

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72272; File No. SR-CME-2014-21)

May 29, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to IRS Coupon Blending

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 16, 2014, 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. CME filed the proposal pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(4)(ii)⁴ 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 the proposed rule change that is limited to its business as a derivatives clearing organization. More specifically, the proposed rule change would adopt new CME Rule 90008 to allow market participants the ability to reduce the number of open positions and/or the gross notional of their interest rate swap (“IRS”) positions through compression by coupon blending.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4)(ii).

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 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 offers clearing services for many different futures and swaps products. The proposed rule change that is the subject of this filing is limited to CME's business as a DCO offering clearing services for CFTC-regulated swaps products.

CME is proposing to adopt new CME Rule 90008 to allow market participants the ability to reduce the number of open positions and/or the gross notional of their interest rate swap ("IRS") positions through compression by coupon blending. CME is offering coupon blending for market participants interested in reducing the number of IRS contracts cleared at CME.

Under the new rule, a market participant interested in coupon blending would inform CME or its IRS Clearing Member that it wishes to exercise coupon blending and then CME would conduct a process that would take IRS contracts executed at the same or different fixed rates and replace them with zero or more IRS Contracts that have Fixed Rate(s) equal to the blended rate(s) determined through the coupon blending process. The process would result in either a reduction in the number of transactions, a reduction in the aggregate gross notional of the combined IRS Contracts or both. Coupon blending would be available to all participants on a voluntary basis and could be automated at a market participant's request.

The 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 and does not materially impact CME's security-based swap clearing business in any way. CME notes that it has also certified the proposed rule change that is the subject of this filing to its primary regulator, the CFTC, in a separate filing, CME Submission No. 14-157. This change will be effective on filing.

CME believes the proposed rule change is consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.⁵ The proposed change would allow market participants the ability to reduce the number of open positions and/or the gross notional of their IRS positions through compression by coupon blending. This new process will result in either a reduction in the number of transactions, a reduction in the aggregate gross notional of the combined IRS Contracts or both. This tool will be available to all market participants for cleared OTC IRS trades and these processes will enhance the risk management tools available in connection with CME's OTC IRS offering. These risk management enhancements 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.⁶

Furthermore, the proposed change is limited in its effect to products offered under CME's authority to act as a DCO. The products that are the subject of this filing are under the exclusive jurisdiction of the CFTC. As such, the proposed change is limited to CME's activities as a DCO

⁵ 15 U.S.C. 78q-1.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

clearing swaps that are not security-based swaps; CME notes that the policies of the CFTC with respect to administering the Commodity Exchange Act 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 change is limited in its effect to IRS products offered under CME's authority to act as a DCO, the proposed change is properly classified as effecting 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, 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 change is therefore consistent with the requirements of Section 17A of the Exchange Act⁷ and are properly filed under Section 19(b)(3)(A)⁸ and Rule 19b-4(f)(4)(ii)⁹ 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 rule would provide market participants with the ability to

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(4)(ii).

reduce the number of open positions and/or the gross notional of their IRS positions through compression by coupon blending. This new process will enhance risk management in connection with CME's IRS clearing offering and could result in either a reduction in the number of already effected transactions, a reduction in the aggregate gross notional of the combined IRS Contracts or both, but should not be seen to impact 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)¹⁰ of the Act and Rule 19b-4(f)(4)(ii)¹¹ 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

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(4)(ii).

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-CME-2014-21 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-2014-21. 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-2014-21 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.¹²

Kevin M. O'Neill
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).