

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

**Registered Entity Identifier Code (optional):** 14-422 (4 of 4)

**Organization:** New York Mercantile Exchange, Inc. ("NYMEX")

**Filing as a:**  DCM  SEF  DCO  SDR

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy):** October 1, 2014 **Filing Description:** Revisions to CME/CBOT/NYMEX Rule 816 (Guaranty Fund Deposit)

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

- |                                     |                                     |            |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification                       | § 40.6(a)  |
| <input type="checkbox"/>            | Approval                            | § 40.5(a)  |
| <input type="checkbox"/>            | Notification                        | § 40.6(d)  |
| <input type="checkbox"/>            | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/>            | SIDCO Emergency Rule Change         | § 40.10(h) |

**Rule Numbers:** 816

**New Product**

**Please note only ONE product per Submission.**

- |                          |                                       |            |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification                         | § 40.2(a)  |
| <input type="checkbox"/> | Certification Security Futures        | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class              | § 40.2(d)  |
| <input type="checkbox"/> | Approval                              | § 40.3(a)  |
| <input type="checkbox"/> | Approval Security Futures             | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission                       | § 39.5     |

**Official Product Name:**

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- |                          |   |                      |
|--------------------------|---|----------------------|
| <input type="checkbox"/> | Certification   | § 40.6(a)            |
| <input type="checkbox"/> | Certification Made Available to Trade Determination     | § 40.6(a)            |
| <input type="checkbox"/> | Certification Security Futures                          | § 41.24(a)           |
| <input type="checkbox"/> | Delisting (No Open Interest)                            | § 40.6(a)            |
| <input type="checkbox"/> | Approval  | § 40.5(a)            |
| <input type="checkbox"/> | Approval Made Available to Trade Determination          | § 40.5(a)            |
| <input type="checkbox"/> | Approval Security Futures                               | § 41.24(c)           |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | “Non-Material Agricultural Rule Change”                 | § 40.4(b)(5)         |
| <input type="checkbox"/> | Notification  | § 40.6(d)            |

**Official Name(s) of Product(s) Affected:**

**Rule Numbers:**

October 1, 2014

**VIA ELECTRONIC PORTAL**

Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**RE: CFTC Regulation 40.6(a) Certification. Revisions to CME/CBOT/NYMEX Rule 816  
(Guaranty Fund Deposit)  
NYMEX Submission No. 14-422 (4 of 4)**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. ("CME"), Board of Trade of the City of Chicago, Inc. ("CBOT") and New York Mercantile Exchange, Inc. ("NYMEX") (each an "Exchange" and collectively, the "Exchanges") hereby notify the Commodity Futures Trading Commission ("CFTC" or "Commission") that they are self-certifying revisions to each Exchange's Rule 816 (Guaranty Fund Deposit) that establish CME risk management staff as responsible for determining one of the two alternative minimum amounts for clearing members' Base Guaranty Fund deposits. The revisions will become effective October 17, 2014.

Under Rule 816, the minimum Base Guaranty Fund deposit of each clearing member is currently calculated as the greater of (a) a minimum amount specified by the Clearing House Risk Committee (CHRC) or (b) the clearing member's proportionate share of the "Aggregate Guaranty Fund Deposit," an amount which is also determined by the CHRC. Revised Rule 816 empowers CME risk management staff rather than the CHRC to determine the Aggregate Guaranty Fund Deposit, thus enabling risk management staff to adjust the minimum Base Guaranty Fund deposit as necessary to remain in compliance with CME's financial resource requirements under the CFTC regulations. The 'greater of' measure established in Rule 816 will remain unchanged, meaning risk management staff may not establish a clearing member's minimum Base Guaranty Fund deposit lower than the minimum amount specified by the CHRC.

Additionally, a paragraph referencing KCBT clearing permit holders is being removed from CME Rule 816 as the permit holders' status has expired pursuant to the terms of the KCBT-CBOT merger agreement.

The Exchanges reviewed the derivatives clearing organization core principles ("DCO Core Principles") and the designated contract market core principles ("DCM Core Principles") as set forth in the Commodity Exchange Act ("CEA" or the "Act"). During the review, staff identified that the revisions may have some bearing on the following DCO and DCM Core Principles:

**DCO Core Principles**

- **Financial Resources:** As a systemically important derivatives clearing organization ("SIDCO"), CME must maintain sufficient financial resources adequate to enable it to meet its financial obligations to its clearing members notwithstanding a default by the two clearing members creating the largest combined loss to CME in extreme but plausible market conditions. CME's Base Guaranty Fund consists of assets that enable CME to satisfy the requirements of this Core Principle. The Rule 816 revisions will allow CME staff to adjust a clearing members's minimum Base Guaranty Fund deposit as necessary to remain in compliance with this Core Principle

without the prior, additional step of obtaining CHRC approval. The Rule 816 revisions do not permit CME staff to establish the minimum Base Guaranty Fund deposit at a level below the CHRC-set threshold. The CHRC reviewed and approved the revisions to Rule 816.

