

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73615; File No. SR-CME-2014-49)

November 17, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Decision Not to Clear Security-Based Swaps

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 November 17, 2014, Chicago Mercantile Exchange Inc. (“CME Inc.”) 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 Inc. CME Inc. filed the proposal pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)<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 Inc. is filing the proposed rule change that is limited to its business as a derivatives clearing organization. More specifically, the proposed rule change clarifies that CME Inc. has

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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)(6).

decided not to clear security-based swaps (“SBSs”).<sup>5</sup> As a result, CME Inc. is removing references in Chapter 8-H (Credit Default Swaps Clearing) to SBSs.

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 Inc. 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 Inc. 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 Inc. is registered as a derivatives clearing organization with the Commodity Futures Trading Commission (“CFTC”) and currently offers clearing services for many different futures and swaps products. To date, CME Inc. has never performed the functions of a clearing agency with respect to SBSs. This proposed rule change is designed to make explicit that CME Inc. has decided not to clear SBSs.

As a result of the above decision, CME Inc. is proposing to amend Rule 8H01 to explicitly state that CME Inc. will not clear SBSs, with the exception of Restructuring European Single Name CDS Contracts created following the occurrence of a Restructuring Credit Event in

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<sup>5</sup> CME Inc.’s decision not to clear SBS is subject to the limited exception of clearing Restructuring European Single Name CDS Contracts, as more fully detailed below. All references herein to CME Inc.’s decision not to clear SBS should be read/understood in this context.

respect of an iTraxx Component Transaction.<sup>6</sup> The clearing of Restructuring European Single Name CDS Contracts will be a necessary byproduct after such time that CME Inc. begins clearing iTraxx Europe index CDS. As currently contemplated, CME Inc. 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.<sup>7</sup>

Additionally, to remove references to SBSs, CME Inc. will accordingly amend or delete Rules 8H04 (CDS Clearing Member Obligations and Qualifications), 8H820 (Performance Bond for Security-Based Swaps), 8H930.C (Acceptable Performance Bond Deposits for CDS Products), 8H931 (Rule Changes Relating to Security-Based Swaps), 8H932 (Records Relating to Disciplinary Proceedings and Security-Based Swaps), 8H933 (Notice Regarding Certain Disciplinary Matters Related to Security-Based Swaps), 8H934 (Reports to CDS Clearing Members), and 8H938 (Summary Suspensions Relating to Security-Based Swap Clearing Activities).

CME Inc. believes the proposed rule change is consistent with the requirements of the Exchange Act, including Section 17A of the Exchange Act,<sup>8</sup> in general, and furthers the objectives of Section 17A(b)(3)(F),<sup>9</sup> in particular, in that it is designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and

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<sup>6</sup> CME Inc. plans to launch clearing services for iTraxx Europe index CDS products and will file a separate proposed rule change with the Commission in connection with its iTraxx proposal.

<sup>7</sup> CME Inc. will provide further details surrounding the clearing of iTraxx Europe index CDS, and Restructuring European Single Name CDS Contracts specifically, in a separate iTraxx rule filing.

<sup>8</sup> 15 U.S.C. 78q-1.

<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

settlement of securities transactions, and in general, to protect investors and the public interest. The proposed rule change will provide adequate notice to the public that CME Inc. will not clear SBSs. Additionally, by deciding not to clear SBSs, CME Inc. believes that it will avoid subjecting non-security products to potentially “duplicative or inconsistent regulation” and will “eliminate any potential inefficiencies and undue delays that could result from the requirement that the Commission review changes to rules primarily affecting clearing operations with respect to products that are not securities . . .”<sup>10</sup> As a result, CME Inc. believes that the proposed rule change is consistent with the Exchange Act.

**B. Self-Regulatory Organization’s Statement on Burden on Competition**

CME Inc. does not believe that the proposed rule change will have any impact, or impose any burden, on competition. The proposed rule change merely makes explicit the fact that CME Inc. has decided not to clear SBSs. Because CME Inc. never performed, and will not perform, the functions of a clearing agency with respect to SBS, the proposed rule change will not affect any actual clearing activities of CME Inc. and should not have any burden on competition. In fact, CME Inc. believes that the proposed rule change will have a positive effect on competition since the proposal will result in the avoidance of “potential legal uncertainty and market disruption caused by delays that could result from the requirement that the Commission undertake a full review” of CME Inc.’s non-security products.<sup>11</sup>

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<sup>10</sup> See Securities Exchange Act Release No. 34-69284 (April 9, 2013), 78 FR 21046 (April 9, 2013).

<sup>11</sup> See Securities Exchange Act Release No. 34-64832 (July 7, 2011), 76 FR 41056 (July 13, 2011).

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

CME Inc. has not solicited, and does not intend to solicit, comments regarding this proposed rule change. CME Inc. has not received any unsolicited written comments from interested parties.

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

CME Inc. has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>12</sup> and Rule 19b-4(f)(6)<sup>13</sup> thereunder.

Because the proposed rule change (i) does not significantly affect the protection of investors or the public interest, (ii) does not impose any significant burden on competition, and (iii) does not become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>14</sup> and Rule 19b-4(f)(6)<sup>15</sup> thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>16</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>17</sup> CME Inc. has asked the Commission to waive the five-day pre-filing requirement

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

<sup>17</sup> 17 CFR 240.19b-4(f)(6)(iii).

and the 30-day operative delay so that the proposed rule change may become operative immediately upon filing.<sup>18</sup> The Commission believes that waiver of the 30-day operative delay is appropriate, as CME Inc. has, to date, never performed the functions of a clearing agency with respect to SBSs, and the rule text removed or altered as a result the proposed rule change removes any ambiguity concerning CME Inc.'s ability or desire to perform the functions of a clearing agency with respect to SBSs. Therefore, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest and designates the proposed rule change as operative upon filing.<sup>19</sup>

At any time within 60 days of the filing of the proposed 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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or 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:

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<sup>18</sup> Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. 17 CFR 240.19b-4(f)(6)(iii). The Commission has waived the five-day pre-filing period in this case.

<sup>19</sup> Solely for purposes of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

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-2014-49 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-2014-49. 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 Inc. and on CME Inc.'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-2014-49 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>20</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).