

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72833; File No. SR-CME-2014-31)

August 13, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing of Proposed Rule Change Related to Clearing of Certain iTraxx Europe Index Untranching CDS Contracts on Indices Administered by Markit

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),¹ and Rule 19b-4 thereunder², notice is hereby given that on August 11, 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. 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

The purpose of the proposed changes to CME’s clearing rules (the “CDS Product Rules”) is to enable CME to offer clearing of certain iTraxx Europe index untranching CDS contracts on indices administered by Markit (“iTraxx Contracts”). All capitalized terms not defined herein shall have the meaning given to them in the CDS Product Rules.

CME is submitting the proposed amendments to the iTraxx Chapters (as defined in Item II, paragraph 2 below) to become effective on September 22, 2014, subject to receiving all regulatory approvals. The effectiveness of the 2014 iTraxx Chapters (also as defined in Item II, paragraph 2 below) is intended to coincide with the date on which the credit derivatives market transitions to the 2014 Credit Derivatives Definitions published by ISDA (the “2014 ISDA

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Definitions”), which is currently anticipated to be September 22, 2014. As such, CME is submitting the proposed amendments to the 2014 iTraxx Chapters to become effective on September 22, 2014, subject to receiving all regulatory approvals, or on such later date that CME otherwise determines. To the extent that the credit derivatives market does not transition to the 2014 ISDA Definitions, the proposed 2014 iTraxx Chapters may not become effective.

The text of the proposed change is also available at the CME’s website at <http://www.cmegroup.com>, at the principal office of CME, and at the Commission’s Public Reference Room.

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

1. Description of the Current CDS Product Rules

CME is registered as a DCO with the Commodity Futures Trading Commission (“CFTC”) and offers clearing services for many different futures and swaps products, including certain CDS index products. Currently, CME offers clearing of (i) the Markit CDX North American Investment Grade Index Series 8 and forward and (ii) the Markit CDX North American High Yield Index Series 13 and forward ((i) and (ii) collectively, the “CDX Contracts”).

The primary purpose and effect of the proposed changes to the CDS Product Rules is to enable CME to offer clearing of iTraxx Contracts under CME's authority to act as a DCO. iTraxx Contracts have similar terms to CDX Contracts currently cleared by CME. Accordingly, the proposed rules largely mirror the CME rules for CDX Contracts, with certain modifications that reflect the differing underlying reference entities, different standard currencies and other logistical differences in how the markets and documentation for iTraxx Contracts operate. The iTraxx Contracts reference the iTraxx Europe index, the current series of which consists of 125 European corporate reference entities. The credit protection offered by iTraxx Contracts and any Restructuring European Single Name CDS Contract consistent with market convention and widely used standard terms documentation, can be triggered by credit events, including failure to pay, bankruptcy, restructuring and, in respect of transactions that will reference the 2014 ISDA Definitions (such transactions, "2014 Definitions Transactions") governmental intervention. iTraxx Contracts will be denominated in Euro.

CME notes that upon the occurrence of a restructuring credit event with respect to a reference entity that is a component of an iTraxx Contract, such reference entity will be "spun out" and maintained as a separate single-name CDS contract (a "Restructuring European Single Name CDS Contract") until settlement. If neither of the counterparties elects to trigger settlement, the positions in the Restructuring European Single Name CDS Contract will be maintained at CME until maturity of the index or the occurrence of a subsequent credit event for the same reference entity. However, CME will not permit market participants to increase, close out (other than due to the occurrence of a credit event) or otherwise affect the size of a position in a Restructuring European Single Name CDS Contract and CME has included language in its proposed rule change to this effect. CME notes that it may impose an increase or decrease in the

position of a Restructuring European Single Name CDS Contract through its PQA process or its default management process.

To the extent that a Restructuring European Single Name CDS Contract is created, CME will either (i) obtain any relief needed to permit a clearing member to maintain customer money, securities, and property received by the clearing member to margin, guarantee, or secure customer positions in cleared CDS Contracts, which include both swaps and security-based swaps, in a segregated account established and maintained in accordance with Section 4d(f) of the Commodity Exchange Act (“CEA”) and the rules thereunder for the purpose of clearing such positions under a program to comingle and portfolio margin CDS, or (ii) will hold customer positions in Restructuring European Single Name CDS Contracts and any margin in connection with such Restructuring European Single Name CDS Contracts in segregated accounts or take any other action required in order to comply with the provisions of the Exchange Act or any order or relief thereunder.

