

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72478; File No. SR-CME-2014-25)

June 26, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Collateral Acceptance Practices for Products in the Base Guaranty Fund

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 June 23, 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 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 a certain change to its collateral acceptance practices. More specifically, CME is proposing to issue an advisory to clearing member firms announcing a change to the acceptable collateral types for base guaranty fund products. The text of the proposed rule change is below. Italicized text indicates additions; bracketed text indicates deletions.

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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).

CME Group Advisory Notice #14-194

TO: Clearing Member Firms

FROM: CME Clearing

SUBJECT: Exchange Traded Fund (ETF) and Stock Programs

CME Clearing is expanding its existing collateral program to include additional Exchange Traded Funds (ETFs) that may be used as performance bond collateral for Base Guaranty Fund products effective June 23rd, 2014. Currently, CME Clearing accepts a select number of ETFs through its Stock Program. The existing haircut of 30% will be applied to ETFs. Please see CME's Financial and Collateral Management page for the updated acceptance criteria for ETFs and stocks. On the 5th business day of every month, a new list of acceptable ETFs and stocks will be posted to CME's Financial and Collateral Management page.

Both ETFs and stocks are part of category 3 assets. Therefore, ETFs and stocks in combination with other category 3 assets will be capped at the lesser of 40% of core requirement per currency or \$5 billion per clearing member firm. Please see the list of category 3 assets below. ETFs and stocks combined are capped at \$1 billion per clearing member firm.

In accordance with CME Rule 930.C, a clearing member cannot accept an accountholder security that has been "issued, sponsored or otherwise guaranteed by the accountholder." In addition, any ETF that is sponsored by the clearing member or its parent or affiliate company may not be pledged for the clearing member's house performance bond requirement. For any questions related to the ETF and Stock Programs, please contact the Risk Management department at 312-648-3888 or the Financial Management group at 312-207-2594.

Category 3 Assets

- IEF 2 (Money Market Funds)
- IEF 4 (Corporate Bonds)
- Gold
- ETFs and Stocks
- Foreign Sovereign Debt

The list of proposed ETFs that may be used as performance bond collateral for Base Guaranty Fund products effective June 23rd, 2014 is as follows:

| <u>TICKER</u> | <u>NAME</u>                         |
|---------------|-------------------------------------|
| <u>SPY US</u> | <u>SPDR S&amp;P 500 ETF TRUST</u>   |
| <u>IWM US</u> | <u>ISHARES RUSSELL 2000 ETF</u>     |
| <u>QQQ US</u> | <u>POWERSHARES QQQ TRUST SERIES</u> |
| <u>XLU US</u> | <u>UTILITIES SELECT SECTOR SPDR</u> |
| <u>IYR US</u> | <u>ISHARES US REAL ESTATE ETF</u>   |
| <u>XLI US</u> | <u>INDUSTRIAL SELECT SECT SPDR</u>  |
| <u>XLE US</u> | <u>ENERGY SELECT SECTOR SPDR</u>    |

|               |  |
|---------------|--|
| <u>XLV US</u> | <u>HEALTH CARE SELECT SECTOR</u>               |
| <u>XLK US</u> | <u>TECHNOLOGY SELECT SECT SPDR</u>             |
| <u>XLP US</u> | <u>CONSUMER STAPLES SPDR</u>                   |
| <u>XLY US</u> | <u>CONSUMER DISCRETIONARY SELT</u>             |
| <u>DIA US</u> | <u>SPDR DJIA TRUST</u>                         |
| <u>XLB US</u> | <u>MATERIALS SELECT SECTOR SPDR</u>            |
| <u>XOP US</u> | <u>SPDR S&amp;P OIL &amp; GAS EXP &amp; PR</u> |
| <u>IVV US</u> | <u>ISHARES CORE S&amp;P 500 ETF</u>            |
| <u>VNQ US</u> | <u>VANGUARD REIT ETF</u>                       |
| <u>VTI US</u> | <u>VANGUARD US TOTAL STOCK MKT</u>             |
| <u>IBB US</u> | <u>ISHARES NASDAQ BIOTECHNOLOGY</u>            |
| <u>LQD US</u> | <u>ISHARES IBOXX INVESTMENT GRA</u>            |
| <u>BND US</u> | <u>VANGUARD TOTAL BOND MARKET</u>              |
| <u>AGG US</u> | <u>ISHARES CORE U.S. AGGREGATE</u>             |
| <u>VOO US</u> | <u>VANGUARD S&amp;P 500 ETF</u>                |
| <u>REM US</u> | <u>ISHARES MORTGAGE REAL ESTATE</u>            |
| <u>BSV US</u> | <u>VANGUARD SHORT-TERM BOND ETF</u>            |

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 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 make a certain change to its collateral acceptance practices through the issuance of an advisory notice to its clearing members. More specifically, CME is expanding its existing collateral program to include additional Exchange Traded Funds (“ETFs”) that may be used as performance bond collateral for

CME's Base Guaranty Fund products. The proposed change would not impact CME's collateral acceptance practices relating to products in its CDS Guaranty Fund. CME also notes that although the proposed change would expand the eligible performance bond collateral for products in the Base Guaranty Fund, the proposed change would have no impact on the level of margin collected but rather would simply impact the makeup of the collateral used by a clearing member to meet its margin requirements.

