

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 24-513 (1 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): 12/04/2024 **Filing Description:** Amendments to CME, CBOT, NYMEX/COMEX Chapters iii ("Definitions") and 8 ("Clearing House and Performance Bonds") and CME Chapter 8G ("Interest Rate Derivative Clearing") Regarding Default Management.

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: 802, 8G02, 8G04, 8G14, 8G18, 8G25, 8G802.B

New Product

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

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

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

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

Rule Numbers:

December 4, 2024

VIA ELECTRONIC PORTAL

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 40.6(a) Certification. Amendments to CME, CBOT, NYMEX/COMEX Chapters iii (“Definitions”) and 8 (Clearing House and Performance Bonds”) and CME Chapter 8G (“Interest Rate Derivative Clearing”) Regarding Default Management.
CME Submission No. 24-513 (1 of 5)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or the “Clearing House”), in its capacities as both a designated contract market (“DCM”) and a registered derivatives clearing organization (“DCO”), and The Board of Trade of the City of Chicago, Inc. (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”) and Commodity Exchange, Inc. (“COMEX”), in their capacities as DCMs (each an “Exchange” and collectively with CME, the “Exchanges”), hereby certify to the Commission amendments to the Exchanges’ Chapter iii (“Definitions”), Chapter 8 (“Clearing House and Performance Bonds”) and CME Chapter 8G (“Interest Rate Derivative Clearing”) (collectively, the “Rule Amendments”), effective on December 19, 2024.

Background

The Exchanges are revising Chapters iii, 8 and 8G of their Rulebooks to remove unnecessary legacy language and to align descriptions of certain default management processes with existing practices.

Consistent with current practices, the oversight responsibilities set forth in the CHRC’s charter provide that the CHRC shall provide guidance to the Clearing House for the development of the Base Default Management Guidelines (“Guidelines”) and approve all substantive changes to such Guidelines. However, current Exchange Rule 802.B.6. (“Details of Implementation”) provides that the Clearing House shall consult with the Clearing House Risk Committee (“CHRC”), with the approval of the Board and/or such other committee as the Board may designate, when conducting default management processes including liquidations, auctions or sales.

The Clearing House proposes amendments to Rule 802.B.6. to align the Rulebook language with the CHRC’s responsibilities as set out in that committee’s charter. The reference to consulting with the CHRC when conducting default management processes, with approval of the Board and/or such other committee as designated by the Board, will be deleted as there has never been such a role for the CHRC or other committee. The deleted text will be replaced with language clarifying that implementation of the Clearing House’s default management processes will be undertaken in accordance with the Rules and the Guidelines. These revisions ensure that the Clearing House can continue to manage actual defaults in an efficient manner without delay while also confirming the CHRC’s oversight of the Base default management process through its continued role in approving substantive changes to the Rules and the Guidelines before

they are implemented. CME's Clearing House Oversight Committee ("CHOC") will also retain its role in approving substantive amendments to the Rulebook, including those related to default management, as it does today. In addition, the Board will retain its role in approving all matters that could have a significant impact on the risk profile of the Clearing House.

The Rule Amendments eliminate the concept of Guaranty Fund "tranches," which had been introduced prior to launching swaps clearing services for credit default swaps and interest rate swaps under separate financial safeguards waterfalls. The Base Guaranty Fund contributions have never been allocated into tranches and there is no continuing purpose for the tranche framework described in Rule 802., particularly with the ongoing separation between the IRS and Base financial safeguards waterfalls.¹ Accordingly, the Clearing House is proposing to remove the tranche framework and related concepts from Rule 802., including provisions regarding the allocation of funds into tranches and the term "Base Guaranty Fund Product Class," which is only relevant to the tranche framework. The Rule Amendments include conforming changes throughout Chapter 8 and revisions to the definitions of "Base Collateral" and "Base Priority of Payments" in Chapter iii of the Exchanges' Rulebooks to reflect the removal of the tranche framework from Rule 802.

The Rule Amendments include adding a clarification of existing practices to Rule 802.A.5.i. Specifically, language is being added to provide additional clarity that any excess IRS collateral will be available to CME Clearing to address a Base Clearing Member's default, as is the case today. Language is being added to further clarify that the Clearing Member's assets are those which are subject to aggregation under Rule 802.A.5.ii., as is the case today. Language is being added to Rule 802.B.1. to further clarify that the defaulting Clearing Member's Base Collateral and/or Base Customer Collateral, as appropriate, will be applied prior to application of the CME Contribution and mutualized layers of the Base financial safeguards waterfall, as is the case today. The changes described in this paragraph are for additional clarity in the Exchange Rulebooks and do not alter CME Clearing's existing practices or the priority for applying the Base financial safeguards.

