

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 16-507

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): November 28, 2016 Filing Description: Amendments to CME Rule 8H802.B. and Addition of New CME Rule 8H04.13

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: CME Rule 8H802.B. and 8H04.13

New Product

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

Official Product Name:

Product Terms and Conditions (product related Rules and Rule Amendments)

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

Official Name(s) of Product(s) Affected:

Rule Numbers:

November 28, 2016

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

**RE: CFTC Regulation 40.6(a) Certification. Notification Regarding Amendments to CME Rule 8H802.B. (“Satisfaction of Clearing House Obligations”) and the Addition of New CME Rule 8H04.13 (“CDS Clearing Member Obligations and Qualifications”)
CME Submission No. 16-507**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”) hereby self-certifies amendments to existing CME Rule 8H802.B. and adoption of new CME Rule 8H04.13 (collectively, the “Rule Amendments”). The Rule Amendments will be effective on December 13, 2016.

The Rule Amendments are designed to incentivize non-defaulted FCMs to aggressively bid in the auction(s) for defaulted CDS Clearing Members’ portfolio(s).

The current CDS default management involves two phases. Phase 1 is a risk reduction phase where CME would hedge through on-the-run indices and/or auction outright concentrated positions. Phase 2 is an auction of the remaining defaulted portfolio and associated hedges from Phase 1 in the form of off-the-run/on-the-run roll auctions. Both of these phases are mandatory for CDS Clearing Members to participate.

1. Bidding Incentivization

In order to provide appropriate incentive for CDS Clearing Members to submit aggressive bids during an auction for a defaulted CDS Clearing Member’s portfolio, CME is modifying the application (not the sizing) of the CDS Guaranty Fund on the basis of each CDS Clearing Member’s bidding during the auction process.

Specifically, a CDS Clearing Member would have a portion of its CDS Guaranty Fund contribution seniorized where it wins a default management auction (“Winning Bids”). A CDS Clearing Member would have a portion CDS Guaranty Fund juniorized where it fails to submit a bid for an auction or bids outside an acceptable range from the winner(s) of the relevant auction (“Non-Qualifying Bids”). A CDS Clearing Member providing a Non-Qualifying Bid is referred to as a “Non-Qualified CDS Bidder”. A CDS Clearing Member who bids within the acceptable range would have a portion of its CDS Guaranty Fund to be unaffected/maintained by seniorization/juniorization (“Qualified Bidder”). The size of CDS Guaranty Fund will not change with these proposed changes. Only the utilization of the CDS Guaranty Fund is affected by these changes based on bidding performance and will be divided into three categories: seniorized, maintained, and juniorized. The amount subject to such

seniorization/subordination for an auction will be based on a percentage determined for such CDS Clearing Member at the time of the related auction in accordance with our CDS default management procedures.

The percentage of Phase 1 seniorization would be 50% of the product of (y) the performance bond required for such Phase 1 Transaction divided by the aggregate performance bond required for all requested Phase 1 Transactions and (z) the notional amount of such Phase 1 Transaction awarded to the CDS Clearing Member divided by the total notional amount of such Phase 1 Transaction.

The percentage of Phase 2 seniorization would be the product of (x) the amount of the CDS Clearing Member's CDS Guaranty Fund contribution not seniorized/juniorized in Phase 1 (expressed as a percentage) and (y) the performance bond required for such Phase 2 Transaction divided by the aggregate performance bond required for all requested Phase 2 Transactions.

The percentage of Phase 1 juniorization would be 50% of the product of (y) the performance bond required for such Phase 1 Transaction divided by the aggregate performance bond required for all requested Phase 1 Transactions and (z) the Subordination Factor (as defined in Rule 8H802.B) for the CDS Clearing Member for such Phase 1 Transaction.

The percentage of Phase 2 juniorization would be the product of (x) the amount of the CDS Clearing Member's CDS Guaranty Fund contribution not seniorized/juniorized in Phase 1 (expressed as a percentage) and (y) the performance bond required for such Phase 2 Transaction divided by the aggregate performance bond required for all requested Phase 2 Transactions and (z) the Subordination Factor (as defined in Rule 8H802.B) for the CDS Clearing Member for such Phase 2 Transaction.

Expressed as a table:

	Phase 1	Phase 2
Seniorized GF% (Winners):	50% x relative margin x awarded notional portion	Relative margin x remaining GF% from Phase 1
Maintained GF% (Qualified Bidders):	No seniorization or juniorization	No seniorization or juniorization
Juniorized GF% (Non-Qualified Bidders):	50% x relative margin x Subordination Factor	Relative margin x remaining GF% from Phase 1 x Subordination Factor

Any CDS Guaranty Fund deposits that are seniorized or subordinated will be allocated pro rata to CDS Losses after the CME corporate contribution and prior to any non-subordinated/seniorized deposits. Any contributions that are not seniorized or subordinated in accordance with above formula will be "maintained," meaning they will be allocated pro rata to CDS losses after all subordinated amounts and prior to any seniorized amounts.

