

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66506; File No. SR-CME-2012-01)

March 2, 2012

Self-Regulatory Organizations; Chicago Mercantile Exchange, Inc.; Order Approving Proposed Rule Change to Amend Rules Relating to Credit Default Swap Guaranty Fund

I. Introduction

On January 23, 2012, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-CME-2012-01 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder.<sup>2</sup> The proposed rule change was published for comment in the Federal Register on February 1, 2012.<sup>3</sup> The Commission received no comment letters regarding the proposal. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

The rule change would replace CME’s “aggregate performance bond requirement” standard, which determines how CME calculates each CDS Clearing Member’s allocation to the CDS Guaranty Fund, with a new standard that CME believes better allocates tail risk. Currently CME rules provide that each CDS Clearing Member’s allocation to the CDS Guaranty Fund will be the greater of (i) \$50,000,000 and (ii) its proportionate share of the 90-day trailing average of its aggregate performance bond requirements and average gross notional open interest outstanding at the Clearing House. The proposal would change the CDS Guaranty Fund so that

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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> Securities Exchange Act Release No. 34-66250 (January 26, 2012), 77 FR 5070 (February 1, 2012). In its filing with the Commission, CME included statements concerning the purpose of and basis for the proposed rule change. The text of these statements is incorporated into the discussion of the proposed rule change in Section II below.

the allocation will be made on the basis of each CDS Clearing Member's potential residual loss ("PRL"). PRL is a stress test of the tail risk CDS Clearing Member portfolios bring to the market. CME is also proposing to make conforming changes to its CDS Manual of Operations.

### III. Discussion

Section 19(b)(2)(B) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.<sup>4</sup> In particular, Section 17A(b)(3)(F)<sup>5</sup> of the Act requires, among other things, that the rules of a clearing agency be designed 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.

The proposed rule change would allow CME to change the method used for calculating individual CDS Clearing Member contributions to the CDS Guaranty Fund and is designed to more accurately align the allocation of its CDS Guaranty Fund requirement to CDS Clearing Members based on the risk presented by each such member. Thus, the proposed rule change to change CME's CDS Guaranty Fund allocation is consistent with the requirement in Section 17A(b)(3)(F) that CME safeguard the securities and funds which are in the custody or control of CME or for which it is responsible.

### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

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<sup>4</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2)<sup>6</sup> of the Act, that the proposed rule change (File No. SR-CME-2012-01) be, and hereby is, approved.<sup>7</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>6</sup> 15 U.S.C. 78s(b)(2).

<sup>7</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

<sup>8</sup> 17 CFR 200.30-3(a)(12).