

March 12, 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. Chapter 7 Delivery Rules.
CME/CBOT/NYMEX Submission No. 14-077**

Dear Ms. Jurgens:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”), the Board of Trade of the City of Chicago, Inc. (“CBOT”), and New York Mercantile Exchange, Inc. (“NYMEX”) (collectively, the “Exchanges”) hereby notify the Commission of rule changes clarifying the obligations of CME’s clearing division (“CME Clearing”) for physical deliveries. The proposed changes will be effective on March 27, 2014.

Per existing CME/CBOT/NYMEX Rule 702, CME Clearing guarantees financial performance (i.e. replacement cost) for all physically deliverable products. In assessing the current rulebook, CME Clearing noted that certain provisions in Chapter 7 should be clarified in order to more clearly state CME Clearing’s obligations in deliveries and delivery failures, as the existing rule contains some language that may be seen as inconsistent with the overriding impact of CME/CBOT/NYMEX Rule 702. As a result, the Exchanges are proposing clarifying amendments to more clearly state CME Clearing’s obligations for deliveries and delivery failures as specified below.

The proposed amendments to CME Rules 730-732 delete the operational mechanics of the currency delivery rules in light of the guaranty of financial performance per Rule 702 for deliveries.

The proposed amendments to CME Rule 743.B clarify that the clearing member causing a currency delivery failure is liable to CME Clearing for any financial performance paid by CME Clearing to the contra-clearing member. The proposed amendments to CME Rule 742.A delete the reference to charging a clearing member overdraft fees for late or inaccurate deliveries.

Finally, the Exchanges are proposing changes to Rule 702 to harmonize and more clearly state that CME Clearing is responsible for financial performance to the clearing member that did not cause or contribute to the delivery failure by strengthening the operative language (the current rule states that CME Clearing “shall seek to ensure financial performance...”). “Financial performance” is defined as payment of the commercially reasonable costs of the affected clearing member for replacing the failed delivery and includes any fines, penalties and fees incurred in replacing the delivery, and does not include physical performance or legal fees. The changes further include a deadline for affected clearing members to seek a claim for financial performance and codification of the requirement to submit supporting documentation.

The above listed changes are clarifications to existing rules and do not result in changes to the operational processes or the nature or level of the risks posed to CME Clearing or clearing members.

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

Settlement Procedures: CFTC Regulation 39.14(g) (Physical delivery) requires DCOs to state their obligations with respect to deliveries, including obligations to make or accept deliveries.¹ The proposed changes are intended to clarify CME Clearing's obligations for deliveries consistent with CFTC Regulation 39.14(g). The proposed changes clarify the existing practices and clearly state that in the event of a delivery failure, CME Clearing's obligations will be for financial performance to the clearing member whose actions or omissions did not cause or contribute with respect to the delivery failure, and defines financial performance to be payment of the commercially reasonable costs of the affected clearing member for replacing the failed delivery and includes any fines, penalties and fees incurred in replacing the delivery, and does not include physical performance or legal fees.

The text of the proposed changes is reflected on the attached Exhibit, with additions underlined and deletions ~~stricken through~~.

The Exchanges certify that the above rules and rule 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. 14-077 in any related correspondence.

Sincerely,

/s/ Jason Silverstein
Executive Director & Associate General Counsel

Attachment: Exhibit 1

¹ Regulation 39.14(g) *Physical Delivery* states, "With respect to products that are settled by physical transfers of the underlying instruments or commodities, a derivatives clearing organization shall:
(1) Establish rules that clearly state each obligation that the derivatives clearing organization has assumed with respect to physical deliveries, including whether it has an obligation to make or receive delivery of a physical instrument or commodity, or whether it indemnifies clearing members for losses incurred in the delivery process; and
(2) Ensure that the risks of each such obligation are identified and managed."

EXHIBIT 1

CME RULE 702. CLEARING MEMBER DUTIES TO THE CLEARING HOUSE

Every clearing member carrying open long or short positions shall present to the Clearing House each business day an accurate inventory of such open positions. The inventory of open long and short positions shall be reported to the Clearing House in such manner and at such times as the Clearing House may prescribe.

A clearing member, carrying an account that is required to make or accept delivery, agrees to guarantee and assume complete responsibility for the performance of all delivery requirements set forth in the rules.

