

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73727; File No. SR-CME-2014-15)

December 3, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Aligning Performance Bond and Guaranty Fund Collateral Acceptance with CFTC Regulation 39.33 Requirements

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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 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<sup>3</sup> and Rule 19b-4(f)(4)(ii)<sup>4</sup> 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 proposing to announce via advisory notice certain changes to its collateral acceptance practices. More specifically, CME is proposing to issue two advisories to clearing member firms announcing that it will narrow the range of acceptable collateral types for guaranty fund deposits to cash and U.S. Treasury Bills, Notes and Bonds with time to maturity of ten years or less.

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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> 15 U.S.C. 78q-1(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4)(ii).

II. Self-Regulatory Organizations 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 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 such 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 announce via advisory notice certain changes to its collateral acceptance practices. More specifically, CME is narrowing the range of acceptable collateral types for guaranty fund deposits to cash and U.S. Treasury Bills, Notes and Bonds with time to maturity of ten years or less. The changes that are the subject of these filings are designed to better position the utilization of clearing members' guaranty fund deposits as qualifying liquidity resources under CFTC Regulation 39.33.

The removal of IEF2, U.S. Agencies, and U.S. Treasury STRIPs and securities with time to maturity exceeding ten years does not materially impact the nature or level of risks presented by CME as the post-haircut risk profile of guaranty fund collateral deposits will be unchanged. Further, the impact to CME and its clearing firms is minimal as fewer than 22% of guaranty fund assets currently on deposit will have to be substituted in order to conform to the amended eligibility criteria.

CME is also re-categorizing its eligible performance bond collateral types so that the assets in each category meet the definition of qualifying liquidity resources under CFTC Regulation 39.33. Category 1 will consist only of assets that independently meet the criteria of qualifying liquidity resources. Category 2 and Category 3 will consist of assets that are qualifying liquidity resources due to being supported by CME's credit facility. Amended Category 2 and Category 3 limits are designed to ensure such assets remain covered by CME's credit facility and thus continue to meet the definition of qualifying liquidity resources. The specifics are as follows: collateral accepted under the IEF2 program will be moved from Category 1 to Category 3 and will be qualifying liquidity resources backed by CME's credit facility; letters of credit and collateral accepted under the IEF5 program will be moved from Category 2 to Category 1 since cash and committed lines of credit are qualifying liquidity resources without being supported by CME's credit facility; TIPS will be moved from Category 3 to Category 2 and STRIPs will be moved from Category 1 to Category 2 to align the assets and limits of Category 2 with the terms of CME's credit facility; and the acceptance of stocks in Category 3 will be limited to \$1 billion per clearing member in alignment with borrowing base limits in the CME credit facility. Additionally, CME is capping IEF2 acceptance at \$5 billion rather than a percentage cap in order to mitigate the impact of re-categorization on its clearing membership. The re-categorization and limits do not materially impact the nature or level of risks presented by CME as the post-haircut risk profile of deposited performance bond collateral deposits will be unchanged and no performance bond currently on deposit would have to be substituted to align with limits upon the re-categorization.

A summary of the changes described in the Advisory Notices is set forth below:

**Guaranty Fund Acceptable Collateral**

<u>Current</u>	<u>New</u>
<ul style="list-style-type: none"> <li>• Cash</li> <li>• U.S. Treasury Bills/Notes/Bonds/Strips</li> <li>• U.S. Agencies (<i>capped at 50% of total</i>)</li> <li>• IEF2 (Money Market Mutual Funds)</li> </ul>	<ul style="list-style-type: none"> <li>• Cash</li> <li>• U.S. Treasury Bills/Notes/Bonds *</li> </ul> <p><i>* Time to maturity not to exceed 10 years</i></p>

**Performance Bond Acceptable Collateral Categories and Limits**

<u>Current</u>		
<u>Category 1</u> Cash U.S. Treasuries IEF2 (Money Market Mutual Funds)	<u>Category 2*</u> U.S. Government Agencies Select MBS Letters of Credit IEF5 (Interest Bearing Cash)  <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 3**</u> TIPS (capped at \$1bn per firm) Gold (capped at \$500mm per firm) Stocks IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm) <i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i>

