

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) 14-511

Date: December 16, 2014

**IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.**

## ORGANIZATION

Board of Trade of the City of Chicago, Inc. ("CBOT") (2 of 4)

## FILING AS A:

DCM

SEF

DCO

SDR

ECM/SPDC

## TYPE OF FILING

### • Rules and Rule Amendments

- Certification under § 40.6 (a) or § 41.24 (a)
- "Non-Material Agricultural Rule Change" under § 40.4 (b)(5)
- Notification under § 40.6 (d)
- Request for Approval under § 40.4 (a) or § 40.5 (a)
- Advance Notice of SIDCO Rule Change under § 40.10 (a)

### • Products

- Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)
- Swap Class Certification under § 40.2 (d)
- Request for Approval under § 40.3 (a)
- Novel Derivative Product Notification under § 40.12 (a)

## RULE NUMBERS

N/A

## DESCRIPTION

Self-certification of CME/CBOT/NYMEX/COMEX Financial and Regulatory Bulletin #15-02



Sean Downey  
Senior Director and Associate General Counsel  
Legal Department

December 16, 2014

**VIA E-MAIL**

Mr. Christopher 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) Self-certification: CME/CBOT/NYMEX/COMEX Financial and Regulatory Bulletin #15-02  
CBOT Submission No. 14-511 (2 of 4)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.6(a), Chicago Mercantile Exchange Inc. ("CME"), Board of Trade of the City of Chicago, Inc. ("CBOT"), New York Mercantile Exchange, Inc. ("NYMEX") and Commodity Exchange, Inc. ("COMEX") (collectively, the "Exchanges") hereby self-certify the attached draft Financial and Regulatory Bulletin (the "Bulletin") in order to align the Exchanges' individual trading member policies recognizing the risk management enhancements recently adopted in July 2014 per CFTC Regulation 1.11 – *Risk management program for futures commission merchants* ("Regulation 1.11"). The Bulletin will be issued January 2, 2015.

CFTC Regulation 1.11—broadly requires FCMs to establish, maintain and enforce a system of risk management policies and procedures designed to monitor and manage the risks across defined sections of accounts and across exchanges. Further CFTC Regulation 1.17 – *Minimum financial requirements for futures commission merchants and introducing brokers*, effective November 14, 2014, provides that FCMs must take a charge against capital for futures customer, noncustomer and omnibus accounts with performance bond calls outstanding greater than one (1) business day. In recognition of the enhanced risk management requirements for FCMs, CME Group is aligning performance bond policies for clearing members across the Exchanges through expansion of the longstanding CME Individual Trading Member Policy (the "Policy") to CBOT, NYMEX and COMEX.

Under the Policy, the Exchanges will permit, but not require, guaranteeing FCMs to allow individual members to continue trading while the individual member's performance bond account at the FCM is subject to an outstanding performance bond call beyond the amount of time that has been deemed reasonable by Joint Audit Committee Regulatory Alert #14-07, in an amount not exceeding the lesser of 1) one-half (½) of the current value of the individual membership; or 2) US \$100,000. Both values account for the Exchanges' ability to liquidate individual memberships and the guaranteeing FCM's priority interest in the proceeds of such forced sales under the Exchanges' rules; the latter measure is a conservative one designed to limit an FCM's potential capital charges where an individual utilizing the Policy holds memberships with a current value exceeding US \$200,000. FCMs do not typically allow a market participant to continue trading while the participant is subject to an outstanding performance bond call; however, the increased risk normally associated with allowing such continued trading does not exist in these circumstances as the scope of permissible trading under the Policy is limited to a percentage of the market value of individual membership, which may be liquidated by the guaranteeing FCM.

In accordance with Exchange Rule 930, any guaranteeing FCM that permits individual members to utilize the Policy must continue to call the account for performance bond funds and reflect any capital charges

applicable under Regulation 1.17 when computing net capital. Under the Policy, no portion of the individual membership value may be considered acceptable performance bond collateral.

