

## **CME Rule 106.H. Corporate Membership**

January 2010

### Membership Benefits and Requirements

CME Rule 106.H. corporate membership allows firms to obtain preferential clearing and Globex fee and performance bond rates on their trading of CME products, within the division of membership held, for both electronic and floor trades.

Hedge funds, commodity pools, banks, futures commission merchants (“FCMs”), foreign brokers, broker/dealers, commodity trading advisors, introducing brokers, commercial entities, proprietary trading firms and other corporate entities are eligible for CME Rule 106.H. corporate membership for their own firm accounts. Firms that do not qualify for Electronic Corporate Membership under CME Rule 106.R. (“ECM”) may be eligible for CME Rule 106.H. corporate membership.

CME Rule 106.H. corporate members (“corporate member”):

- Are required to either purchase one membership or lease two memberships in the division in which preferential clearing fee rates/corporate member rates are desired.
- Are eligible to receive preferential rates on their member firm trading activity in the division of membership held, electronic and floor-traded, when such trading is conducted in accordance with CME’s Member Firm Trading Policies. CME’s Member Firm Trading Policies are contained in CME’s Fee Policy Bulletins (“FPB”) which are located on CME Group Inc.’s website at [www.cmegroup.com](http://www.cmegroup.com).
- Parent companies, affiliates, subsidiaries and customers of such corporate members are not eligible to receive corporate member rates (unless they become corporate members themselves).
- Must maintain a separate trading account for its trades on the books of a CME clearing member or an affiliate of a CME clearing member. Further, the member firm trades of corporate members must be carried in separate accounts from those of its parent companies, affiliates, subsidiaries and customers by its CME clearing member.
- Are not subject to CME capital requirements, periodic financial statement reporting or financial and compliance examinations.
- May not hold themselves out as members of the Exchange.

The membership(s) which are required to be purchased or leased for corporate membership:

- May be held by the member firm itself, in its own name.

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- May be held by an employee of the member firm as nominee who may execute trades on CME's trading floor for the member firm's trading account.
- May not be assigned for clearing membership privileges. However, if the corporate member applies for clearing membership privileges, any owned memberships may be assigned upon its conversion to clearing membership.
- May not be transferred under CME Rules 106.C., 106.D., 106.F., 106.G., 106.I., 106.R. or 106.S. unless the corporate member intends to withdrawal from corporate membership.

Applicants which are hedge funds or commodity pools should complete the following two forms:

- <http://www.cmegroup.com/company/membership/files/CorpMemberHedgeFundInfoWriteable.pdf>
- <http://www.cmegroup.com/company/membership/files/Rule106HHedgeFundAppWriteable.pdf>

All other applicants should complete the following two forms:

- <http://www.cmegroup.com/company/membership/files/CorporateMemberInformationWriteable.pdf>
- <http://www.cmegroup.com/company/membership/files/Rule106HCorporateMembershipAppWriteable.pdf>

Along with the application, applicants are required to submit articles of incorporation, certificates of incorporation, operating agreements and/or partnership agreements, as applicable, and for hedge funds offering memorandums/prospectuses. In addition, a certified financial statement (if a certified is not available, a recent financial statement may be substituted), ownership chart, recent trading account statements, and a list of traders must be submitted. Refer to the applications for further details of the supporting documentation requested.

The completed application and all supporting documents should be submitted to:

Audit Department  
CME Group Inc.  
20 S. Wacker Drive  
Chicago, IL 60606

The application process generally takes four to six weeks. CME staff will consider the applicant's business reputation, financial resources and member firm trading activity in approving the applicant. CME reserves the right to reject any applicant and the decision of CME staff will be final.

Once the applicant has been approved by CME Staff and the membership requirement has been fulfilled (i.e. one membership purchased or two memberships leased), the CME Rule 106.H. Corporate Membership will be effective the following business day.