2. New Rule 8H04.13 – CDS Clearing Member Obligations and Qualifications

CME is also moving the mandatory bidding requirements for Phase 1 and Phase 2 auctions from the CDS Manual of Operations into Chapter 8H. The new CME Rule 8H04.13 is attached in Exhibit A.

3. Core Principle Review

CME reviewed the derivatives clearing organization core principles (“DCO Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the rule amendments may have some bearing on the following principles:

- DCO Core Principle B – Financial Resources. The Rule Amendments do not affect the sizing of the CDS Guaranty Fund. Only the utilization of the CDS Guaranty Fund is changing based on the bidding behaviour of CDS Clearing Members.
- DCO Core Principle G – Default Rules and Procedures. The Rule Amendments are consistent with CME’s obligations to adopt rules that set forth its default procedures, including obligations that the DCO imposes on its clearing members to participate in auctions.
- DCO Core Principle L – Public Information. The Rule Amendments will be added to the publicly available CME Rulebook available on the CME Group website. In addition, CME will release a notice to the marketplace regarding the amendments in advance of the effective date.
- DCO Core Principle R – Legal Risk. CME has determined that the Rule Amendments are consistent with the requirement to have a well-founded, transparent and enforceable legal framework for each aspect of the activities of the DCO.

Exhibit A, which is attached hereto, sets forth the Rule Amendments in blackline format.

CME certifies that proposed changes comply with the Act and regulations thereunder. There were no substantive opposing views to this action.

CME certifies that this submission has been concurrently posted on the CME Group website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact Jason Silverstein at 212-299-2228 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/Christopher Bowen

Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A – Rule Amendments to CME Rule 8H802.B. and new CME Rule 8H04.13
(blackline format)

Exhibit A

CME Rulebook

CHAPTER 8-H

Credit Default Swaps Clearing

(additions underlined; deletions are ~~overstruck~~)

CME RULE 8H802.B. Satisfaction of Clearing House Obligations

1. *Application of Clearing House and non-defaulting CDS Clearing Member contributions* If the CDS Collateral, the CDS Customer Collateral, and any excess assets from other product classes made available to cover CDS Losses, as described in Rule 8H802.A, are insufficient to cover the CDS Loss produced by the default, the Clearing House shall cover, or reduce the size of, such CDS Loss by applying the following funds to such losses in the order of priority as follows (the “CDS Priority of Payments”):

First, the corporate contribution of CME for CDS Products (the “CME CDS Contribution”), which shall be equal to the greater of (x) \$50 million and (y) 5% of the CDS Guaranty Fund, up to a maximum of \$100 million;

Second, the CDS Guaranty Fund (including any CDS SR Deposits but excluding the contribution of the defaulted CDS Clearing Member), which shall be applied ~~pro-rata to each non-defaulted CDS Clearing Member’s deposit to~~ in the following order:

(a) the CDS Guaranty Fund ~~in accordance with Rule 8H07~~ contribution of Non-Qualifying CDS Bidder(s) (if any) up to the Aggregate CDS Subordinated Amount for such Non-Qualifying CDS Bidder(s) pro rata;

(b) the remaining CDS Guaranty Fund contribution of all CDS Clearing Members (excluding the Aggregate CDS Seniorized Amounts for Winning CDS Bidders) pro rata;

(c) the remaining CDS Guaranty Fund contribution of all Winning CDS Bidders pro rata; and

Third, CDS Assessments against all CDS Clearing Members (excluding any previously defaulted CDS Clearing Members), which shall be assessed against each CDS Clearing Member pro rata in proportion to their required deposit to the CDS Guaranty Fund in accordance with Rule 8H07, including any calculation adjustment as provided in Rule 8H07.3. Assessments against a CDS Clearing Member shall be subject to the maximum CDS Assessment assigned to such CDS Clearing Member pursuant to Rule 8H07 at the time of the default, and also subject to the limits set forth in Rule 8H802.H in the case of multiple successive defaults.

In addition, during a CDS Cooling Off Period and to the extent permitted by applicable law, the Clearing House shall additionally assess each CDS Clearing Member that has previously defaulted during such CDS Cooling Off Period (and each such CDS Clearing Member shall pay to the Clearing House) an amount equal to such previously defaulted CDS Clearing Member pro rata share of CDS Assessments determined as if such CDS Clearing Member had not

defaulted. Any amounts received from such previously defaulted CDS Clearing Member shall be distributed to CDS Clearing Member that paid CDS Assessments during the related CDS Cooling Off Period on a pro rata basis in proportion to the CDS Assessments paid by CDS Clearing Members during such period.