2. Description of the Proposed Changes to the CDS Product Rules

CME is proposing to amend its CDS Product Rules by amending Chapter 801 and adding new Chapters 800: Part B, 804: Part B, 805: Part C, 806: Part B and Appendix 805: Part B (collectively, the “iTraxx Chapters”). CME is also proposing to add new Chapters 805: Part B, 806: Part A and Appendix 805: Part A (together, the “2014 iTraxx Chapters”). CME also proposes to make corresponding changes to its CDS Manual of Operations to provide for the clearance of iTraxx Contracts.

CME will update its list of products eligible for clearing which is available on its website at <http://www.cmegroup.com/trading/cds/cleared-cds-product-specs.xls>, to incorporate the additional cleared products. Upon Commission approval, CME intends to provide for the

clearance of the following European Indices: Markit iTraxx Europe Main 3Y: Series 17 and all subsequent Series, up to and including the current on-the-run Series, Markit iTraxx Europe Main 5Y: Series 17 and all subsequent Series, up to and including the current on-the-run Series, Markit iTraxx Europe Main 7Y: Series 17 and all subsequent Series, up to and including the current on-the-run Series, Markit iTraxx Europe Main 10Y: Series 17 and all subsequent Series, up to and including the current on-the-run Series, and Markit iTraxx Europe Crossover 5Y: Series 17 and all subsequent Series, up to and including the current on-the-run Series.

Certain iTraxx Contracts which CME proposes to clear will, following the implementation date of the 2014 ISDA Definitions, be bifurcated such that certain component transactions will continue to reference the 2003 Credit Derivatives Definitions published by ISDA, as supplemented in 2009 (the “2003 ISDA Definitions”) (such transactions, “2003 Definitions Transactions”), and certain other component transactions will be 2014 Definitions Transactions. As a result of the abovementioned bifurcation, CME proposes to split Chapters 800, 804 and 805 of its current rules into separate sub-parts and to introduce a new Chapter 806 and a new Appendix to Chapter 805 (each of which will also be split into sub-parts) to allow for the separate treatment of iTraxx component transactions depending on whether such transactions are 2014 Definitions Transactions or 2003 Definitions Transactions.

2.1 Chapter 800 (Credit Default Swaps: Part B)

CME proposes to add a sub-part to Chapter 800 entitled “Credit Default Swaps: Part B.” Chapter 800: Part B provides the meanings of capitalized terms that are used but not defined within the proposed rules and the location of the meanings of any terms used in the proposed rules but not defined within Chapter 800: Part B. In addition, CME has included CME Rule 80002.B (Interpretation) which provides for the interpretation of certain contractual terms used

within the proposed rules and CME Rule 80003.B (Notices and Clearing House System Failures) which provides for how notices are to be provided by, or to, CME and also for the extension of applicable deadlines for the delivery of notices if CME, or any of its clearing members, is unable to deliver or receive notices due to a failure of the relevant CME internal system. CME notes that CME Rule 80002.B and CME Rule 80003.B (each as described in the aforementioned sentence) are substantially similar to CME Rule 80002 and CME Rule 80003, respectively, that are provided in the currently published Chapter 800.

2.2 Chapter 801 (CDS Contracts)

CME proposes to amend Chapter 801 (CDS Contracts) to include in CME Rule 80103.C. (Eligible CDS) an additional provision which describes when an iTraxx Contract will be eligible for clearing and other conforming, clarification changes and drafting improvements.

2.3 Chapter 804 (CME CDS Risk Committee: Part B)

CME proposes to add a sub-part to Chapter 804 entitled “CME CDS Risk Committee: Part B” to apply only in connection with 2003 Definitions Transactions. Chapter 804: Part B will not contain any iTraxx specific provisions, but will be created in anticipation of the currently published Chapter 804 being updated to operate in conjunction with the 2014 ISDA Definitions. Chapter 804: Part B is substantially similar to the currently published Chapter 804 with the exception that Chapter 804: Part B grants an additional authority to the CDS RC to determine matters of contractual interpretation relevant to market standard documentation incorporated into the terms of a CDS Contract. In addition, modifications have been made in order to ensure alignment of the CDS Product Rules with the current market practices (as proposed by ISDA) to clarify the circumstances under which the CDS RC may make such determinations to avoid

determinations that are inconsistent with DC determinations, and other conforming, clarification changes and drafting improvements.