- Risk Management: Revised Rule 816 enhances CME's ability to manage risks posed by its clearing members by enabling clearing house staff to require a higher minimum Base Guaranty Fund deposit amount as needed. Allowing staff rather than the CHRC to determine the Aggregate Guaranty Fund Deposit amount provides CME with additional risk management flexibility.

#### **DCM Core Principle**

- Availability of General Information: The CME/CBOT/NYMEX rulebooks will each be revised to reflect the amendments to Rule 816 in satisfaction of this DCM Core Principle.

The Exchanges certify that the proposed revisions comply with the Act and regulations thereunder. There were no opposing views to this proposal. The revisions to CME/CBOT/NYMEX Rule 816 appear in Exhibit A with additions underlined and deletions ~~everstruck~~.

The Exchanges certify that this submission has been concurrently posted on the CME Group website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you have any questions regarding this submission, please contact Dale Michaels, Managing Director of Risk at 312-930-3062 or via e-mail at [Dale.Michaels@cmegroup.com](mailto:Dale.Michaels@cmegroup.com). Alternatively, you may contact me at 312-930-8167 or via e-mail at [Sean.Downey@cmegroup.com](mailto:Sean.Downey@cmegroup.com).

Sincerely,

/s/ Sean Downey

Senior Director & Associate General Counsel

Attachments: Exhibit A – Revisions to CME/CBOT/NYMEX Rule 816

# Exhibit A

## Proposed Revisions to CME Rule 816 (additions underlined; deletions ~~overstruck~~)

### CME Rule 816

#### 816. GUARANTY FUND DEPOSIT

Each clearing member shall make a Base Guaranty Fund deposit with the Exchange as security for its obligations to the Clearing House. The minimum Base Guaranty Fund deposit of a clearing member, shall equal the greater of (a) an-a minimum amount specified by the Clearing House Risk Committee or (b) the clearing member's proportionate share of the "Aggregate Guaranty Fund Deposit." The Aggregate Guaranty Fund Deposit which shall be an amount determined by the Clearing House ~~Risk Committee~~.

Each clearing member's proportionate share of the Aggregate Guaranty Fund Deposit shall consist of:

- (i) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share (including the total risk performance bond requirement in respect of positions in its cross-margin accounts and any applicable short option value) of the average aggregate risk performance bond requirement (including the risk performance bond requirement in respect of positions in all cross-margin accounts and any applicable short option value) for the preceding three months; plus
- (ii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of the total number of contracts executed on the Exchange and any applicable exchange or market during the preceding three months; plus
- (iii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of foreign currency settlements for the preceding three months.

The percentages in (i) through (iii) above shall be determined and modified by the Clearing House Risk Committee as appropriate. Some contracts may be weighted more heavily than others in order to reflect the greater risk associated with those contracts. The average aggregate risk performance bond requirement, the total number of contracts executed, the gross notional amount of open interest cleared and each clearing member's proportionate share of each will be calculated by the Clearing House, and a report setting forth such information and the clearing member's required Base Guaranty Fund deposit will be given to the clearing member each quarter, and the Clearing House may provide such reports on an interim basis at any time during the quarter as the Clearing House staff shall determine. On a quarterly basis, if such report indicates that the clearing member's current Base Guaranty Fund deposit with the Clearing House is smaller than the amount required, the clearing member shall increase its amount within five business days. If such report indicates that the clearing member's current Base Guaranty Fund deposit with the Exchange is larger than the amount required, the clearing member may withdraw the excess amount. If, prior to the issuance of the quarterly report, the Clearing House determines that an increase in the Base Guaranty Fund deposit is necessary to protect the financial integrity of the Clearing House, the clearing member, upon demand of the Clearing House, shall increase its Base Guaranty Fund deposit amount within five business days.

~~The minimum Base Guaranty Fund deposit amount of a Clearing Participant at the Kansas City Board of Trade Clearing Corporation that is not a CME Clearing Member shall be set at an amount of \$500,000.~~

A clearing member's Base Guaranty Fund deposit may be in a form as set forth in the Manual. Such Base Guaranty Fund deposit forms and amounts shall be subject to the terms and conditions as approved by Exchange staff.