Non-defaulted CDS Clearing Members and their customers shall not take any action that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 8H802.B, including, but not limited to, attempting to obtain a court order. Determinations under this Rule 8H802.B that are based upon a CDS Clearing Member's CDS Guaranty Fund deposit and/or CDS Assessment requirement shall be based upon the requirement in effect at the commencement of the related CDS Cooling Off Period; provided that, if a CDS Clearing Member's CDS Guaranty Fund requirement and maximum CDS Assessment exposure is increased during a CDS Cooling Off Period due to a material change in such CDS Clearing Member's business (as described in Rule 8H07.3), then (i) such determinations shall factor in such CDS Clearing Member's revised maximum CDS Assessment and (ii) such determinations shall factor in such CDS Clearing Member's revised CDS Guaranty Fund deposit (x) for all purposes, if such CDS Clearing Member does not elect to satisfy such increase in its CDS Guaranty Fund requirement by depositing funds as performance bond pursuant to Rule 8H07.3 or (y) solely for purposes of adjusting such CDS Clearing Member's proportionate share of any CDS Assessment, as provided in Rule 8H07.3, if such CDS Clearing Member elects to satisfy such increase in its CDS Guaranty Fund requirement by depositing funds as performance bond pursuant to Rule 8H07.3.

The CDS Guaranty Fund and CDS Assessments of non-defaulted CDS Clearing Members shall not be available to satisfy losses in product classes other than CDS. The Clearing House will provide notice to CDS Clearing Members as required by the Securities Exchange Act of 1934 regarding any amounts charged to the CDS Guaranty Fund due to losses incurred.

- As used herein:

- "Aggregate CDS Seniorized Amount" for a CDS Clearing Member means an amount equal to the product of:

- (i) the sum of all (A) Apportioned CDS Guaranty Fund Percentages (if any) for such Bidding CDS Clearing Member with respect to each Phase 1 Transaction for which it is a Winning CDS Bidder multiplied by the respective Phase 1 Incentive Percentage and (B) Apportioned CDS Guaranty Fund Percentages (if any) for such Bidding CDS Clearing Member with respect to each Phase 2 Transaction for which it is a Winning CDS Bidder multiplied by the respective Phase 2 Incentive Percentage; and
- (ii) the CDS Guaranty Fund contribution of such Bidding CDS Clearing Member.

- "Aggregate CDS Subordinated Amount" for a CDS Clearing Member means an amount equal to the product of:

- (i) the aggregate of Apportioned CDS Guaranty Fund Percentages multiplied by the related Phase 1 Subordination Factors (if any) and Phase 2 Subordination Factors for such Bidding CDS Clearing Member with respect to each CDS Auction Portfolio for which it is a Non-Qualifying CDS Bidder; and
- (ii) the CDS Guaranty Fund contribution of such CDS Clearing Member.

- "Apportioned CDS Guaranty Fund Percentage" for a Bidding CDS Clearing Member and a Phase 1 Transaction or Phase 2 Transaction during a CDS Cooling Off Period, is a percentage of the CDS Guaranty Fund of such Bidding CDS Clearing Member subject to

subordination/seniorization for such CDS Auction as determined by the Clearing House and communicated by the Clearing House to each Bidding CDS Clearing Member prior to such Phase 1 Transaction or Phase 2 Transaction based on such Bidding CDS Clearing Member's CDS Guaranty Fund contribution as follows:

- (i) For a single CDS Clearing Member default during a CDS Cooling Off Period or for multiple CDS Clearing Member defaults being managed concurrently with the initial default during a CDS Cooling Off Period, the Apportioned CDS Guaranty Fund Percentage for a Bidding CDS Clearing Member subject to subordination/seniorization will be based on such Bidding CDS Clearing Member's entire CDS Guaranty Fund contribution that has not been subject to subordination/seniorization prior to such Phase 1 Transaction or Phase 2 Transaction.
- (ii) Following satisfaction in full of CDS Losses resulting from a CDS Clearing Member default (or CDS Clearing Members defaults being managed concurrently), the Apportioned CDS Guaranty Fund Percentage for a Bidding CDS Clearing Member for each subsequent default (or subsequent defaults being concurrently managed) subject to subordination/seniorization will be based on such Bidding CDS Clearing Member's remaining CDS Guaranty Fund contribution from prior defaults and that has not been subject to subordination/seniorization prior to such Phase 1 Transaction or Phase 2 Transaction for the current default(s).

