

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 16-448 (2 of 5)

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): December 20, 2016 **Filing Description:** Request for Approval to Commingle Significantly and Reliably Correlated Base Guaranty Fund Products

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|-------------------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input checked="" 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: See filing.

New Product

Please note only ONE product per Submission.

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|--------------------------|---------------------------------------|------------|
| <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:

December 20, 2016

BY ELECTRONIC FILING

Mr. 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 40.5 Submission. Request for Approval to Commingle Significantly and Reliably Correlated Base Guaranty Fund Products
CME Submission No.16-448 (2 of 5)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulations 39.15 and 40.5, Chicago Mercantile Exchange Inc. (“CME”), The Board of Trade of the City of Chicago, Inc. (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”) and Commodity Exchange, Inc. (“COMEX”) (each an “Exchange” and collectively, the “Exchanges”) respectfully request that the Commission approve the adoption of proposed rule 831 (Commingling of Eligible Base Futures and Swaps Positions). Currently, clearing members for Exchange-listed futures and options on futures (“Exchange Clearing Members”) and clearing members for over-the-counter swaps (“OTC Clearing Members”) (collectively, “Clearing Members”) readily obtain risk offsets between significantly and reliably correlated futures and options on futures (collectively, “futures”) and swaps products in proprietary accounts. The Exchanges propose rule 831 to conditionally extend similar flexibility and benefits to customer accounts. The Exchanges intend these changes to become effective on the earlier of February 3, 2017 or the receipt of regulatory approval.

Approving the Exchanges’ request would benefit market participants and the overall derivatives markets without discernible negative consequences. Such benefits would accrue from enabling customers to readily obtain margin offsets for eligible futures and swaps in accordance with Commission Regulation 39.13(g)(4) – thus (i) allowing for more efficient capital usage; (ii) improving the efficiency and effectiveness of CME Clearing’s risk management framework for portfolio margining; and (iii) encouraging greater customer utilization of clearing – thereby facilitating risk reduction.

I. Background

A. Process Driven Rule

The Exchanges note that this request, although limited in its scope with regard to covered products, builds on an already well-regulated portfolio margining process. Proposed rule 831 would authorize the clearing house division of CME (“CME Clearing” or the “Clearing House”) and its Clearing Members to commingle correlated futures and swaps positions, and any money, securities, or property received to margin, guarantee or secure such positions, in cleared swaps customer accounts subject to section

4d(f) of the Commodity Exchange Act (“CEA” or “Act”).¹ Proposed rule 831 would be subject to the following conditions. First, proposed rule 831 would apply only to futures and swaps that are Base Guaranty Fund Products² margined under the same Standard Portfolio Analysis of Risk (“SPAN”) methodology.³ Second, the proposed rule would apply only after CME Clearing has determined that commingled positions in related products suitably qualify for margin offsets in accordance with Commission Regulation 39.13(g)(4).

In this regard, Commission Regulation 39.13(g)(4) governs spread and portfolio margining and provides that “a derivatives clearing organization [“DCO”] may allow reductions in initial margin requirements for related positions if the price risks with respect to such positions are *significantly and reliably correlated*” [acronym and emphasis added]. Commission Regulation 39.13(g)(4) gives meaning to “significantly and reliably correlated” positions by stating that “[t]he price risks of different positions will only be considered to be reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation.” Commission Regulation 39.13(g)(4) further provides that the theoretical basis for such correlation may include the following:

- (A) The products on which the positions are based are complements of, or substitutes for, each other;
- (B) One product is a significant input into the other product(s);
- (C) The products share a significant common input; or
- (D) The prices of the products are influenced by common external factors.

Accordingly, in addition to empirically finding a compliant statistical correlation, CME Clearing would ensure that all related positions that could obtain commingled risk offsets under proposed rule 831 satisfy the theoretical basis requirement noted above.

B. Annotation of the Proposed Rule’s Provisions

The text of proposed Exchange rule 831 (COMMINGLING OF ELIGIBLE BASE FUTURES AND SWAPS POSITIONS), which is also included in Appendix A, reads as follows:

Rule 831. COMMINGLING OF ELIGIBLE BASE FUTURES AND SWAPS POSITIONS

The Clearing House may identify non-swap Base Guaranty Fund Products that may be commingled with positions in swap Base Guaranty Fund Products in order to provide risk offsets for customer positions if and only if the price risks with respect to such products are significantly and reliably correlated (such products, “Base Eligible Products”). The price risks of different positions will only be considered to be significantly and reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation. Upon such identification, Base Clearing Members may elect that a customer’s positions in Base Eligible Products be commingled in a cleared swaps account. If the Clearing House determines at any time that any Base Eligible Products are non-risk reducing when commingled, the Clearing House may either restrict the commingling of additional Base Eligible Product positions or require moving or liquidating such positions.

¹ For ease of discussion, except as otherwise noted, references to the separation or commingling of products or positions in this request incorporates the separation or commingling of money, securities and property received to margin, guarantee or secure such products and positions.

² Exchange rule 802.A. identifies Base Guaranty Fund Products as CME-cleared products other than credit default swaps, interest rate swaps and any positions commingled with interest rate swaps pursuant to CME rule 8G831.

³ Section II.A of this request (Criteria for Defining Eligible Futures, Options, and Swaps) provides a comprehensive list of cleared-only Base Guaranty Fund Products that are margined under SPAN.

Proposed Exchange rule 831 initially states “[t]he Clearing House may identify non-swap Base Guaranty Fund Products that may be commingled with positions in swap Base Guaranty Fund Products in order to provide risk offsets for customer positions...” This provision emphasizes the intent of the rule, which is to provide customers with margin offsets in an administratively efficient manner when appropriate.

The proposed rule next limits the products that qualify for commingling to non-swap and swap Base Guaranty Fund Products that “are significantly and reliably correlated.” The proposed text follows the initial language of CME rule 8G831, a Commission-approved rule that authorizes the commingling of Base Guaranty Fund Products with interest rate swaps (which are not Base Guaranty Fund Products) in cleared swaps customer accounts in order to provide risk offsets “on the basis that the price risks with respect to such products are significantly and reliably correlated.” As stated by the proposed rule, “[t]he price risks of different positions will only be considered to be significantly and reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation.” This condition is consistent with the requirements of Commission Regulation 39.13(g)(4), which governs the application of spread and portfolio margining for related positions.

After applying the standards to traded or cleared products, the proposed rule’s text authorizes, but does not mandate, that Base Clearing Members commingle eligible futures and swaps positions in a cleared swaps customer account.

In order to ensure that the Clearing House has authority to address any unforeseen circumstances – even though the Exchange does not foresee any potential negative consequences arising from commingling as proposed – the last provision of the proposed rule explicitly authorizes the Clearing House to unwind commingling should it determine at any time that the commingling of eligible products is not risk-reducing.

Appendix B contains the Advisory Notice from CME Clearing to all Clearing Member Firms and back office Managers that would provide public notice of the text of rule 831 upon approval. All CME Clearing staff are expected to familiarize themselves, and comply with the provisions of, all such CME Clearing Advisory Notices.

II. Information Required Under Commission Regulation 39.15(b)(2)

Section 4d(f)(2) of the Act by default requires segregation of cleared swaps customer positions and futures positions. The Commission’s regulations, however, recognize that the commingling of futures positions with swaps positions in cleared swaps customer accounts subject to the requirements of section 4d(f) of the Act may under certain circumstances benefit clearing operations and customers. Commission Regulation 39.15(b)(2) allows DCOs such as CME, and its Clearing Members, upon CFTC approval pursuant to the process outlined in Commission Regulation 40.5, to commingle customer futures positions with swaps positions in cleared swaps customer accounts.

Subparts (A) through (L) of Commission Regulation 39.15(b)(2) describe information a DCO must include in a submission seeking to commingle futures positions with customer cleared swaps positions in CEA section 4d(f) accounts. With regard to such information, the Commission’s adopting release for CFTC Regulation 39.15(b)(2) underscored that to the extent that the Commission adopted the “legally segregated, operationally commingled” (“LSOC”) customer protection model for CEA section 4d(f) accounts, “a DCO could more easily justify the approval of rules...allowing the commingling of futures, options and swaps, since the impact of any different risk from the product being brought into the portfolio would be limited to the customer who chooses to trade that product.”⁴ The Commission further emphasized that, under the LSOC model, “its specific concerns” in connection with commingling requests “may be minimized”, and it may “revisit its ongoing need for all of the information listed in” Commission Regulation 39.15(b)(2)(A)-(L). Since that time, the Commission has issued its part 22

⁴ See Derivatives Clearing Organization General Provisions and Core Principles, 76 Fed. Reg. 69344, 69391, n. 189 (Nov. 8, 2011).

regulations, which implement the LSOC model for customer cleared swaps. Accordingly, subparts (A) through (L) of Commission Regulation 39.15(b)(2) are discussed below in this context.

A. Criteria for Defining Eligible Futures, Options, and Swaps

Commission Regulation 39.13(g)(4) authorizes reductions in initial margin requirements for related positions with price risks that are significantly and reliably correlated. Proposed Exchange rule 831 therefore requires a significant and reliable correlation between commingled positions in accordance with Commission Regulation 39.13(g)(4). The table below includes a list of CME cleared-only Base Guaranty Fund Products that are margined under SPAN and subject to this request. The list also includes the significantly and reliably correlated futures with which they could be commingled to obtain partial risk offsets:

Contract	Product Code	Offsettable 1	Offsettable 2	Offsettable 3	Offsettable 4	Offsettable 5	Offsettable 6
Malaysian Palm Oil Calendar Swaps	CPC	CPO - USD MALAYSIAN CRUDE PALM CAL FUT	OPS - USD MALAYSIAN PALM OLEIN CAL SWAP	OPF - USD MALAYSIAN PALM OLEIN CAL FUT			
S&P Goldman Sachs Commodity Index (GSCI) Enhanced ER Swaps	RRE	Offsettable with basket of components					
Urea (Granular) FOB US Gulf Swaps	UFN	UFG - UREA (GRANULAR) FOB EGYPT SWAP	DFL - DAP FOB NOLA SWAP	UFZ - UREA (PRILLED BULK) FOB YUZHNY SWAP	UFU - UAN FOB NOLA SWAP		
Urea Ammonium Nitrate (UAN) FOB New Orleans, Louisiana (NOLA) Swaps	UFU	UFG - UREA (GRANULAR) FOB EGYPT SWAP	UFZ - UREA (PRILLED BULK) FOB YUZHNY SWAP	DFT - DAP FOB TAMPA SWAP	UFN - UREA (GRANULAR) FOB U.S. GULF SWAP		
Diammonium Phosphate (DAP) FOB NOLA Swaps	DFL	UFG - UREA (GRANULAR) FOB EGYPT SWAP	UFZ - UREA (PRILLED BULK) FOB YUZHNY SWAP	UFN - UREA (GRANULAR) FOB U.S. GULF SWAP	DFT - DAP FOB TAMPA SWAP		
Urea FOB Yuzhny Swaps	UFZ	DFT - DAP FOB TAMPA SWAP	UFG - UREA (GRANULAR) FOB EGYPT SWAP	DFL - DAP FOB NOLA SWAP	UFN - UREA (GRANULAR) FOB U.S. GULF SWAP	UFU - UAN FOB NOLA SWAP	
S&P-GSCI ER Index 2 Month Forward Swaps	SE2	Offsettable with basket of components					
Cleared OTC Bloomberg Commodity Index (CI) Swaps	DGS	Offsettable with basket of components	DRS - BLOOMBERG ROLL SELECT COMMODITY INDEX	GI - S&P-GSCI COMMODITY INDEX FUTURE	GA - GSCI ER FUTURES		
Bloomberg CI Index 3 Month Forward Swaps	DG3	Offsettable with basket of components					