<u>New</u>	<b>Category 2 &amp; 3 Capped at \$7bn Per Firm</b>	
<u>Category 1</u> Cash U.S. Treasuries IEF5 (Interest Bearing Cash) Letters of Credit*  <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 2*</u> U.S. Government Agencies Strips TIPS (capped at \$1bn per firm) Select MBS  <i>*Capped at 40% of core requirement per currency requirement per firm</i>	<u>Category 3**</u> IEF2 <sup>†</sup> (Money Market Mutual Funds) Gold (capped at \$500mm per firm) Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm)  <i>** Capped at 40% of</i>

		<i>core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two †Not included in the 40% requirement</i>
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**Note:** The changes described in this filing and above do not impact the current limitations on collateral acceptance that separately apply to CME’s swap clearing offering, namely, that letters of credit are not acceptable collateral for all swaps, stocks are not eligible collateral for either IRS or CDS, and corporate bonds are not eligible collateral for CDS.

CME, a derivatives clearing organization, notes that it is implementing the proposed changes as part of an effort to discharge its regulatory obligations under the Commodity Exchange Act more effectively. CFTC Regulation 39.33(c)(1) requires a systemically important DCO (“SIDCO”) like CME to maintain eligible liquidity resources that, at a minimum, will enable it to meet its intraday, same-day and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress scenarios, including a default by the clearing member creating the largest aggregate liquidity obligation in extreme but plausible market conditions. Further, CFTC Regulation 39.35 requires each SIDCO to adopt rules and procedures to address losses exceeding available financial resources. Finally, CFTC Regulation 39.13(g)(10) requires each derivatives clearing organization to limit the assets it accepts as initial margin to those that have minimal liquidity risk.

CME believes the proposed rule change is also entirely consistent with the requirements of the Exchange Act and the rules and regulations thereunder, including Section 17A of the

Exchange Act<sup>5</sup>. Although the proposed changes to CME's current performance bond categorization and limits may impact the makeup of the collateral used by a CME clearing member to meet its margin requirements, the changes will have no impact on the level of margin collected. The proposed changes actually would increase the qualifying liquidity resources available to CME in the event of a clearing member default. In addition, narrowing the scope of acceptable guaranty fund collateral, in conjunction with other CME rules, is designed to facilitate the ready availability of guaranty fund deposits to meet CME's settlement obligations in the event of a clearing member default. The proposed changes to guaranty fund collateral eligibility, in conjunction with other CME rules, are also designed to address liquidity shortfall scenarios. CME believes all of these purposes are in accordance with the requirements of the Exchange Act and will strengthen CME's existing default rules and procedures and will therefore 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 CME or for which it is responsible, and, in general, to protect investors and the public interest in a way that is consistent with Section 17A(b)(3)(F) of the Exchange Act.<sup>6</sup>

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 involve a narrowing of the range of acceptable collateral types for guaranty fund deposits to cash and U.S. Treasury Bills, Notes and Bonds with time to maturity of ten years or less. These measures will strengthen CME's existing default rules and procedures.

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<sup>5</sup> 15 U.S.C. 78q-1.

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

CME Inc. has filed the proposed rule change pursuant to Section 19(b)(3)(A)<sup>7</sup> of the Act and Rule 19b-4(f)(4)(ii)<sup>8</sup> thereunder.

CME asserts that this proposal 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 proposed rule change that clarified that CME has decided not to clear security-based swaps, except in a very limited set of circumstances.<sup>9</sup> 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

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<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(4)(ii).

<sup>9</sup> 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 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.

agency with respect to security-based swaps. Therefore, this proposal will have no effect on any securities clearing operations of CME.

At any time within 60 days of the filing of the proposed 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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>10</sup> of the Act to determine whether the proposed rule change should be approved or 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 (<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 No. SR-CME-2014-15 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-2014-15. 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>10</sup> 15 U.S.C. 78s(b)(2)(B).



comments on the Commission's Internet Web site (<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 of 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-2014-15 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.<sup>11</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).