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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71615; File No. SR-CME-2014-04)

February 26, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Allow the LSOC with Excess Model for CFTC-Regulated Swaps

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 12, 2014, Chicago Mercantile Exchange Inc. (“CME” or the “Exchange”) 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. CME filed the proposal pursuant to Section 19(b)(3)(A) of the Act,³ and Rule 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. More specifically, the proposed rule change would make amendments to its rules that would offer FCMs and their cleared swaps customers the option to transmit collateral specifically attributed to a cleared swap customer under an “LSOC with excess” model.

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-44(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 derivatives clearing organization with the Commodity Futures Trading Commission and currently offers clearing services for many different futures and swaps products. With this filing, CME proposes to add new rules to permit futures commission merchants ("FCMs") to transmit collateral of cleared swaps customers to CME that is in excess of the CME requirement for such customers. The changes by their terms relate only to swaps and do not affect security-based swaps and therefore will be effective on filing.

On November 14, 2012, CME implemented the Legally Segregated Operationally Commingled ("LSOC") regime for the protection of Cleared Swap Customers in accordance with Part 22 of the Commodity Futures Trading Commission's ("CFTC") Regulations. At that time, LSOC was implemented in a "no excess" mode, that is, any collateral value deposited by an FCM with a derivatives clearing organization ("DCO") in excess of the aggregate client minimum performance bond margin requirement, to the extent it is not been explicitly identified by the FCM as being provided by the firm, would be treated as unallocated cleared swap customer value without attribution to a specific cleared swaps customer. In this "no excess" model, the LSOC value for each cleared swaps customer is presumed to be its performance bond

requirement at the last settlement cycle and any collateral on deposit at the DCO in excess of such requirement aggregate of the customer initial margin requirements, is not used by the DCO for any purpose after an FCM default.

The proposed rule changes that are the subject of this filing offer FCMs and their cleared swaps customers the option to transmit collateral specifically attributed to a cleared swap customer under an “LSOC with excess” model. These changes are part of a coordinated futures industry effort. CFTC Regulation 22.13(c) provides requirements for FCMs to transmit such excess. Specifically, Regulation 22.13(c) states that:

“(c) A futures commission merchant may transmit to a derivatives clearing organization any collateral posted by a Cleared Swaps Customer in excess of the amount required by the derivatives clearing organization if:

(1) the rules of the derivatives clearing organization expressly permit the futures commission merchant to transmit collateral in excess of the amount required by the derivatives clearing organization; and (2) the derivatives clearing organization provides a mechanism by which the futures commission merchant is able to, and maintains rules pursuant to which the futures commission merchant is required to, identify each Business Day, for each Cleared Swaps Customer, the amount of collateral posted in excess of the amount required by the derivatives clearing organization”

Accordingly, CME is proposing CME Rules 821, 8G821 and 8H821 which would expressly permit FCMs to transmit excess cleared swap customer collateral to CME and would require that they identify each Business Day, for each cleared swaps customer, the value of performance bond posted in excess of the amount required for such cleared swaps customer.

Under the rules, FCMs will not be required to transmit excess collateral to CME by adoption of this rule but will be given the option to do so. Additionally, FCMs currently operating in the “no excess” mode will be allowed to continue in such mode. The proposed rules changes do not apply to security-based swaps positions.

The proposed changes that are described in this filing are limited to CME’s business as a derivatives clearing organization clearing products under the exclusive jurisdiction of the Commodity Futures Trading Commission (“CFTC”) and do not materially impact CME’s security-based swap clearing business in any way. CME notes that it has already submitted the proposed rule change that is the subject of this filing to the CFTC.

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 rule change permits futures commission merchants (“FCMs”) to transmit collateral of cleared swaps customers to CME that is in excess of the CME requirement for such customer and as such 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.⁶

Furthermore, the proposed changes are limited in their effect to swaps products offered under CME’s authority to act as a derivatives clearing organization. Swaps are under the exclusive jurisdiction of the CFTC. As such, the proposed CME changes are limited to CME’s activities as a derivatives clearing organization clearing swaps that are not security-based swaps;

⁵ 15 U.S.C. 78q-1.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

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 changes are limited in their effect to swaps offered under CME's authority to act as a derivatives clearing organization, 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, and swaps that are not security-based swaps or mixed swaps; 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 proposed changes are 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 rule changes simply permit futures commission merchants ("FCMs") to transmit collateral of cleared swaps customers to CME that is in excess of the CME requirement for such customer.

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).

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)¹⁰ of the Act and paragraph (f)(2) of Rule 19b-4 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.¹¹

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-2014-04 on the subject line.

Paper Comments:

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 15 U.S.C. 78s(b)(3)(C).

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC, 20549-1090.

All submissions should refer to File Number SR-CME-2014-04. 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-2014-04 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

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¹² 17 CFR 200.30-3(a)(12).