

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73275; File No. SR-CME-2014-31)

October 1, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing of Proposed Rule Change, as modified by Amendment No. 2, Related to Clearing of Certain iTraxx Europe Index Untranching CDS Contracts on Indices Administered by Markit

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 2, 2014, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) Amendment No. 2 (the “iTraxx Filing Amendment”) to its previously submitted proposed rule change<sup>3</sup> related to the clearing of certain iTraxx Europe index credit default swaps (“CDS”).<sup>4</sup> The iTraxx Filing Amendment is intended to provide further description and detail of certain aspects of the proposed rule change, as described in Items I, II and III below, which Items have been prepared primarily by CME. The Commission is publishing this notice to solicit comments on the iTraxx Filing Amendment from interested persons.

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

On August 11, 2014, CME submitted to the Commission the iTraxx Filing, pursuant to which, CME proposes to revise its clearing rules (the “CDS Product Rules”) to enable CME to offer clearing of certain iTraxx Europe index untranching CDS contracts on indices administered by Markit (“iTraxx Contracts”). The iTraxx Filing is currently under review by the Commission.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 34-72833 (Aug. 13, 2014), 79 FR 48797 (Aug. 18, 2014) (SR-CME-2014-31) (hereinafter referred to as the “iTraxx Filing”).

<sup>4</sup> On August 18, 2014, CME filed Amendment No. 1 to the proposed rule change. CME withdrew Amendment No. 1 on August 29, 2014.

The purpose of the iTraxx Filing Amendment is to provide further description and detail of certain aspects of the proposed rule change contained within the iTraxx Filing. The iTraxx Filing Amendment should be read in conjunction with the iTraxx Filing. All capitalized terms not defined herein shall have the meaning given to them in the iTraxx Filing or the CDS Product Rules. The text of the proposed amendment is also available at the CME's website at <http://www.cmegroup.com>, at the principal office of CME, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose and basis for the proposed amendment and discussed any comments it received on the proposed amendment. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization 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 the Purpose of, and Statutory Basis for, the Proposed Rule Change

Pursuant to this iTraxx Filing Amendment, CME intends to provide further description and detail of certain aspects of the proposed amendments to the Manual of Operations for CME Cleared Credit Default Swaps (the "CDS Manual") contained within the iTraxx Filing as further discussed below. Additionally, CME intends to provide further description and detail relating to risk management for certain iTraxx Contracts based on the 2003 ISDA Definitions under CME's

proposed risk model framework as described in File Number SR-CME-2014-28, as amended (the “CDS Risk Model Filing”).<sup>5</sup>

1. CDS Manual of Operations

In connection with the proposed rule changes in this iTraxx Filing Amendment and in the iTraxx Filing, CME also proposes to make administrative changes to its CDS Manual in connection with the clearance of iTraxx Contracts. Specifically, amendments are proposed where CDX Contracts are described as the only CDS Contracts which CME clears and deletions are proposed to reflect that iTraxx Contracts have differing transaction types and standard currencies to the CDX Contracts which CME currently clears, and also to reflect the fact that restructuring will be a credit event for iTraxx Contracts. Also, a reference which relates to outdated aspects of the CDS risk model is proposed to be deleted.

2. Risk Management

Certain iTraxx Contracts which CME proposes to clear will, following the implementation date of the 2014 ISDA Definitions, be bifurcated such that certain iTraxx Component Transactions will continue to reference the 2003 ISDA Definitions and certain other iTraxx Component Transactions will reference the 2014 ISDA Definitions. Consistent with CME's treatment of CDS products with different product terms, CME will position iTraxx Component Transactions that do not incorporate the same set of credit derivatives definitions as separate cleared CDS Contracts upon the occurrence of a restructuring credit event in respect of such iTraxx Component Transactions.

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<sup>5</sup> See Securities Exchange Act Release No. 34-72834 (Aug. 13, 2014), 79 FR 48805 (Aug. 18, 2014) (SR-CME-2014-28) and Securities Exchange Act Release No. 34-72959 (Sep. 2, 2014), 79 FR 53234 (Sep. 8, 2014) (SR-CME-2014-28). The proposed rule change, as amended, is currently under review by the Commission.

The computation of the spread risk, interest rate risk, and liquidity and concentration risk components in CME's risk model framework is described in the CDS Risk Model Filing and will be agnostic to whether the 2003 ISDA Definitions or the 2014 ISDA Definitions are applicable, therefore allowing risk offsets across iTraxx Component Transactions that refer to the same reference entity but that do not incorporate the same set of credit derivatives definitions. No risk offsets will be provided for computation of idiosyncratic risk requirements for iTraxx Component Transactions which refer to the same reference entity but that do not incorporate the same set of credit derivatives definitions. The applicability of the post credit event risk requirement will be based on whether a credit event occurs by reference to the relevant credit derivatives definitions (2003 ISDA Definitions or the 2014 ISDA Definitions) and the relevant transaction type that is applicable to an iTraxx Component Transaction. The post credit event risk requirement will be computed on a net notional basis for a particular reference entity within an iTraxx index where a Credit Event has been determined under the relevant credit derivatives definitions. CME notes that this iTraxx Filing Amendment does not purport to make any changes to CME's risk management as proposed in the CDS Risk Model Filing or as described in the parts of the CDS Manual that are not proposed to be amended in accordance with the CDS Risk Model Filing.

CME has identified iTraxx Contracts as products that have become increasingly important for market participants to manage risk with respect to European corporate and financial entities' credit risk. CME believes the proposed changes to its CDS Product Rules are consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.<sup>6</sup> The proposed changes in conjunction with the CDS risk model changes described in the

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<sup>6</sup> 15 U.S.C. 78q-1.

CDS Risk Model Filing will facilitate CME's clearance of iTraxx Contracts, which would expand CME's CDS index product offering and therefore provide investors with an expanded range of derivatives products for clearing. CME notes that the facilitation of clearance of iTraxx Contracts is of particular importance as the CFTC has determined that iTraxx Contracts that are subject to a 5Y or 10Y tenor are subject to mandatory clearing under Section 2(h) of the Commodity Exchange Act ("CEA").<sup>7</sup> As such, the proposed changes are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivatives agreements, contracts, and 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 consistent with Section 17A(b)(3)(F) of the Exchange Act.<sup>8</sup>

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

CME does not believe that the proposed rule changes would have any impact, or impose any burden, on competition. On the contrary, the clearance of iTraxx Contracts will promote competition since some of CME's competitors, including ICE Clear Credit LLC, ICE Clear Europe Limited and LCH.Clearnet S.A., already offer clearing of iTraxx Contracts. CME will therefore be able to provide market participants with an expanded choice for clearing iTraxx Contracts.

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

Written comments relating to the iTraxx Filing Amendment have not been solicited or received. CME will notify the Commission of any written comments received by CME.

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<sup>7</sup> 7 U.S.C. 2(h).

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

Within 45 days of the date of publication of notice of the iTraxx Filing<sup>9</sup> 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 on Amendment No. 2

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether Amendment No. 2 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](mailto:rule-comments@sec.gov). Please include File Number SR-CME-2014-31 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-2014-31. 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

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<sup>9</sup> See supra note 3.

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 the 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-2014-31 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).