

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73728; File No. SR-CME-2014-52)

December 3, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to CME Rules 818, 8G01 and 8H01

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 November 24, 2014, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by CME. CME filed the proposal pursuant to Section 19(b)(3)(A) of the Act,³ 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 a proposed rule change that is limited to its business as a derivatives clearing organization (“DCO”). More specifically, the proposed rule change contains amendments to clarify that netting will occur separately for each of the proprietary accounts, futures customer accounts, and clearing swap customer accounts of each Clearing Member at the time of close-out.

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 changes that are the subject of this filing are limited to CME's business as a DCO offering clearing services for CFTC-regulated swaps products. More specifically, the proposed rule change would adopt amendments to CME Rule 818.C (Netting and Offset) and CME Rules 8G01 and 8H01 to clarify that netting will occur separately for each of the proprietary accounts, futures customer accounts, and clearing swap customer accounts of each Clearing Member at the time of close-out.

CME Rule 818.C provides for the master netting agreement that applies in the event of a CME Bankruptcy Event (as defined in Rule 818) or default (as described in Rule 818). The proposed amendments clarify that netting will occur separately for each of the proprietary accounts, futures customer accounts, and clearing swap customer accounts of each Clearing Member at the time of close-out. The proposed amendments add sub-clauses to clarify that the relevant account classes will be closed out separately consistent with applicable CFTC Regulations and §4d of the Commodity Exchange Act ("CEA"). Clearing Member's proprietary,

futures customer, and cleared swaps customer account classes will be closed out separately from one another, and cleared swaps customers will be closed out on an individual customer basis. Further, the proposed amendments add a provision clarifying that in the event of a Bankruptcy Event that is preceded by (or occurs simultaneously with) a limited recourse event in Interest Rate Swaps (“IRS”) and Credit Default Swaps (“CDS”), the amount of any variation margin haircut that is applied as a result of the limited recourse Rules (CME Rule 8G802.B for IRS and CME Rule 8H802.B for CDS) will not be available for netting with losses from products subject to other financial safeguards under Rule 818.C.

CME is also amending Rules 8G01 and 8H01 to further clarify that Rule 818 (Close-Out Netting) will apply for all products in the event of a CME Bankruptcy Event or default and will not be superseded by the conflict of rules provisions of Rules 8G01 and 8H01, respectively.

The changes that are described in this filing are limited to CME’s business as a DCO clearing products under the exclusive jurisdiction of the CFTC and CME has made a decision not to clear security-based swaps.⁵ The changes will be effective on filing. CME notes that it has also certified the proposed rule changes that are the subject of this filing to its primary regulator, the CFTC, in a separate filing, CME Submission No. 14-477. The text of the CME proposed rule amendments is attached, with additions underlined and deletions in strikethrough.

⁵ See Securities Exchange Act Release No. 34-73615 (Nov. 17, 2014), 79 FR 69545 (Nov. 21, 2014) (SR-CME-2014-49). Pursuant to a teleconference with CME’s in-house counsel on December 1, 2014, staff in the Division of Trading and Markets has edited this sentence to clarify CME’s intentions not to clear security-based swaps except for a very limited set of circumstances described in the above-referenced proposed rule change.

CME believes the proposed rule changes are consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.⁶ CME is proposing the amendments to clarify that netting will occur separately for each of the proprietary accounts, futures customer accounts, and clearing swap customer accounts of each Clearing Member at the time of close-out. These proposed amendments will solidify CME's legal netting procedures framework (which applies in the event of a CME insolvency) which should be seen to be in accordance with the objective of promoting 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.⁷

Furthermore, the proposed changes are limited in their 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 CME changes are limited to CME's activities as a DCO clearing swaps that are not security-based swaps, futures that are not security futures and forwards that are not security forwards. 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.

⁶ 15 U.S.C. 78q-1.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

Because the proposed changes are limited in their effect to products offered under CME's authority to act as a DCO, the proposed changes are 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 changes are therefore consistent with the requirements of Section 17A of the Exchange Act⁸ and are properly filed under Section 19(b)(3)(A)⁹ and Rule 19b-4(f)(4)(ii)¹⁰ 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 amendments simply clarify and solidify CME's legal netting procedures framework. Further, the changes are limited to CME's derivatives clearing business and CME has made a decision not to clear security-based swaps and therefore would not impose any burden on competition that is inappropriate in furtherance of the purposes of the Act.¹¹

⁸ 15 U.S.C. 78q-1.

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(4)(ii).

¹¹ See supra note 5.

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)¹² of the Act and Rule 19b-4(f)(4)(ii)¹³ 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. Please include File No. SR-CME-2014-52 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.

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(4)(ii).

All submissions should refer to File Number SR-CME-2014-52. 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-2014-52 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).