The Rule Amendments will harmonize references to the committee responsible for advising the Clearing House with respect to managing an IRS Clearing Member default, namely, the "Active IRS Default Management Committee." In addition, a definition for the "IRS Emergency Financial Committee" is being added to Rule 8G02. The IRS Emergency Financial Committee, its composition and authority are established in Rule 8G975. The defined term is being adopted to further distinguish between the IRS Emergency Financial Committee and the Active IRS Default Management Committee, which have different responsibilities. The Rule Amendments include conforming changes throughout Chapter 8G to reflect these updates.

The Clearing House also has removed unnecessary or duplicative language and made other non-substantive, clarifying and conforming changes.

Core Principle Analysis

The DCO reviewed the DCO core principles and the Exchanges reviewed the DCM Core Principles (collectively, the "Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that the Rule Amendments may impact the following core principles:

A. DCO Core Principles

- ***DCO Core Principle B – Financial Resources***: This Core Principle requires the Clearing House to have adequate financial resources to discharge its responsibilities as a DCO, including resources sufficient to meet its financial obligations to its clearing members notwithstanding a default by the two clearing members creating the largest combined

¹ CME Clearing ceased clearing CDS in 2018.

financial exposure to the DCO in extreme but plausible market conditions. The Rule Amendments will not impact the overall level of financial resources held by the Clearing House or its Clearing Members, nor will they impact how resource obligations are allocated among Clearing Members. The tranches have not been utilized to-date and, as a result, there is zero financial impact to CME Clearing or Clearing Members from removing the tranche framework from the Exchange Rulebooks. Other Rule Amendments clarify the Clearing House's default management practices without impacting the size or allocation of the Clearing House's financial resources.

- **DCO Core Principle G – Default Rules and Procedures:** CFTC Regulation 39.16(b) requires a DCO's written default management plan to delineate the roles and responsibilities of its Board of Directors, its risk management committee, any other committee that a DCO may have that has responsibilities for default management, and the DCO's management, in addressing a default. The Rule Amendments clarify the roles and update the role descriptions for the CHRC, CHOC, IRS Emergency Financial Committee and the Active IRS Default Management Committee in the Exchange Rulebooks. Each of those committees is tasked with providing input into the design or execution of CME Clearing's default management processes.
- **DCO Core Principle L – Public Information:** This Core Principle requires the Clearing House to publicly disclose its rules and procedures. The Rule Amendments will be incorporated into the Exchanges' publicly available rulebooks. In addition, CME will release a notice to the marketplace regarding the Rule Amendments in advance of the effective date.

B. DCM Core Principles

- **DCM Core Principle 7 - Availability of General Information:** The Rule Amendments will be incorporated into the Exchanges' publicly available rulebooks.

Exhibit A provides the Rule Amendments in blackline format.

Pursuant to Section 5(c) of the Act and CFTC Regulation 40.6(a), the Exchanges certify that the Rule Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to the proposal.

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

Should you have any questions concerning the above, please contact the undersigned at (312) 466-7478 or via e-mail at CEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Timothy Elliott
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A: Amendments to CME, CBOT, NYMEX/COMEX Chapters iii and 8 and CME Chapter 8G (blackline format)

Exhibit A

CME, CBOT, NYMEX/COMEX Rulebooks (additions are underlined; deletions ~~everstruck~~)

Chapter iii **Definitions**

...

BASE COLLATERAL

All assets of a defaulting Base Clearing Member that are available to the Clearing House, including without limitation its Base Guaranty Fund contribution (pursuant to Rule 816) including any excess amounts, its performance bonds on deposit with the Clearing House relating to the Base Guaranty Fund Products Classes, any partial payment amounts or settlement variation gains in respect of Base Guaranty Fund Products Classes, the proceeds of the sale of any membership assigned to it for clearing qualification, excess performance bond or guaranty fund deposits of the clearing member for non-Base Guaranty Fund Products Classes and any of its other assets held by, pledged to or otherwise available to the Clearing House but excluding amounts carried in any customer account class.

...

BASE PRIORITY OF PAYMENTS

The CME Contribution, the Base ~~Tranche, the Comingled Tranche, the Alternate Tranche~~ Guaranty Fund and the Base Assessments, which shall be used in the order set forth in Rule 802.B.

Chapter 8 **Clearing House and Performance Bonds**

...

