

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74761; File No. SR-CME-2015-013)

April 17, 2015

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Liquidity Risk Management

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 April 17, 2015, Chicago Mercantile Exchange Inc. (“CME” or “Clearing House”) 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,<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 filing a proposed rule change that is limited to its business as a derivatives clearing organization (“DCO”). More specifically, the proposed changes would amend current CME Rules in the area of liquidity risk management.

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 and basis for the proposed rule change and discussed any comments it received on the proposed rule

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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. 78s(b)(3)(A).

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

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 DCO with the Commodity Futures Trading Commission (“CFTC”) and currently offers clearing services for many different futures and swaps products. With this filing, CME proposes to make rulebook changes that are limited to its business clearing futures and swaps under the exclusive jurisdiction of the CFTC. More specifically, the proposed rules would enhance CME’s existing liquidity framework by providing additional liquidity resources and a framework for establishment of additional highly reliable prearranged funding arrangements.

On December 2, 2013, the CFTC adopted final regulations to establish additional standards for compliance with the DCO core principles set forth in the Commodity Exchange Act (“CEA”) for systemically important DCOs (“SIDCOs”) and DCOs that elect to opt-in to the SIDCO regulatory requirements (“SIDCO Rules”). CFTC Regulation 39.33(c) established enhanced liquidity standards for SIDCOs. CFTC Regulation 39.33(c)(1)(i) requires SIDCOs to maintain eligible liquidity resources that, “at a minimum, will enable it to meet its intraday, same-day, and multiday obligations to perform settlements, as defined in § 39.14(a)(1), with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default by the clearing member creating the largest aggregate liquidity obligation for the [SIDCO]...in extreme but plausible market conditions.” Regulation 39.33(c)(3) establishes qualifying liquidity resources as follows:

“(3) Qualifying liquidity resources. (i) Only the following liquidity resources are eligible for the purpose of meeting the requirement of paragraph (c)(1) of this section: (A) Cash in the currency of the requisite obligations, held either at the central bank of issue or at a creditworthy commercial bank; (B) Committed lines of credit; (C) Committed foreign exchange swaps; (D) Committed repurchase agreements; or (E) (1) Highly marketable collateral, including high quality, liquid, general obligations of a sovereign nation (2) The assets described in paragraph (c)(3)(i)(E)(1) of this section must be readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. ”

Additionally, the CFTC finalized CFTC Regulation 39.35 in the SIDCO Rules requiring, among other things, rules to address liquidity shortfalls as follows:

“(b) Allocation of uncovered liquidity shortfalls. (1) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall establish rules and/or procedures that enable it promptly to meet all of its settlement obligations, on a same day and, as appropriate, intraday and multiday basis, in the context of the occurrence of either or both of the following scenarios: (i) An individual or combined default involving one or more clearing members’ obligations to the systemically important derivatives clearing organization or subpart C derivatives clearing organization; or (ii) A liquidity shortfall exceeding the financial resources of the systemically important derivatives clearing organization or subpart C derivatives clearing organization. (2) The rules and procedures described in paragraph (b)(1) of this section shall: (i) Enable the systemically important derivatives clearing organization or subpart C derivatives clearing organization promptly to meet its payment obligations in all

relevant currencies; (ii) Be designed to enable the systemically important derivatives clearing organization or subpart C derivatives clearing organization to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations; and (iii) Address the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's process to replenish any liquidity resources it may employ during a stress event so that it can continue to operate in a safe and sound manner.”

CME currently employs a sound risk-management framework for comprehensively managing liquidity risk. This framework serves to effectively measure, monitor, and manage liquidity risk on an ongoing basis. The framework includes assessment and maintenance of sufficient liquid resources to effect same-day settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios. The stress scenarios include the default of the clearing member and its affiliates that would generate the largest aggregate, with consideration of the second largest, and by currency liquidity obligation under extreme but plausible market conditions. CME manages liquidity risk through utilization of qualifying liquid resources to meet the liquidity obligation calculated under the framework. In order to augment this framework and comply with CFTC Regulations, CME will add certain requirements and/or capabilities that it will employ in its administration of its liquidity risk program. This rules-based approach to liquidity risk management will also rely on and be augmented by CME's collateral policy determinations, with liquidity risk management serving as a primary consideration in the enumeration of such collateral policies.

#### Rule 822.A.1. Substitution of Cash Guaranty Fund Deposits

Rule 822.A establishes a liquidity “waterfall” where in the event CME needs to obtain liquidity for non-cash collateral for same day settlement it will first attempt to obtain liquidity for

such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event CME requires further liquidity or such means were unsuccessful, CME may then declare a “Liquidity Event,” which is a newly defined term in the proposed rule change,<sup>5</sup> and substitute any cash deposited by clearing members in satisfaction of their guaranty fund requirements up to the amount of U.S. Treasuries deposited by a clearing member subject of such Liquidity Event. The amount of U.S. Treasuries substituted will be sized using the haircutted market value from the prior day’s close of business utilizing a recognized third party pricing source and CME’s then prevailing haircut schedule. Any assets so transferred will be applied as guaranty fund deposits of any such clearing member whose cash was substituted and will be allocated pro rata among any clearing members with cash deposits. To the extent requested by the impacted clearing member within 24 hours of substitution, CME Clearing will replace the cash for such substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of original substitution. Additionally, to ensure sufficient cash exists in a guaranty fund for the above mentioned substitution, CME may require any clearing member that is (or has an affiliate that is) a broker-dealer that functions in the operation of markets for US Treasuries (a “US Government Securities Broker-Dealer”<sup>6</sup>) to replace its non-cash guaranty fund deposits with cash upon 60 minutes’ notice. To the extent