All approvals of corporate members will be posted in CME's weekly Special Executive Report. In addition, CME staff will do its best to notify the appropriate staff at any clearing member firms listed in a corporate member's application. However it is the responsibility of the corporate member to inform their clearing members of their membership status to ensure the appropriate preferential rates are received.

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### Questions and Answers

#### **1. What are the preferential rates paid by CME Rule 106.H. corporate members?**

CME Rule 106.H. corporate member rates are published on CME Group Inc.'s website at <http://cmegroup.com/company/clearing-fees/index.html>.

#### **2. What division of Exchange membership should I purchase or lease?**

The division of membership (i.e. trading rights) obtained by the corporate member is determined by the products that it wishes to trade at preferential rates. Refer to CME Group Inc.'s website [www.cmegroup.com](http://www.cmegroup.com) for more product information. The CME division membership allows the corporate member to trade at preferential rates all products in the CME, IMM, IOM and GEM divisions of membership; the IMM division of membership allows the corporate member to trade at preferential rates all products in the IMM, IOM and GEM divisions of membership; and the IOM division of membership allows the corporate member to trade at preferential rates all products in the IOM and GEM divisions of membership. Rule 106.H. members may not purchase or lease a GEM membership for such privileges.

A corporate member may change its membership(s) that are purchased or leased to increase or reduce its member firm benefits. For example, if the member firm initially leases two IOM division memberships for its trading of equity index products but later determines that it is beneficial to trade interest rate products at preferential corporate member rates, it may substitute two IMM division memberships leases (subject to practices and Exchange rules regarding membership leases).

#### **3. What are the differences between ECM and CME Rule 106.H. corporate membership?**

Although similar, several important differences exist between ECM and CME Rule 106.H. corporate membership. Those differences include:

- Only eligible proprietary trading firms may qualify for ECM. In contrast, in addition to proprietary trading firms other commercial entities, hedge funds, commodity pools, banks, FCMs, foreign brokers, broker/dealers and others that hold or manage third party funds, may qualify for CME Rule 106.H. corporate membership.
- ECMs may either (1) purchase one membership or lease two memberships in the division in which preferential rates are desired (i.e. an "ECM-Holding Member" or "ECM-H") or (2) may participate in the Volume Incentive Program, pay slightly higher fees, and have a waiver of the membership holding requirement (i.e. an "ECM-W"). CME Rule 106.H. corporate members must purchase one membership or lease two memberships in the division in which preferential rates are desired.
- ECMs receive preferential rates only on their electronic trading activity while CME Rule 106.H. members receive preferential rates on both electronic and floor trading activity. The trading activity of both must be conducted in accordance with CME's Member Firm Trading Policies.
- The traders of an ECM's member firm account may not currently own or hold or have owned or held trading privileges in any division of Exchange membership within the previous two years. CME Rule 106.H. corporate members have no such restriction on their traders.

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- ECMs have no access to CME's trading floors while CME Rule 106.H. corporate members may allow their employee holding as nominee the member firm's membership(s) trading floor access to conduct the business of the corporate member.
- An ECM-H pays the ECM-W rate on its trades executed outside the division of membership held. A CME Rule 106.H. corporate member pays non-member customer rates on its trades executed outside the division of membership held.

Refer to the Electronic Corporate Membership - Questions & Answers at <http://www.cmegroup.com/company/membership/files/ECMQA.pdf>.

### **4. Are there any specific submission requirements for hedge funds or commodity pools?**

Yes. The organizational structure of hedge fund and commodity pool applicants is carefully reviewed during the application process.

Hedge fund applicants which are structured as "master-feeders" are required to submit all required documentation for the master fund as well as all feeder funds (U.S. and non-U.S.) with the application. The required documentation includes the operating or partnership agreement, certificate of incorporation, articles of association, prospectus/offering memorandum, investment management agreement, investment advisor agreement and any other relevant agreements.