802. PROTECTION OF CLEARING HOUSE

802.A. Default by Clearing Member or Other Participating Exchanges

The Clearing House shall establish a guaranty fund (the "Base Guaranty Fund") for products other than IRS Products and any positions commingled with IRS Contracts pursuant to Rule 8G831 (such products, the "Base Guaranty Fund Products" ~~and each product, a "Base Guaranty Fund Product Class"~~). Each clearing member shall contribute to the Base Guaranty Fund in accordance with the requirements of Rule 816. A clearing member's Base Guaranty Fund contribution may be applied by the Clearing House in accordance with this Rule 802 to mitigate a Loss (as defined below) to the Clearing House attributable to ~~any cleared Base Guaranty Fund Product Class regardless of the Base Guaranty Fund Product Classes a clearing member clears. However, in order to accommodate differences in time frames and processes associated with the liquidation of certain Base Guaranty Fund Product Classes, Losses will be allocated among a set of Base Guaranty Fund tranches established to reflect the relative contributions of different product classes to the total Base Guaranty Fund. Notwithstanding this prioritization of the Clearing House's recourse, ultimately the entire Base Guaranty Fund will be available if necessary to satisfy all losses regardless of Base Guaranty Fund Product Class.~~ Products.

of the defaulted clearing member, hedging costs and other costs incurred by the Clearing House related to managing the risk surrounding the default of the clearing member. The defaulting clearing member shall take no action, including but not limited to, attempting to obtain a court order that would interfere with the ability of the Clearing House to so apply such assets and proceeds.

...

4. ~~Allocation of~~The Base Guaranty Fund ~~into Tranches~~

The Base Guaranty Fund shall be composed of the required Base Guaranty Fund contributions of clearing members pursuant to Rule 816, or any comparable security deposit contributions from a Participating

Exchange or Partner Clearinghouse. ~~The Clearing House shall allocate the Base Guaranty Fund into tranches as follows:~~

~~i. Base Tranche. Base Guaranty Fund Product Classes that are not associated with an Alternate Tranche as described below shall comprise the Base Product Class. The first 80% of Base Guaranty Fund amounts contributed with respect to the Base Product Class shall be the “Base Tranche”.~~

~~ii. [Reserved]~~

~~iii. Alternate Product Class Tranches. Any other product class approved by the Clearing House Risk Committee to support a product-specific Base Guaranty Fund tranche hereunder shall comprise an Alternate Product Class. The first 80% of Base Guaranty Fund amounts contributed with respect to each such an Alternate Product Class shall be an “Alternate Tranche”.~~

~~iv. Commingled Tranche. The remaining 20% of Base Guaranty Fund amounts contributed with respect to all of the foregoing Product Classes shall be the “Commingled Tranche”.~~

~~As set forth below in 802.B, if the collateral of the defaulting clearing member, as described in Rule 802.A.2, Participating Exchange or Partner Clearinghouse is insufficient to satisfy its obligation to the Clearing House, the Tranche associated with a particular Base Guaranty Fund Product Class will be the Tranche first applied to reimburse the Clearing House for Losses attributable to that Base Guaranty Fund Product Class, as determined in accordance with Rule 802.A.5, (i.e., the Base Tranche will first be applied to Losses attributed to the Base Product Class, and the Alternate Tranche will first be applied to Losses attributed to an Alternate Product Class). The Base Guaranty Fund requirements of clearing members for purposes of allocation of such amounts into the Tranches shall be the required amounts in effect for each clearing member at the time of the default.~~

~~5. Apportionment Among Base Guaranty Fund Product Classes; Application of Defaulting Clearing Member’s Collateral~~

~~Upon a default, the Clearing House shall apply the defaulting clearing member’s collateral to the deficiency: in accordance with the following procedures:~~

~~i. Initial Allocation of Assets to Base Guaranty Fund Product Classes. Subject to the provisions of 802.G, as of the cycle in which the default occurs, the Clearing House shall allocate assets of the defaulting clearing member to the different Base Guaranty Fund Product Classes in which the clearing member has open positions as follows: (a) the defaulting clearing member’s Base Guaranty Fund requirement associated with each Base Guaranty Fund Product Class shall be attributed to such Class, (b) the defaulting clearing member’s required performance bond amounts for each Base Guaranty Fund Product Class as of the prior clearing cycle shall be allocated to such Class, (c) any CME shares (whether common shares or class B shares) or any cash posted in lieu of such shares, and (d) any of the defaulting clearing member’s other assets held by, pledged to or otherwise available to the Clearing House, including any amounts from IRS Products made available to the Base Guaranty Fund pursuant to Rule 8G802.D shall be divided among the Base Guaranty Fund Product Classes in proportion to the defaulting clearing member’s Base Guaranty Fund requirement.~~