### CBOT Rule 816

#### 816. GUARANTY FUND DEPOSIT

Each clearing member shall make a Base Guaranty Fund deposit with the Exchange as security for its obligations to the Clearing House. The minimum Base Guaranty Fund deposit of a clearing member, shall equal the greater of (a) an-a minimum amount specified by the Clearing House Risk Committee or (b) the clearing member's proportionate share of the "Aggregate Guaranty Fund Deposit." The Aggregate Guaranty Fund Deposit which shall be an amount determined by the Clearing House ~~Risk Committee~~.

Each clearing member's proportionate share of the Aggregate Guaranty Fund Deposit shall consist of:

- (i) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share (including the total risk performance bond requirement in respect of positions in its

cross-margin accounts and any applicable short option value) of the average aggregate risk performance bond requirement (including the risk performance bond requirement in respect of positions in all cross-margin accounts and any applicable short option value) for the preceding three months; plus

- (ii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of the total number of contracts executed on the Exchange and any applicable exchange or market during the preceding three months; plus

- (iii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of foreign currency settlements for the preceding three months.

The percentages in (i) through (iii) above shall be determined and modified by the Clearing House Risk Committee as appropriate. Some contracts may be weighted more heavily than others in order to reflect the greater risk associated with those contracts. The average aggregate risk performance bond requirement, the total number of contracts executed, the gross notional amount of open interest cleared and each clearing member's proportionate share of each will be calculated by the Clearing House, and a report setting forth such information and the clearing member's required Base Guaranty Fund deposit will be given to the clearing member each quarter, and the Clearing House may provide such reports on an interim basis at any time during the quarter as the Clearing House staff shall determine. On a quarterly basis, if such report indicates that the clearing member's current Base Guaranty Fund deposit with the Clearing House is smaller than the amount required, the clearing member shall increase its amount within five business days. If such report indicates that the clearing member's current Base Guaranty Fund deposit with the Exchange is larger than the amount required, the clearing member may withdraw the excess amount. If, prior to the issuance of the quarterly report, the Clearing House determines that an increase in the Base Guaranty Fund deposit is necessary to protect the financial integrity of the Clearing House, the clearing member, upon demand of the Clearing House, shall increase its Base Guaranty Fund deposit amount within five business days.

A clearing member's Base Guaranty Fund deposit may be in a form as set forth in the Manual. Such Base Guaranty Fund deposit forms and amounts shall be subject to the terms and conditions as approved by Exchange staff.

## NYMEX Rule 816

### 816. GUARANTY FUND DEPOSIT

Each clearing member shall make a Base Guaranty Fund deposit with the Exchange as security for its obligations to the Clearing House. The minimum Base Guaranty Fund deposit of a clearing member, shall equal the greater of (a) ~~an a minimum~~ amount specified by the Clearing House Risk Committee or (b) the clearing member's proportionate share of the "Aggregate Guaranty Fund Deposit." The Aggregate Guaranty Fund Deposit ~~which~~ shall be an amount determined by the Clearing House ~~Risk Committee~~.

Each clearing member's proportionate share of the Aggregate Guaranty Fund Deposit shall consist of:

- (i) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share (including the total risk performance bond requirement in respect of positions in its cross-margin accounts and any applicable short option value) of the average aggregate risk performance bond requirement (including the risk performance bond requirement in respect of positions in all cross-margin accounts and any applicable short option value) for the preceding three months; plus
- (ii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of the total number of contracts executed on the Exchange and any applicable exchange or market during the preceding three months; plus
- (iii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of foreign currency settlements for the preceding three months.

The percentages in (i) through (iii) above shall be determined and modified by the Clearing House Risk Committee as appropriate. Some contracts may be weighted more heavily than others in order to reflect the greater risk associated with those contracts. The average aggregate risk performance bond requirement, the total number of contracts executed, the gross notional amount of open interest cleared and each clearing member's proportionate share of each will be calculated by the Clearing House, and a report setting forth such information and the clearing member's required Base Guaranty Fund deposit will be given to the clearing member each quarter, and the Clearing House may provide such reports on an interim basis at any time during the quarter as the Clearing House staff shall determine. On a quarterly basis, if such report indicates that the clearing member's current Base Guaranty Fund deposit with the Clearing House is smaller than the amount required, the clearing member shall increase its amount within five business days. If such report indicates that the clearing member's current Base Guaranty Fund deposit with the Exchange is larger than the amount required, the clearing member may withdraw the excess amount. If, prior to the issuance of the quarterly report, the Clearing House determines that an increase in the Base Guaranty Fund deposit is necessary to protect the financial

integrity of the Clearing House, the clearing member, upon demand of the Clearing House, shall increase its Base Guaranty Fund deposit amount within five business days.

A clearing member's Base Guaranty Fund deposit may be in a form as set forth in the Manual. Such Base Guaranty Fund deposit forms and amounts shall be subject to the terms and conditions as approved by Exchange staff.