

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68401; File No. SR-CME-2012-42)

December 11, 2012

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Order Approving Proposed Rule Change Regarding the Valuation of Securities on Deposit

I. Introduction

On October 10, 2012, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-CME-2012-42 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on October 30, 2012.³ The Commission received no comment letters regarding this proposal. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

CME is proposing to issue an Advisory Notice that announces certain changes to the way CME will value securities on deposit. Under the proposed changes, CME will begin using the current market value, plus accrued interest, to value securities on deposit. CME currently excludes accrued interest from the value of securities on deposit. Therefore, with this adjustment, accrued interest will now be included in the market value of the security. The purpose of the adjustment is to harmonize valuations with existing industry conventions. CME initially planned to implement these changes beginning on December 3, 2012;⁴ however, CME

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 34-68093 (October 24, 2012), 77 FR 65730 (October 30, 2012).

⁴ See supra note 3.

has delayed the implementation date and will notify its Clearing Members of the new implementation date in a subsequent notice to its members.⁵

III. Discussion

Section 19(b)(2)(C) of the Act⁶ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act⁷ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, and 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.

The Commission believes that these changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act⁸ and the rules and regulations thereunder applicable to CME. These changes would use the current market value, plus accrued interest, for securities on deposit at CME, which will better align CME's practices with the marketplace and expectations of its participants. The changes will therefore promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements,

⁵ Telephone conversation among Tim Elliott, Executive Director and Associate General Counsel, CME; Gena Lai, Senior Special Counsel, SEC; Justin Byrne, Attorney-Adviser, SEC; December 4, 2012.

⁶ 15 U.S.C. 78s(b)(2)(C).

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

contracts, and transactions, and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act⁹ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (File No. SR-CME-2012-42) be, and hereby is, approved.¹¹

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

Kevin M. O'Neill
Deputy Secretary

⁹ 15 U.S.C. 78q-1.

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹² 17 CFR 200.30-3(a)(12).