Urea FOB Egypt Swaps	UFG	UFZ - UREA (PRILLED BULK) FOB YUZHNY SWAP	DFL - DAP FOB NOLA SWAP	DFT - DAP FOB TAMPA SWAP	UFN - UREA (GRANULAR) FOB U.S. GULF SWAP	UFU - UAN FOB NOLA SWAP	
USD Malaysian Palm Olein Calendar Swaps	OPS	OPF - USD MALAYSIAN PALM OLEIN CAL FUT	CPC - MALAYSIAN CRUDE PALM OIL CAL SWAP	CPC - MALAYSIAN CRUDE PALM OIL CAL SWAP	CPO - USD MALAYSIAN CRUDE PALM CAL FUT		
S&P-GSCI ER Index 3 Month Forward Swaps	SE3	Offsettable with basket of components					
S&P-GSCI Excess Return Index Swaps	SES	Offsettable with basket of components	GI - S&P-GSCI COMMODITY INDEX FUTURE	70 - BLOOMBERG COMMODITY INDEX FUTURES	GA - GSCI ER FUTURES		
Bloomberg CI Index 2 Month Forward Swaps	DG2	Offsettable with basket of components					
DAP FOB Tampa Swaps	DFT	UFZ - UREA (PRILLED BULK) FOB YUZHNY SWAP	UFG - UREA (GRANULAR) FOB EGYPT SWAP	DFL - DAP FOB NOLA SWAP	UFU - UAN FOB NOLA SWAP		
Cleared OTC London Silver (cash margin)	LSF	No offsettable product					
Cleared OTC London Gold (cash margin)	GBC	No offsettable product					
Cleared OTC London Gold (collateral margin)	GB	NY-PL - PLATINUM FUTURES NYMEX	CX-SI - COMEX 5000 SILVER FUTURES	NY-PA - PALLADIUM FUTURES NYMEX	CX-GC - COMEX 100 GOLD FUTURES	CX-GCK - GOLD KILO FUTURES	CX-HG - COMEX COPPER FUTURES

The next table below shows the average daily volume (“ADV”) and average daily open interest (“ADOI”) for the above referenced cleared-only products between September 1, 2016 and November 30, 2016:

Contract	Category	Product Code	ADV (9/1/16-11/30/16)	ADOI (9/1/16-11/30/16)
Malaysian Palm Oil Calendar Swaps	Grain And Oilseed	CPC	441	20490
S&P Goldman Sachs Commodity Index (GSCI) Enhanced ER Swaps	Commodity Futures Index	RRE	478	15776
Urea (Granular) FOB US Gulf Swaps	Fertilizer	UFN	53	1363
Urea Ammonium Nitrate (UAN) FOB New Orleans, Louisiana (NOLA) Swaps	Fertilizer	UFU	22	863
Diammonium Phosphate (DAP) FOB NOLA Swaps	Fertilizer	DFL	5	252
Urea FOB Yuzhny Swaps	Fertilizer	UFZ	0	49
S&P-GSCI ER Index 2 Month Forward Swaps	Commodity Futures Index	SE2	0	0

Cleared OTC Bloomberg Commodity Index (CI) Swaps	Commodity Futures Index	DGS	0	0
Bloomberg CI Index 3 Month Forward Swaps	Commodity Futures Index	DG3	0	0
Urea FOB Egypt Swaps	Fertilizer	UFG	0	0
USD Malaysian Palm Olein Calendar Swaps	Grain And Oilseed	OPS	0	0
S&P-GSCI ER Index 3 Month Forward Swaps	Commodity Index	SE3	0	0
S&P-GSCI Excess Return Index Swaps	Commodity Futures Index	SES	0	153
Bloomberg CI Index 2 Month Forward Swaps	Commodity Futures Index	DG2	0	0
DAP FOB Tampa Swaps	Fertilizer	DFT	0	0
Cleared OTC London Silver (cash margin)	Precious Metals	LSF	0	0
Cleared OTC London Gold (cash margin)	Precious Metals	GBC	0	0
Cleared OTC London Gold (collateral margin)	Precious Metals	GB	0	0

B. Managing Price Risk Characteristics

Proposed rule 831 would facilitate margin offsets through the commingling of Base Guaranty Fund futures and swaps in cleared swaps customer, or LSOC accounts. The commingled futures would receive LSOC protections and be subject to swap margin standards. A commingled portfolio of futures and swaps, whether in a proprietary account or a customer account, reduces overall risk by taking two portfolios with opposite directional risk and combining them into a commingled portfolio with less risk exposure.

CME Clearing has considerable experience clearing and managing the risks of commodity futures and swaps contracts subject to its Base Guaranty Fund. Base Guaranty Fund Products, margined under CME's proprietary SPAN margin methodology, that would be commingled under proposed rule 831 would have to exhibit significantly and reliably correlated price risks that satisfy the criteria for margin offsets under CFTC Regulation 39.13(g)(4)(i). In accordance with CFTC Regulation 39.13(g)(4)(i), CME Clearing's SPAN margin setting methodology and procedures for Base Guaranty Fund Products⁵ allow for risk offsets between positions when daily price changes of the underlying products demonstrate a significant, stable correlation over time and are supported by an economic rationale (theoretical basis). The level and stability of the correlation between the products must consistently be present in both normal and stressed market conditions in order to permit and validate risk offsets. However, even where a significant correlation is determined between products, the strength of the correlation does not necessarily imply that a risk offset is appropriate or that the risk offset should be equivalent to the price correlation level between the products. Similar to outright margin levels, risk offsets, when offered must also satisfy the 99% coverage standard, which is confirmed via regular back testing. In addition to statistical correlations, a number of other factors are also considered when validating risk offsets including seasonality, volatility, comparative liquidity characteristics, and ability to liquidate as a portfolio in a default scenario.

Within the margin-setting methodology for Base Guaranty Fund Products, risk offsets, where offered between commingled Base Guaranty Fund futures and swaps would be offered as inter-commodity spread credits. Within SPAN, risk offsets, including inter-commodity spread credits are not implicitly

⁵ A summary of SPAN is provided in section II.I.

offered between different products. Products which display short term correlations are not given a risk offset at CME Clearing.

Prior to setting inter-commodity spread credit levels, CME Clearing determines credit ratios considering a variety of factors, including but not limited to market trading convention and relative size of the contracts, among other factors. In accordance with CFTC Regulation 39.13(g)(4), all CME Clearing inter-commodity spread credits at a minimum meet the following requirements before any credit is offered between two products: i) a minimum daily change correlation level under defined time periods; and ii) existence of an economic rationale for the credit. Once these requirements are met, CME Clearing reviews benchmark inter-commodity spread credit levels against various historical volatility periods and sets them to a maximum of 99% of historical volatility levels over a given time period.

Regardless of the potential implied risk offset suggested by statistically yielded correlations, the Futures and Options Margin Working Group, which is comprised of members of CME Clearing risk management, will only provide a risk offset where it observes durational stability of the relationship and an economic rationale for the risk offset. The Clearing House monitors inter-commodity spread credit levels on an ongoing basis. Reporting is in place where current inter-commodity spread credits reach a certain level in comparison to the benchmark levels. Through ongoing monitoring and reporting, the Futures and Options Margin Working Group may elect to adjust inter-commodity spread credit levels, in accordance with CFTC Regulation 39.13(g)(4)(ii).

Inversely established positions, when commingled pursuant to proposed rule 831, would readily satisfy the criteria for reductions in initial margin under Commission Regulation 39.13(g)(4). By way of a specific example, CME Clearing intends to commingle positions in Palm Oil and Olein futures and swaps. Potentially offsetting positions in these products qualify for risk offsets because their underlying price risk characteristics are significantly and reliably correlated, as discussed above. Palm Oil futures and swaps are both Base Guaranty Fund Products margined by CME under SPAN and which reference the third forward month Bursa Malaysia's Crude Palm Oil futures (FCPO) as their underlying commodity reference price. Both products also follow the same trading schedule and the same methodology for determining daily and final settlement prices, thereby providing a direct natural correlation. Similarly, both Palm Olein futures and swaps are Base Guaranty Fund Products margined by CME under SPAN and which reference the third forward month of Thomson Reuters' Malaysian RBD Palm Olein assessment as their underlying commodity reference price. Both products also follow the same trading schedule and the same methodology to determine daily and final settlement prices.

C. Execution Venues

CME Clearing is the DCO for contracts listed for trading on the Exchanges, each of which is also a designated contract market ("DCM"). Eligible futures contracts would be executed on an Exchange in accordance with each market's rules. The primary method of execution for the futures executed on these markets is through the CME Globex platform. Futures can also be privately negotiated and submitted to CME ClearPort for clearing subject to Commission-certified or approved DCM rules. The Base products listed in section II. A which are subject to this request for approval are not listed for trading on an Exchange and therefore may be executed bilaterally. In any event, the manner of execution for futures and swaps would not be impacted by the Exchanges' proposed commingling rule. All futures or swaps products cleared by CME Clearing are subject to the rules of the Clearing House as well as the relevant products rules reflected in the Exchange rulebooks.

D. Liquidity

The Futures and Options Margin Working Group also considers the liquidity of related products when determining the appropriateness of current or potential risk offsets. In addition to liquidity considerations made in setting outright margin levels, with regard to inter-commodity spread credits, the Clearing House assesses factors such as open interest and average daily volume in determining whether a credit should be offered, or continue to be offered. Additionally, the Clearing House and representatives from Clearing Members conduct default management drills that includes a liquidity component at least

twice a year. These drills provide the Clearing House with a top-down view from external bidding firms into how both outright margin levels and inter-commodity spread credits compare against liquidity levels. Therefore, when determining risk offsets for products, the Futures and Options Margin Working Group adjusts the extent of offsets to account for the liquidity of the markets for each product. Even where risk offsets are provided between like futures and swaps contracts, where for example a futures and swap contract both use the same underlying price series, the risk offsets would be adjusted to account for the liquidity of the markets and where applicable, the contributing factors related to financial settlement or physical settlement of the contracts.

E. Availability of Reliable Prices for the Futures and the Swaps

Listed futures contracts and the swaps that CME Clearing accepts for clearing are settled to prices published by price reporting agencies, other exchanges or derived from trading on the Exchanges. For example, prices for both Palm Oil futures and swaps are based upon trading activity on Bursa Malaysia's Crude Palm Oil futures (FCPO), the global benchmark contract for Crude Palm Oil. Prices for both Palm Olein futures and swaps are based upon prices reported by a Thomson Reuters' assessment of Malaysian RBD Palm Olein, a reliable data source.

F. Financial, Operational, and Managerial Standards for Clearing Members

To be permitted to commingle customer futures and swaps in CEA section 4d(f) accounts, a firm must be a Clearing Member of the relevant Exchange listing the futures product(s). Further, the Clearing Member must be approved to clear OTC derivatives that are Base Guaranty Fund Products⁶ and have LSOC accounts established for any customer cleared swaps positions.⁷ Clearing membership requires successful completion of the membership application process at CME whereas FCM registration requires successful completion of the application process with the National Futures Association. CME Clearing conducts regular reviews of and requires regular reporting from existing Clearing Members to ensure applicable membership standards continue to be satisfied.

1. Financial Standards

Clearing Members must satisfy minimum regulatory capital requirements under applicable law (including Commission regulations), in addition to the requirements imposed under Exchange rules. Relevant Exchange rules include 901 (General Requirements and Obligations), 902 (Clearing Membership Assignment Requirements), 930 (Performance Bond Requirements: Account Holder Level), 970 (Financial Requirements), 971 (Segregation, Secured and Sequestered Requirements), 972 (Reductions in Capital) and CME rules 8F004 (OTC Clearing Member Obligations and Qualifications) and 8F011 (Financial Requirements).⁸ These rules are available at <http://www.cmegroup.com/rulebook/CME/index.html>, and are enclosed in Appendix C. Currently, under CME rule 8F004, an OTC Clearing Member "must maintain minimum capital of: \$5 million if it clears only agricultural OTC Derivatives; and \$50 million if it clears other OTC Derivatives, excluding credit default swaps and interest rate swaps."

2. Operational and Managerial Standards

In addition to complying with applicable Commission regulations and National Futures Association rules, Clearing Members that would be permitted to commingle futures and swaps in CEA section 4d(f) accounts are required to comply with CME Clearing's operational and risk management rules and requirements for the swaps. These include Exchange rules referenced above under Financial

⁶ See CME rule 8F002.

⁷ See CME rule 8F003.

⁸ CME, as the DCO clearing on behalf of the Exchanges, also accepts for clearing certain over-the-counter ("OTC") instruments that are not listed on an Exchange. Accordingly, CME's Rulebook includes rule chapters, such as Chapter 8F, that are specific to OTC clearing and which are not duplicated in the rulebooks of CBOT, NYMEX or COMEX. For this reason distinctions will be made throughout this submission between rules included in the rulebooks of each Exchange versus 'cleared-only' rules which are only in the CME Rulebook.

