

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66646; File No. SR-CME-2012-06)

March 22, 2012

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing of Proposed Rule Change to Amend Certain Credit Default Swap Clearing Rules Regarding Guaranty Fund Allocations, Amendments to Daily Submission Deadline, Holiday Accrual Processing and PAI Payment Timeline

Pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on March 9, 2012, 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. 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 proposes to amend rules related to its Credit Default Swap clearing rules regarding guaranty fund allocations, daily submission deadlines, and holiday accrual processing and PAI payment timeline. The text of the proposed rule change is available at CME’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

I. Self-Regulatory Organization’s Statement of 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 rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the

¹ 15 U.S.C. 78s(b)(2).

² 17 CFR 240.19b-4.

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 Purpose of, and Statutory Basis for, the Proposed Rule Change

CME currently offers clearing services for certain credit default swap (“CDS”) index products. CME proposes to amend certain rules in its rulebook that would generally affect its CDS clearing offering and also make corresponding amendments to certain sections of its Manual of Operations for CME Cleared Credit Default Swaps (“CDS Manual”).

The proposed changes to text in the CME rulebook would amend current requirements found in CME Rule 8H07.1 applying to the allocation of the CDS guaranty fund among CDS clearing members. Currently the CDS Guaranty Fund is calculated monthly and is proportionally allocated to each CDS 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 CME. CME is proposing to change the measurement period from 90 days to 30 days in order for the CDS Guaranty Fund to more quickly react to a CDS Clearing Member’s current activity and to align the measurement period with the frequency of CDS Guaranty Fund calculations.

The proposed changes also include a number of purely operational changes that would be reflected in the CDS Manual (and would not be reflected in CME’s rulebook). The proposed operational amendments to the CDS Manual include: changes to CME’s daily submission deadlines for CDS; amendments to current CDS holiday accrual processing; adoption of changes to relating to price alignment interest (“PAI”) payments; and changes that relate to end of day valuation issues. These proposed changes are summarized below:

1. Operations Timeline and Reports. CME would move up the trade submission deadline for current day trades from 7:59 pm ET to 6:59 pm ET.
2. Position Management, Money Calculations, and Collateral. No accrual processing would occur on bank holidays in the country in which the swap is denominated (Independence Day for U.S. Dollar denominated CDS contracts) and would be included in the processing for the next business day. CME would calculate and pay price alignment interest for CDS contracts on a daily basis as opposed to monthly.
3. End of Day Valuations. The price quality auction used to arrive at the settlement price for CDS contracts would be amended to require bid prices for contracts only where the CDS Clearing Member maintains open interest and to limit the price quality cross mechanism to contracts where the CDS Clearing Member has open interest.

CME notes that it has also submitted the proposed rule changes that are the subject of this filing to its primary regulator, the Commodity Futures Trading Commission (“CFTC”).

CME believes the proposed rule changes are consistent with the requirements of the Act, particularly Section 17A of the Act. Currently, the only swaps CME clears are CFTC-regulated swaps and therefore the proposed rule changes will only directly affect CME’s swaps clearing activities pursuant to its registration as a derivatives clearing organization under the Commodity Exchange Act (“CEA”) at this point in time. CME notes that the policies of the CEA with respect to clearing are comparable to a number of the policies underlying the 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. CME believes the proposed rule changes accomplish these objectives by more accurately aligning the allocation of its CDS Guaranty Fund to each CDS Clearing Member’s current activity.

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

Within 45 days of the date of publication of this notice 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 the proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be 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 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-comment@sec.gov. Please include File No. SR-CME-2012-06 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-2012-06. 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-2012-06 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.³

Kevin M. O'Neill
Deputy Secretary

³ 17 CFR 200.30-3(a)(12).