website (<https://www.cmegroup.com/market-regulation/rule-filings.html>).

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-CMESC-2026-011 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

J. Matthew DeLesDernier,

Deputy Secretary.

²⁰ 17 CFR §200.30-3(a)(12).