Standards, in addition to rules 809 (Trade Data Processing System), 949 (Credit Controls), 950 (Supervision), 954 (Customer Complaints), 957 (Confirmations to Customers), 981 (Anti-Money Laundering and Economic Sanctions Compliance), 982 (Risk Management), 983 (Disaster Recover and Business Continuity) and CME rules 8F003 (Classification of Positions), 8F009 (Customer Registration), 8F010 (Risk Management), and 8F015 (Trade Submission on CME ClearPort). These rules are available at <http://www.cmegroup.com/rulebook/CME/index.html> and enclosed in Appendix C.

G. Systems and Procedures to Oversee Clearing Members' Risk Management of Commingled Customer Positions

To become a Clearing Member, a firm must demonstrate, among other things, sufficient risk management capabilities for the relevant product class(es) covered by the relevant membership. Clearing Members that would be permitted to commingle futures and swaps in CEA section 4d(f) accounts are subject to Exchange rule 982 and CME rule 8F010, both of which address the subject of risk management:

Exchange Rule 982. RISK MANAGEMENT

All clearing members must have written risk management policies and procedures in place to ensure they are able to perform certain basic risk and operational functions at all times. At a minimum, the following areas must be considered in the firm's policies and procedures, depending on the firm's size and its business and product mix:

A. Trade Submission and Account Monitoring. Clearing members must have procedures in place to demonstrate compliance in the following areas for trades executed through both electronic platforms and open outcry:

1. Monitoring the credit risks of accepting trades, including give-up trades, of specific customers.
2. Monitoring the risks associated with proprietary trading.
3. Limiting the impact of significant market moves through the use of tools such as stress testing or position limits.
4. Maintaining the ability to monitor account activity on an intraday basis, including overnight.
5. Ensuring order entry systems include the ability to set automated credit controls or position limits or requiring a firm employee to enter orders.
6. Defining sources of liquidity for increased settlement obligations.

B. Additional and/or Alternative Requirements. Exchange or Clearing House staff may prescribe additional and/or alternative requirements in order for clearing members to comply with this rule.

C. Each clearing member shall promptly provide to Clearing House staff, upon request, information and documents regarding its risk management policies, procedures and practices, including, without limitation, information and documents relating to the liquidity of its financial resources, settlement procedures and operational issues.

D. Each clearing member shall make information and documents regarding its risk management policies, procedures and practices available to the CFTC upon the CFTC's request.

In addition, all FCM clearing members must comply with the risk management requirements set forth in CFTC Regulation 1.11: *Risk Management Program for futures commission merchants*.

CME Rule 8F010. RISK MANAGEMENT

OTC Clearing Members will be subject to risk management and monitoring practices by CME relating to transactions submitted to the Clearing House. OTC Clearing Members shall promptly provide all information requested by Clearing House staff, including, without limitation, information respecting risk, settlement, liquidity, and operational issues. OTC Clearing Members shall make information and documents regarding their risk management policies, procedures and practices available to the CFTC upon the CFTC's request.

In limited circumstances, the Clearing House may decline to accept certain OTC Derivatives trades or migration positions if the Clearing House determines in good faith that, based on the exercise of prudent risk management standards, the Clearing House should not accept the OTC Derivatives trades or migration positions. In the event that the Clearing House declines to accept certain OTC Derivative trades or migration positions, it shall incur no liability with respect to the trades and positions that are not accepted. It shall be the sole responsibility of the OTC Clearing Members who are parties to such trades or positions to take action as they deem necessary or proper for their own protection.

In addition, if the Clearing House determines in good faith that, based on the exercise of prudent risk management standards, that an OTC Clearing Member poses undue risk to the Clearing House based on its OTC Derivatives portfolio, the Clearing House may take any or all of the following actions with respect to such OTC Clearing Member: (i) impose an additional performance bond requirement; (ii) prohibit the addition of any new OTC Derivative positions, or (iii) require the reduction or unwinding of OTC Derivatives positions.

OTC Clearing Members shall permit on-site risk reviews in accordance with CME rules and subject to reasonable standards of confidentiality. OTC Clearing Members will also be subject to on-going oversight by the Clearing House Risk Committee regarding their activities related to the CME Clearing House. All such inquiries shall be conducted in a manner consistent with oversight of CME Clearing Members and in accordance with reasonable standards of confidentiality.

In connection with implementing these risk management rules, CME Clearing monitors Clearing Member risk management pursuant to the Clearing House's risk management framework, developed in accordance with Commission Regulation 39.13(b).⁹ This risk management framework would be equally effective with regard to oversight of risk management by Clearing Members permitted to commingle futures and swaps in CEA section 4d(f) accounts. Furthermore, as explained in section L, positions in customer commingled futures and swaps would be kept in CME Clearing's system at the level of individually registered customer accounts whereas the collateral supporting such commingled positions would be held subject to LSOC requirements. CME Clearing would stress test the commingled customer portfolios as required under Commission Regulation 39.13(h)(3).

⁹ Commission regulation 39.13(b) requires that each DCO "establish and maintain written policies, procedures, and controls, approved by its board of directors, which establish an appropriate risk management framework that, at a minimum, clearly identifies and documents the range of risks to which the derivatives clearing organization is exposed, addresses the monitoring and management of the entirety of those risks, and provides a mechanism for internal audit. The risk management framework shall be regularly reviewed and updated as necessary."

As part of the Clearing House's risk management framework, CME Clearing risk management staff establishes risk limits on each Clearing Member¹⁰ and monitors Clearing Members throughout the day by measuring risk through the firm's exposures and profit/loss, using real time market observations. Such daily monitoring includes, among others, the following components:

- Monitoring price moves of products in relation to current margin levels;
- Examining real-time profit/loss for each firm to detect large losses or large short options positions;
- Examining trading activity across Clearing Members' books, looking for large increases in positions, transfers and/or give-up activity that could trigger a significant margin call; and
- Monitoring for extreme abnormalities in a firm's trading behavior and individual trade characteristics to identify potential erroneous trade entries (e.g. "fat finger" trades).

CME Clearing assigns to each Clearing Member tolerance levels for intra-day and aggregate trading activity based on the firm's capital, creditworthiness, trading history, and risk management capabilities and policies. Exceptions to a firm's tolerance levels are escalated to CME Clearing senior management to determine appropriate measures to be taken.

In addition to daily risk management procedures, CME Clearing conducts on-site reviews of Clearing Member firms every one to two years, as appropriate under the circumstances particular to each firm. CME Clearing risk management staff conducts these reviews. CME Clearing evaluates standard measures of firm financial performance, such as liquidity, capital adequacy, asset quality, earnings/profitability, risk management, and any recent changes to the firm's business profile. CME Clearing also reviews the firm's risk models, reporting structures, and internal escalation procedures to ensure risk management processes are sufficiently thorough and properly maintained. This includes a review of the firm's risk management procedures for customer and proprietary exposures, its operational capabilities, and default management preparedness. Staff presents results of on-site reviews to CME Clearing's senior management team. The results may be the basis for corrective actions to the extent that potential weaknesses or other areas of concerns are identified.

H. CME Clearing's Financial Resources for Commingled Customer Positions

CME Clearing maintains three separate financial safeguards packages: one for interest rate swaps, one for cleared-only credit default swaps, and one for all other products cleared by CME Clearing, including but not limited to futures and options on futures (the "Base Financial Safeguards"). Each financial safeguards package is governed by and complies with Commission Regulation 39.11, which implements DCO Core Principle B (Financial Resources).

The futures and swaps commingled in CEA section 4d(f) accounts pursuant to this request for approval would be covered by the Base Financial Safeguards. In accordance with Exchange rules 816 (Guaranty Fund Deposit) and 802 (Protection of the Clearing House) (available at <http://www.cmegroup.com/rulebook/CME/index.html> and enclosed as part of Appendix C), the Base Financial Safeguards are comprised of: (i) performance bonds (or margin) of the defaulting Clearing Member (and, under the Commission's LSOC regulations, of any customer that caused the Clearing Member's default);¹¹ (ii) the Base guaranty fund contribution of the defaulting Clearing Member; (iii) CME Clearing's capital contribution of \$100 million to the Base Guaranty Fund; (iv) the Base guaranty fund contributions of non-defaulting Base Clearing Members; and (v) CME Clearing's rights to assess non-defaulting Base Clearing Members to make additional contributions to the guaranty fund. The size of the Base Financial Safeguards (inclusive of CME Clearing's contribution, guaranty fund, and assessments) was US \$11.75 billion as of September 30, 2016.

Consistent with Commission Regulations 39.11(a)(1) and 39.33(a)(1), the size of the guaranty fund is sized to cover simultaneous defaults by the two Base Clearing Members (and any affiliated Clearing

¹⁰ As required under CFTC regulation 39.13(h).

¹¹ See Commission regulation 22.15 (Treatment of Cleared Swaps Customer Collateral on an Individual Basis).

Member) creating the largest financial exposures to CME Clearing in extreme but plausible market conditions. The stress-testing methodology employed by CME Clearing for sizing the Base Financial Safeguards' guaranty fund leverages a combination of extreme but plausible stress scenarios, which leverages a 99.9% confidence interval.

I. Overview of Margin Offsets under the SPAN Margin Methodology

All products subject to this request for approval are margined using the SPAN methodology. SPAN evaluates overall portfolio risk by calculating the worst possible loss that a portfolio of derivative and physical instruments might reasonably incur over a specified time period. This is done by computing the gains and losses the portfolio would incur under different market conditions. At the core of the methodology is the SPAN risk array—a set of numeric values that indicate how a particular contract will gain or lose value under various conditions—with each condition comprising a risk scenario. The numeric value for each risk scenario represents the gain or loss that particular contract could experience for a particular combination of price – or underlying price – changes, volatility changes, and decrease in time to expiration.

SPAN is comprised of the following parameters, which are calibrated to achieve a desired coverage level, which in line with CFTC Regulation 39.13(g) for CME Clearing is at least 99% on a portfolio-level on an ex post basis:

- Price scan ranges (scan risk) – the maximum price movement reasonably likely to occur for each instrument or, for options, their underlying instrument;
- Volatility scan ranges – the maximum change reasonably likely to occur for the volatility of each option's underlying price;
- Intra-commodity spreading parameters – rates and rules for evaluating risk among portfolios of closely related products, for example products with particular patterns of calendar spreads;
- Inter-commodity spreading parameters – rates and rules for evaluating risk offsets between related products;¹²
- Delivery (spot) risk parameters – rates and rules for evaluating the increased risk of positions in physically-deliverable products as they approach or enter their delivery period; and
- Short option minimum parameters – rates and rules for evaluating the irreducible minimum risk associated with portfolios of deep out-of-the-money short option positions.

Risk arrays are calculated for all of CME Clearing cleared products and a SPAN risk parameter file is prepared, which contains the above data. Current and historical SPAN risk parameter files are published on the CME Group website.

SPAN divides the instruments in each portfolio into groupings called combined commodities. Each combined commodity represents all instruments on the same ultimate underlying – for example, all futures ultimately related to the S&P 500 index. For each combined commodity in the portfolio, SPAN evaluates the risk factors described above, and then takes the sum of the scan risk, the intra-commodity spread charge, and the delivery risk, before subtracting the inter-commodity spread credit. SPAN next compares the resulting value with the short option minimum; whichever value is larger is called the SPAN risk requirement. The resulting values across the portfolio summed yields the total risk for the portfolio.

¹² The output of CME Clearing's margin offset determinations for various products is available at <http://www.cmegroup.com/clearing/margins>.

J. CME Clearing's Default Management Abilities with Respect to Commingled Positions

The Clearing House is confident in its abilities to manage a potential default with respect to any futures and swaps commingled in CEA section 4d(f) accounts pursuant to this request for approval. Any default involving such commingled positions would be covered by CME Clearing's Base Financial Safeguards, as explained in section H above. Commingled positions under this rule would be subject to CME Clearing's default management procedures for Base Guaranty Fund Products. Those procedures are discussed below in section K.

K. Procedures for Clearing Member and Customer Defaults Involving Commingled Positions

A default by an FCM Clearing Member may be triggered by a default originating at the clearing firm-level or by a default of one or more of its cleared swaps customers that causes the FCM to default to CME. Any default by a Base FCM Clearing Member – including a default involving customer commingled positions – would also be governed by CME's rules and default management procedures for the Base asset class. This includes rules 802 (Protection of the Clearing House) and 975 (Emergency Financial Conditions). In extreme circumstances (e.g., where the monetary impact of a default exceeds the waterfall), rule 818 (Close-out Netting) may also be implicated. These rules are available at <http://www.cmegroup.com/rulebook/CME/>, and copies are enclosed as part of Exhibit C.