The Exchanges reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”). During the review, the Exchanges identified the following Core Principles as potentially being impacted:

- Financial Integrity of Transactions: Adoption of the Policy expands a current CME practice to CBOT, NYMEX and COMEX and does not reduce the amount of performance bond the clearing house collects from a guaranteeing FCM. The Policy merely permits FCMs to allow certain individual members to continue providing liquidity to the market while subject to an outstanding call for performance bond beyond the period defined as a reasonable time, by permitting the guaranteeing FCMs to account for their priority interest under Exchange rules in the liquidation value of unencumbered individual memberships. Although Exchange rules grant FCMs a priority interest in one-hundred percent (100%) of the liquidation value of such memberships, the Policy permits an FCM to account for no more than one-half (1/2) of such memberships’ liquidation value when permitting an individual member to continue trading while subject to an outstanding call for performance bond beyond the defined period. The Policy does not permit individual memberships to be deposited in satisfaction of performance bond requirements at either the FCM- or clearing house-level. Adoption of the Policy at the FCM-level is voluntary and all FCMs must continue meeting regulatory obligations to manage risks arising from FCM customers and operations.
- Availability of General Information: The Bulletin will be distributed to impacted market participants in satisfaction of this Core Principle.

The draft Bulletin is attached hereto as Exhibit A.

Pursuant to Section 5c(c) of the CEA and CFTC Regulation 40.6(a), the Exchanges certify that issuance of the proposed Bulletin complies with the CEA and regulations thereunder.

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 me at (312) 930-8167 or via e-mail at [Sean.Downey@cmegroup.com](mailto:Sean.Downey@cmegroup.com). Alternatively, you may contact John McKinlay at (312) 930-3028 or via e-mail at [John.McKinlay@cmegroup.com](mailto:John.McKinlay@cmegroup.com).

Sincerely,

/s/ Sean Downey  
Senior Director & Associate General Counsel

Attachment: Exhibit A: Draft Financial and Regulatory Bulletin #15-02

## Exhibit A



### Memorandum

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#### FINANCIAL AND REGULATORY BULLETIN

TO: Chief Financial Officers #15-02  
Chief Compliance Officers  
Credit/Risk Manager  
SPAN/Margin Contact

DATE: January 2, 2015

SUBJECT: Enforcement Position – Individual Member Trading Policy

CFTC's enhanced customer protection rules imposed significant regulatory obligations on FCMs. One section of such customer protection enhancements involving risk management recently became effective in July 2014. As part of those rules, CFTC Regulation 1.11–*Risk management program for futures commission merchants* broadly requires FCMs to establish, maintain and enforce a system of risk management policies and procedures designed to monitor and manage the risks across defined sections of accounts and across exchanges. Also, in the CFTC's effort to enhance FCMs' risk management, effective November 14, 2014, FCMs are required to take an undermargined capital charge for futures customer, noncustomer and omnibus accounts with margin calls outstanding greater than one business day.

In light of these enhanced risk management requirements, CME Group is aligning performance bond policies for clearing members across CME, CBOT, NYMEX and COMEX. Effective January 2, 2015, CME Group will expand CME's current Individual Member Trading Policy to individual members of CME, CBOT, NYMEX and COMEX. The individual member trading policy is based on a portion of the individual member's membership value, a clearing member's ability to have the Exchange force a sale of the membership in accordance with Exchange Rule 133 and the clearing member's priority claim on the proceeds of such sale in accordance with Exchange Rule 110. Specifically, based on a portion of the membership value, the individual member trading policy allows individual members who own and hold their membership to continue to trade futures and options products within their Exchange and division of membership held ("covered products") while undermargined or in debit beyond a reasonable time, provided the undermargined/debit amount is less than the lesser of:

- 1) \$100,000; or,
- 2) ½ the current value of the membership.

This policy shall not be available to individual members if (1) their membership is assigned to a clearing member in accordance with Exchange Rule 902; or (2) a clearing member is guaranteeing a loan made to the individual member for the purchase of the membership.

This policy only allows individual members to continue to trade covered products and to provide market liquidity within limits. No portion of the membership value may be considered acceptable performance bond collateral. Therefore no portion of the membership value may be utilized in computing an account's margin equity when computing the required performance bond calls, the FCM's undermargined capital charges or their residual interest requirement. Further the membership may not be used to offset/secure debit/deficits on the segregation statement or balance sheet or residual interest requirements.

In accordance with Exchange Rule 930, the clearing member must continue to call the account for performance bond funds and reflect any applicable undermargined capital charges for the account when it computes its net capital. As always, undermargined capital charges are not a substitute for performance bond funds or prudent risk management policies by the clearing member. An FCM's risk management policies and procedures must support the decision to allow individual members to utilize this policy.

If you have any questions, please contact the Financial and Regulatory Surveillance Department at 312-930-3230.