In the event a clearing member fails to perform its delivery obligations to the Clearing House, such failure may be deemed a default pursuant to Rule 802. In a delivery ~~default~~failure, the Clearing House shall ~~seek to~~ensure the financial performance to the clearing member whose actions or omissions did not cause or contribute with respect to the delivery failure (the “Affected Clearing Member”). In this regard, the Clearing House powers will include, but will not be limited to, the right to sell or liquidate the commodity subject to delivery and to distribute the proceeds as appropriate. “Financial performance” means payment of the commercially reasonable costs of the Affected Clearing Member related to replacement of the failed delivery and includes any related fines, penalties and fees incurred by the Affected Clearing Member and does not include physical performance or legal fees.

An Affected Clearing Member seeking financial performance from the Clearing House shall provide prompt notice to the Clearing House of the delivery failure and a good faith estimate of any financial performance being sought no later than 1 hour after the delivery deadline for the respective product, which may be extended upon request by the Affected Clearing Member by the President of the Clearing House or the President’s designee due to extenuating circumstances. As soon as reasonably practicable thereafter, the Affected Clearing Member seeking financial performance shall provide to the Clearing House a detailed statement, with supporting documentation, of all amounts sought.

CBOT RULE 702. CLEARING MEMBER DUTIES TO THE CLEARING HOUSE

Every clearing member carrying open long or short positions shall present to the Clearing House each business day an accurate inventory of such open positions. The inventory of open long and short positions shall be reported to the Clearing House in such manner and at such times as the Clearing House may prescribe.

A clearing member carrying an account that is required to make or accept delivery agrees to guarantee and assume complete responsibility for the performance of all delivery requirements set forth in the rules.

In the event a clearing member fails to perform its delivery obligations to the Clearing House, such failure may be deemed a default pursuant to Rule 802. In a delivery ~~default~~failure, the Clearing House shall ~~seek to~~ensure the financial performance to the clearing member whose actions or omissions did not cause or contribute with respect to the delivery failure (the “Affected Clearing Member”). In this regard, the Clearing House powers will include, but will not be limited to, the right to sell or liquidate the commodity subject to delivery and to distribute the proceeds as appropriate. “Financial performance” means payment of the commercially reasonable costs of the Affected Clearing Member related to replacement of the failed delivery

and includes any related fines, penalties and fees incurred by the Affected Clearing Member and does not include physical performance or legal fees.

An Affected Clearing Member seeking financial performance from the Clearing House shall provide prompt notice to the Clearing House of the delivery failure and a good faith estimate of any financial performance being sought no later than 1 hour after the delivery deadline for the respective product, which may be extended upon request by the Affected Clearing Member by the President of the Clearing House or the President's designee due to extenuating circumstances. As soon as reasonably practicable thereafter, the Affected Clearing Member seeking financial performance shall provide to the Clearing House a detailed statement, with supporting documentation, of all amounts sought.

NYMEX RULE 702. CLEARING MEMBER DUTIES TO THE CLEARING HOUSE

Every clearing member carrying open long or short positions shall present to the Clearing House each business day an accurate inventory of such open positions. The inventory of open long and short positions shall be reported to the Clearing House in such manner and at such times as the Clearing House may prescribe.

A clearing member, carrying an account that is required to make or accept delivery, agrees to guarantee and assume complete responsibility for the performance of all delivery requirements set forth in the rules.

In the event a clearing member fails to perform its delivery obligations to the Clearing House, such failure may be deemed a default pursuant to Rule 802. In a delivery ~~default~~failure, the Clearing House shall ~~seek to~~ensure the financial performance to the clearing member whose actions or omissions did not cause or contribute with respect to the delivery failure (the "Affected Clearing Member"). In this regard, the Clearing House powers will include, but will not be limited to, the right to sell or liquidate the commodity subject to delivery and to distribute the proceeds as appropriate. "Financial performance" means payment of the commercially reasonable costs of the Affected Clearing Member related to replacement of the failed delivery and includes any related fines, penalties and fees incurred by the Affected Clearing Member and does not include physical performance or legal fees.

An Affected Clearing Member seeking financial performance from the Clearing House shall provide prompt notice to the Clearing House of the delivery failure and a good faith estimate of any financial performance being sought no later than 1 hour after the delivery deadline for the respective product, which may be extended upon request by the Affected Clearing Member by the President of the Clearing House or the President's designee due to extenuating circumstances. As soon as reasonably practicable thereafter, the Affected Clearing Member seeking financial performance shall provide to the Clearing House a detailed statement, with supporting documentation, of all amounts sought.