CME Clearing's default management rules and procedures are based on the Clearing House's depth of default management experience from many years as a derivatives clearing house and input garnered from semi-annual default management drills. The drills are structured consistent with existing Clearing Member exposures and contain large and complex portfolios representative of the risks held by existing Clearing Members. The results of each drill are reviewed by the Clearing House Risk Committee and changes to default management processes are implemented as warranted.

Prior even to a default by the FCM Clearing Member, the Clearing House would seek to port the customer positions to a solvent FCM Clearing Member. CME Clearing may conduct an auction for selected participants to bid on the defaulted Clearing Member's customer or house portfolios. Upon a Clearing Member default the Clearing House may hedge the defaulting clearing member's portfolio to minimize risk or liquidate the house book. The hedging strategy would be dependent upon prevailing market conditions, with the goal of establishing a sufficiently risk-neutral portfolio to ensure a successful auction. Post-hedging, the default portfolio may be auctioned among non-defaulting Base Clearing Members.

The introduction of commingled portfolios provides certain additional hedging and liquidation mechanisms, which could provide benefits in the default management process through the commingling of swaps and futures which may be natural hedges and would be risk managed together both in business-as-usual and default management scenarios.

L. Arrangements for Obtaining Position Data for the Futures and the Swaps in CEA Section 4d(f) Accounts

Because they would reside in CEA section 4d(f) accounts, the customer commingled futures and swaps (and collateral associated therewith) would be part of the customer "cleared swaps" account class under part 190 of the Commission's Bankruptcy regulations,¹³ and would be treated in accordance with the Commission's part 22 LSOC regulations.¹⁴ For swaps, positions in CME Clearing's system are maintained at the level of individually registered customer accounts. This is accomplished by requiring the relevant Clearing Members to register their swaps customers with CME Clearing.¹⁵ For each such

¹³ 17 CFR part 190.

¹⁴ 17 CFR part 22.

¹⁵ See CME rule 8F009 (Customer Registration), included as part of Appendix C.

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customer, (i) a separate position account is created at the clearing level, and (ii) the Clearing Member specifies an account ID that is recorded when trades for that customer are submitted for clearing. Trades for which the customer account ID matches the registered value are posted to that customer's clearing-level position account. Futures commingled under this request would also flow into the relevant customer's clearing-level position account. Accordingly, CME Clearing would have daily position data at the individual customer level for futures and swaps held in CEA section 4d(f) accounts.

III. Conclusion

For the reasons stated above, the Exchanges respectfully request that the Commission approve proposed Exchange rule 831 to permit CME Clearing and its Clearing Members to commingle positions in significantly and reliably correlated futures and swaps and related funds in cleared swaps customer accounts subject to section 4d(f) of the Act.

The Exchanges certify that proposed rule 831 complies with the Act and regulations promulgated thereunder. More specifically, the proposed commingling rule comports with: (i) DCO Core Principle G (Risk Management) and Commission Regulation 39.13(g)(4) (Spread and Portfolio Margins), which provides, in pertinent part, that a DCO "may allow reductions in initial margin requirements for related positions if the price risks with respect to such positions are significantly and reliably correlated"; and (ii) DCO Core Principle F (Treatment of Funds) and Commission Regulation 39.15(b)(2) promulgated thereunder.

No substantive opposing views regarding the proposed commingling rules have been expressed to the Exchanges. The Exchanges certify that this submission has been concurrently posted on its website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions regarding this submission, please contact the undersigned at (212) 299-2200 or CMEGSubmissionInquiry@cmegroup.com. Please reference our Submission No. 16-448 in any related correspondence.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: Proposed Text of Exchange Rule 831 (COMMINGLING OF ELIGIBLE
BASE FUTURES AND SWAPS POSITIONS)
Appendix B: CME Clearing Advisory Notice on the adoption of proposed
rule 831 (Commingling of Eligible Base Futures and Swaps Positions)
Appendix C: Select Relevant Rules

Appendix A

CME/CBOT/NYMEX/COMEX Rulebook Chapter 8 Clearing House and Performance Bonds

(additions underlined, deletions ~~overstruck~~)

Rule 831. COMMINGLING OF ELIGIBLE BASE FUTURES AND SWAPS POSITIONS

The Clearing House may identify non-swap Base Guaranty Fund Products that may be commingled with positions in swap Base Guaranty Fund Products in order to provide risk offsets for customer positions if and only if the price risks with respect to such products are significantly and reliably correlated (such products, “Base Eligible Products”). The price risks of different positions will only be considered to be significantly and reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation. Upon such identification, Base Clearing Members may elect that a customer’s positions in Base Eligible Products be commingled in a cleared swaps account. If the Clearing House determines at any time that any Base Eligible Products are non-risk reducing when commingled, the Clearing House may either restrict the commingling of additional Base Eligible Product positions or require moving or liquidating such positions.

Appendix B



TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY #: []

Date: []

SUBJECT: Adoption of New CME/CBOT/NYMEX/COMEX Rule 831. (Commingling of Eligible Base Futures and Swaps Positions)

Please be advised that the Commodity Futures Trading Commission (Commission) – at the request of Chicago Mercantile Exchange Inc. (CME), The Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and Commodity Exchange, Inc. (COMEX) – approved New Rule 831. (Commingling of Eligible Base Futures and Swaps Positions) on [].

New Rule 831. authorizes CME Clearing and Exchange Clearing Members, subject to certain conditions, to commingle certain SPAN-margined positions in correlated Base Guaranty Fund futures and swaps in cleared swaps customer accounts in order to readily obtain risk offsets.

New Rule 831. builds on CME Clearing’s ongoing compliance with Commission Regulation 39.13(g)(4), which allows reductions in initial margin requirements for related positions with price risks that are significantly and reliably correlated. Commission Regulation 39.13(g)(4) provides that “[t]he price risks of different positions will only be considered to be reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation.” The text of New Rule 831. incorporating this Commission requirement is below. The relevant Base Guaranty Fund swaps [] can be found *here*.

CME/CBOT/NYMEX/COMEX Rule 831. COMMINGLING OF ELIGIBLE BASE FUTURES AND SWAPS POSITIONS

The Clearing House may identify non-swap Base Guaranty Fund Products that may be commingled with positions in swap Base Guaranty Fund Products in order to provide risk offsets for customer positions if and only if the price risks with respect to such products are significantly and reliably correlated

(such products, “Base Eligible Products”). The price risks of different positions will only be considered to be significantly and reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation. Upon such identification, Base Clearing Members may elect that a customer’s positions in Base Eligible Products be commingled in a cleared swaps account. If the Clearing House determines at any time that any Base Eligible Products are non-risk reducing when commingled, the Clearing House may either restrict the commingling of additional Base Eligible Product positions or require moving or liquidating such positions.

For further information, please contact CME Clearing at (312) 207-2525, or email at cs@cmegroup.com.

Appendix C

Select Relevant Rules

CME Rulebook

Chapter 8 - Clearing House and Performance Bonds

809. Trade Data Processing System

809.A. Trade Data

Every clearing member must submit accurate trade data for the day's business to the Clearing House no later than the time specified by the Clearing House.

809.B. Matched and Unmatched Trades

The Clearing House shall process all trade data submitted by clearing members but shall accept only those trade records (transactions) which are in agreement with the corresponding trade records submitted by the opposite clearing members.

Trade records will be matched, to the extent the opposite trade information is consistent, through the tiered matching process.

Resubmitted trade data will be processed by the Clearing House. Trades with unmatched trade information remaining after the tiered matching process will be rejected and outrade notices will be issued to clearing members.

Trades unreconciled after the final reconciliation must be submitted on the following business day as "as-of-trades."

809.C. Trade Register and Clearing Reports

From the trade data cleared during each day's reconciliation, the Clearing House will produce a trade register for each clearing member which will itemize by commodity and contract: the opening long and short position, the contracts bought and/or sold during the day, the prices at which executed, and the settlement amounts.

The Clearing House will also produce a recap ledger for each clearing member that will itemize various position and financial information that includes but is not limited to, commodity positions, settlement amounts and performance bond information.

809.D. Reconciliation of Outtrades

It shall be the primary responsibility of the clearing member to see that all trades are cleared prior to the opening of the following day's open outcry market.

Each member, if applicable, and clearing member firm shall designate a person or persons who will be available and responsible for reconciling the member or clearing member firm's outrades. The person or persons shall be qualified to resolve outrades as the member or clearing member firm's designated outrade representative. Failure to have a qualified representative available, with all materials necessary to reconcile outrades, at the time specified above shall constitute negligence in the determination of responsibility for any outrades. If one firm cannot locate another firm's broker or representative for clearing purposes during these time periods, it shall report such fact to the President of the Clearing House. If the President of the Clearing House or his designee cannot find the broker or representative of the firm, fines will be assessed in the amounts of \$1,000, \$2,000 or \$3,000 sequentially, for violations occurring within a 30-day period.

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) 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 shall be an amount determined by the Clearing House.

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.

Chapter 8F - Over-the-Counter Derivative Clearing

8F004. OTC Clearing Member Obligations and Qualifications

OTC Clearing Members are subject to all relevant CME, CBOT and NYMEX Rules and the Clearing House Manual unless an exemption has been granted by staff or the Clearing House Risk

Committee. OTC Clearing Members must execute all agreements and documents required by the Clearing House.

The qualifications and requirements to become an OTC Clearing Member are set forth below. A CME, CBOT, NYMEX and COMEX Clearing Member clearing OTC Derivatives must satisfy the requirements set forth below.

1. An OTC Clearing Member must be in “good standing” under each applicable regulatory regime to which it is subject at the time it applies for OTC clearing membership and it must maintain its good standing status while it is an OTC Clearing Member.

2. An OTC Clearing Member must be in compliance with all applicable regulatory capital requirements and an OTC Clearing Member must maintain minimum capital of:

(i) \$5 million if it clears only agricultural OTC Derivatives; and

(ii) \$50 million if it clears other OTC Derivatives, excluding credit default swaps and interest rate swaps.

3. [Reserved]

4. [Reserved]

5. [Reserved]

6. An OTC Clearing Member and an OTC Clearing Member applicant shall be engaged in or demonstrate immediate capacity to engage in the conduct of the business of an OTC Clearing Member.

7. [Reserved]

8. An OTC Clearing Member must comply with the financial requirements set forth in CME Rule 970. However, if the OTC Clearing Member is regulated by another regulatory authority, then it shall submit to CME annual audited financial statements as well as all unaudited financial statements provided to its primary regulator within five days after such statements are provided to its regulator. All financial statements shall be in the English language.

9. The books and records of an OTC Clearing Member regarding OTC Derivatives cleared by the Clearing House shall be made promptly available for inspection upon request by CME and such books and records shall be subject to reasonable standards of confidentiality.

10. Each OTC Clearing Member that is a Futures Commission Merchant shall keep the types of information and records that are described in Section 4g of the Commodity Exchange Act and CFTC regulations thereunder including, but not limited to, Regulation 1.35, with respect to all OTC Derivatives submitted for clearing.

11. Each Base OTC Clearing Member shall make at least two traders (one primary and one backup) per OTC Derivative Product Category available to the Clearing House to participate in the Active Base OTC Default Management Committee immediately upon notice from the Clearing House that it is convening the Active Base OTC Default Management Committee for (i) a potential or actual default of a Base OTC Clearing Member and (ii) for OTC Derivative default drill exercises.

Upon acceptance as a Base OTC Clearing Member and upon any update request by Clearing House, each Base OTC Clearing Member shall provide a list of traders that the Base OTC Clearing Member nominates for the Active Base OTC Default Management Committee. Base OTC Clearing Member shall make traders available for each OTC Derivative Product Category requested by the Clearing

House until the end of the relevant default management process or drill. Any such trader shall have a title at the level of Vice President (or equivalent title) and shall have the minimum level of experience prescribed by the Clearing House from time to time in the relevant OTC Derivatives.

12. Each OTC Clearing Member shall participate in OTC Derivative default drill exercises as prescribed by the Clearing House.