2.4 Chapter 805 (CME CDS Physical Settlement: Part B), Chapter 805 (CME CDS Physical Settlement: Part C) and CDS Participant Provisions Appendix

CME proposes to add two sub-parts to Chapter 805 entitled “CME CDS Physical Settlement: Part B” and “CME CDS Physical Settlement: Part C.” CME notes that it is anticipated that the currently published Chapter 805 will be amended and referred to as “Part A” as part of CME's amendments to its CDS Product Rules to incorporate the 2014 ISDA Definitions, but that such amendments will not take into account the required iTraxx specific changes that would need to be made to Chapter 805 in order for CME to clear iTraxx Contracts. Chapter 805: Part B will apply only in connection with 2014 Definitions Transactions and Chapter 805: Part C will apply only in connection with 2003 Definitions Transactions. In general, both Chapter 805: Part B and Chapter 805: Part C provide for the physical settlement process that will apply as the fallback settlement method with respect to iTraxx Contracts and Restructuring European Single Name CDS Contracts in circumstances where auction settlement does not apply. The substance of the new provisions is based on the fallback physical settlement provisions that apply for CDX Contracts, with some additional features addressing the product terms particular to iTraxx Contracts and some further clarification and detail in light of the increased likelihood of physical settlement being applicable to iTraxx Contracts and Restructuring European Single Name CDS Contracts. These additional features are described in further detail below.

CME Rules 80502.B.A and 80502.C.A (Matched Pair Notice) provide additional detail in relation to the matching process. The additions do not substantively alter the CDS Product Rules

but rather, seek to provide greater clarity with respect to the current matching process and how such process will work in respect of iTraxx Contracts.

CME Rules 80502.B.C and 80502.C.D (Notices) have been updated to provide additional detail around the notice procedures in light of the more complex notice requirements following a restructuring credit event with respect to an iTraxx Component Transaction or a Restructuring European Single Name CDS Contract. As a result of the more complex notice requirements, CME proposes to insert in CME Rule 80502.B.D and 80502.C.E (Disputes as to Notices) a more comprehensive dispute process in relation to the effective delivery of notices to preserve more accurately the economic effect of the delivery of certain notices.

CME Rule 80503.B and 80503.C (Physical Settlement of Non DVP Obligations) provide greater clarity with respect to the timing of the delivery of Non DVP Obligations and payment of the related portion of the Physical Settlement Amount. In addition, the allocation of any expenses incurred in connection with physical settlement is now expressly contemplated.

CME Rule 80507.B and 80507.C (Clearing House Guarantee of Matched Pair CDS Contracts) and CME Rule 80508.B and 80508.C (Failure to Perform Under Matched Pair CDS Contracts) have been updated to align the matching process with the general physical settlement provisions of CME as set out in Chapter 7 (Delivery Facilities and Procedures).

CME also proposes to add an Appendix to Chapter 805 which will be split into two sub-parts. Appendix: Part A will apply only in connection with 2014 Definitions Transactions and Appendix: Part B will apply only in connection with 2003 Definitions Transactions. The Appendix primarily sets out provisions dealing with physical settlement and the delivery of notices between clearing members and their customers. The provisions are intended to facilitate the delivery of notices and physical settlement. The Appendix is intended to apply to all CDS

contracts; however, the provisions are for the convenience of the clearing members and their customers and will not bind CME. The Appendix includes provisions addressing (i) the timing of the delivery of physical notices in a chain of transactions between the clearing house, the clearing members and their customers, (ii) when notices, requests or instructions between a clearing member and its customer are effective, (iii) the delivery of deliverable obligations between a clearing member and its customer, (iv) circumstances where a fallback to cash settlement will be deemed to apply, (v) buy-in of bonds not delivered and the circumstances around the effective delivery of a buy-in notice, and (vi) alternative procedures relating to loans not delivered and the circumstances around the effective delivery of an alternative loan buyer notice. The Appendix will only be relevant to CME CDS Physical Settlement, and not when auction settlement applies and is therefore unlikely to be applicable to settlement in most cases.

2.5 Chapter 806 (iTraxx Europe Index Untranchéd CDS Contracts: Part A) and Chapter 806 (iTraxx Europe Index Untranchéd CDS Contracts: Part B)

CME proposes to add Chapter 806 which will be split into two sub-parts entitled “iTraxx Europe Index Untranchéd CDS Contracts: Part A” and Chapter 806 “iTraxx Europe Index Untranchéd CDS Contracts: Part B.” Chapter 806: Part A will apply only in connection with 2014 Definitions Transactions and Chapter 806: Part B will apply only in connection with 2003 Definitions Transactions.

CME Rules 80601.A and 80601.B (Scope of Chapter) set forth the applicable standard terms relevant for iTraxx Component Transactions and where the terms and conditions for Restructuring European Single Name CDS Contracts are set out. Further, it is clarified that unless a restructuring credit event occurs, no iTraxx Component Transaction will be fungible with a European single name CDS contract.