~~ii. Management of Obligations for Cycle of Default. As of the cycle in which the default occurs, the Clearing House shall aggregate the following assets of the defaulting Clearing Member: any excess Base Guaranty Funds, any excess performance bond from the prior clearing cycle for Base Guaranty Fund Product Classes, any partial payment by the clearing member for the default cycle, and any other available assets of the clearing member that are not specific to a Base Guaranty Fund Product Class. Such unassigned assets shall be allocated first to any net settlement variation payment obligation of the defaulting clearing member to the Clearing House relating to Base Guaranty Fund Product Classes, pro rata across the customer and proprietary classes relative to the net settlement variation payment obligation for each account class. If the unassigned funds so allocated are sufficient to satisfy the clearing member’s immediate settlement variation payment obligations for Base Guaranty Fund Product Classes, any remaining unassigned funds shall be divided among the Base Guaranty Fund Product Classes, pro rata in proportion to the size of the performance bond requirements for each Base Guaranty Fund Product Class for the clearing cycle immediately prior to the default. If the unassigned funds are not sufficient to satisfy the clearing member’s settlement variation payment obligations for Base Guaranty Fund Product Classes for the default cycle, then (i) the Clearing House shall apply the unassigned funds to such obligations, pro rata relative to the size of such obligations on a per Base Guaranty Fund Product Class basis, and within each Base Guaranty Fund Product Class, pro rata across the customer and proprietary classes, and (ii) the remaining settlement variation payment obligations for such clearing cycle shall be satisfied on a per Base Guaranty Fund Product Class basis only from the assets allocated to the relevant Base Guaranty Fund Product Class pursuant to 802.A.5.i. If the Clearing House is unable to satisfy a settlement variation payment obligation attributable to any Base Guaranty Fund Product Class from such assets, the deficiency shall be a Loss that the Clearing House shall satisfy pursuant to the procedures in Rule 802.B. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use~~

~~performance bond amounts or other collateral in any customer account class of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of the defaulting clearing member's proprietary account.~~

iii. Payment Obligations as Losses are Finalized. During any subsequent clearing cycles in which the Clearing House is managing and/or liquidating open positions in respect of the defaulting clearing member, the Clearing House shall satisfy any settlement variation payment obligations owed by the defaulting Clearing ~~member~~Member to the Clearing House, or other realized losses of or expenses to the Clearing House with respect to the default, ~~on a per Base Guaranty Fund Product Class basis,~~ only from the assets allocated ~~to the relevant Base Guaranty Fund Product Class~~ pursuant to 802.A.5.i. Any settlement variation gain to the defaulting ~~clearing member in any Base Guaranty Fund Product Class~~Clearing Member during such subsequent clearing cycles shall be added to collateral ~~allocated to such Product Class~~ pursuant to 802.A.5.i. ~~Any additional assets of the defaulting clearing member obtained by the Clearing House during subsequent clearing cycles (including amounts from IRS Products made available to Base Guaranty Fund Product Classes) shall be divided among the Base Guaranty Fund Product Classes pro rata in proportion to the size of the performance bond requirements for each Base Guaranty Fund Product Class for the clearing cycle immediately prior to the default.~~ The Clearing House shall apply such collateral to such payment obligations for all account classes, giving priority to customer account classes (i.e., customer accounts over proprietary accounts). If the Clearing House is unable to satisfy a settlement variation payment obligation to the Clearing House, or other realized loss or expense to the Clearing House, from the defaulting ~~clearing member's~~Clearing Member's collateral as set forth in this paragraph, the deficiency shall be a Loss that the Clearing House shall satisfy pursuant to the procedures in Rule 802.B. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of the defaulting clearing member's proprietary account, and shall not use performance bond amounts or other collateral held in one account class for customers of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of another account class for customers of the defaulting clearing member.

~~iv. Final determination of gain or deficiency for each Product Class. When the Clearing House determines the final net deficiency for a Base Guaranty Fund Product Class, it shall apply any remaining collateral of the defaulting clearing member with respect to such Base Guaranty Fund Product Class to satisfy the deficiency. If the Clearing House achieves a final gain, or if any excess collateral remains following satisfaction of a deficiency, the Clearing House shall allocate such excess funds to the defaulting clearing member's collateral for Base Guaranty Fund Product Classes within the same account class as to which a final gain or deficiency is yet to be determined, pro rata in proportion to the size of the performance bond requirements for such Base Guaranty Fund Product Classes for the clearing cycle immediately prior to the default. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of the defaulting clearing member's proprietary account.~~ Any gains or excess collateral within a segregated customer account class following final determination of the defaulting clearing member's losses shall remain segregated to the relevant customer account class, where it may be used to satisfy payment obligations arising from such account class ~~in other Product Classes~~, but shall not be added to the clearing member's collateral generally.

Any remaining unsatisfied obligations of the defaulting clearing member shall become Losses to the Clearing House that shall be satisfied as set forth below.