8F007. Guaranty Fund Deposit

An OTC Clearing Members' guaranty fund deposit may be used to cover losses incurred by the Clearing House if a defaulting OTC Clearing Member's assets, including amounts available pursuant to any guarantee from an affiliated Clearing Member, available to the Clearing House are insufficient to cover such loss, regardless of the cause of default.

The detailed guaranty fund deposit rules applicable to Clearing Members are set forth in Rule 816.

8F009. Customer Registration

All OTC Derivatives including, but not limited to, give-ups or transfers that are cleared at CME shall be identified with an account number which identifies the originator of that transaction, specifying whether the transaction was executed as a proprietary transaction of the OTC Clearing Member or arises from a transaction by a customer. OTC Clearing Members shall register, on CME approved forms, all of the "ultimate" (or end) customer.

8F010. Risk Management

OTC Clearing Members will be subject to risk management and monitoring practices by CME relating to transactions submitted to the Clearing House. OTC Clearing Members shall promptly provide all information requested by Clearing House staff, including, without limitation, information respecting risk, settlement, liquidity, and operational issues. OTC Clearing Members shall make information and documents regarding their risk management policies, procedures and practices available to the CFTC upon the CFTC's request.

In limited circumstances, the Clearing House may decline to accept certain OTC Derivatives trades or migration positions if the Clearing House determines in good faith that, based on the exercise of prudent risk management standards, the Clearing House should not accept the OTC Derivatives trades or migration positions. In the event that the Clearing House declines to accept certain OTC Derivative trades or migration positions, it shall incur no liability with respect to the trades and positions that are not accepted. It shall be the sole responsibility of the OTC Clearing Members who are parties to such trades or positions to take action as they deem necessary or proper for their own protection.

In addition, if the Clearing House determines in good faith that, based on the exercise of prudent risk management standards, that an OTC Clearing Member poses undue risk to the Clearing House based on its OTC Derivatives portfolio, the Clearing House may take any or all of the following actions with respect to such OTC Clearing Member: 1) impose an additional performance bond requirement; 2) prohibit the addition of any new OTC Derivative positions, or 3) require the reduction or unwinding of OTC Derivatives positions.

OTC Clearing Members shall permit on-site risk reviews in accordance with CME Rules and subject to reasonable standards of confidentiality. OTC Clearing Members will also be subject to on-going oversight by the Clearing House Risk Committee regarding their activities related to the CME Clearing House. All such inquiries shall be conducted in a manner consistent with oversight of CME Clearing Members and in accordance with reasonable standards of confidentiality.

8F013. Insolvency and Liquidation

In the event of a bankruptcy or insolvency of an OTC Clearing Member or any other clearing member carrying OTC Derivatives in its proprietary or customer accounts, the default Rules and risk management procedures of CME shall apply, including, but not limited to, the provisions in Rule 975. Upon the bankruptcy or insolvency of such a clearing member, the Clearing House will terminate, or offset, any open OTC Derivatives of the bankrupt or insolvent Clearing Member and of its customers, however, the Clearing House shall have discretion to transfer such customer positions to one or more other Clearing Members. The Clearing House may mitigate or eliminate the risks incurred by it as a result of offsetting or terminating such open OTC Derivatives by any one or more of the following means: 1) replace all or a portion of the OTC Derivatives of the defaulting clearing member by entering into a transaction with a solvent clearing member(s); 2) replace all or a portion of the OTC Derivatives of the defaulting clearing member by entering into OTC Derivatives for its own account in the open market; and/or 3) enter into OTC Derivatives (or exchange-traded contracts) to hedge the economic risks imposed on it as a result of offsetting or terminating such OTC Derivatives by any commercially reasonable means. The Clearing House may also replace any OTC Derivatives it enters into to replace or hedge economic risks from any terminated transaction by substituting a transaction with a solvent clearing member(s) that offsets the original terminated transaction.

Any Close-out Amount incurred by the Clearing House in liquidating, transferring and establishing, adjusting and/or replacing positions resulting from the clearing member's default will be deducted from the defaulting clearing member's collateral held by CME. In the event the collateral of the defaulting clearing member is not sufficient to satisfy the Close-Out Amount, the unsatisfied costs will be a claim by the Clearing House against the defaulting clearing member.

8F014. Mitigation of Losses

In the event of a default of a Base OTC Clearing Member, all Base OTC Clearing Members shall work cooperatively with their customers, other Base OTC Clearing Members and the Clearing House to mitigate any losses that may occur as a result of such default and shall ensure that human resources required to be provided by Base OTC Clearing Members to any Active Base OTC Default Management Committee are promptly made available.

Base OTC Clearing Members shall, upon request from the Clearing House: 1) provide commercially reasonable bids in all auctions of the defaulted Base OTC Clearing Member's portfolio containing OTC Derivative Product Category cleared by the Base OTC Clearing Member and on the auction terms prescribed by the Clearing House; and 2) take any other action as reasonably requested by the Emergency Financial Committee or Clearing House Risk Committee.

8F015. Trade Submission on CME Clearport

A. This rule governs all OTC Derivatives that the Clearing House has designated as eligible for clearing that are submitted for clearing via CME ClearPort and that are not extinguished and replaced by positions in regulated futures and options ("Transactions"). The parties to a Transaction and any person authorized under Section C of this Rule with brokering capability or trade submission authority (generically defined as "Broker" or "Brokers") must comply with applicable registration procedures for participation in CME ClearPort and must continue to comply with applicable registration procedures for OTC Derivatives, as may be amended from time to time. Transactions are also subject to the other rules in this chapter.

B. Each Transaction must be submitted in accordance with the procedures established by the Clearing House for this purpose, as amended from time to time. The parties to a Transaction and any Brokers authorized to submit Transactions on such a party's behalf to the Clearing House and authorized for related activities shall be exclusively responsible, both individually and jointly, for accurately confirming the details of the Transaction to the Clearing House. Once submitted, all Transactions shall be deemed final. Neither the Clearing House nor a Clearing Member carrying the account of either party will have any responsibility in the confirmation of trade terms for Transactions.

C. Each Clearing Member must register with the Clearing House staff in the manner required for any customer authorized by the Clearing Member to submit transactions to the Clearing House pursuant to this rule, and must also register with the Clearing House staff the applicable account numbers for each such customer. For each such account, the Clearing Member carrying that account also must submit to Clearing House staff in the manner provided the name of any Broker who has registered with Clearing House staff for services provided under this rule, and who is authorized by the customer to act on its behalf in the submission of Transactions pursuant to this rule and related activity. For any such Brokers authorized by the customer and submitted to Clearing House staff by the Clearing Member, such submission to Clearing House staff of the Broker's information by the Clearing Member will not constitute an endorsement or ratification of the customer's authorization of the Broker. Moreover, submission of a Broker authorized by a customer will not mean that the Clearing Member is in privity with, has a relationship with or is otherwise standing behind any of the customer's authorized Brokers, and the Clearing Member will have no responsibility for any such Brokers selected by the customer and no duty or obligation to supervise the activities of any such Brokers.

D. For each account number that has been registered with the Clearing House staff pursuant to Section C of this rule, a credit check or explicit clearing member acceptance or rejection of a transaction must occur depending on the transaction type.

Chapter 9 - Clearing Members

901. General Requirements and Obligations

Membership in the Clearing House is a privilege and license granted by the Board and may be withdrawn by the Board for cause at any time. Clearing House staff may grant exemptions to the General Requirements and Obligations set forth below for Clearing Members if it is determined that such an exemption will not jeopardize the financial integrity of the Clearing House. Subject to such exemptions, each applicant for qualification as a clearing member must satisfy the following requirements:

A. It shall be a corporation (defined by the Rules of the Exchange to include a limited liability company), partnership or other entity approved by Exchange staff. It shall agree to: 1) abide by all Exchange Rules and to cooperate in their enforcement; 2) be responsible, even after it has withdrawn as a clearing member, for any violations of Exchange Rules committed by it while it was a clearing member; and 3) continue to meet all requirements applicable to clearing members, including all financial requirements provided by these rules;

B. It shall have an authorized representative (i.e., officer, principal, or partner) who shall represent the clearing member before the Exchange and its committees. Such authorized representative shall be responsible to the Exchange for any representations made to the Exchange as if such person were a member as defined by Rule 400.

C. It shall be qualified to do business in the State of Illinois or the State of New York or have a valid agency agreement with an entity qualified to do business in the State of Illinois or the State of New York.

D. It shall be engaged in or demonstrate immediate capacity to engage in the conduct of the business of a clearing member;

E. It shall demonstrate such fiscal and moral integrity as would justify the Clearing House's assumption of the risks inherent in clearing its trades;

F. It shall demonstrate financial capitalization commensurate with Exchange requirements as set by the Clearing House Risk Committee;

G. If any person directly or indirectly controls, owns 10% or more of, or has the right to 10% or more of the profits of two or more clearing members, then each such clearing member shall guarantee the obligations of the others to the Clearing House and shall execute a written guarantee to the Clearing House on a form approved by the Clearing House.

H. It shall notify the Exchange prior to any significant business transaction or significant change in operations which shall include, but is not limited to the following:

1. The merger, combination or consolidation between the clearing member and another person or entity;
2. The assumption or guarantee by the clearing member of all or substantially all of the liabilities of another in connection with a direct or indirect acquisition of all or substantially all of that person's or entity's assets;
3. The sale by the clearing member of a significant part of its business and/or assets to another person or entity;
4. A change in the direct or indirect beneficial ownership of 20% or more of the clearing member;
5. Any change in the system provider used by the clearing member to process its trades; and
6. A significant increase in the number of members that a clearing member qualifies.

Additionally, a clearing member that qualifies members must provide fifteen days notice to the Exchange of any proposal to terminate such business or any material part of such business.

The Clearing House Risk Committee or Exchange staff, upon such notice, may disapprove or approve, subject to certain conditions, such changes in structure or operations if it determines that the proposed change could jeopardize the financial or operational integrity of the Exchange.

I. It shall agree to guarantee and assume complete responsibility for the financial obligations attendant to: 1) all trades and orders executed or accepted for execution by a member it qualifies, including trades and orders executed, or which such member fails to execute, negligently, fraudulently or in violation of Exchange rules; 2) an unpaid arbitration award issued by a panel of the Arbitration Committee against a member it qualifies in circumstances where the dispute is related to a matter described in number 1) above; 3) an unpaid restitution order issued against a member it qualifies by a panel of the Business Conduct Committee, the Clearing House Risk Committee or a hearing panel of the Board of Directors; and 4) unpaid Exchange disciplinary fines imposed upon a member it qualifies if the member is also an employee of the clearing member or its affiliate, subject to a determination by the sanctioning entity.

J. It shall notify the Financial and Regulatory Surveillance Department in a timely manner of any material change in key personnel who are responsible to act on behalf of the clearing member

K. [Reserved]

L. It shall submit to the Clearing House a written guarantee, on a form provided by the Clearing House, from each person or entity owning 5% or more of the equity securities of the clearing member, that shall guarantee all obligations of the clearing member to the Clearing House arising out of accounts cleared by the clearing member that are:

1. non-customer accounts, including proprietary accounts as defined by CFTC Regulation 1.3(y); and

2. accounts carried by another futures commission merchant if such accounts would be considered non-customer accounts, including proprietary accounts as defined by CFTC Regulation 1.3(y), of the clearing member, if carried directly by the clearing member.

Notwithstanding anything herein to the contrary, the guarantee required by this Rule 901.L. shall not apply to any obligations of the clearing member to pay an assessment to the Clearing House pursuant to Rule 802.B.

Each clearing member must submit and maintain with the Financial and Regulatory Surveillance Department a current list of every person or entity which is directly, or indirectly through intermediaries, the beneficial owner of 5% or more of any class of equity security of the clearing member. If such person or entity owns the clearing member indirectly through intermediaries, all intermediaries must be listed including, if a corporation, all shareholders who own 5% or more of any class of equity security, or, if a partnership, all general and any limited or special partners who have contributed 5% or more of the partnership's capital. If the intermediary's shareholders or partners are not individuals, the clearing member must include the chain of ownership of 5% shareholders, general partners and 5% limited or special partners until individuals are listed.

If a corporation directly or indirectly owns 5% or more of the equity securities of the clearing member, the written guarantee shall be signed by an appropriate officer of the corporation, and a resolution granting such officer authority to sign the guarantee shall also be submitted to the Clearing House. Clearing House staff may also require each person or entity owning 5% or more of the equity securities of such parent corporation, or of parents of such parent corporation, to execute guarantees.