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<sup>5</sup> The proposed rules provide for the following new definition: “Liquidity Event” shall mean the Clearing House requires liquidity (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

<sup>6</sup> The proposed rules provide for the following new definition: “US Government Securities Broker-Dealer” shall mean a broker-dealer that functions in the operation of markets for US Treasuries. The functions may include, but are not limited to: (1) Acting as a channel for the United States Department of the Treasury and investors in primary market for US Treasuries (for example, by participating in auctions); (2) Acting as providers of liquidity in primary and secondary markets for US Treasuries; and (3) Acting as providers of asset transformation and market making services in the market for US Treasuries.

that a clearing member fails to provide cash within 60 minutes or the request occurs after 3 PM Central time, CME may debit cash from that clearing member's settlement bank account in the amount of the clearing member's non-cash guaranty fund assets.

Rule 822.A.2. US Treasury Sale to Meet Clearing House Settlement Variation Obligations

Further, pursuant to proposed Rule 822.A.2 in the event a liquidity shortfall remains after the substitution provided by Rule 822.A.1, CME may satisfy a settlement variation obligation to a clearing member that is (or has an affiliate that is) a US Government Securities Broker-Dealer with a forced sale of U.S. Treasuries using a valuation based on the prior day's closing prices with prevailing CME haircuts applied and netting the cash proceeds of the sale against the Clearing House's settlement variation obligation. The amount of settlement variation that can be satisfied in this manner will be subject to a limit equal to the receiving clearing member's guaranty fund requirement at such time.

Rule 822.B Transfer or Disbursement of Collateral as Compensation for Portfolio Auction, Sale or Transfer with Notice in Advance

As part of its default management practices, CME will conduct an auction, sale or transfer of defaulted member positions and will compensate or receive payment from the winner/transferee of such positions based on bids received during the terms of the related default management action. Traditionally the compensation is denominated in cash. CME is proposing Rule 822.B to provide it with the option to include as part of the terms of an auction, sale or transfer the ability to satisfy any payment owed to a winner of an auction, sale or transfer with Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such payment obligation. Any such option would be included as

part of the terms of the auction, sale or transfer in advance of bidding so that bidding firms can provide pricing information taking the payment in kind possibility into account.

Rule 901.Q. Requirement to Establish Uncommitted Repo

New Rule 901.Q will require each clearing member that is a US Government Securities Broker-Dealer or has a US Government Securities Broker-Dealer affiliate to enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by CME. Consistent with CFTC Regulation 39.33(c)(3), CME accepts certain highly marketable collateral to satisfy performance bond and guaranty fund obligations. CME currently utilizes prearranged master repurchase agreements that are highly reliable as required by paragraph 39.33(c)(3)(i)(E)(1) of the CFTC regulations. In order to ensure a diverse group of repo counterparties available to CME in times of market stress, CME is requiring that any clearing member that is a US Government Securities Broker-Dealer or has a US Government Securities Broker-Dealer affiliate to enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by CME.

The proposed rule change that is described in this filing is limited to CME's business as a DCO clearing products under the exclusive jurisdiction of the CFTC. CME has not cleared security based swaps and does not plan to and therefore the proposed rule change does not impact CME's security-based swap clearing business in any way. The proposed changes would become effective immediately. CME notes that it has also submitted the proposed rule change that is the subject of this filing to its primary regulator, the CFTC, in CME Submission 13-565ARR.

CME believes the proposed rule change is consistent with the requirements of the Exchange Act including Section 17A.<sup>7</sup> The proposed rules enhance CME's existing liquidity framework by providing additional liquidity resources, a framework for establishment of additional highly reliable prearranged funding arrangements and payment in kind of Federal Reserve eligible securities in the event the liquidity resources are insufficient. These rule changes are therefore 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>

Furthermore, the proposed changes are limited to CME's futures and swaps clearing businesses, which mean they are limited in their effect to products that are under the exclusive jurisdiction of the CFTC. As such, the proposed changes are limited to CME's activities as a DCO clearing futures that are not security futures and swaps that are not security-based swaps. CME notes that the policies of the CFTC with respect to administering the CEA are comparable to a number of the policies underlying the Exchange Act, such as promoting market transparency for over-the-counter derivatives markets, promoting the prompt and accurate clearance of transactions and protecting investors and the public interest.

Because the proposed changes are limited in their effect to CME's futures and swaps clearing businesses, the proposed changes are properly classified as effecting a change in an existing service of CME that:

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<sup>7</sup> 15 U.S.C. 78q-1.

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



- (a) primarily affects the clearing operations of CME with respect to products that are not securities, including futures that are not security futures, 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.

As such, the changes are therefore consistent with the requirements of Section 17A of the Exchange Act<sup>9</sup> and are properly filed under Section 19(b)(3)(A)<sup>10</sup> and Rule 19b-4(f)(4)(ii)<sup>11</sup> thereunder.

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 rules merely enhance CME's existing liquidity framework by providing additional liquidity resources and a framework for establishment of additional highly reliable prearranged funding arrangements. Further, the changes are limited to CME's futures and swaps clearing businesses and, as such, do not affect the security-based swap clearing activities of CME in any way and therefore do not impose any burden on competition that is inappropriate in furtherance of the purposes of the Act.

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.

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<sup>9</sup> 15 U.S.C. 78q-1.

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(4)(ii).

### 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)<sup>12</sup> of the Act and Rule 19b-4(f)(4)(ii)<sup>13</sup> thereunder. 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.

### 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 Number SR-CME-2015-013 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-2015-013. 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>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(4)(ii).

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-2015-013 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>14</sup>

Brent J. Fields  
Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).