

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66641; File No. SR-CME-2012-05)

March 21, 2012

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to Amend its Rules Relating to Interest Rate Swaps Clearing

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 8, 2012, the Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I and II below, which items have been prepared primarily by CME. The Commission is publishing this Notice and Order to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

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

CME proposes to amend rules related to its interest rate swaps and interest rate futures currency businesses by establishing a portfolio margining program for proprietary portfolios containing interest rate swaps and futures positions. The text of the proposed rule change is available at CME’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

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

In its filing with the Commission, CME included statements concerning the purpose and basis for the proposed rule change and discussed any comments it received on the proposed rule

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

change. The text of these statements may be examined at the places specified in Item III below. CME has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

CME is registered as a derivatives clearing organization (“DCO”) with the Commodity Futures Trading Commission (“CFTC”) and currently operates a substantial business clearing both interest rate swaps (“IRS”) and interest rate futures contracts. The changes that are the subject of this filing are proposed rules that would establish a portfolio margining program for proprietary portfolios containing IRS and interest rate futures positions. More specifically, the proposed changes include: new rules regarding portfolio margining; amendments to existing CME rules relating to its IRS Guaranty Fund Allocation rules; IRS Guaranty Fund Application rule amendments; and amendments to rules dealing with outsourcing to third parties. CME will also make corresponding changes to its Manual of Operations for CME Cleared Interest Rate Swaps. The specific rule amendments are discussed in more detail below.

CME notes that it has also submitted the proposed changes that are the subject of this filing to its primary regulator, the CFTC. CME expects that the proposed changes will be effective with the CFTC as of March 14, 2012. As described more below, CME believes there is good cause for the Commission to grant approval for the proposed rule changes on an accelerated basis so that they become effective with the Commission as of March 30, 2012.

1. Portfolio Margining among Eligible Futures Products and IRS; Comingling of Related Positions

The proposed CME rule amendments would establish a portfolio margining program (“Program”) for portfolios containing IRS and Interest Rate Futures positions in order for

eligible clearing members to receive risk offsets across CME's listed interest rate futures and cleared interest rate swap product suite. These amendments will appear in CME Rule 8G831 and certain related changes to existing CME Rule 802.

To participate in the Program a Clearing Member must under the proposed rules be both an IRS Clearing Member and a CME Clearing Member. The listed interest rate products that will be eligible for this program will be those with price risks that are significantly and reliably correlated and initially will be Eurodollar and Treasury futures. Additionally, under the proposed rules, the CME Clearing House has the right to ask a participant to move futures positions in eligible products back to the participant's futures account if it is not risk reducing.

The 99% 5-day Historical VaR margin model with EWMA weighting that is currently used for IRS products will be extended to include the same level of coverage for commingled portfolios, and the existing default management process for interest rate swaps will be extended to portfolios which have commingled positions. Any losses for commingled portfolios exceeding the margin on hand of a defaulted member will be backed by CME's financial safeguards package for Interest Rate Swaps.

2. CME Rule 8G07.1 - Changes to IRS Guaranty Fund Allocation

CME is also proposing to implement certain amendments to CME Rule 8G07.1 that would include changes to the allocation of the IRS Guaranty Fund among IRS Clearing Members. Currently the IRS Guaranty Fund is calculated monthly and is proportionally allocated to each IRS Clearing Member on the basis of its 90-day trailing average of its potential residual loss and 90-day trailing average of its gross notional open interest outstanding at the Clearing House. CME Clearing is proposing to change the measurement period from 90 days to 30 days in order for the IRS Guaranty Fund to more quickly react to an IRS Clearing Member's

current activity and to align the measurement period with the frequency of Guaranty Fund calculations.

Additionally, each IRS Clearing Member's contribution to the IRS Guaranty Fund is currently the greater of its proportional share of the IRS Guaranty Fund as described above or a \$50 million minimum contribution. The minimum was established to ensure that each IRS Clearing Member has an appropriate stake in proper default management regardless of the firm's position and incentivize a better default auction process. The result of the minimum requirement is that the IRS Guaranty fund is over-collateralized above the conservative estimates of our IRS Guaranty Fund methodology. The proposed amendments would size the IRS Guaranty Fund to the shortfall brought by the two largest net debtors and adjust each firm's contribution on that basis.

