

### III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The designated clearing agency may implement this change if it has not received an objection to the proposed change within 60 days of the later of (i) the date that the Commission receives the notice of proposed change, or (ii) the date the Commission receives any further information it requests for consideration of the notice. The designated clearing agency shall not implement this change if the Commission has an objection.

The Commission may, during the 60-day review period, extend the review period for an additional 60 days for proposed changes that raise novel or complex issues, subject to the Commission providing the designated clearing agency with prompt written notice of the extension. The designated clearing agency may implement a change in less than 60 days from the date of receipt of the notice of proposed change by the Commission, or the date the Commission receives any further information it requested, if the Commission notifies the designated clearing agency in writing that it does not object to the proposed change and authorizes the designated clearing agency to implement the change on an earlier date, subject to any conditions imposed by the Commission.

The designated clearing agency shall post notice on its Web site of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2014-809 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-OCC-2014-809. This file number should be included on the subject line if email 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the advance notice that are filed with the Commission, and all written communications relating to the advance notice 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 Web site 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 the filing also will be available for inspection and copying at the principal office of OCC and on OCC's Web site at [http://www.theocc.com/components/docs/legal/rules\\_and\\_bylaws/sr\\_occ\\_14\\_809.pdf](http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_14_809.pdf).

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-OCC-2014-809 and should be submitted on or before December 30, 2014.

By the Commission.

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-73728; File No. SR-CME-2014-52]

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

December 3, 2014.

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 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,<sup>3</sup> and Rule 19b-4(f)(4)(ii)<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 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.

#### 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

<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)(4)(ii).

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.<sup>5</sup> 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

<sup>5</sup> 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.

additions underlined and deletions in strikethrough.

CME believes the proposed rule changes are consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.<sup>6</sup> 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.<sup>7</sup>

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.

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

<sup>6</sup> 15 U.S.C. 78q–1.

<sup>7</sup> 15 U.S.C. 78q–1(b)(3)(F).

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 Act<sup>8</sup> and are properly filed under Section 19(b)(3)(A)<sup>9</sup> and Rule 19b–4(f)(4)(ii)<sup>10</sup> 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.<sup>11</sup>

#### *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)<sup>12</sup> of the Act and Rule 19b–4(f)(4)(ii)<sup>13</sup> 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:

<sup>8</sup> 15 U.S.C. 78q–1.

<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b–4(f)(4)(ii).

<sup>11</sup> See supra note 5.

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

<sup>13</sup> 17 CFR 240.19b–4(f)(4)(ii).

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or
- Send an email to [rule-comments@sec.gov](mailto: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.

All submissions should refer to File Number SR-CME-2014-52. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 Web site 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 December 30, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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<sup>14</sup> 17 CFR 200.30-3(a)(12).

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-73729; File No. SR-CME-2014-13]

**Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Application of Excess Defaulting Clearing Member Assets in Crossover Default Scenarios and the Harmonization of Defaulted Base Clearing Member Collateral Definitions**

December 3, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 26, 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,<sup>3</sup> and Rule 19b-4(f)(4)(ii)<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 is filing proposed rules changes that are limited to its business as a derivatives clearing organization. More specifically, the proposed rule changes would make amendments to CME Rules relating to the application of excess defaulting clearing member assets in crossover default scenarios and the harmonization of Defaulted Base Clearing Member Collateral definitions.

**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 ("CFTC") and operates a substantial business clearing futures and swaps contracts subject to the jurisdiction of the CFTC. CME is proposing new rules to specify the allocation of excess collateral of a defaulted clearing member to losses relating to products in other financial safeguards at CME pro rata based on the remaining loss in each of such product classes. Additionally, CME is proposing to amend CME Rule 802.A to harmonize the member collateral definition across the default rules. CME notes that it has also made a corresponding filing with the CFTC, in Submission No. 14-097R, regarding the proposed changes.

The proposed changes to CME Rules 802.D, 8G802.D and 8H802.D would specify the allocation of excess collateral of a defaulted clearing member for a particular financial safeguard package to losses relating to product classes subject to other financial safeguards at CME. CME employs three financial safeguard packages (*i.e.* waterfalls) for each of the following product classes: interest rate swap products ("IRS"); credit default swap products ("CDS"); and Base products (which are all products other than IRS and CDS). The default rules for each respective waterfall contain the ability, once the loss of the clearing member for that waterfall is entirely satisfied, to use excess house assets of the clearing member towards satisfying uncovered losses of such clearing member for products in other waterfalls. For example, if a member was clearing IRS and Base products and excess Base collateral remained after completely satisfying all losses for Base Products, the rules provide that such excess may be used towards any uncovered losses of that clearing member for IRS products.

CME rules are currently silent on the allocation mechanism of such excess funds to unresolved losses in other product classes where losses remain in both of the other product classes. The proposed new CME Rules 802.D.1, 8G802.D.1, and 8H802.D.1 would specify that any such excess is allocated to the other safeguard packages pro rata based on the remaining loss in each of such product classes.

Additionally, CME is proposing to amend CME Rule 802.A.2 to harmonize

<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 240.19b4(f)(4)(ii).