CME RULES 730-732 CLS CURRENCY DELIVERIES

CME RULE 730. DELIVERY THROUGH CLS BANK ~~AND/OR THE CME CLS AGENT~~ BANK

Consistent with procedures prescribed by the CME Clearing House, CME currency futures contracts are required to be physically delivered through the CLS (Continuous Linked

Settlement) Bank System where both the trading unit currency and the price increment (minimum fluctuation) currency are supported by CLS delivery procedures. Notwithstanding the foregoing, a clearing firm shall not be required to make physical delivery through the CLS Bank System for any currency futures contract where the delivery exposure of the clearing firm is reasonably expected not to exceed \$25 million for any one currency futures contract. ~~Exchange staff shall determine the CME CLS Agent Bank for facilitating the delivery of currencies through CLS Bank.~~ Clearing firms delivering CME currency futures contracts must use an approved CLS agent bank for deliveries through CLS Bank, which may be ~~the CME CLS Agent Bank or~~ any ~~other~~ approved CLS agent bank. If practicable, in those situations where clearing firms delivering CME currency futures contracts use the CME same CLS Agent Bank for delivery, then physical delivery may occur by book entry at the CME same CLS Agent Bank and not be settled through the CLS Bank.

When buyers and sellers elect to do currency deliveries through the CLS System, they agree to abide by the deadlines and compensation conventions established by ~~their the~~ CLS agent bank ~~it uses, the CME CLS Agent Bank,~~ and the CLS Bank. The CME Clearing House's obligation to the delivery transaction ends when payment is made through the CLS System. The CME Clearing House's sole obligation with respect to the delivery transaction shall be its obligation to ensure financial performance pursuant to Rule 702.

CME RULE 731. FOREIGN CURRENCY BUYER'S DUTIES FOR CLS DELIVERIES

A clearing member that intends to accept delivery of a foreign currency through the CLS System to liquidate a net long position in that foreign currency shall, no later than 11:00 a.m. Chicago time on the last day of trading, present to the Clearing House a Buyer's CLS Delivery Commitment, which identifies the CLS agent bank used by the buyer and the number of contracts and the component delivery values. Also, the clearing member/customer shall arrange with ~~their its~~ CLS agent bank to input the relevant instructions into the CLS System no later than 1:00 p.m. Chicago time on the business day preceding the delivery day. ~~The CME Clearing House will input the Exchange's relevant contra-side instructions into the CLS System. (The CME Clearing House is the seller to every buyer and the buyer to every seller in the currency delivery process through the CME CLS Agent Bank.)~~

A match of delivery information must occur in order for a delivery transaction to be finalized. In the event that clearing member/customer instructions are not entered into the CLS System by 1:00 p.m. Chicago time on the business day preceding the delivery day, then the unmatched transaction may not be completed and paid on the delivery date through the CLS System. In such event, delivery instructions may be resubmitted to the CLS agent bank for delivery on the subsequent business day. Also in such event, the Clearing House may assess fines for the delayed delivery. Further, if the delivery instructions remain unmatched by 1:00 p.m. Chicago time on the business day preceding the delivery day, the Clearing House may require the buyer of the foreign currency to post an Order to Pay to the appropriate Agent Bank by no later than the close of business that day, in addition to complying with other procedures as outlined in the Clearing House Manual.

If the Buyer's CLS Delivery Commitment is received later than 11:00 a.m. Chicago time on the last day of trading, but not later than 8:00 a.m. Chicago time on the following day, the buyer's clearing member shall be assessed a fine on a per contract basis, the amount to be determined by Exchange staff. Any deliveries memoranda or instructions received subsequent to 8:00 a.m. Chicago time on the day following the last day of trading shall be deemed a delivery obligation failure and acted upon in accordance with Rule 743.B. The buyer shall have made all provisions necessary to receive delivery within the country of issuance.