3. Rule 8G802.B - Seniorization and Subordination of IRS Guaranty Fund

In order to provide appropriate incentive for IRS Clearing Members to submit aggressive bids during an auction for a defaulted IRS Clearing Member's portfolio, CME is proposing to make amendments to Rule 8G802.B to modify the application of the IRS Guaranty Fund on the basis of each IRS Clearing Member's bidding during the auction process. Where a defaulted IRS Clearing Member has a portfolio of IRS denominated in multiple currencies, CME will split such portfolio by currency and separately hedge and auction the resulting split portfolios. IRS Clearing Members with open interest in a currency being auctioned are required to provide a bid for the auctioned portfolio. Each bid will be assessed for quality within the respective auction and a portion (or all) of such IRS Clearing Member's deposit to the IRS Guaranty Fund will be subject to seniorization (if such IRS Clearing Member provides the winning bid) and subordination (if such IRS Clearing Member provided an off market price). The amount subject

to such seniorization/subordination for an auction will be based on a percentage determined for such IRS Clearing Member at the time of the related auction in accordance with our IRS default management procedures. Any IRS Guaranty Fund deposits that are subordinated will be allocated pro rata to IRS Losses after the CME corporate contribution and prior to any non-subordinated/seniorized deposits. Any contributions that are not seniorized or subordinated in accordance with above formula will be allocated pro rata to IRS losses after all subordinated amounts and prior to any seniorized amounts.

4. New Rule 8G04.3 – Outsourcing to third parties

In connection with the CFTC's final rules for Derivatives Clearing Organization General Provisions and Core Principles relating to Core Principle G (Default Rules and Procedures) the CFTC implemented CFTC Regulation 39.16 which includes a requirement that DCOs permit clearing members to outsource certain obligations to qualified third parties. To codify CME's practice of permitting eligible arrangements for IRS, CME is adopting new CME Rule 8G04.3.

CME believes the proposed rule change is consistent with the requirements of the Act and particularly with Section 17A of the Act because it involves clearing of swaps and futures contracts and thus relate solely to CME's swaps and futures clearing activities pursuant to its registration as a derivatives clearing organization under the Commodity Exchange Act ("CEA") and does not significantly affect any securities clearing operations of the clearing agency or any related rights or obligations of the clearing agency or persons using such service. CME further notes that the policies of the CEA with respect to clearing are comparable to a number of the policies underlying the Exchange Act, such as promoting market transparency for over-the-counter derivatives and futures markets, promoting the prompt and accurate clearance of transactions, and protecting investors and the public interest. The proposed rule changes

accomplish those objectives by facilitating portfolio margining of interest rate swaps and interest rate futures at CME.

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.

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. 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 may be submitted by using 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 No. SR-CME-2012-05 on the subject line.
- Paper comments should be sent in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C., 20549-1090.

All submissions should refer to File Number SR-CME-2012-05. 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 filing also will 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-2012-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

Section 19(b) of the Act³ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. The Commission finds that the proposed rule change is consistent with the requirements of the Act, in particular with the requirements of Section 17A of the Act,⁴ and the rules and regulations thereunder applicable to CME. Specifically, the Commission finds that the proposed rule change

³ 15 U.S.C. 78s(b).

⁴ 15 U.S.C. 78q-1. In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

is consistent with Section 17A(b)(3)(F) of the Act which requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of derivative agreements, contracts, and transactions because it should allow CME to enhance its services in clearing IRS and Interest Rate Futures products, thereby promoting the prompt and accurate clearance and settlement of derivative agreements, contracts, and transactions.⁵

In its filing, CME requested that the Commission approve this proposed rule change on an accelerated basis. CME has articulated three reasons for granting approval on an accelerated basis. One, the products covered by this filing and CME's operations as a derivatives clearing organization for such products, are regulated by the CFTC under the CEA. Two, the proposed rule change relates solely to IRS and Interest Rate Futures products and therefore relate solely to CME's swaps clearing activities and do not significantly relate to CME's functions as a clearing agency for security-based swaps. Three, not approving this request on an accelerated basis will have a significant impact on the swap clearing business of CME as a designated clearing organization.

The Commission finds good cause for granting approval of the proposed rule change before the thirtieth day after publication of the notice of its filing because: (i) the proposed rule change does not significantly affect any securities clearing operations of the clearing agency (whether in existence or contemplated by its rules) or any related rights or obligations of the clearing agency or persons using such service; (ii) the clearing agency has indicated that not providing accelerated approval would have a significant impact on its IRS clearing business as a designated clearing organization; and (iii) the activity relating to the non-security clearing

⁵ 15 U.S.C. 78q-1(b)(3)(F).

operations of the clearing agency for which the clearing agency is seeking approval is subject to regulation by another federal regulator.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-CME-2012-05) is approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁶

Kevin M. O'Neill
Deputy Secretary

⁶ 17 CFR 200.30-3(a)(12).