For purposes of this Rule 901.L., the term "equity security" shall include any stock, partnership interest or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security that Clearing House staff shall deem to be of similar nature and consider necessary or appropriate to treat as an equity security.

M. It shall guarantee and assume financial responsibility for all trading activity routed through a Globex portal, or routed through any other electronic trading system to CME for clearing of such transactions. Such activity is guaranteed to CME by the clearing member via any connection, terminal, link, telecommunications hub or handheld unit provided by the clearing member to a third party as well as any other applicable electronic trading systems and terminals that the clearing member provides to a third party to enter orders.

N. It shall be responsible for the acts of Globex terminal operators accessing the Globex system through its connections, including direct connections or other connections that it provides to firms that are under common ownership with it. It shall be the duty of the clearing member to supervise its employees and agents acting as Globex terminal operators to ensure such employees and agents comply with Exchange rules, and any violation of Exchange rules by such terminal operators shall be considered a violation by the clearing member.

O. It shall agree to guarantee and assume complete responsibility for trades executed on Marketplaces for which the Exchange provides clearing services.

P. Each clearing member shall use systems and appropriate procedures to track accurately, and to provide to the Clearing House accurately, the positions and collateral of each of the cleared swaps customers.

Q. Requirement to Establish Uncommitted Repo. Each clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House.

R. Reserved

S. The obligation(s) of a clearing member to pay settlement variation and/or performance bond during each clearing cycle is not extinguished until all required cash and/or collateral is deposited into the correct CME bank account at the relevant custodial or settlement bank

902. Clearing Membership Assignment Requirements

902.A. Assignment Requirement

Subject to exemptions granted by Exchange staff, each CME clearing member shall have at least: two CME memberships, two IMM memberships, two IOM memberships and one GEM membership assigned to the Clearing House. A clearing member which was an IMM Class A clearing member on or prior to May 6, 1987, shall have at least one CME membership, three IMM memberships, two IOM memberships and one GEM membership assigned to the Clearing House. A higher Division membership may be substituted for a lower Division membership to satisfy these requirements.

At least one CME, one IMM, one IOM and one GEM membership required for clearing membership pursuant to this Rule must be owned by the clearing member or a person, including a parent company, with an acceptable proprietary interest in such clearing member. One CME, one IMM, and one IOM membership required for clearing membership may be independently assigned.

Upon default of a clearing member in meeting its obligations to the Clearing House or upon the Clearing House Risk Committee's determination that a clearing member's financial position jeopardizes the financial integrity of the Clearing House, the Clearing House may direct the sale of any or all of the clearing member's assigned CME memberships. The proceeds from the sale of the CME memberships shall be used to satisfy Rule 110 obligations.

902.B. [Reserved]

902.C. Assignment Process

A membership may be assigned upon the completion of an Exchange-approved form. A membership may be assigned on behalf of only one clearing member and may not be subject to any Rule 110 claims at the time of assignment. Upon submitting an assignment form to the Membership Services Department, the membership shall be notified of the assignment. Parties will have ten days after the notification of the assignment to submit any Rule 110 claims against the membership being assigned. After all Rule 110 claims have been resolved to the satisfaction of the Exchange, the membership shall be assigned.

902.D. Assignment Substitutions

A clearing member may substitute a membership for an assigned membership provided that the clearing member continues to meet the assignment requirements of this Rule.

In the event a clearing member has a valid claim against a member that it qualifies and the member's membership is assigned to another clearing member, the clearing member utilizing the membership for assignment shall have 10 business days to substitute another membership to fulfill the assignment requirements of this Rule.

902.E. Assignment Withdrawal Disputes

In the event a member wants to withdraw his assigned membership over the objection of the clearing member to which the membership is assigned, such member must request permission to do so from Clearing House staff. The request must be in writing with a copy delivered to the clearing member to which the membership is assigned.

902.F. Lien on Memberships

Each clearing member hereby grants to the Clearing House a first priority and unencumbered lien against all memberships required for clearing membership by the Exchange.

930. Performance Bond Requirements: Account Holder Level

930.A. Performance Bond System

The Standard Portfolio Analysis of Risk (“SPAN®”) Performance Bond System is the performance bond system adopted by the Exchange. SPAN-generated performance bond requirements shall constitute Exchange performance bond requirements. All references to performance bond within the rules of the Exchange shall relate to those computed by the SPAN system, except for cleared over-the-counter (“OTC”) foreign exchange (“FX”) and interest rate swap (“IRS”) transactions, where the Historical Value at Risk (“HVaR”) Performance Bond System is used for cleared OTC FX and IRS transaction performance bonds.

Performance bond systems other than the SPAN system may be used to meet Exchange performance bond requirements if the clearing member can demonstrate that its system will always produce a performance bond requirement equal to or greater than the SPAN performance bond requirements.

930.B. Performance Bond Rates

1. Non-Security Futures and OTC Derivatives

Exchange staff shall determine initial and maintenance performance bond rates used in determining Exchange performance bond requirements. The Board reserves the right to change or modify any performance bond levels determined by Exchange staff.

2. Security Futures

a. Initial and maintenance performance bond (or “margin”) rates used in determining Exchange performance bond requirements applied to Security Futures on behalf of Customers, whether effected on the Exchange or on a Marketplace apart from Exchange but cleared by the Clearing House per Chapter 8B, and held in a futures account, shall be established at levels no lower than those prescribed by CFTC Regulation Section 41.45; and, SEC Regulation 242.403, including any successor Regulations.

b. As used in this Rule, the term “Customer” does not include (a) an “exempted person” as defined in CFTC Regulation 41.43(a)(9) and SEC Regulation 242.401(a)(9); or (b) Market Makers as defined below.

A Person shall be a “Market Maker” for purposes of this Rule, and shall be excluded from the requirements set forth in CFTC Regulations 41.42 through 41.49; and, SEC Regulations 242.400 through 242.406 in accordance with CFTC Regulation 41.42(c)(2)(v) and SEC Regulation 242.400(c)(2)(v), with respect to all trading in Security Futures for its own account, if such Person is an Exchange Member that is registered with the Exchange as a “Security Futures Dealer.”

Each Market Maker shall: (a) be a member of the Exchange and be registered as a floor trader or a floor broker with the CFTC under Section 4f(a)(1) of the CEA; or, be registered as a dealer with the SEC under Section 15(b) of the Exchange Act; (b) maintain records sufficient to prove compliance with the requirements set forth in this Rule and CFTC Regulation 41.42(c)(2)(v) and SEC Regulation 242.400(c)(2)(v), including without limitation, trading account statements and other financial records sufficient to detail activity and verify conformance with the standards set forth herein; and (c) hold itself out as being willing to buy and sell Security Futures for its own account on a regular or continuous basis.

A Market Maker satisfies condition (c) above if, at a minimum, any of the following three requirements are fulfilled:

(1) The Market Maker:

(i) Provides continuous two-sided quotations throughout the trading day for all delivery months of Security Futures Contracts representing a meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract) at which times the Market Maker must use its best efforts to quote continuously and competitively; and

(ii) When providing quotations, quotes with a maximum bid/ask spread no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Futures Contract.

(2) The Market Maker:

(i) Responds to at least 75% of the requests for quotation for all delivery months of Security Futures Contracts representing a meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract) at which times the Market Maker must use its best efforts to quote competitively; and

(ii) When responding to requests for quotation, quotes within five seconds with a maximum bid/ask spread no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Futures Contract.

(3) The Market Maker:

(i) Is assigned to a group of Security Futures Contracts listed on the Exchange that is either unlimited in nature ("Unlimited Assignment"); or, is assigned to no more than 20% of the Security Futures Contracts listed on the Exchange ("Limited Assignment");

(ii) At least 75% of the Market Maker's total trading activity in Exchange Security Futures Contracts is in its assigned Security Futures Contracts, measured on a quarterly basis;

(iii) During at least 50% of the trading day the Market Maker has bids or offers in the market that are at or near the best market, except in unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract), with respect to at least 25% (in the case of an Unlimited Assignment) or at least one (in the case of a Limited Assignment) of its assigned Security Futures Contracts; and

(iv) The requirements in (ii) and (iii) above are satisfied on: (a) at least 90% of the trading days in each calendar quarter by Market Makers who have undertaken an Unlimited Assignment; or (b) at least 80% of the trading days in each calendar quarter by Market Makers who have undertaken a Limited Assignment; or (c) on at least 80% of the trading days in each calendar quarter by Market Makers who have undertaken either an Unlimited Assignment or Limited Assignment but where the Exchange is listing four (4) or fewer Security Futures Contracts.

For purposes of clauses (1) and (2) above, beginning on the 181st calendar day after the commencement of trading of Security Futures Contracts on the Exchange, a "meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange" shall mean a minimum of 20% of such trading volume.

Any Market Maker that fails to comply with the applicable Rules of the Exchange, CFTC Regulations 41.41 through 41.49 and SEC Regulations 242.400 through 242.406 shall be subject to disciplinary

action in accordance with Chapter 4. Appropriate sanctions in the case of any such failure shall include, without limitation, a revocation of such Market Maker's registration as a Security Futures Dealer.

c. The Exchange shall establish initial and maintenance performance bond requirements applicable to Security Futures and held in a futures account, provided that the performance bond requirement for any long or short position held by a clearing member on behalf of a Customer shall not be less than 20% of the current market value of the relevant Contract; or, such other requirement as may be established by the CFTC and SEC for purposes of CFTC Regulation 41.45(b)(1) and SEC Regulation 242.403(b)(1) except as provided below.

d. Initial and maintenance performance bond requirements for offsetting positions involving Security Futures and related positions are provided in the schedule below, for purposes of CFTC Regulation 41.45(b)(2) and SEC Regulation 242.403(b)(2).

Performance Bond (or "Margin") Requirements for Offsetting Positions

DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
Long security future (or basket of security futures representing each component of a narrow-based securities index) and long put option on the same underlying security (or index)	Individual stock or narrow-based security index	20% of the current market value of the long security future, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20% of the current market value of the long security future.

DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
Short security future (or basket of security futures representing each component of a narrow-based securities index) and short put option on the same underlying security or index	Individual stock or narrow-based security index	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. The put sale may be applied.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any
Long security future and short position in the same security (or security basket)	Individual stock or narrow-based security index	The initial margin required under regulation T for the short stock or stocks.	5% of the current market value as defined in Regulation T of the stock or stocks

underlying the security future			underlying the security future.
Long Security future (or basket of security futures representing each component of a narrow-based index) and short call option on the same underlying security (or index)	Individual stock or narrow-based security index	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any.
Long a basket of narrow-based security futures that together tracks a broad-based index and short a broad-based security index call option contract the same index	Narrow-based security index	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any.
Short a basket of narrow-based security futures that together tracks a broad-based security index and short a broad-based security index put option contract on the same index	Narrow-based security index	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.

DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
Long a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index put option contract on the same index	Narrow-based security index	20% of the current market value of the long basket of narrow-based security futures, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price of the put, plus the aggregate put out-of-the-money amount, if any; or (2) 20% of the current market value of the long basket of security futures.
Short a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index call option contract on the same index	Narrow-based security index	20% of the current market value of the short basket of narrow-based security futures, plus pay for the long call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount if any; or (2) 20% of the current market value of the short basket of security futures.
Long security future and short security future on the same underlying security (or index)	Individual stock or narrow-based security index.	The greater of: 5% of the current market of the long security future; or (2) 5% of the current market value of the short security future.	The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.
Long security future, long put option, and short call option. The long security future, long put and short call must be on the same underlying security and the put and call must have the same exercise price. (Conversion)	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.	10% of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.

DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put exercise price must be below the call exercise price (Collar)	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from call sale may be applied.	The lower of: (1) 10% of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20% of the aggregate exercise price of the call, plus the aggregate call in-the-money amount, if any.
Long (short) a basket of security futures that together tracks a narrow-based index and short (long) a narrow-based index future	Individual stock or narrow-based security index.	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).
Long (short) a security future and short (long) an identical security future traded on a different market.	Individual stock or narrow-based security index.	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).
Short security future and long position in the same security (or securities basket) underlying the security future	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long stock or stocks.	5% of the current market value, as defined in Regulation T, of the long stock or stocks.
Short security future and long position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security.	10% of the current market value, as defined in Regulation T, of the long security.

DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
Short security future (or basket of security futures representing each component of a narrow-based securities index) and long call option or warrant on the same underlying security (or index)	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus pay for the call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short security future.
Short security future, short put option, and long call option. The short security future, short put and long call must be on the same underlying security and the put and call must have the same exercise price. (Reverse Conversion)	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any, plus pay for the call in full. Proceeds from put sale may be applied.	10% of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.
Long (short) a basket of security futures, each based on a narrow-based security index that together tracks the broad-based index and short (long) a broad-based index future	Narrow-based security index	5% of the current market value of the long (short) basket of security futures.	5% of the current market value of the long (short) basket of security futures.

930.C. Acceptable Performance Bond Deposits

1. Non-Security Futures and OTC Derivatives

Clearing members may accept from their account holders as performance bond cash currencies of any denomination, readily marketable securities (as defined by SEC Rule 15c3-1(c)(11) and applicable SEC interpretations), money market mutual funds allowable under CFTC Regulation 1.25, bank-issued letters of credit, warrants, warehouse receipts and shipping certificates that are registered as deliverable for commodities traded on Chicago Mercantile Exchange Inc., Chicago Board of Trade Inc., New York Mercantile Exchange, Inc. or Commodity Exchange, Inc., and "London Good Delivery" gold, as defined by the London Bullion Market Association.

Clearing members shall not accept as performance bond from an account holder securities that have been issued, sponsored or otherwise guaranteed by the account holder or an affiliate of the account

holder unless the clearing member files a petition with and receives permission from Clearing House staff.

Unless permitted (either not restricted or specifically authorized) by the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") and/or any Sanctioning Body, as applicable, Clearing members may not accept from their account holders as performance bond any debt or equity issued by Sanctioned Parties as defined in Rule 543, assets in which Sanctioned Parties have an interest, or any other assets that are or would be subject to blocking restrictions or sectoral sanction restrictions imposed by the OFAC or are subject to similar restrictions imposed by another Sanctioning Body.

Bank-issued letters of credit must be in a form acceptable to the Clearing House. Such letters of credit must be drawable in the United States. Clearing members shall not accept as performance bond from an account holder letters of credit issued by the account holder, an affiliate of the account holder, the clearing member, or an affiliate of the clearing member.

All assets deposited by account holders to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing account holder.

Except to the extent that Clearing House staff shall prescribe otherwise, cash currency performance bond deposits shall be valued at market value. All other performance bond deposits other than letters of credit, warrants, warehouse receipts and shipping certificates shall be valued at an amount not to exceed market value less applicable haircuts as set forth in SEC Rule 240.15c3-1. Warrants, warehouse receipts and shipping certificates shall be valued at an amount not to exceed the market value of the commodities

2. Security Futures

a. Clearing Members may accept from their Customers as performance bond (or "margin") for Security Futures held in a futures account, deposits of cash, margin securities (subject to the limitations set forth in the following sentence), exempted securities, any other assets permitted under Regulation T of the Board of Governors of the Federal Reserve System (as in effect from time to time) to satisfy a performance bond deficiency in a securities margin account, and any combination of the foregoing, each as valued in accordance with CFTC Regulations 41.46(c) and 41.46(e); and, SEC Regulations 242.404(c) and 242.404(e). Shares of a money market mutual fund that meet the requirements of CFTC Regulation 1.25 may be accepted as a performance bond deposit from a Customer for purposes of this Rule.

b. A Clearing Member shall not accept as performance bond from any Customer securities that have been issued by such Customer or an Affiliate of such Customer unless such Clearing Member files a petition with and receives permission from the Exchange for such purpose.

c. All assets deposited by a Customer to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing Customer.

930.D. Acceptance of Orders

Clearing members may accept orders for an account provided sufficient performance bond is on deposit in the account or is forthcoming within a reasonable time.

For an account which has been subject to calls for performance bond for an unreasonable time, clearing members may only accept orders that reduce the performance bond requirements of existing positions in the account.

Clearing members may not accept orders for an account that has been in debit an unreasonable time.

930.E. Calls for Performance Bond

1. Clearing members must issue calls for performance bond that would bring an account up to the initial performance bond requirement: a) when performance bond equity in an account initially falls below the maintenance performance bond requirement; and b) subsequently, when performance bond equity plus existing performance bond calls in an account is less than the maintenance performance bond requirement.

Such calls must be made within one business day after the occurrence of the event giving rise to the call. Clearing members may call for additional performance bond at their discretion. Notwithstanding the foregoing, a clearing member is not required to call for or collect performance bond for day trades.

2. Clearing members shall only reduce a call for performance bond through the receipt of performance bond deposits permitted under subsection C. of this rule. Clearing members may cancel a call for performance bond through: a) the receipt of performance bond deposits permitted under subsection C. of this rule only if such deposits equal or exceed the amount of the total performance bond call; or b) inter-day favorable market movements and/or the liquidation of positions only if performance bond equity in the account is equal to or greater than the initial performance bond requirement. Clearing members shall reduce an account holder's oldest outstanding performance bond call first.

3. Clearing members must maintain written records of all performance bond calls issued and satisfied in whole or in part.

930.F. Release of Excess Performance Bond

Subject to exceptions granted by Exchange staff, clearing members may only release performance bond deposits from an account if such deposits are in excess of initial performance bond requirements.

930.G. Loans to Account Holders

Clearing members may not make loans to account holders to satisfy their performance bond requirements unless such loans are secured as defined in CFTC Regulation 1.17(c)(3). The proceeds of such loans must be treated in accordance with CFTC Regulation 1.30.

930.H. Aggregation of Accounts and Positions

Clearing members may aggregate and net positions in accounts under identical ownership within the same classifications of customer segregated, customer secured, Cleared Swaps Customer, and nonsegregated for performance bond purposes. Clearing members may compute performance bond requirements on identically owned concurrent long and short positions on a net basis.

930.I. Hedge Positions

Clearing members shall have reasonable support to classify positions as bona-fide hedge and risk management positions, as defined by Rule 559, that are afforded hedge performance bond rates.

930.J. Omnibus Accounts

1. Clearing members shall collect performance bond on a gross basis for positions held in domestic and foreign omnibus accounts.

2. For omnibus accounts, initial performance bond requirements shall equal maintenance performance bond requirements.

3. Clearing members shall obtain and maintain written instructions from domestic and foreign omnibus accounts for positions which are entitled to spread or hedge performance bond

930.K. Liquidation of Accounts

1. Non-Security Futures and OTC Derivatives

If an account holder fails to comply with a performance bond call within a reasonable time (the clearing member may deem one hour to be a reasonable time), the clearing member may close out the account holder's trades or sufficient contracts thereof to restore the account holder's account to required performance bond status. Clearing members shall maintain full discretion to determine when and under what circumstances positions in any account shall be liquidated.

2. Security Futures

If a Customer fails to comply with a performance bond (or "margin") call within a reasonable period of time (the clearing member may deem one hour to be a reasonable period of time), the relevant clearing member shall take the deduction required with respect to an undermargined account in computing its net capital under applicable CFTC and SEC Regulations.

If at any time there is a liquidating deficit in an account in which security futures are held, the clearing member shall take steps to liquidate positions in the account promptly and in an orderly manner.

930.L. Clearing House Authority to Require Additional Performance Bond

The Clearing House, in its sole discretion, has the authority to require clearing members to collect additional performance bond from specific account holders in circumstances deemed necessary by the Clearing House.

930.M. Failure to Maintain Performance Bond Requirements

If a clearing member fails to maintain performance bond requirements for an account in accordance with this rule, the Exchange or the Clearing House may direct such clearing member to immediately liquidate all or part of the account's positions to eliminate the deficiency.

930.N. OTC Derivatives Undermargined Capital Charge

Clearing members must compute an OTC derivatives undermargined capital charge for customer and noncustomer accounts containing cleared swap positions when performance bond calls on the accounts have been outstanding for more than three business days. The OTC derivatives undermargined capital charge is calculated as the amount of funds required in such account to meet maintenance performance bond requirements less account equity and acceptable performance bond collateral. Provided, to the extent a deficit is excluded from current assets in the net capital computation, such amount shall not also be deducted under this rule.

949. Credit Controls

Clearing Members shall comply with all credit control policies developed by the Exchange for customer and proprietary transactions. Such credit control policies may include, but not be limited to, registration of credit control administrators with the Exchange, definition of credit control limits, and maintenance of written procedures verifying compliance with Exchange credit control requirements. For general reference purposes, credit control functionality that may be developed for Globex is a

system or service pursuant to Rule 578. Any credit control functionality required by the Exchange shall be in addition to a clearing member's internal risk monitoring and credit control procedures.

950. Supervision

Each clearing member shall adopt and enforce written procedures pursuant to which it will supervise in accordance with the requirements of these Rules and the CEA and CFTC Regulations thereunder, each customer's account(s), including, but not limited to, the solicitation of any such account(s). For purposes of this rule, the term "customer" does not include another futures commission merchant.

954. Customer Complaints

Each clearing member shall retain all written customer complaints, and make and retain a record of the date each complaint was received, the associated person who serviced the account, a general description of the matter complained of, and what, if any, action was taken by the clearing member regarding the complaint. With respect to verbal complaints, each clearing member shall develop and implement a written program approved by senior management that requires clearing member staff to direct individuals with verbal complaints to place such complaints in written form and submit such complaints to the Compliance Officer of the clearing member. Such complaints and related records must be maintained at the clearing member's principal place of business.

957. Confirmations to Customers

A clearing member shall confirm to the customer every transaction made for the customer no later than the following business day. Such confirmation shall be in electronic or written form and shall show facts relevant to the economic terms of the transaction, such as the product bought or sold, the quantity, the price, the expiration, maturity date or the contract month/year (as applicable), and, for options, strike price, put or call and expiration.

970. Financial Requirements

A. Subject to exemptions granted by Exchange staff, all clearing members, including non-FCMs, must comply with the requirements set forth in CFTC Regulations 1.10, 1.12, 1.17 and 1.18. This includes, but is not limited to, the following:

1. Maintenance of minimum capital requirements of at least \$5 million except that a clearing member that is a bank must maintain minimum Tier I Capital (as defined in accordance with regulation applicable to the relevant bank) of at least \$5 billion;
2. Submission of a Form 1-FR, FOCUS Report or other requested information within the specified period of time;
3. Notification requirements when a clearing member:
 - a. Fails to maintain minimum capital requirements;
 - b. Fails to maintain early warning capital requirements;
 - c. Fails to maintain current books and records; or
 - d. Determines the existence of a material inadequacy as specified in CFTC Regulation 1.16(d)(2);
 - e. Changes its fiscal year; or
 - f. Changes its public accountant;

In addition to the notifications required by CFTC regulations, all clearing members must provide written notice to the Financial and Regulatory Surveillance Department of the above events.

4. Completely and accurately computing and recording the balances in the net capital computation including capital requirements;
5. Subordination agreement requirements, including the filing of such agreements; and
6. Preparation of a monthly computation of adjusted net capital and minimum financial requirements.

B. For non-FCMs, all filing, notification, and approval requirements set forth in CFTC Regulations 1.10, 1.12, 1.17 and 1.18 and in the rules of the Exchange must be submitted to or obtained from the Financial and Regulatory Surveillance Department, if necessary, rather than the Commission. Non-FCM clearing members shall make available to the CFTC, upon the CFTC's request, copies of financial reports required to be submitted to the Financial and Regulatory Surveillance Department under this Rule.