Currently, CME accepts a select number of ETFs as collateral in connection with the products associated with certain non-CDS guaranty funds. ETFs accepted by CME as collateral are chosen through historical analysis of the ETF market and stock market. ETFs accepted as collateral conform to CME's credit risk criteria and are monitored by CME daily for price changes and are subject to periodic eligibility review. The existing haircut of 30% for currently accepted ETFs would be applied to the newly-added ETFs under the proposed change. Both ETFs and stocks are part of CME's "Category 3" assets. Therefore, ETFs and stocks in combination with other category 3 assets would be capped at the lesser of 40% of core requirement per currency or \$5 billion per clearing member firm. ETFs and stocks combined are capped at \$1 billion per clearing member firm. An updated table showing CME Base Guaranty Fund performance bond limits is included below.

## Updated Performance Bond Acceptable Collateral Categories and Limits

| <b>Category 2 &amp; 3 Capped at \$7bn Per Firm</b> |                                 |  |
|--|---------------------------------|--|
| Category 1   | Category 2*                     | Category 3**                           |
| Cash   | U.S. Government Agencies        | IEF2† (Money Market                    |
| U.S. Treasuries                                    | Strips                          | Mutual Funds)                          |
| IEF5 (Interest Bearing Cash)                       | TIPS (capped at \$1bn per       | Gold (capped at \$500mm per            |
| Letters of Credit*                                 | firm)                           | firm)                                  |
| <i>*Capped at 40% of core</i>                      | Select MBS                      | ETFs and Stocks (capped at             |
| <i>requirement per currency</i>                    | <i>*Capped at 40% of core</i>   | <i>\$1bn per firm)</i>                 |
| <i>requirement per firm</i>                        | <i>requirement per currency</i> | IEF4 (corporate bonds)                 |
|  | <i>requirement per firm</i>     | Foreign Sovereign Debt                 |
|  |                                 | (capped at \$1bn per firm)             |
|  |                                 | <i>** Capped at 40% of core</i>        |
|  |                                 | <i>requirement per currency</i>        |
|  |                                 | <i>requirement per firm or \$5</i>     |
|  |                                 | <i>billion per firm, the lesser of</i> |
|  |                                 | <i>the two</i>                         |
|  |                                 | <i>†Not included in the 40%</i>        |
|  |                                 | <i>requirement</i>                     |

The advisory also clarifies that, in accordance with CME Rule 930.C, a CME clearing member cannot accept an accountholder security that has been “issued, sponsored or otherwise guaranteed by the accountholder.” In addition, the advisory would clarify that any ETF that is sponsored by the clearing member or its parent or affiliate company may not be pledged for the clearing member’s house performance bond requirement.

The proposed change in this filing is limited to products associated with CME’s Base Guaranty Fund and therefore does not impact products associated with CME’s CDS guaranty fund. CME accepts a narrower range of collateral for CDS clearing and does not currently accept letters of credit, stocks or corporate bonds as acceptable collateral for CDS; the proposed rule change in this filing would not impact these current practices. The proposed rule change would become effective immediately.

CME believes the proposed rule change is consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.<sup>5</sup> The proposed change would amend CME's collateral acceptance practices to permit the use of additional ETFs that may be used as performance bond collateral for CME's Base Guaranty Fund products. Although the proposed change would expand the eligible performance bond collateral for Base Guaranty Fund products, the proposed change would have no impact on the level of margin collected but rather would simply impact the makeup of the collateral used by a clearing member to meet its margin requirements. Expanded collateral choices for market participants will 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>6</sup>

Furthermore, the proposed change is limited to products associated with CME's Base Guaranty Fund, which means the proposed change is limited in its effect to products that are under the exclusive jurisdiction of the CFTC. As such, the proposed change is limited to CME's activities as a DCO 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.

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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).

Because the proposed change is limited in its effect to products associated with CME's Base Guaranty Fund and therefore 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 Act<sup>7</sup> and are properly filed under Section 19(b)(3)(A)<sup>8</sup> and Rule 19b-4(f)(4)(ii)<sup>9</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 change would simply expand the eligible performance bond collateral for CME's Base Guaranty Fund. These expanded collateral choices will benefit market participants by offering greater flexibility.

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

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(4)(ii).

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 upon filing pursuant to Section 19(b)(3)(A)<sup>10</sup> of the Act and Rule 19b-4(f)(4)(ii)<sup>11</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 No. SR-CME-2014-25 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.

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

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



All submissions should refer to File Number SR-CME-2014-25. 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-2014-25 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>12</sup>

Kevin M. O'Neill  
Deputy Secretary

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