

June 8, 2012

**VIA E-MAIL**

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

**RE: CME Clearing Advisory Notice announcing the Modified Split Allocation feature of CME's Standard Portfolio Analysis of Risk ("SPAN") methodology Submission # 12-189**

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME") is hereby notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the adoption of the Modified Split Allocation feature of CME's Standard Portfolio Analysis of Risk ("SPAN") methodology for certain energy futures contracts. The revisions will become effective on June 25, 2012.

A CME Clearing Advisory Notice is being published to announce the new Modified Split Allocation feature of SPAN (attached hereto as Exhibit 1). The Modified Split Allocation feature calibrates the risk of portfolios, consisting of positions in highly similar and correlated futures and options, including instruments which themselves represent the offset or basis between two sets of products. The feature represents an incremental enhancement to the split allocation methodology already in use to allow for the "splitting" of certain futures contracts into their true underlying components to enable more accurate margining, while maintaining proper assessments of second order volatility risk.

With the Modified Split Allocation feature, futures products, which are made up of components of other futures products will no longer have to be margined separately and managed with inter-commodity credit amounts allowing for more optimal spread offsets. The Modified Split Allocation will allow automatic, consistent and accurate portfolio margining of these types of futures contracts, beginning with the WTI Calendar Swap Futures (CS) and the Brent Calendar Swap Futures (CY).

CME Clearing Senior Management and the Legal Department collectively reviewed the derivatives clearing organization core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During the review, we have identified that the announcement of the Modified Split Allocation feature of SPAN, may have some bearing on the following Core Principles:

- **DCO Core Principle D, Risk Management:** The Modified Split Allocation feature is an incremental enhancement to the existing split allocation methodology in SPAN which allows for spread and portfolio margining across products. This change complies with this core principle due to the correlation between the affected component products as required by CFTC regulation 39.13(g)(4).

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The CME certifies that the adoption of Modified Split Allocation methodology complies with the CEA and regulations thereunder. There were no substantive opposing views to this proposal.

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>.

If you have any questions regarding this submission, please contact Timothy J. Maher, CME Clearing Compliance Officer at 312.930.27301 or via email at [timothy.maher@cmegroup.com](mailto:timothy.maher@cmegroup.com) or Dale Michaels, MD Credit and Market Risk Management at 312.930.3062 or via email at [dale.michaels@cmegroup.com](mailto:dale.michaels@cmegroup.com) or alternatively, you may contact me at 312.930.8167 or via email at [sean.downey@cmegroup.com](mailto:sean.downey@cmegroup.com). Please reference SPAN Modified Split Submission No. 12-189 in any related correspondence.

Sincerely,

/s/ Sean Downey  
Director & Assistant General Counsel

Attachment: Exhibit 1 – Clearing Advisory Notice regarding SPAN Modified Split Allocation

# EXHIBIT 1



TO: Clearing Member Firms; Risk Managers  
FROM: CME Clearing  
ADVISORY #: 12-XXX  
SUBJECT: **New SPAN feature Modified Split Allocation**

On Monday, June 25, CME Clearing will make available a new feature of SPAN to clearing firms. The new feature, called **Modified Split Allocation**, will allow for more accurate and efficient margining of certain CME energy portfolios. In particular, portfolios containing hedged **WTI Calendar Swap Futures (CS) or Brent Calendar Swap Futures (CY)** with similar contracts can experience substantial efficiencies in portfolio margins.

The new feature is not yet supported by some clearing firm bookkeeping systems. Therefore, we are not at this time making any changes to the normal daily CME SPAN risk parameter files, or including the new feature in the margin parameters in those files.

Clearing firms wishing to take advantage of these portfolio margin efficiencies when calculating margins for their customers may do so in either of two ways: (a) use PC-SPAN together with an alternate version of the daily SPAN risk parameter file, or (b) transmit a file containing the portfolios to be margined to CME, and we will return a file of the margin results.

The new, **alternate SPAN risk parameter files** will be available on the Internet at <...> and on the Firm FTP Server at <...>. Note that they will be provided only in the SPAN XML format.

For more information please contact CME Clearing at 312-648-3888.