802.B. Satisfaction of Clearing House Obligations

If the Clearing House is unable, using the defaulting clearing member's collateral as set forth in Rule 802.A, to satisfy all of the clearing member's obligations to the Clearing House then such obligations shall be met and made good promptly by the Clearing House pursuant to this Rule 802.B. Such obligations include, but shall not be limited to, costs associated with the liquidation, transfer and managing of positions, arising out of: 1) its substitution (pursuant to Rule 804 or Rule 8F05) for a defaulting clearing member a defaulting Participating Exchange, or a defaulting Partner Clearinghouse; 2) a shortfall in a cross-margining program; 3) the failure of a depository, exchange or market apart from the Exchange but whose transactions are cleared pursuant to the provisions of Chapters 8B, 8C or 8F; or 4) any other cause. All of the foregoing shall be deemed Losses to the Clearing House, ~~which shall be apportioned by the Clearing House to Loss categories associated with the Base Guaranty Fund Product Class producing the Loss. Losses that cannot readily be attributed to a specific Base Guaranty Fund Product Class shall be apportioned by the Clearing House across all Base Guaranty Fund Product Classes in proportion to relative size of the Tranches (excluding the Commingled Tranche).~~ Losses shall be satisfied by the Clearing House in the order of priority hereafter listed. Non-defaulting clearing members shall take no

actions, including but not limited to attempting to obtain a court order, that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 802.B. For purposes of this Rule 802.B, a default by a Participating Exchange or a Partner Clearinghouse shall be managed in the same manner as a default by a clearing member.

1. If the Base Collateral and the Base Customer Collateral, as applicable, are insufficient to cover the Loss produced by the default, the Clearing House shall cover, or reduce the size of, such Loss by applying the following funds to such losses in the order of the Base Priority of Payments, as follows:~~If Losses Are Limited to the Base Product Class Products :~~

i. The corporate contribution of CME, which shall equal \$100,000,000 (the "CME Contribution").

ii. The Base ~~Tranche-~~ Guaranty Fund.

~~iii. The Commingled Tranche.~~

~~iv. The Alternate Tranche.~~

~~vii.~~ The balance of any Losses remaining after the application of the above funds shall be assessed against all clearing members (excluding any insolvent or defaulting clearing members). Each clearing member (excluding any insolvent or defaulting clearing member) shall be subject to an assessment up to an amount that does not exceed (A) a total of 275 per cent of such clearing member's Base Guaranty Fund requirements ~~attributable to all Base Guaranty Fund Product Classes~~ at the time of the default with respect to Losses attributed to a single defaulted clearing member and (B) a total of 550 per cent of such clearing member's Base Guaranty Fund requirements ~~attributable to all Base Guaranty Fund Product Classes~~ at the time of the default with respect to Losses attributed to all defaulted clearing members during a Base Cooling Off Period. Assessed amounts shall be divided among clearing members pro rata in proportion to the size of the Clearing House's assessment authority with respect to each clearing member.

2. [Reserved]

3. ~~If Losses Are Limited to an Alternate Product Class:~~ [Reserved]

~~i. The CME Contribution.~~

~~ii. The Alternate Tranche.~~

~~iii. The Commingled Tranche.~~

~~iv. The Base Tranche and any other Alternate Tranche, pro rata in accordance with the relative size of such Tranches.~~

~~v. The balance of any Losses remaining after the application of the above funds shall be assessed against all clearing members (excluding any insolvent or defaulting clearing members). Each clearing member (excluding any insolvent or defaulting clearing member) shall be subject to an assessment up to an amount that does not exceed (A) a total of 275 per cent of such clearing member's Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to a single defaulted clearing member and (B) a total of 550 per cent of such clearing member's Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to all defaulted clearing members during a Base Cooling Off Period. Assessed amounts shall be divided among clearing members pro rata in proportion to the size of the Clearing House's assessment authority with respect to each clearing member.~~

4. ~~If Losses Are Apportioned Among Multiple Product Classes:~~ [Reserved]

~~Because of differences in the timeframes and processes associated with the liquidation of certain product types, the Clearing House may finalize Loss amounts associated with different Base Guaranty Fund Product Classes at different points in time. Notwithstanding this, the Clearing House will act with all possible speed to satisfy the Losses as they are finalized, in the order of priority and per the schedule set forth below.~~

~~i. The CME Contribution shall be applied. The CME Contribution shall be divided by the Clearing House into separate segments in proportion to the size of each Tranche except for the Commingled Tranche. Each segment of the CME Contribution shall be applied first to Losses associated with the applicable Base Guaranty Fund Product Class for such segment, and only at such time as one or more Losses associated with such Tranche are finalized. Subject to paragraph 802.C if any of the CME Contribution remains after such initial application, such funds shall be reserved to be later applied to Losses associated with other Product Classes as set forth in paragraph 802.B.4.v.~~

~~ii. The Base Tranche shall be applied to Losses associated with the Base Product Class and any Alternate Tranche shall be applied to Losses associated with the applicable Alternate Product Class, in each case when one or more Losses associated with such Tranche are finalized. Subject to paragraph 802.C, if the~~

