

June 4, 2014

Subject to a Request for FOIA Confidential Treatment

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. Change to procedures for facilitating physical delivery of CLS-eligible foreign currencies
CME Submission No. 14-165R**

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 proposed amendments to the procedures for facilitating physical delivery of CLS-eligible foreign currencies. The proposed amendments will be effective June 18, 2014 and currency pairs will move to the new process on a staggered basis over the next few currency delivery cycles as further specified below. As is discussed below, the proposed change does not materially affect the nature or level of risks presented to CME Clearing and its clearing members.

The operation and purpose of the proposed changes are as follows. Currently, CME facilitates physical deliveries for CLS eligible currencies through a CME account at CLS Settlement Member banks for the purpose of efficiently matching CLS instructions. To facilitate this arrangement, CME has an agreement as a 3rd party customer with a CLS settlement member bank, henceforth termed as CLS agent Bank. CME maintains accounts with two CLS agent banks for operational redundancy. The CLS agent bank plays an operational role in the CLS process. CME Clearing members use their own CLS settlement banks or affiliates to physically settle currency deliveries within CLS.

Currently, in a failure of physical settlement, CME Clearing would administer the failure under CME Rule 702. CME Clearing would be under no obligation to secure the failed currency; it may however facilitate the purchase of the currency for impacted clearing firm due to the fact that the currency of the impacted firm would be in the account of the CME at the CLS agent bank. Under our rules, CME will remove any failed transactions from the CLS settlement process and resolve the failed physical settlements as set out under CME Rule 743.B.

CME Clearing's CLS agent banks have expressed an intention to discontinue providing such services to central counterparties, such as CME, beyond September 2014. To maintain the orderly functioning of CME FX Futures market and to avoid disruption to CME Clearing members and market participants, it is required for CME to migrate away from the current operational mechanism described above to the Paired Delivery model for the September 2014 FX delivery cycle for CLS eligible currencies. Given the long history of operating under the current operational mechanism, it is important to provide the Clearing members with an orderly migration path with an initial pilot physical delivery for the CAD/USD contract in the June 2014 delivery cycle.

As a result, CME is amending the process for physical delivery of CLS-eligible foreign currencies to a paired delivery process, which is similar to that currently used for our physically settled products in the Treasury complex. The operation of the paired delivery process is as follows. The process is an assignment-based process where clearing members with open long and short positions at the termination of trading on expiration of the contract will be matched against one another in order to facilitate the delivery. The assignment algorithm first matches delivery positions within a clearing firm. The algorithm then matches remaining positions across clearing firms. The algorithm for matching across clearing firms is designed to reduce the concentration of physical settlement. A more detailed description of the paired delivery process as well as a description of the assignment algorithm is attached to this submission as Exhibit 1. The migration to the Paired Delivery model does not impact or change the Clearing Member's ability to use their existing CLS access arrangements. Paired delivery process simplifies physical delivery process, provides more transparency and certainty in the event of a failure in physical settlement. The physical settlement transactions continue to receive the same level of guarantee as defined under CME Rule 702. This process is further described in CME Advisory Notice #14-189 attached hereto as Exhibit 2 and which was provided to clearing members on May 12, 2014.

Aside from the changes described above, nothing will otherwise change from an operational or risk perspective. Consequently, the proposed change does not materially affect the nature or level of risks presented to CME Clearing and its clearing members.

After implementation of the proposed changes, the CME Clearing and Market Regulation teams will continue to monitor the Clearing members going through delivery to assess their ability to perform for their house and client accounts; this is comparable to the process used for Treasury deliveries. Moreover, for FX, Clearing members can continue to use their existing CLS arrangements for currency deliveries. This is comparable to the Treasury delivery process; in that process, Clearing members may utilize their own banking relationships provided the relationship meets the standards outlined in our Rulebook. Clearing members can continue to use the offset benefit they currently get with the spot FX physical settlements through CLS. As noted above, the physical settlement transactions continue to receive the same level of guarantee as defined under CME Rule 702.

The removal of the CLS agent banks from the delivery process will not result in the reduction of liquidity from the delivery process. Under the agreements, CME Clearing's CLS agent banks are under no contractual obligation to provide services to secure the alternate currency.

To facilitate an orderly transition to the new process, CME will move currency pairings on a staggered basis to the new paired delivery process beginning with the CAD/USD contract for the June 2014 FX delivery cycle. Additional currencies will be moved to the new process for the September 2014 and December 2014 FX delivery cycles as reflected in future advisory notices to clearing members.

