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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73365; File No. SR-CME-2014-40)

October 15, 2014

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that, on October 3, 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 proposes to make certain changes to its collateral acceptance practices. The proposed changes would not impact CME’s collateral acceptance practices relating to its CDS Guaranty Fund; the changes would only affect CME’s Base Fund. More specifically, CME is introducing a new and limited exemption from CME limits on the value of letters of credit clearing members are eligible to deposit on behalf of qualifying customers in satisfaction of the clearing members’ core performance bond requirements with respect to CME’s Base Fund (the

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).

“Exemption”). The text of the proposed rule change is immediately below. Italicized text indicates additions; bracketed text indicates deletions.

Collateral Types Accepted for Futures, Options, Forwards, OTC FX & Commodity Swaps

(available at <http://www.cmegroup.com/clearing/financial-and-collateral-management/>)

New		Category 3 & 4 Capped at \$7bn Per Firm	
<u>Category 1</u> Cash U.S. Treasures	<u>Category 2</u> IEF5 (Interest Bearing Cash) Letters of Credit* *LOCs are capped at the lesser of 25% of core requirement per currency requirement or \$500M per firm. <i>Clearing members that wish to post additional LOCs on behalf of qualifying commercial end users may be eligible for a limited exemption from this cap.[#]</i> LOCs are not permitted to meet house performance bond requirements for financial affiliated clearing members.	<u>Category 3*</u> U.S. Government Agencies Strips TIPS (capped at \$1bn per firm) Select MBS *Capped at 40% of core requirement per currency requirement per firm	<u>Category 4**</u> IEF2 [†] (Money Market Mutual Funds) Gold (capped at \$500mm per firm) Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm) ** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two [†] Not included in the 40% requirement

Please contact the clearing house at CreditRisk@cmegroup.com if you would like to learn more about this exemption.

CME Group

Acceptable Performance Bond Collateral for Futures, Options, Forwards, OTC FX, and
Commodity Swaps

(available at <http://www.cmegroup.com/clearing/files/acceptable-collateral-futures-options-select-forwards.pdf>)

Asset Class	Requirement Type Eligibility (Core, Concentration or Guaranty Fund)	Description	Hair cut Schedule	Eligible for Cleared Swaps Customer Requirements	Eligible for Customer Segregated Requirements	Eligible for House (Proprietary) Requirements	Notes
Letters of Credit	Core 25% Concentration 100% Guaranty Fund 0%	Letters of Credit for Performance Bond	0%	No	Yes	Yes	- Letters of Credit are not accepted for Forwards and Commodity Swaps. - Capped at the lesser of 25% of core requirement or \$500 million per clearing member.[#] - Category 2 Asset**.

Clearing members that wish to post additional LOCs on behalf of qualifying commercial end users may be eligible for a limited exemption from this cap. Please contact the clearing house at CreditRisk@cmegroup.com if you would like to learn more about this exemption.

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 of 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 these 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 certain changes to its collateral acceptance practices. The proposed changes would not impact CME's collateral acceptance practices relating to its CDS Guaranty Fund; the changes would only affect CME's Base Fund.

More specifically, CME is introducing a new and limited exemption from CME limits on the value of letters of credit clearing members are eligible to deposit on behalf of qualifying customers in satisfaction of the clearing members' core performance bond requirements with respect to CME's Base Fund (the "Exemption"). The Exemption would be narrowly tailored and would only apply to certain non-financial customers and their clearing members. The Exemption would increase the value of letters of credit a clearing member would be able to post in

satisfaction of the clearing member's core requirement to two times the lesser of: (a) 25% of a total clearing member's collateral on deposit for its core requirement; or (b) US\$500 million ("Exemption Limit"); provided that, any letter of credit deposits above the Non-exempt Limit would only be able to be used to margin qualifying customers. The current default limits for letters of credit are the lesser of 25% of each clearing member's core performance bond requirement per currency requirement or US\$500 million per clearing member. CME notes that letters of credit are not permitted to meet performance bond requirements for credit default swaps.

By way of example, a clearing member with a US\$600 million core requirement would normally be able to deposit up to US\$150 million in letters of credit as performance bond. Under the Exemption, the clearing member would be able to use up to US\$300 million in letters of credit to meet its core requirement so long as all amounts above US\$150 million were deposited on behalf of qualifying customers or affiliates of qualifying customers that meet the Exemption requirements. A clearing member with greater than US\$2 billion in performance bond on deposit for its core requirement would be limited to two times the US\$500 million limit, or US\$1 billion under the Exemption.

The allocation of the excess letter of credit capacity to qualifying customers under the Exemption would be at the sole discretion of the clearing member and the Exemption Limit would be capped at two times the clearing member's CME Clearing-designated letter of credit limit, no matter how many qualifying customers utilize the Exemption. CME Clearing, at its sole discretion, would be able to terminate the Exemption upon reasonable notice to the clearing member and its qualifying customer(s).

As highlighted above, the proposed changes in this filing are limited to CME's Base Guaranty Fund and therefore do not impact 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 but would be operationalized on October 8, 2014.

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 changes would amend CME's collateral acceptance practices by introducing a limited exemption from CME limits on the value of letters of credit clearing members are eligible to deposit on behalf of qualifying customers in satisfaction of the clearing members' core performance bond requirements with respect to CME's Base Fund. The proposed Exemption would not impact CME's ability to manage risk in regard to its qualifying customers and their clearing members. CME determined the amount of letters of credit eligible to be posted under the Exemption reflect an appropriate limitation on the concentration of assets posted as initial margin. The proposed Exemption is narrowly tailored and will provide CME with flexibility for the operational management of limits for these collateral types and therefore should be seen 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

⁵ 15 U.S.C. 78q-1.

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 to CME's Base Guaranty Fund, which means the proposed changes are limited in their effect to products that are under the exclusive jurisdiction of the CFTC. As such, the proposed CME changes are limited to CME's activities as a DCO clearing products 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.

Because the proposed changes are limited in their effect to products that are under the exclusive jurisdiction of the CFTC and are therefore 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.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

As such, the 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 proposed changes provide a narrowly tailored exemption to certain practices that will provide CME with more flexibility for the operational management of limits for these collateral types. Further, the changes described in the submission relate only to products that fall under the exclusive jurisdiction of the CFTC. As such, these proposed changes do not affect the security-based swap clearing activities of CME in any way and therefore do not impose any burden on competition that is inappropriate in furtherance of the purposes of the Act.

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 Rule 19b-4(f)(4)(ii)¹¹ 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

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).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(4)(ii).

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 Number SR-CME-2014-40 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-2014-40. 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 filings will also 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-2014-40 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

[FR Doc. 2014-24951 Filed 10/20/2014 at 8:45
am; Publication Date: 10/21/2014]

¹² 17 CFR 200.30-3(a)(12).