~~Tranche is not exhausted, any remaining funds shall be held in such Tranche and may later be applied to other Losses as set forth in paragraph 802.B.4.v.~~

~~iii. The Commingled Tranche funds shall be applied to remaining Losses associated with any Base Guaranty Fund Product Class immediately as such Losses are finally determined by the Clearing House, in the order that the amounts of such Losses are finalized. Consequently, the application of Commingled Tranche funds to Losses associated with one Base Guaranty Fund Product Class may occur prior to the finalization of Losses associated with other Base Guaranty Fund Product Classes (i.e., prior to the completion of the processes set forth in paragraphs 802.B.4.i and 802.B.4.ii with respect to Losses associated with another Base Guaranty Fund Product Class). If Losses associated with more than one Base Guaranty Fund Product Class are to be finalized pursuant to auction processes being conducted concurrently, then any remaining Commingled Tranche funds shall be divided and allocated to such auctions during the auction process, pro rata in proportion to the relative sizes of the mark-to-market losses for such Base Guaranty Fund Product Classes.~~

~~iv. Any Losses remaining after the application of the processes set forth above shall be assessed against all clearing members (excluding any insolvent or defaulting clearing members) up to an amount that does not exceed (A) a total of 275 per cent of the aggregate guaranty fund requirements across all clearing members (excluding any insolvent or defaulting clearing members) at the time of the default with respect to the Base Guaranty Fund Product Class with which the Loss is associated with respect to Losses attributed to a single defaulted clearing member and (B) a total of 550 per cent of the aggregate guaranty fund requirements across all clearing members (excluding any insolvent or defaulting clearing members) at the time of the default with respect to the Base Guaranty Fund Product Class with which the Loss is associated and all defaulted clearing members during a Base Cooling Off Period. Such assessments shall occur on a per Base Guaranty Fund Product Class basis as Losses associated with each Base Guaranty Fund Product Class are finalized by the Clearing House. Consequently, the application of an assessment against clearing members with respect to Losses associated with one Base Guaranty Fund Product Class may occur prior to the finalization of Losses associated with other Base Guaranty Fund Product Classes. Assessed amounts shall be divided among clearing members pro rata in proportion to the size of the Clearing House's assessment authority with respect to each clearing member, without regard to the Base Guaranty Fund Product Classes cleared by such clearing member or the proportion to which such Base Guaranty Fund Product Classes contribute to such clearing member's maximum assessment exposure. (For example, a clearing member that clears only Alternate Tranche products and that is subject to a maximum \$1 billion assessment because of that clearing activity will be subject to assessment of up to \$500 million for a Loss associated with the Base Product Class if 50% of the Clearing House's aggregate assessment powers are generated by Base Guaranty Fund requirements with respect to the Base Product Class.) Any remaining unused assessment authority associated with Base Guaranty Fund Product Classes as to which Losses are fully satisfied shall be reserved and later may be applied to Losses associated with other Product Classes as set forth in paragraph 802.B.4.v below.~~

~~v. (a) Collateral of the defaulting clearing member, (b) the CME Contribution, (c) Base Tranche funds or Alternate Tranche funds, and (d) assessment powers shall be applied to remaining Losses as they are finalized with respect to each Base Guaranty Fund Product Class and in such order, provided that if at the time of any such application, Losses associated with another Base Guaranty Fund Product Class remain to be finalized, the Clearing House shall continue to reserve a portion of such remaining funds or assessment powers, pro rata in proportion to the size of the Tranches originally supporting such Base Guaranty Fund Product Classes, until such remaining Losses are finalized. When all Losses have been finalized by the Clearing House, any remaining reserved funds and assessment powers of any kind may be applied to satisfy such Losses, pro rata relative to the size of the remaining losses for the Base Guaranty Fund Product Classes.~~

5. Fedwire and Satisfaction of Assessment

All amounts assessed by the Clearing House against a clearing member pursuant to this Rule, during the hours in which the Federal Reserve's wire transfer system (Fedwire) is in operation, shall be paid to the Exchange by such clearing member prior to the close of Fedwire on such day (regardless of any local business hours or local holidays in a jurisdiction where a clearing member is located); provided, however, that all amounts assessed within one (1) hour prior to the close of Fedwire shall be paid to the Exchange within one (1) hour after Fedwire next opens.

Any clearing member that does not satisfy an assessment, made pursuant to this paragraph 802.B.5 or paragraphs 802.B.1.v, 802.B.2.v, 802.B.3.v, 802.B.4.iv or 802.B.4.v above, shall be in default. Any Loss that occurs as a result of such default shall itself be assessed by the Clearing House to non-defaulting clearing members pursuant to the applicable paragraph.