C. In conjunction with the requirements set forth in CFTC Regulations 1.10, 1.12, 1.17, and 1.18, clearing members must comply with the following requirements:

1. Submit a monthly Form 1-FR or FOCUS Report and the Exchange Supplementary Information schedule including an unaudited monthly Form 1-FR or FOCUS Report as of the clearing member's fiscal year-end, within the time requirements set forth in CFTC Regulation 1.10. A clearing member must include with its Form 1-FR or FOCUS Report a Statement of Income (loss) for the period between the date of the most recent financial statement or, at the option of the clearing member, the most recent certified financial statement filed with the Financial and Regulatory Surveillance Department and the date for which the report is made.
2. Submit a certified Form 1-FR or FOCUS Report as of the clearing member's fiscal year-end within the time requirements set forth in CFTC Regulation 1.10. A clearing member must include with its certified Form 1-FR or FOCUS Report, a reconciliation from the certified Form 1-FR or FOCUS Report to the monthly Form 1-FR or FOCUS Report as of the same date or a statement that no differences were noted.
3. A clearing member for which CME is the designated self-regulatory organization may request the Financial and Regulatory Surveillance Department's permission to change its fiscal year. Such request will only be granted for good cause and in accordance with the requirements of CFTC Regulation 1.10(e)(2). The Financial and Regulatory Surveillance Department's grant of the change in fiscal year will fulfill the approval requirements of CFTC Regulation 1.10(e)(2).
4. A clearing member for which CME is the designated self-regulatory organization may request an extension of time to file a monthly Form 1-FR, monthly FOCUS Report, certified Form 1-FR or certified FOCUS Report from the Financial and Regulatory Surveillance Department. Such extension will only be granted for good cause and in accordance with the requirements of CFTC Regulations 1.10(f) and 1.16(f). The Financial and Regulatory Surveillance Department's grant of an extension will fulfill the approval requirements of CFTC Regulations 1.10(f) and 1.16(f).

D. Exchange staff may prescribe additional accounting, reporting, and other financial and/or operational requirements and clearing members must comply with such requirements. All clearing members must provide notice to the Financial and Regulatory Surveillance Department of a failure to comply with the additional accounting, reporting, financial, and/or operational requirements. The Financial and Regulatory Surveillance Department must receive immediate written notification when a clearing member knows or should know of such failure.

E. Financial statement filing requirements under this Rule must be met through Exchange-approved electronic transmissions, except for certified Form 1-FRs or FOCUS Reports. Personal Identification

Numbers (PINs) must be submitted by authorized signers of the Form 1-FR or FOCUS Report. The PIN will constitute and become a substitute for the manual signature of the authorized signer to the electronically filed Form 1-FR or FOCUS Report. The PIN is a representation by the authorized signer that, to the best of his or her knowledge, all information contained in the statement being transmitted under the PIN is true, correct and complete. The unauthorized use of a PIN for electronic attestation by an unauthorized party is expressly prohibited.

F. Exchange staff may grant exceptions to the financial and reporting requirements of Rule 970 for good cause if it is determined that such exceptions will not jeopardize the financial integrity of the Exchange.

971. Segregation, Secured and Cleared Swaps Customers Account Requirements

A. All clearing members must comply with the requirements set forth in CFTC Regulations 1.20 through 1.30, 1.32, 1.49 and 30.7, and Part 22 of the CFTC Regulations. This includes, but is not limited to, the following:

1. Maintaining sufficient funds at all times in segregation, secured 30.7 and Cleared Swaps Customer accounts;
2. Computing, recording and reporting completely and accurately the balances in the:
 - a. Statement of Segregation Requirements and Funds in Segregation;
 - b. Statement of Secured Amounts and Funds Held in Separate Accounts; and
 - c. Statement of Segregation Requirements and Cleared Swaps Customer Collateral Held in Cleared Swaps Customer Accounts.
3. Obtaining satisfactory segregation, secured 30.7 and Cleared Swaps Customer account acknowledgment letters and identifying segregated, secured 30.7 and Cleared Swaps Customer accounts as such; and
4. Preparing complete and materially accurate daily segregation, secured 30.7 and Cleared Swaps Customer amount computations in a timely manner.

B. All FCM clearing members must submit a daily segregated, secured 30.7 and Cleared Swaps Customer amount statement, as applicable, through Exchange-approved electronic transmissions by 12:00 noon on the following business day.

C. In addition to complying with all applicable CFTC regulations, in order for each of an FCM clearing member's customer segregated, secured 30.7 and Cleared Swaps Customer accounts held at a depository to be included as segregated and secured 30.7 funds and Cleared Swaps Customer Collateral in their respective origin and calculation:

1. The FCM clearing member must provide the Financial and Regulatory Surveillance Department with access to the account information, in a form and manner prescribed by the Financial and Regulatory Surveillance Department; and
2. The depository must allow the FCM clearing member to provide the Financial and Regulatory Surveillance Department with access to the account information, in a form and manner prescribed by the Financial and Regulatory Surveillance Department.

D. All FCM clearing members must submit a report of investments in a manner as prescribed through Exchange-approved electronic transmissions as of the 15th of the month (or the following business day if the 15th is a holiday or weekend) and last business day of the month by the close of business

on the following business day. The report of investments shall be prepared and shall identify separately for segregated and secured 30.7 funds and Cleared Swaps Customer Collateral held:

1. The dollar amount of funds held in cash and each permitted investment identified in CFTC Regulation 1.25(a); and

2. The identity of each depository holding funds and the dollar amount held at each depository.

E. All disbursements not made for the benefit of a customer from a segregated, secured 30.7 or Cleared Swaps Customer account which exceed 25% of the FCM clearing members excess segregated, secured 30.7 or Cleared Swaps Customer of the respective origin must be pre-approved in writing by the clearing member's Chief Executive Officer, Chief Financial Officer or their authorized representative with knowledge of the firm's financial requirements and position.

1. In determining if a disbursement exceeds the 25% level, such disbursement must be:

a. Compared to the most recent calculation of excess segregated, secured 30.7 and Cleared Swaps Customer amounts; and

b. A single disbursement must be reviewed individually and in the aggregated with all other disbursements not made for the benefit of a customer of the respective segregated, secured 30.7 or Cleared Swaps Customer origin since the last calculation of excess funds.

2. Upon approval of a single disbursement or the disbursement which in the aggregated exceeds the 25% level as defined in Rule 971.E.1., the FCM clearing member must provide immediate notification to the Financial and Regulatory Surveillance Department through Exchange-approved electronic transmissions. Such notification shall include:

a. Confirmation that the FCM clearing member's Chief Executive Officer, Chief Financial Officer or authorized representative with knowledge of the firm's financial requirements and position pre-approved in writing the disbursement(s);

b. The amount(s) and recipient(s) of such disbursement(s); and

c. A description of the reasons for the single or multiple transaction(s) that resulted in the disbursement(s).

3. The FCM clearing member's Chief Executive Officer and Chief Financial Officer will remain responsible for the pre-approvals by their authorized representative and for compliance with this rule.

F. All clearing members must provide written notice to the Financial and Regulatory Surveillance Department of a failure to maintain sufficient funds in segregation, secured 30.7 or Cleared Swaps Customer accounts. The Financial and Regulatory Surveillance Department must receive immediate written notification when a clearing member knows or should have known of such failure.

G. Each statement and report filing required under this Rule must be submitted by the Chief Executive Officer, Chief Financial Officer or their authorized representative as approved by CME using their assigned User Identification ("User ID"). The User ID will constitute and become a substitute for the manual signature of the authorized signer to the electronically submitted daily segregated, secured 30.7 and Cleared Swaps Customer amount statements. The User ID is a representation by the authorized signer that, to the best of his or her knowledge, all information contained in the statement being transmitted under the User ID is true, correct and complete. The unauthorized use of a User ID for electronic attestation by an unauthorized party is expressly prohibited.

H. Exchange staff may prescribe additional segregation, secured 30.7 and Cleared Swaps Customer amount requirements.

972. Reductions in Capital

A clearing member must provide written notice to the Financial and Regulatory Surveillance Department as set forth below of any substantial reduction in capital as compared to the most recent filing of a financial report.

1. If any event or series of events, including any withdrawal, advance, loan or loss would cause, on a net basis, a reduction in net capital as reported on the Form 1–FR, or in tentative net capital as reported on the FOCUS Report for broker/dealers, of 20% or more, notice must be provided within two business days of the event or series of events causing the reduction; and

2. If equity capital of the clearing member or a subsidiary or a consolidated affiliate would be withdrawn by action of a stockholder or a partner or by redemption or repurchase of shares of stock by any of the consolidated entities or through the payment of dividends or any similar distribution, or an unsecured advance or loan would be made to a stockholder, partner, sole proprietor, employee or affiliates, such that the withdrawal, advance or loan would cause, on a net basis, a reduction in excess net capital of 30% or more, notice must be provided at least two business days prior to the withdrawal, advance or loan that would cause the reduction.

3. A clearing member that is a bank must provide notice if any event or series of events, including any withdrawal, advance, loan or loss would cause, on a net basis, a reduction in Tier I capital as reported on the most recent filing of a financial report, of 20% or more. Notice must be provided within five business days of the event or series of events causing the reduction or when the clearing member knows or should know of the reduction in Tier I capital.

The foregoing shall not apply in the case of a reduction in capital resulting from (1) the repayment or prepayment of subordinated liabilities for which notice has been given in accordance with Rule 970 or (2) any futures or securities transaction in the ordinary course of business between a clearing member and any affiliate where the clearing member makes payment to or on behalf of such affiliate for such transaction and then receives payment from such affiliate for such transaction within two business days from the date of the transaction.

981. Anti-Money Laundering and Economic Sanctions Compliance

Each clearing member shall develop and implement a written compliance program approved in writing by senior management reasonably designed to achieve and monitor the clearing member's compliance with all applicable requirements of the Bank Secrecy Act (31 U.S.C. § 5311 et seq.), the International Emergency Economic Powers Act (50 U.S.C. § 1701 et seq.) ("IEEPA"), the Trading with the Enemy Act (50 U.S.C. App. § 1 et seq.) ("TWEA"), and the Executive Orders and regulations issued pursuant thereto, including the regulations issued by the U.S. Department of the Treasury and, as applicable, the Commodity Futures Trading Commission. That compliance program shall, at a minimum,

1. Establish and implement policies, procedures and internal controls reasonably designed to assure compliance with all applicable provisions of the Bank Secrecy Act, IEEPA, TWEA, and all applicable Executive Orders and regulations issued pursuant thereto;

2. Provide for independent testing for compliance to be conducted by clearing member personnel or by a qualified outside party;

3. Designate an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program; and

4. Provide ongoing training for appropriate personnel. Clearing members must also supervise and ensure that their guaranteed introducing brokers are in compliance with the provisions contained in this Rule.

982. Risk Management

All clearing members must have written risk management policies and procedures in place to ensure they are able to perform certain basic risk and operational functions at all times. At a minimum, the following areas must be considered in the firm's policies and procedures, depending on the firm's size and its business and product mix:

A. Trade Submission and Account Monitoring. Clearing members must have procedures in place to demonstrate compliance in the following areas for trades executed through both electronic platforms and open outcry:

1. Monitoring the credit risks of accepting trades, including give-up trades, of specific customers.
2. Monitoring the risks associated with proprietary trading.
3. Limiting the impact of significant market moves through the use of tools such as stress testing or position limits.
4. Maintaining the ability to monitor account activity on an intraday basis, including overnight.
5. Ensuring order entry systems include the ability to set automated credit controls or position limits or requiring a firm employee to enter orders.
6. Defining sources of liquidity for increased settlement obligations.

B. Additional and/or Alternative Requirements. Exchange or Clearing House staff may prescribe additional and/or alternative requirements in order for clearing members to comply with this Rule.

C. Each clearing member shall promptly provide to Clearing House staff, upon request, information and documents regarding its risk management policies, procedures and practices, including, without limitation, information and documents relating to the liquidity of its financial resources, settlement procedures and operational issues.

D. Each clearing member shall make information and documents regarding its risk management policies, procedures and practices available to the CFTC upon the CFTC's request.

In addition, all FCM clearing members must comply with the risk management requirements set forth in CFTC Regulation 1.11: Risk Management Program for futures commission merchants.

983. Disaster Recovery and Business Continuity

All clearing members must have written disaster recovery and business continuity policies and procedures in place to ensure they are able to perform certain basic operational functions in the event of a significant internal or external interruption to their operations. At a minimum, the following areas must be considered in the firm's policies and procedures, depending on the firm's size and its business and product mix:

A. Clearing members must have procedures in place to allow them to continue to operate during periods of stress or to transfer accounts to another fully operational clearing member with minimal disruption to either the Exchange or their customers. In order to satisfy this requirement, clearing members must perform:

1. Periodic testing of disaster recovery and business continuity plans.
2. Duplication of critical systems at back up sites.
3. Periodic back-up of critical information.

B. Key Staff Contacts. Clearing members must maintain and, at the request of the Exchange, provide accurate and complete information for their key personnel. Clearing members must inform the Exchange in a timely manner whenever a change to their key personnel is made.

C. Additional and/or Alternative Requirements. Exchange staff may prescribe additional and/or alternative requirements in order for clearing members to comply with this Rule.