CME has 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 Principles as potentially impacted:

Settlement Procedures: CFTC Regulation 39.14(g)(1) (Physical delivery) states that a derivatives clearing organization shall establish rules that clearly state each obligations it has assumed with respect to physical deliveries. Nothing in the proposed amendments changes the obligations CME has assumed for physical deliveries as clearly stated in CME Rules 702. As described above, the proposed amendments described herein are a change to the process by which clearing members will process physical deliveries of CLS eligible currencies. The extent of the change is the matching counterparty in the physical settlement transaction.

CME certifies that the above amendments comply 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 Sunil Cutinho at 312-634-1592 or via e-mail at Sunil.Cutinho@cmegroup.com, or contact me at 212-299-2228 or via e-mail at Jason.Silverstein@cmegroup.com. Please reference our CME Submission No. 14-165 in any related correspondence.

Sincerely,

/s/ Jason Silverstein
Executive Director & Associate General Counsel

Attachments

EXHIBIT 1

CONFIDENTIAL TREATMENT REQUESTED

EXHIBIT 2



14-189

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

SUBJECT: **New FX Futures Delivery Process: Migration & Processing Timelines**

DATE: May 12, 2014

Beginning with the June 2014 FX futures delivery cycle, there will be an operational change to the delivery process. A new paired delivery process will be introduced for a subset of CLS-eligible currency pairs. This operational change will not impact the duties of clearing members during currency deliveries or the CME Clearing guarantee of financial performance during the delivery process as outlined in Rule 702. There will be no change to the delivery process for non-CLS currencies.

In June 2014, the CAD/USD (CD) and the micro CAD/USD (MCD) contracts will be the first contracts to be delivered using a paired process. The paired delivery process is an assignment-based process between clearing firms. Clearing firms with open long and short positions at the end of trading on last trade date will be matched against one another. The assigned clearing members will then facilitate the delivery utilizing the commitment information entered in Deliveries Plus. Similar to other assignment-based processes at CME, clearing firms will be provided with buy/sell notifications and invoice reports detailing the assignment. In addition, clearing firms will be provided with a CSV-format instruction file that can be used for automating the CLS payment instruction creation process.

In September of 2014, the above mentioned paired delivery process will be introduced for the remaining CLS-eligible currency pairs.

Due to the new paired delivery process, delivery processing timelines for **FX paired delivery contracts** have changed as follows:

Monday, June 16, 2014 (Last Trading Day for all FX contracts except Canadian Dollar, Turkish Lira, and Euro/Turkish Lira)	
Description	Time
Contracts Expire	9:16 a.m.
Commitments Due to Clearing	1:00 p.m.
Firm CLS Matching Confirmation Status	5:00 p.m.
Tuesday, June 17, 2014 (Last Trading Day for Canadian Dollar, Turkish Lira, and Euro/Turkish Lira)	
Description	Time
Contracts Expire	9:16 a.m.

Prior Day CLS Trade Matching Extension Deadline	
Commitments Due to Clearing	10:00 a.m.
Wire Transfers Payments Due (10:00 am Local Time in the Country of Origin)	
Assignment & Reporting	11:00 am
Firm CLS Matching Confirmation Status (Clearing firms must contact Clearing with a matched confirmation status)	1:00 pm
CLS Trade Matching Extension Deadline (Unmatched trades will be settled via Wire Transfer)	2:00 pm
Wednesday, June 18 2014 Delivery Day	
Description	Time
Wire Transfer Delivery Complete	10:00 a.m. local time in the country of origin
Wire Transfer Delivery Complete Notification to Clearing	Due within 1 hour of delivery complete deadline
CLS Delivery Complete Notification to Clearing	11:00 a.m. CST

The aforementioned Tuesday delivery timeline is applicable only for the CAD/USD and micro- CAD/USD contracts that are part of the paired delivery assignment in June. All other contracts shall adhere to the existing processing timelines for the June delivery cycle.

Detailed FX delivery procedures and testing opportunities will be provided on **May 15, 2014**.

Clearing member firms may receive a sample CSV file and forecast assignment instructions by sending a request to clearinghousedelivteam@cmegroup.com.

Rules governing the FX contracts and delivery are updated and available at www.cmegroup.com.

Further questions may be directed to:

Anthony Zangrilli Senior Director Clearing Operations	Anthony.Zangrilli@cmegroup.com	312.930.3356
Brian Sayers Senior Director Clearing Operations	Brian.Sayers@cmegroup.com	312.634.8887
Laura Buschnyj Manager Delivery & Settlement	Laura.Buschnyj@cmegroup.com	312.634.1598
Deliveries	ClearingHouseDelivTeam@cmegroup.com	312.930.3172