

### B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule changes to revise Exchange Rules related to fees and to add a new provision regarding fee disputes should reduce possible confusion regarding the procedures for establishing, invoicing and collecting fees, dues and other charges. Since the Exchange proposes no substantive changes regarding fees applicable to Members, the proposal does not impose any burden on competition.

### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>10</sup> and Rule 19b-4(f)(6)<sup>11</sup> thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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 Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2014-27 on the subject line.

#### Paper Comments

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

All submissions should refer to File Number SR-MIAX-2014-27. This file number should be included on the subject line if email 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. 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-MIAX-2014-27 and should be submitted on or before July 14, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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<sup>12</sup> 17 CFR 200.30-3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72413; File No. SR-CME-2014-22]

### Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Physical Delivery of CLS-Eligible Foreign Currencies

June 17, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 9, 2014, Chicago Mercantile Exchange Inc. ("CME") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I and II below, which Items have been prepared primarily by CME. CME filed the proposal pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(4)(ii)<sup>4</sup> thereunder, so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

CME is filing the proposed rule change that is limited to its business as a derivatives clearing organization. More specifically, the proposed rule change would make amendments to its current procedures for facilitating physical delivery of CLS-eligible foreign currencies.

#### 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 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 significant aspects of such statements.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4)(ii).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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

CME is registered as a DCO with the Commodity Futures Trading Commission ("CFTC") and offers clearing services for many different futures and swaps products. The proposed rule change that is the subject of this filing is limited to CME's business as a DCO offering clearing services for CFTC-regulated products. More specifically, the change is limited to the delivery processing timelines for CME FX futures paired delivery contracts. As discussed below, the proposed change, which would facilitate continued physical delivery of CLS-eligible foreign currencies, would not materially affect the nature or level of risks presented to CME and its clearing members.

The operation and purpose of the proposed change is 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 would administer the failure under current CME Rule 702. CME 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 CME rules, CME will remove any failed transactions from the CLS settlement process and resolve the failed physical settlements as set out under current CME Rule 743.B.

CME'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 the 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 CME's 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. The migration to the Paired Delivery model does not impact or change the Clearing Member's ability to use their existing CLS access arrangements. The paired delivery process simplifies the physical delivery process and 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.

Aside from the change 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 and its clearing members.

After implementation of the proposed change, CME teams would continue to monitor clearing members going through delivery to assess their ability to perform for their house and client accounts; this is comparable to the process currently used for Treasury deliveries. Moreover, for FX futures, clearing members would be able to continue to use their existing CLS arrangements for currency deliveries. This is comparable to the current CME Treasury delivery process; in that process, clearing members are able to utilize their own banking relationships provided the relationship meets the standards outlined in applicable CME rules. Clearing members can also 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 would not result in the reduction of liquidity from the delivery process. Under the agreements, CME'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 FX futures 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.

The change described in this filing is limited to CME's business as a DCO clearing products under the exclusive jurisdiction of the CFTC and does not materially impact CME's security-based swap or futures clearing business in any way. The change will become effective immediately but will be operationalized beginning June 18, 2014 and on a staggered basis over the next few currency delivery cycles. CME notes that it has also certified the proposed rule change that is the subject of this filing to its primary regulator, the CFTC, in a separate filing, CME Submission No. 14-165.

CME believes the proposed rule change is consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.<sup>5</sup> Currently, CME facilitates physical deliveries for CLS-eligible currencies through a CME account at third party banks that are members of CLS for the purpose of efficiently matching CLS instructions for all CLS-eligible currencies. These banks have expressed an intention to discontinue providing such services to central counterparties, such as CME, beyond September 2014. The amendments would facilitate physical delivery of CLS-eligible foreign currencies by amending the process for physical delivery of CLS-eligible foreign currencies to an assignment based paired delivery process where clearing members with open long and short positions at the end of trading on last trade date will be matched against one another in order to facilitate a delivery. These proposed amendments are designed to continue the ability to offer physical delivery of CLS-eligible foreign currencies and as such are designed to promote the prompt and accurate

<sup>5</sup> 15 U.S.C. 78q-1.

clearance and settlement of securities transactions and, to the extent applicable, derivatives agreements, contracts, and transactions, to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and, in general, to protect investors and the public interest consistent with Section 17A(b)(3)(F) of the Exchange Act.<sup>6</sup>

Furthermore, the proposed change is limited in its effect to products offered under CME's authority to act as a DCO. The products that are the subject of this filing are under the exclusive jurisdiction of the CFTC. As such, the proposed CME change is limited to CME's activities as a DCO clearing futures that are not security futures and swaps that are not security-based swaps and forwards that are not security forwards; CME notes that the policies of the CFTC with respect to administering the Commodity Exchange Act are comparable to a number of the policies underlying the Exchange Act, such as promoting market transparency for over-the-counter derivatives markets, promoting the prompt and accurate clearance of transactions and protecting investors and the public interest.

Because the proposed change is limited in its effect to products offered under CME's authority to act as a DCO, the proposed change is properly classified as effecting a change in an existing service of CME that:

(a) Primarily affects the clearing operations of CME with respect to products that are not securities, including futures that are not security futures, swaps that are not security-based swaps or mixed swaps; and forwards that are not security forwards; and

(b) does not significantly affect any securities clearing operations of CME or any rights or obligations of CME with respect to securities clearing or persons using such securities-clearing service. As such, the change is therefore consistent with the requirements of Section 17A of the Exchange Act<sup>7</sup> and is properly filed under Section 19(b)(3)(A)<sup>8</sup> and Rule 19b-4(f)(4)(ii)<sup>9</sup> thereunder.

#### *B. Self-Regulatory Organization's Statement on Burden on Competition*

CME does not believe that the proposed rule change will have any impact, or impose any burden, on competition. Currently, CME facilitates

physical deliveries for CLS-eligible currencies through a CME account at third party banks that are members of CLS for the purpose of efficiently matching CLS instructions for all CLS-eligible currencies. These banks have expressed an intention to discontinue providing such services to central counterparties, such as CME, beyond September 2014. The amendments would facilitate physical delivery of CLS-eligible foreign currencies by amending the process for physical delivery of CLS-eligible foreign currencies to an assignment based paired delivery process where clearing members with open long and short positions at the end of trading on last trade date will be matched against one another in order to facilitate a delivery. These proposed amendments are designed to continue the ability to offer physical delivery of CLS-eligible foreign currencies and should not be seen to impact competition.

#### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

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**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>10</sup> of the Act and Rule 19b-4(f)(4)(ii)<sup>11</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### **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 Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or

- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-CME-2014-22 on the subject line.

##### *Paper Comments*

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

All submissions should refer to File Number SR-CME-2014-22. This file number should be included on the subject line if email 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 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 Web site at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

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-2014-22 and should be submitted on or before July 14, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Kevin M. O'Neill,**  
*Deputy Secretary.*

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<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> 15 U.S.C. 78q-1.

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(4)(ii).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(4)(ii).

<sup>12</sup> 17 CFR 200.30-3(a)(12).