SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67610; File No. SR-CME-2012-28)

August 7, 2012

Self-Regulatory Organizations; Chicago Mercantile Exchange, Inc.; Notice of Filing of Proposed Rule Change Related to the Liquidity Factor of its Credit Default Swap Margin Methodology

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder[2] notice is hereby given that on July 25, 2012, the Chicago Mercantile Exchange, Inc. ("CME") filed with the Securities and Exchange Commission ("Commission") the proposed change as described in Items I, II and III below, which Items have been prepared primarily by CME. The Commission is publishing this notice to solicit comments on the proposed change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

CME proposes to make an adjustment to one particular component of its current credit default swap **("**CDS") margin model. The adjustment would apply only to non-customer positions. [3]

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CME included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. CME has prepared summaries, set forth in sections (A), (B), and (C) below, of the most

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Telephone conference between Timothy Elliott, Director and Associate General Counsel, CME, and Marta Chaffee, Assistant Director, and Gena Lai, Senior Special Counsel, Securities and Exchange Commission, Division of Trading and Markets, on July 30, 2012.

significant aspects of these statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

CME's currently approved credit default swap margin methodology utilizes a "multi-factor" portfolio model to determine margin requirements for credit default swap ("CDS") instruments. The model incorporates risk-based factors that are designed to represent the different risks inherent to CDS products. The factors are aggregated to determine the total amount of margin required to protect a portfolio against exposures resulting from daily changes in CDS spreads. For both total and minimum margin calculations, CME evaluates each CDS contract held within a portfolio. These positions are distinguished by the single name of the underlying entity, the CDS tenor, the notional amount of the position, and the fixed spread or coupon rate. For consistency, margins for CDS indexes in a portfolio are handled based on the required margin for each of the underlying components of the index.

CME proposes to make an adjustment to one particular component of its current CDS margin model. The liquidity margin component of the CME CDS margin model is designed to capture the risk associated with bid/ask spreads and concentration inherent in the process of liquidating a portfolio of a CDS Clearing Member. The current methodology for the liquidity factor is a function of a portfolio's gross notional value, the current bid/ask of the 5 year tenor of the "on the run" contract, the Duration/Series/Tenor ("DST") factor, and a concentration factor based upon the gross notional for each of the CDX IG and CDX HY contracts. The total liquidity margin for a portfolio is the sum of the liquidity margins of the CDX IG and CDX HY CDS Contracts in the CDS Clearing Member portfolio.

The specific proposed change that is the subject of this filing relates only to the methodology used for the DST factor of the CDX IG and HY families. Under current methods, every DST calculation is calibrated separately for each index family. Further, the maximum DST value is used. The proposal is to change the DST factor so that it will apply to the specific series and tenor for each CDX IG and CDX HY CDS contract in a portfolio. The revision is designed to more closely align the DST factor with the liquidity profile of the CDS contracts in a portfolio.

The proposed adjustment does not require any changes to rule text in the CME rulebook and does not necessitate any changes to CME's CDS Manual of Operations. The change will be announced to CDS market participants in an advisory notice that will be issued prior to implementation but after approval for the change is obtained from the Commission.

The CME believes the proposed rule changes are consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act. The enhancements to CME's current margin methodology will facilitate the prompt and accurate settlement of security-based swaps and contribute to the safeguarding of securities and funds associated with security-based swap transactions. The proposed rule changes accomplish those objectives because the changes are designed to better align the margin methodology with the liquidity profile of the instruments in the portfolio.

(B) <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

CME does not believe that the proposed rule change would impose any burden on competition.

(C) <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others</u>

CME has not solicited, and does not intend to solicit, comments regarding this proposed rule change. CME has not received any unsolicited written comments from interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commissions Internet comment form (http://www.sec.gov/rules/sro.shtml) or Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CME-2012-28 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CME-2012-28. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of CME and on CME’s website at http://www.cmegroup.com/market-regulation/files/SEC_19B-4_12-28.pdf.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly**.** All submissions should refer to File Number SR-CME-2012-28 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[4]

Kevin M. O'Neill
Deputy Secretary

4 17 CFR 200.30-3(a)(12).