



Jason Silverstein
Director and Associate General Counsel
Legal Department

January 19, 2012

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington DC 20581

**RE: 8H07; Manual of Operations for CME Cleared Credit Default Swaps ("CDS Manual").
CME Submission No. 12-029.**

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME") pursuant to Commission Regulation 40.6(a) hereby notifies the Commodity Futures Trading Commission of amendments to Rule 8H07 and the CDS Manual relating to our offering for credit default swaps ("CDS"). The change will be effective February 3, 2012 pending other regulatory approvals.

Current CME Rule 8H07.1(ii) provides 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 a average gross notional open interest outstanding at the Clearing House. The rule change that is the subject of this filing would replace "aggregate performance bond requirement" standard with a new standard that CME believes better allocates tail risk.

The current standard set forth in Rule 8H07 is designed to provide for margin requirements that adequately covers day-to-day P/L moves, however, CME believes changes could be made to provide for a more accurate allocation of potential tail risk. Therefore, in order to more accurately align the allocation of the CDS Guaranty Fund to each CDS Clearing Member, consistent with the CDS Guaranty Fund's purpose of covering tail risk events, CME has determined that proposed rule changes should be made so that 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 a CDS Clearing Member's portfolio brings to the Clearing House.

The text of the CME proposed rule amendments is attached ("Exhibit 1"), with additions underlined and deletions ~~stricken through~~.

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

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CME certifies these changes comply with the Commodity Exchange Act and regulations thereunder, including the core principles of Financial Resources, Participant and Product Eligibility, Risk Management and Default Rules and Procedures by maintaining adequate resources and risk management in the event of a CDS loss and appropriately allocating the CDS Guaranty Fund among CDS Clearing Members.

If you have any question, please contact Sasha Rozenberg, Managing Director, Risk Management, at (212) 299-2106 or me at (212) 299-2228. Please reference CME Submission #12-029 in any related correspondence.

Sincerely,

/s/ Jason S. Silverstein
Director and Associate General Counsel

Attachments

EXHIBIT 1
CME Proposed Rule Amendments
(Additions underlined and deletions ~~stricken through~~)

Rule 8H07.1 CDS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT

1. (i) The Clearing House shall establish a financial safeguards package to support CDS clearing, and each CDS Clearing Member shall make a CDS Guaranty Fund deposit with the Clearing House. A CDS Clearing Member's deposit to the CDS Guaranty Fund and assessments against it pursuant to these Rules may be used to cover losses incurred by the Clearing House if a defaulted CDS Clearing Member's assets available to the Clearing House, including any assets pursuant to any guarantee from a parent or other Affiliate of a defaulted CDS Clearing Member, are insufficient to cover such losses, regardless of the cause of default. The Clearing House shall calculate the requirements for the CDS financial safeguards package, which shall be composed of:

(a) a funded portion, determined by the Clearing House using stress test methodology, calculated on a net exposure basis within each of the proprietary account and the customer account, equal to the largest theoretical aggregate losses caused by the default of any two CDS Clearing Members produced by such stress test or such other methodology, also on such a net exposure basis, determined by the CDS Risk Committee (such amount, plus any additional funds required to be deposited by CDS Clearing Members as a result of the minimum contribution requirement below, the "CDS Guaranty Fund"); and

(b) an unfunded portion, determined by the Clearing House using the same methodology as in Rule 8H07.1(i)(a) equal to the largest theoretical aggregate losses caused by the default of any two CDS Clearing Members (other than the two CDS Clearing Members selected in Rule 8H07.1(i)(a)) produced by such methodology (and assuming for purposes of the model that already-defaulted CDS Clearing Members will fail to contribute) or such other methodology approved by the CDS Risk Committee. Upon a default, after application of the CDS Guaranty Fund, each CDS Clearing Member (other than an insolvent or defaulted CDS Clearing Member) shall be subject to assessment of its proportionate share of such amount (collectively the "CDS Assessments"), each CDS Clearing Member's proportionate share bearing the same ratio to the aggregate CDS Assessments as such CDS Clearing Member's required CDS Guaranty Fund deposit (as calculated pursuant to Rule 8H07.1(ii)) bears to the aggregate CDS Guaranty Fund, adjusted as provided in Rule 8H07.3.

(ii) Each CDS Clearing Member's required contribution to the CDS Guaranty Fund shall be the greater of:

(a) such CDS Clearing Member's proportionate share of the largest two losses described in 8H07.1(i)(a) above, each CDS Clearing Member's proportionate share being based on the 90-day trailing average of its potential residual loss ("PRL") ~~aggregate performance bond requirements~~ and the 90-day trailing average gross notional open interest outstanding at the Clearing House (or, in either case, such other shorter time interval determined by the CDS Risk Committee); and

(b) \$50,000,000.

Manual of Operations for CME Cleared Interest Rate Swaps

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[Redacted]