If a clearing member (i) has made payment of all amounts assessed against it pursuant to this Rule 802.B in connection with any single default and any related default by any other clearing member with respect

to its own assessment, (ii) has replenished any deficiency in its Base Guaranty Fund contribution in accordance with Rule 802.DF, and (iii) within five (5) business days after making such payments, has satisfied the other conditions for withdrawal set forth in Rule 913.A, it may provide written notice of its application to withdraw from clearing membership pursuant to Rule 913. Upon receipt of such notice, provided that the foregoing conditions have been satisfied, the withdrawing clearing member shall not be subject to any residual assessment to cover Losses for defaults occurring after the related Base Cooling Off Period. Further, the Base Guaranty Fund contribution that it has restored shall not be used or applied towards meeting any claim or obligation of the Clearing House pursuant to Rule 802.B that arises with respect to defaults occurring after the related Base Cooling Off Period, and the withdrawing clearing member's Base Guaranty Fund contribution shall be released in accordance with Rule 913.

After payment of an assessment pursuant to Rule 802.B, a clearing member shall charge other clearing members for whom it clears contracts or carries positions on its books to recover their proportional share of the assessment. Such other clearing members shall promptly pay the charge.

6. Details of Implementation

While adherence to the provisions of this Rule 802.B shall be mandatory, the detailed implementation of the process of finalizing Losses with respect to a default, including the liquidation, auction or sale of positions or assets of the defaulting clearing member, shall be conducted by the Clearing House in accordance with the Rules and the Base Default Management Guidelines~~in consultation with the Clearing House Risk Committee, with the approval of the Board, and/or such other committee as the Board may designate.~~

In order to ensure that the process for liquidating open commodity contracts results in competitive pricing, to the extent feasible under market conditions at the time of liquidation, liquidation of open commodity contracts held for a house account or customer account of a defaulting clearing member may occur by one or more of the following methods: (a) book entry that offsets open commodity contracts on the books of the defaulting clearing member; (b) liquidation in the open market; and/or (c) one or more private auctions amongst qualified market participants invited by the Clearing House to submit confidential bids. The Clearing House shall have discretion to select the best bid submitted for any portfolio in an auction, based on the totality of the circumstances. All information received by a Clearing Member, its affiliate or customer in connection with the Clearing House's liquidation and default management processes shall be treated as confidential.

In the event that identical customer commodity contracts are liquidated in the open market on the same date but cannot be liquidated at the same price, unless the Clearing House determines that it would be inappropriate, a weighted average of the liquidation prices for such contracts shall be used in determining the value of the liquidated commodity contracts for each such customer. In the event that open commodity contracts of multiple customers are liquidated in a bulk auction, the net proceeds of such auction shall be allocated on a pro rata basis amongst the affected customers based upon their applicable performance bond requirements for the clearing cycle immediately prior to the default.

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802.C. Application of Funds to Avoid Clearing House Insolvency

~~Notwithstanding any requirements to reserve funds set forth in Rule 802.A or Rule 802.B, if~~ if at any point following a default, the Clearing House will be unable to timely fulfill its obligations following application of the funds described above in the priority described above, such that the Clearing House is in imminent danger of defaulting on its obligations or being declared insolvent, then the Clearing House shall be entitled to apply to such obligation any available funds ~~reserved~~ from the defaulting clearing member's collateral, the CME Contribution, ~~or any Tranche (other than the Commingled Tranche, which shall have been exhausted pursuant to paragraph 802.B.4.iii)~~ the Base Guaranty Fund, in the foregoing order of priority, if necessary to avoid a default by the Clearing House or a declaration of its insolvency. Such use of ~~reserved~~ funds may only be made (i) if the Clearing House reasonably concludes that there is a reasonable expectation that (A) the use of such funds will satisfy the immediate obligation and avoid a default or insolvency and (B) that the remaining funds in the overall financial safeguards package (including assessment powers) will be sufficient to satisfy the finalized Losses ~~with respect to all Base Guaranty Fund Product Classes~~, and (ii) the Clearing House reaches such conclusion in consultation with the Clearing House's primary regulator as to the specific facts, circumstances and estimates of Losses supporting such conclusion. In such case, the Clearing House shall restore the funds so employed to the ~~reserved collateral segments, the CME Contribution segments, or Tranches~~ the Base Guaranty Fund from which they were drawn promptly following receipt by the Clearing House of assessment payments or any other amounts that become available to it in respect of obligations arising out of the defaulted clearing member's default.

802.D. Utilization of Remaining Base Collateral of Defaulted Clearing Member; Restoration of Funds Following Final Determination of Losses

1. After the default of a Base Clearing Member is finally resolved, excess Base Collateral of the clearing member may be used by the Clearing house for losses to the Clearing House of such clearing member for IRS Products on a pro rata basis based on the amount of any unresolved losses for such product classes.