Only the hedge fund or commodity pool which is approved as the corporate member is entitled to preferential rates on its trading activity. The corporate member rates do not apply to the trading activity of affiliated funds or pools (unless such related funds or pools are also approved as corporate members).

### **5. I am a proprietary trading firm which is an existing CME Rule 106.H. corporate member. Can I convert to ECM-W, ECM-H, Corporate Equity Membership, or an incentive program?**

An existing CME Rule 106.H. corporate member cannot convert to an ECM-W but may apply for ECM-H if it continues to meet the membership holding requirement (i.e. it must continue to own/lease its membership(s)). The firm must meet all other requirements for ECM-H including the prohibition on current and former members trading the ECM-H account.

A CME Rule 106.H. corporate member may apply for Corporate Equity membership.

In addition, there are step-down restrictions for current CME Rule 106.H. corporate members becoming participants in incentive programs. Please refer to the appropriate Question and Answer guide located on our Incentive Programs page: <http://www.cmegroup.com/company/membership/international-incentives.html>

### **6. Can a CME Rule 106.H. corporate member have an employee on the trading floor execute its trades?**

Yes. A corporate member may elect to have its employee hold the membership(s) it purchased or leased for its member firm benefits. The employee must complete an individual membership application and pay the required membership application fee. The individual application process takes four to six weeks. Once the employee has been approved for membership, the member firm must execute a CME Rule 106.H. Non-Member Firms Employee Transfer at

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<http://www.cmegroup.com/company/membership/files/Rule106H.pdf> to allow the employee to hold its memberships.

Once approved as an Exchange member, the employee may execute trades for the CME Rule 106.H. member firm's account and his/her own account. In addition, the employee may solicit or contact customers from the trading floor of the Exchange if it is registered as an Introducing Broker or Futures Commission Merchant. The corporate member has the right, at any time, to have the employee disqualified from trading and must have him disqualified upon his termination of employment with the member firm.

An individual on a CME Rule 106.H. membership with at least a \$500,000 proprietary interest in the CME Rule 106.H. member firm itself, may trade their personal account at the CME Rule 106.H. rates. Otherwise to receive preferential clearing fee rates on their personal trades the employee must own or lease a membership themselves. For example, if the employee holds the member firm's membership for its CME Rule 106.H. corporate membership and also individually leases a membership, he will be entitled to lessee rates on his personal trading account.

Dependent upon its trading activity, many corporate members elect to not have an employee hold the memberships required for its corporate membership benefits. For example, if the trading of the member firm is executed electronically or through independent floor brokers, it may not be necessary to have an employee on the trading floor.

### **7. Are there any application fees associated with the CME Rule 106.H. corporate membership?**

No. However, a membership transfer fee of \$2,000 will apply once the corporate member purchases or leases its membership(s). If the corporate member elects to have its employee hold its membership(s), the membership transfer fee associated with the corporate membership does not apply but a membership transfer fee associated with the individual membership transfer(s) will be required.

### **8. If my firm is approved as corporate member, does it still need a clearing firm?**

Yes. All trades at CME are done through Exchange-approved clearing member firms.

### **9. Is a CME Rule 106.H. corporate member eligible for Globex fee caps on E-mini trades?**

No.

### **10. Is a CME Rule 106.H. corporate member subject to fees charged per contract by the National Futures Association ("NFA")?**

The trading activity of corporate members is not subject to NFA fees when it is trading products within the division of membership(s) it owns or leases. However, when the corporate member trades products outside the division of membership it owns or leases, NFA fees (as well as non-member customer rates) apply.

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### **11. Who can I contact if I have additional questions?**

If you have questions related to:

- Clearing and Globex fees, please contact the EFS Hotline at (312) 648-5470.
- Owning/leasing memberships or the individual membership process, please contact the Membership Department at (312) 435-3480.
- Corporate membership or member firm fee policies, please contact the Audit Department at (312) 930-3230.