



Special Executive Report

S- 7841

January 26, 2017

Amendments to CME Rule 730. (Delivery Through CLS Bank) Regarding Foreign Exchange Delivery

Effective Sunday, February 12, 2017 for trade date Monday, February 13, 2017, and pending all relevant Commodity Futures Trading Commission regulatory review periods, Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) will implement amendments to CME Rule 730. (“Delivery Through CLS Bank”) (the “Rule Amendments”) regarding foreign exchange (“FX”) delivery through the Continuous Linked Settlement Bank System (“CLS”).

CME Rule 730. provides that deliverable currency futures contracts are required to be physically delivered through CLS where both the trading unit and price increment currency are supported by CLS delivery procedures. Rule 730. provides that notwithstanding this requirement, physical delivery need not occur through CLS where a clearing firm's delivery exposure in any single contract is reasonably expected to not exceed \$25 million. Currently, Rule 730. does not address delivery obligations in multiple currencies or limit the aggregate value of contracts eligible to be delivered outside of a CLS bank.

Specifically, in addition to the single contract limit of \$25 million US-dollar equivalent established in Rule 730., the Exchange will implement the Rule Amendments to establish a \$50 million US-dollar equivalent cap on a clearing firm's multi-currency delivery exposure eligible for physical delivery outside of CLS. Adoption of the cap will decrease operational risk to the extent that more notional value in FX will settle via CLS rather than wire transfer. Additionally, references to 'futures' contracts will be deleted to ensure its applicability to deliverable over-the-counter FX instruments as well as futures contracts.

Appendix A summarizes these amendments in black-line format.

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Appendix A

CME Rulebook Chapter 7 Delivery Facilities and Procedures

(Additions are underlined; deletions are ~~struckthrough~~.)

730. DELIVERY THROUGH CLS BANK

Consistent with procedures prescribed by the CME Clearing House, CME deliverable 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 (i) 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 or (ii) for any currency contract delivery obligations below \$50 million, measured across all the clearing member's CLS-eligible currency contracts in the aggregate, where more than one currency is required to be delivered. Clearing firms delivering CME currency ~~futures~~-contracts must use an approved CLS agent bank for deliveries through CLS Bank, which may be any approved CLS agent bank. If practicable, in those situations where clearing firms delivering CME currency ~~futures~~ contracts use the same CLS Agent Bank for delivery, then physical delivery may occur by book entry at the 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 the CLS agent bank it uses 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.