"Bidding CDS Clearing Member" with respect to a Phase 1 Transaction or Phase 2 Transaction means, a CDS Clearing Member with open interest at the beginning of related CDS Cooling Off Period in any CDS Product in the same product family as those in such Phase 1 Transaction or Phase 2 Transaction (i.e. CDX HY, CDX IG, iTraxx, etc).

"CDS Auction" means the auction process prescribed by the Clearing House for a CDS Auction Portfolio.

"CDS Auction Portfolio" each hedge transaction or portfolio auctioned by the Clearing House containing CDS Products in connection with a defaulted CDS Clearing Member.

"CDS Bid Ratio" for a Bidding CDS Clearing Member and a Phase 1 Transaction or a Phase 2 Transaction shall be expressed as a formula as follows:

$$\text{"CDS Bid Ratio"} = (Bid_i - Bid_w) / (PB) \text{ expressed as a percentage.}$$

Where:

Bid_i means the bid of the Bidding CDS Clearing Member.

Bid_w means the bid of the Winning CDS Bidder(s) at which the entire CDS Auction Portfolio is allocated.

PB means, with respect to a Phase 1 Transaction or Phase 2 Transaction, the performance bond required by the Clearing House for the minimum bid size for such Phase 1 Transaction or Phase 2 Transaction.

"Non-Qualifying CDS Bidder" for a Phase 1 Transaction or a Phase 2 Transaction means a Bidding CDS Clearing Member that either (a) did not submit a Valid CDS Bid for such Phase 1

Transaction or Phase 2 Transaction or (b) submitted a bid with a CDS Bid Ratio equal to or greater than 50% for such Phase 1 Transaction or Phase 2 Transaction.

“Phase 1 Incentive Percentage” means a percentage calculated for a CDS Clearing Member that is awarded a portion of a Phase 1 Transaction, as the product of (x) 50%, (y) the performance bond required for such Phase 1 Transaction divided by the aggregate performance bond required for all requested Phase 1 Transactions and (z) the notional amount of such Phase 1 Transaction awarded to the CDS Clearing Member *divided by* the total notional amount of such Phase 1 Transaction

“Phase 1 Transaction” means a hedging transaction requested by the Clearing House to reduce the market risk associated with positions of the defaulted CDS Clearing Member or a CDS Auction Portfolio auctioned by the Clearing House without prior hedging.

Phase 1 Subordination Percentage” means a percentage calculated for a Non-Qualifying CDS Bidder in a Phase 1 Transaction, as the product of (x) 50%, (y) the performance bond required for such Phase 1 Transaction divided by the aggregate performance bond required for all requested Phase 1 Transactions and (z) the Subordination Factor for such Non-Qualifying CDS Bidder for such Phase 1 Transaction.

“Phase 2 Incentive Percentage” means a percentage calculated for a CDS Clearing Member that is awarded a portion of a Phase 2 Transaction, as the performance bond required for such Phase 2 Transaction divided by the aggregate performance bond required for all requested Phase 2 Transactions,

Phase 2 Subordination Percentage” means a percentage calculated for a Non-Qualifying CDS Bidder in a Phase 2 Transaction, as the product of (x) the performance bond required for such Phase 2 Transaction divided by the aggregate performance bond required for all requested Phase 2 Transactions and (y) the Subordination Factor for such Non-Qualifying CDS Bidder for such Phase 2 Transaction.

“Phase 2 Transaction” means a CDS Auction Portfolio auctioned by the Clearing House following the Phase 1 Transactions.

“Subordination Factor” for a Bidding CDS Clearing Member and a Phase 1 Transaction or Phase 2 Transaction means:

- (i) 100%, for a Bidding CDS Clearing Member that did not submit a Valid CDS Bid or whose CDS Bid Ratio is equal to or greater than 150% for such Phase 1 Transaction or Phase 2 Transaction; or
- (ii) the CDS Bid Ratio for such CDS Auction *minus* 50%, for a Bidding CDS Clearing Member whose CDS Bid Ratio is equal to or greater than 50% but less than 150% for such Phase 1 Transaction or Phase 2 Transaction.

“Valid CDS Bid” means a bid satisfying the requirements of the Clearing House for a CDS Auction as communicated by the Clearing House for the respective CDS Auction.

“Winning CDS Bidder” means, in respect of a CDS Auction, each CDS Clearing Member allocated all or a portion of the respective CDS Auction Portfolio.

NEW CME RULE 8H04.13 CDS CLEARING MEMBER OBLIGATIONS AND QUALIFICATIONS

13. Each CDS Clearing Member shall bid for Phase 1 Transactions and Phase 2 Transactions as requested by the Clearing House.