



Jason Silverstein  
Director and Associate General Counsel  
Legal Department

February 28, 2012

**VIA E-MAIL**

Mr. David Stawick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**RE: CDS Guaranty Fund Allocation Amendment; Amendments to Daily Submission  
Deadline, Holiday Accrual Processing and PAI payment Timeline  
CME Submission No. 12-062**

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME") (the "Exchange") pursuant to Commodity Futures Trading Commission (the "Commission Regulation 40.6(a) hereby notifies the Commission of certain rule amendments relating to our offering for cleared credit default swaps ("CDS"). The changes will be effective March 14, 2012 pending other regulatory approvals.

**1. CME Rule 8H07.1 - Changes to CDS Guaranty Fund Allocation**

CME is implementing certain changes to the allocation of the CDS Guaranty Fund among CDS Clearing Members. Currently the CDS Guaranty Fund is calculated monthly and is proportionally allocated to each IRS Clearing Member the basis of its 90-day trailing average of its aggregate performance bond requirements<sup>1</sup> and 90-day trailing average of its gross notional open interest outstanding at the Clearing House. CME Clearing is proposing to change the measurement period from 90 days to 30 days in order for the CDS Guaranty Fund to more quickly react to an CDS Clearing Member's current activity and to align the measurement period with the frequency of CDS Guaranty Fund calculations.

**2. CDS Manual Changes**

CME is implementing certain changes to CDS Manual. A summary of material changes is as follows:

- Operations Timeline and Reports. CME is modifying the trade submission deadline for current day trades from 7:59 pm ET to 6:59 pm ET.
- Position Management, Money Calculations, and Collateral. No accrual processing will occur on bank holidays in the country in which the swap is denominated (Independence Day for U.S. Dollar denominated CDS contracts) and will be included in the processing for the next business

<sup>1</sup> CME filed a change with the Commission to utilize potential residual loss ("PRL") as a component in lieu of aggregate performance bond. Such change was certified with the Commission on Feb 3, 2012 and is pending other regulatory approvals.

Mr. David Stawick  
Page 2  
February 28, 2012

day. CME will calculate and pay price alignment interest for CDS contracts on a daily basis, as opposed to monthly.

- End of Day Valuations. The price quality auction used to arrive at the settlement price for CDS contracts is being amended to require bid prices for contracts only where the CDS Clearing Member maintains open interest and to limit the price quality cross mechanism to contracts where the CDS Clearing Member has open interest.

The text of the proposed changes is reflected on the attached Exhibits, with additions underlined and deletions ~~stricken through~~.

The Exchanges certify that these changes comply with the Commodity Exchange Act and the regulations thereunder, including the core principles of Financial Resources, Risk Management and Default Rules and Procedures by maintaining adequate resources and risk management in the event of a default of an IRS Clearing Member and appropriately allocating the IRS Guaranty Fund among IRS Clearing Members and the core principle of Settlement Procedures by settling PAI daily. There were no substantive opposing views.

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

If you require any additional information regarding this submission, please contact Sasha Rozenberg at 212-299-2106 or via e-mail at [sasha.rozenberg@cmegroup.com](mailto:sasha.rozenberg@cmegroup.com), or contact me at 212-299-2228. Please reference our CME/CBOT/NYMEX Submission No. 12-062 in any related correspondence.

Sincerely,

/s/ Jason Silverstein  
Director & Associate General Counsel

Attachments

## EXHIBIT 1

### 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~~30~~-day trailing average of its [aggregate performance bond requirements]<sup>2</sup> and the 90~~30~~-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.

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<sup>2</sup> See FN1.

## **EXHIBIT 2**

Manual of Operations for CME Cleared Credit Default Swaps

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[Redacted]