

May 5, 2014

VIA E-MAIL

Ms. Melissa Jurgens
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**RE: CFTC Regulation 40.6(a) Certification. CME Rule 90008 (IRS COUPON BLENDING)
CME/CBOT/NYMEX Submission No. 14-157**

Dear Ms. Jurgens:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”) hereby notifies the Commission of a new rule to permit compression of interest rate swap (“IRS”) contracts through coupon blending. The proposed rule will be effective on May 19, 2014.

CME Clearing is proposing to adopt CME Rule 90008 (IRS Coupon Blending) to allow market participants the ability to reduce the number of open positions and/or the gross notional of their IRS positions through compression by coupon blending. A market participant interested in coupon blending will inform CME Clearing or its IRS Clearing Member that it wishes to exercise coupon blending and then CME Clearing will conduct a process that will take IRS contracts executed at the same or different fixed rates and replace them with zero or more IRS Contracts that have Fixed Rate(s) equal to the blended rate(s) determined through the coupon blending process. The process will result in either a reduction in the number of transactions, a reduction in the aggregate gross notional of the combined IRS Contracts or both.

The text of proposed CME Rule 90008 is attached as Exhibit 1. An example of the IRS coupon blending process is outlined on Exhibit 2.

CME reviewed the derivatives clearing organization core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”). During the review, CME identified the following Core Principle as potentially impacted:

Risk Management: Consistent with CFTC Regulation 39.14(h)(4) (Portfolio Compression), CME is offering coupon blending for market participants interested in reducing the number of IRS contracts cleared at CME. Coupon blending will be available to all participants on a voluntary basis and can be automated at a market participant’s request.

CME certifies that the proposed rule complies with the Commodity Exchange Act and the regulations thereunder. There were no substantive opposing views to this clarification.

Notice of 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 Dhiraj Bawadhankar at 312-930-2034 or via e-mail at Dhiraj.Bawadhankar@cmegroup.com, or contact me at 212-299-2228 or via e-mail at Jason.Silverstein@cmegroup.com. Please reference our CME Submission No. 14-157 in any related correspondence.

Sincerely,

/s/ Jason Silverstein
Executive Director & Associate General Counsel

Attachments: Exhibits 1 and 2

EXHIBIT 1

PROPOSED NEW RULE 90008. IRS COUPON BLENDING

The Clearing House will allow IRS Participants to elect to have the Clearing House reduce the number of IRS Positions of such IRS Participant through a compression process that will replace similar cleared IRS Contracts executed at the same or different fixed rates with zero or more replacement IRS Contracts that have Fixed Rate(s) equal to the blended rate(s) determined through the coupon blending process. The coupon blending process will result in a compression of the IRS Participant's portfolio by reducing the number of transactions and/or the aggregate gross notional of the combined IRS Contracts. The combined cashflows of the replacement IRS Contracts will be the same as the combined cash flows of the original IRS Contracts.

EXHIBIT 2

Example of IRS Coupon Blending Process

Assume following 15 swaps are in a portfolio. All swaps are on similar IRS contracts but have different notional, fixed rates and direction.

	Fixed Rate	Notional	Weighted Notional
Swap 1	3	-100000000.00	-300000000.00
Swap 2	3.5	99000000.00	346500000.00
Swap 3	3.1	-1200000.00	-3720000.00
Swap 4	2.9	15600000.00	45240000.00
Swap 5	3.101	30000000.00	93030000.00
Swap 6	3.2	16500000.00	52800000.00
Swap 7	2.9545	33470000.00	98887115.00
Swap 8	3.241	20000000.00	64820000.00
Swap 9	3.2254	-1500000.00	-4838100.00
Swap 10	3.4591	45000000.00	155659500.00
Swap 11	3.0125	-17250000.00	-51965625.00
Swap 12	3.225	165432100.00	533518522.50
Swap 13	2.1975	-87542100.00	-192373764.75
Swap 14	1.841	-155210000.00	-285741610.00
Swap 15	3.1478	-38210000.00	-120277438.00
Simple Average	3.006986667		
Rounded to 5 Decimal	3.007		
Total Notional		Net Notional: 24090000.00	Total Weighted Average Notional 431538599.75

The fixed cashflows for these 15 swaps are shown in the table below

	FIXED CASHFLOWS			
	91	182	271	364
Swap 1	\$ (758,333.33)	\$ (758,333.33)	\$ (741,666.67)	\$ (775,000.00)
Swap 2	\$ 875,875.00	\$ 875,875.00	\$ 856,625.00	\$ 895,125.00
Swap 3	\$ (9,403.33)	\$ (9,403.33)	\$ (9,196.67)	\$ (9,610.00)
Swap 4	\$ 114,356.67	\$ 114,356.67	\$ 111,843.33	\$ 116,870.00
Swap 5	\$ 235,159.17	\$ 235,159.17	\$ 229,990.83	\$ 240,327.50
Swap 6	\$ 133,466.67	\$ 133,466.67	\$ 130,533.33	\$ 136,400.00
Swap 7	\$ 249,964.65	\$ 249,964.65	\$ 244,470.92	\$ 255,458.38
Swap 8	\$ 163,850.56	\$ 163,850.56	\$ 160,249.44	\$ 167,451.67
Swap 9	\$ (12,229.64)	\$ (12,229.64)	\$ (11,960.86)	\$ (12,498.43)
Swap 10	\$ 393,472.63	\$ 393,472.63	\$ 384,824.88	\$ 402,120.38
Swap 11	\$ (131,357.55)	\$ (131,357.55)	\$ (128,470.57)	\$ (134,244.53)

Swap 12	\$ 1,348,616.27	\$ 1,348,616.27	\$ 1,318,976.35	\$ 1,378,256.18
Swap 13	\$ (486,278.13)	\$ (486,278.13)	\$ (475,590.70)	\$ (496,965.56)
Swap 14	\$ (722,291.29)	\$ (722,291.29)	\$ (706,416.76)	\$ (738,165.83)
Swap 15	\$ (304,034.63)	\$ (304,034.63)	\$ (297,352.56)	\$ (310,716.71)
Total Cashflow	\$ 1,090,833.68	\$ 1,090,833.68	\$ 1,066,859.32	\$ 1,114,808.05

If the participant requests coupon blending The above 15 swaps will be terminated and replaced with the following two swaps mentioned below

	Fixed Rate	Notional
Swap 16	3.007	143511340.10
Swap 17	0	-119421340.12

- Swap 16 fixed cashflows match the total cashflows as mentioned in the above table. Swap 16 is created using an appropriate rate, in this example simple average rate rounded to 5 decimals is shown. An user defined rate, largest rate from the swaps that went in the blending process, present market rate, etc can be used. Based on the Fixed Rate to be used on this swap we compute the notional amount such that the fixed cashflows stay the same as the combination of all the swaps.
- Notional of Swap 16 = Total Weighted Average Notional / Fixed Rate of Swap 16
- Swap 16 takes care of all the fixed cashflows
- Since all fixed cashflows are taken care by Swap 16, Swap 17 is created to address the float cashflow differential. As such, Swap 17 will have a 0 fixed rate with notional amount that takes care of the float cashflows
- Notional Amount on Swap 17 = Net Notional – Notional of Swap 16