

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73776; File No. SR-CME-2014-29)

December 8, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Make Clarifying Changes to CME Rule 814 and CME Rule 901

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that, on November 26, 2014, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by CME. CME filed the proposal pursuant to Section 19(b)(3)(A) of the Act,³ and Rule 19b-4(f)(4)(ii)⁴ thereunder, so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

CME is filing a proposed rule change that is limited to its business as a derivatives clearing organization. More specifically, the proposed rule change would make amendments to CME Rule 814 and CME Rule 901 to specify the time at which a settlement bank becomes responsible to the clearing house to perform variation margin settlement and the point during the clearing cycle at which a clearing member’s obligations to the clearing house cease. The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4)(ii).

proposed revisions would not modify clearing house operations but merely clarify to the marketplace the clearing cycle currently in place.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CME 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. CME has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of these statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

CME is registered as a derivatives clearing organization with the Commodity Futures Trading Commission ("CFTC") and operates a substantial business clearing futures and swaps contracts subject to the jurisdiction of the CFTC. CME is proposing to make amendments to CME Rule 814 and CME Rule 901 to specify the time at which a settlement bank becomes responsible to the clearing house to perform variation margin settlement and the point during the clearing cycle at which a clearing member's obligations to the clearing house cease. The proposed revisions would not modify clearing house operations but merely clarify to the marketplace the clearing cycle currently in place. CME notes that it has also made a corresponding filing with the CFTC, in Submission No. 14-280, regarding the proposed changes.

The proposed changes would reflect the best practices outlined in the Principles for Financial Market Infrastructures ("PFMIs"), adopted by the joint Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities

Commissions.⁵ Principle 8 of the PFMI (Settlement finality) states that an “FMI’s rules and procedures should clearly define the point at which settlement is final” and that “[a]n FMI should be designed to provide clear and certain final settlement of payments, transfer instructions, or other obligations.”⁶

Revised CME Rule 814 (Settlement Variation) will specify that “settlement variation is deemed final when an irrevocable commitment to pay has been provided to the Clearing House by a settlement bank in a form or manner as approved by the Clearing House.” The amendment to Rule 814 codifies CME’s uniform practice in regard to its settlement bank legal agreements, which provide that the settlement bank’s obligation arises upon CME’s receipt of the settlement bank’s irrevocable commitment to pay.

CME Rule 901.S (General Requirements and Obligations) is being added to state that “the obligation(s) of a clearing member to pay settlement variation and/or performance bond during each clearing cycle is not extinguished until all required cash and/or collateral is deposited into the correct CME bank account at the relevant custodial or settlement bank.” The proposed changes increase the transparency of the CME legal framework in this area and align the existing rules with global PFMI standards by specifying the times at which settlement bank obligations to the clearing house arise and clearing member obligations are extinguished.

CME believes the proposed rule change is consistent with the requirements of the Act including Section 17A.⁷ Because the proposed change clarifies in CME’s rules the time at which a settlement bank becomes responsible to the clearing house to perform variation margin

⁵ See Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, Principles for Financial Market Infrastructures (Apr. 16, 2012), available at <http://www.bis.org/publ/cpss101a.pdf>.

⁶ *Id.* at 64.

⁷ 15 U.S.C. 78q-1.

settlement and the point during the clearing cycle at which a clearing member's obligations to the clearing house cease,⁸ it promotes the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivatives agreements, contracts, and transactions, assures the safeguarding of securities and funds which are in the custody or control of CME or for which it is responsible, and, in general, protects investors and the public interest in a way that is consistent with Section 17A(b)(3)(F) of the Act.⁹

B. Self-Regulatory Organization's Statement on Burden on Competition

CME does not believe that the proposed rule change will have any impact, or impose any burden, on competition. The proposed changes specify the time at which a settlement bank becomes responsible to the clearing house to perform variation margin settlement and the point during the clearing cycle at which a clearing member's obligations to the clearing house cease. The proposed revisions will not modify clearing house operations but merely clarify to the marketplace the clearing cycle currently in place.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

CME has not solicited, and does not intend to solicit, comments regarding this proposed rule change. CME has not received any unsolicited written comments from interested parties.

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

The foregoing rule change has become effective upon filing pursuant to Section 19(b)(3)(A)¹⁰ of the Act and Rule 19b-4(f)(4)(ii)¹¹ thereunder. CME asserts that this proposal

⁸ Pursuant to a teleconference with CME's counsel on December 4, 2014, staff in the Division of Trading and Markets has modified this sentence to clarify CME's intended explanation of the statutory basis for the proposed rule change.

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

constitutes a change in an existing service of CME that (a) primarily affects the clearing operations of CME with respect to products that are not securities, including futures that are not security futures, and swaps that are not security-based swaps or mixed swaps, and forwards that are not security forwards; and (b) does not significantly affect any securities clearing operations of CME or any rights or obligations of CME with respect to securities clearing or persons using such securities-clearing service, which renders the proposed change effective upon filing. CME believes that the proposal does not significantly affect any securities clearing operations of CME because CME recently filed a rule change that clarified that CME has decided not to clear security-based swaps, except in a very limited set of circumstances.¹² The rule filing reflecting CME's decision not to clear security-based swaps removed any ambiguity concerning CME's ability or intent to perform the functions of a clearing agency with respect to security-based swaps. Therefore, this proposal will not have an effect on any securities clearing operations of CME.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

¹¹ 17 CFR 240.19b-4(f)(4)(ii).

¹² See Securities Exchange Act Release No. 34-73615 (Nov. 17, 2014), 79 FR 69545 (Nov. 21, 2014) (SR-CME-2014-49). The only exception is with regards to Restructuring European Single Name Credit Default Swap ("CDS") Contracts created following the occurrence of a Restructuring Credit Event in respect of an iTraxx Component Transaction. The clearing of Restructuring European Single Name CDS Contracts will be a necessary byproduct after such time that CME begins clearing iTraxx Europe index CDS.

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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CME-2014-29 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CME-2014-29. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the

principal office of CME and on CME's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CME-2014-29 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Kevin M. O'Neill
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).