2. If after the default of a clearing member is finally resolved, the Clearing House determines that collateral of the defaulting clearing member, the CME Contribution, ~~Tranche funds other than the Commingled Tranche~~ the Base Guaranty Fund, or assessment powers were employed in a manner different from what would have occurred had all assets been secured and liquidated immediately and all Losses finalized simultaneously, then the Clearing House shall make appropriate ~~(i)~~ distributions to the non-defaulting firms whose Base Guaranty Funds were applied or who were assessed ~~and/or (ii) rebalancing allocations among Base Guaranty Fund tranches.~~

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802.G. Default Management Across Account Classes

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6. Upon liquidating the defaulting clearing member's proprietary account, any remaining collateral may be applied by the Clearing House to Losses remaining in the defaulting clearing member's customer account classes, ~~provided that such collateral shall be divided among the Product Classes as described above.~~ If the defaulting clearing member has more than one customer account class that has been declared to have defaulted, proceeds from the defaulting clearing member's proprietary account ~~for each relevant Product Class~~ shall be divided by the Clearing House pro rata among such customer account classes, based on their applicable performance bond requirements for the clearing cycle immediately prior to the default.

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**CME Rulebook
Chapter 8-G
Interest Rate Derivative Clearing**

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8G02. DEFINITIONS

ACTIVE IRS DEFAULT MANAGEMENT COMMITTEE

~~The Active IRS Default Management Committee shall be a committee having the powers set forth in Rule 8G25.~~

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IRS DEFAULT MANAGEMENT COMMITTEE

~~The Default Management Committee shall be a committee having the powers set forth in Rule 8G25.~~

IRS EMERGENCY FINANCIAL COMMITTEE

~~The IRS Emergency Financial Committee shall be a committee having the powers set forth in Rule 8G975.~~

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8G04. IRS CLEARING MEMBER OBLIGATIONS AND QUALIFICATIONS

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5. When required by the rotation established by the Clearing House, each IRS Clearing Member shall make at least one trader per IRS Product Category available to the Clearing House to participate in the Active IRS Default Management Committee immediately upon notice from the Clearing House that it is convening the Active IRS Default Management Committee for (i) a potential or actual default of an IRS Clearing Member or (ii) for IRS default drill exercises.

Upon acceptance as an IRS Clearing Member and upon any update request by the Clearing House, each IRS Clearing Member shall provide a list of traders (at least one primary and one backup per IRS Product Category) that the IRS Clearing Member nominates for the Active IRS

Default Management Committee. Any such trader shall have a title at the level of Vice President (or equivalent title) or above and/or shall have the minimum level of experience the Clearing House deems necessary for the relevant IRS Product Category. IRS Clearing Members shall make traders available for each IRS Product Category as requested by the Clearing House until the later of (i) the end of the relevant default management process or drill or (ii) the end of such traders' rotation.

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8G14. MITIGATION OF IRS LOSS

In the event of a default by an IRS Clearing Member, all IRS Clearing Members shall work cooperatively with their customers, other IRS Clearing Members and the Clearing House to administer the mitigation of any losses that may occur as a result of such default and shall ensure that resources required to be provided by IRS Clearing Members to the [Active](#) IRS Default Management Committee are promptly made available.

IRS Clearing Members shall work cooperatively with the Clearing House, the IRS Risk Committee and the [Active](#) IRS Default Management Committee to (i) mitigate any losses that may occur as a result of a default, (ii) liquidate the defaulted IRS Clearing Member's IRS Contracts, (iii) bid in each Default Management Auction as required by the Clearing House and (iv) take any other action reasonably requested by the IRS Risk Committee.

8G25. [ACTIVE](#) IRS DEFAULT MANAGEMENT COMMITTEE

In the event of a potential or actual default with respect to IRS Contracts, an [Active](#) IRS Default Management Committee shall be convened which shall be comprised of traders nominated by IRS Clearing Members and approved by the Clearing House. The purpose of this committee shall be to advise the Clearing House with respect to issues arising from the potential or actual default of an IRS Clearing Member and to manage the process of the liquidation and/or transfer of such IRS Clearing Member's portfolio of IRS Contracts. Such advice may include advice on hedging the risk associated with a defaulted IRS Clearing Member's portfolio, structuring the defaulted IRS Clearing Member's portfolio for liquidation or transfer, and administration of the Default Management Auction process.

8G802.B. Satisfaction of Clearing House Obligations

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10. Details of Implementation

While adherence to the provisions of this Rule 8G802.B shall be mandatory, the detailed implementation of the process of finalizing an IRS Loss with respect to a default, including the liquidation, hedging, auction or sale of positions or assets of the defaulted IRS Clearing Member, shall be conducted by the Clearing House in consultation with the [Active](#) IRS Default Management Committee.