CME RULE 732. FOREIGN CURRENCY SELLER'S DUTIES FOR CLS DELIVERIES

A clearing member representing a customer delivering foreign currency through the CLS System to liquidate a net short position in that foreign currency shall, no later than 11:00 a.m. Chicago time on the last day of trading, present to the Clearing House a Seller's CLS Delivery Commitment, which identifies the CLS agent bank used by the seller and the number of contracts and the component delivery values. Also, the clearing member/customer shall arrange with ~~their~~ its CLS agent bank to input the relevant instructions into the CLS System no later than 1:00 p.m. Chicago time on the business day preceding the delivery day. ~~The CME Clearing House will input the Exchange's relevant contra-side banking instructions into the CLS System. (The CME Clearing House is the buyer to every seller and the seller to every buyer in the currency delivery process through the CME CLS Agent Bank.)~~

A match of delivery information must occur in order for a delivery transaction to be finalized. In the event that clearing member/customer instructions are not entered into the CLS System by 1:00 p.m. Chicago time on the business day preceding the delivery day, then the unmatched transaction may not be completed and paid on the delivery date through the CLS System. In such event, delivery instructions may be resubmitted to the CLS agent bank for delivery on the subsequent business day. Also, in such event, the Clearing House may assess fines for the delayed delivery. Further, if the delivery instructions remain unmatched by 1:00 p.m. Chicago time on the business day preceding the delivery day, the Clearing House may require the seller of the foreign currency to comply with other procedures as outlined in the Clearing House Manual.

If the Seller's CLS Delivery Commitment is received later than 11:00 a.m. Chicago time on the last day of trading, but not later than 8:00 a.m. Chicago time on the following day, the seller's clearing member shall be assessed a fine on a per contract basis, the amount to be determined by Exchange staff. Any deliveries memoranda or instructions received subsequent to 8:00 a.m. Chicago time on the day following the last day of trading shall be deemed a delivery obligation failure and acted upon in accordance with Rule 743.B.

CME RULE 742. DELIVERY NETTING

742.A. CLS Delivered Currency Futures Contracts

Exchange currency futures contracts delivered through the CLS Bank ~~and/or the CME CLS Agent Bank~~ shall be netted according to procedures specified by the Clearing House from time to time.

CME RULE 743. DELIVERY INFRACTIONS

743.A. Late or Inaccurate Delivery

1. If a clearing member with a Delivery Commitment to pay funds pursuant to Rules 731, 732, 737 or 738 fails to deposit such funds in order to make timely payment on the date required in those rules, the Clearing House may impose a fine upon the clearing member pursuant to the schedule of fines maintained by the Clearing House ~~in addition to charging the current overdraft rate applicable to the Exchange's foreign currency delivery account with the CME CLS Bank or with the Exchange's IMM foreign currency delivery account~~ or any other compensation due to the late or inaccurate delivery.

If by 9:30 a.m. Chicago time on the day following the date required in Rules 731, 732, 737 and 738, such deposit is not made, the failure shall be deemed a delivery obligation failure

of the clearing member and the matter shall be acted upon pursuant to Section B of this Rule.

Funds deposited pursuant to Rules 731, 732, 737 and 738 earlier than the required date of deposit shall not earn interest for the early time period.

2. If the information contained in either the Buyer's CLS on Non-CLS Delivery Commitment or the Seller's CLS or Non-CLS Delivery Commitment is inaccurate so that delivery cannot be accomplished in a timely manner, fines or damages may be assessed as in Section B below.

743.B. Delivery Obligation Failure

A clearing member with a CLS or Non-CLS Delivery Commitment who fails to perform all acts required by this chapter, or whose actions or inactions have been deemed a delivery obligation failure shall be liable ~~to the Clearing House~~ for any loss sustained, which loss shall be computed, without duplication, as follows:

1. The President of the Clearing House or his designee shall determine the change, if any, from the final settlement price on the last day of trading to the spot rate on the first day on which the transaction could be consummated on the spot market. The spot market rate for purposes of this computation shall be the ~~means~~ of the spot rates between a group of Chicago, Illinois banks selected for this purpose by Exchange staff at the earliest time it is determined the transaction can be completed in the spot market.
2. The related charges suffered by the ~~other party Clearing House~~ at any of its designated banks, the related charges suffered by the Clearing House and any financial performance paid by the Clearing House pursuant to Rule 702.
3. A sum not to exceed 1% of the U.S. dollar value of the contract. Such amount shall be set by the President of the Clearing House or his designee, acting in his sole discretion, and shall be binding upon both parties to the contract, except no such sum shall be assessed where a delivery obligation failure is occasioned by the circumstances delineated in Rule 701.