CME Rules 80602.A and 80602.B (Contract Terms) reflect or incorporate the basic contract specifications for iTraxx Contracts and Restructuring European Single Name CDS Contracts and are substantially similar to under CME Rule 80202 (Contract Terms) for CDX Contracts. Similarly CME Rules 80603.A and 80603.B (Contract Modifications) are substantially similar to under CME Rule 80203 (Contract Modifications) for CDX Contracts, except for conforming changes.

In addition, CME Rule 80604.A and 80604.B (Restructuring) have been added to reflect the fact that restructuring is a credit event for iTraxx Contracts and Restructuring European Single Name CDS Contracts, that governmental intervention is a credit event for certain 2014 Definitions Transactions, and that Restructuring European Single Name CDS Contracts may be created. In addition, CME has inserted (i) a notice delivery procedure to address the delivery of restructuring credit event notices and notices to exercise movement options, (ii) a process to separate any matched restructuring pairs following an announcement that a restructuring credit event did not in fact occur, (iii) provisions relating to the identification of the reference obligation for a Restructuring European Single Name CDS Contract, (iv) a comprehensive dispute process in relation to the effective delivery of restructuring credit event notices and notices to exercise movement options that are delivered directly (not via DTCC), and (v) a procedure for CME to communicate certain information received from DTCC, or from its clearing members, as applicable, to the relevant clearing members via reports.

3. CDS Risk Model

CME has submitted to the Commission a proposed rule change to enhance its risk model for CDS, File Number SR-CME-2014-28 (the “CDS Risk Model”) for the purposes of enabling CME to offer clearing of additional CDS instruments, including iTraxx Contracts, within the

CDS Risk Model. CDS Risk Model enhancements applicable to clearing iTraxx Contracts include, in particular, changes to address self-referencing risk and foreign exchange risk. Such filing is currently pending regulatory approval by the Commission. CME will not implement the proposed rule change in this filing and will not begin to clear iTraxx Contracts until it has received receipt of regulatory approval of the proposed rule change in File Number SR-CME-2014-28.

4. 2014 ISDA Credit Derivatives Definitions

CME has submitted to the Commission a proposed rule change to amend its CDS Product Rules to incorporate references to the 2014 ISDA Definitions, File Number SR-CME-2014-30 (the “2014 Filing”). Implementation of the 2014 iTraxx Chapters is dependent on the approval and implementation of the proposed rule change contained in the 2014 Filing. As a result, the text of the proposed rule change to the 2014 iTraxx Chapters contained in Exhibit 5 should be read in conjunction with the text of the proposed rule change in Exhibit 5 to the 2014 Filing. CME will not implement the 2014 iTraxx Chapters until it has received receipt of regulatory approval of the proposed rule change contained in the 2014 Filing.

CME has identified iTraxx Contracts as products that have become increasingly important for market participants to manage risk with respect to European corporate and financial entities' credit risk. CME believes the proposed changes to its CDS Product Rules are consistent with the requirements of the Exchange Act, including Section 17A of the Exchange Act.³ The proposed changes which will facilitate CME's clearance of iTraxx Contracts would expand CME's CDS index product offering and would therefore provide investors with an

³ 15 U.S.C. 78q-1.

expanded range of derivatives products for clearing. CME notes that the facilitation of clearance of iTraxx Contracts is of particular importance as the CFTC has determined that iTraxx Contracts that are subject to a 5Y or 10Y tenor are subject to mandatory clearing under Section 2(h) of the Commodity Exchange Act (“CEA”).⁴ As such, the proposed changes are 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.⁵

B. Self-Regulatory Organization's Statement on Burden on Competition

CME does not believe that the proposed rule change would have any impact, or impose any burden, on competition. On the contrary, the clearance of iTraxx Contracts will promote competition since some of CME's competitors, including ICE Clear Credit LLC, ICE Clear Europe Limited and LCH.Clearnet S.A., already offer clearing of iTraxx Contracts. CME will therefore be able to provide market participants with an expanded choice for clearing iTraxx Contracts.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the CDS Product Rules have not been solicited, or received. CME will notify the Commission of any written comments received by CME.

⁴ 7 U.S.C. 2(h).

⁵ 15 U.S.C. 78q-1(b)(3)(F).

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 such 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:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-CME-2014-31 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-2014-31. 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-2014-31 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.⁶

Kevin M. O'Neill
Deputy Secretary

⁶ 17 CFR 200.30-3(a)(12).