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Disclaimer

This handbook is designed to familiarise applicants with the requirements for CME Clearing Europe Limited (the Clearing House) Interest Rate Swap (IRS) Clearing Membership and to assist them in becoming IRS Clearing Members.

The handbook supplements and clarifies the rules for IRS Clearing Members as adopted in the Clearing House’s Rulebook (the Rules). This handbook is compiled for the convenience of the user and is furnished without responsibility for any errors or omissions contained herein. In the event of a conflict between this Handbook and the Clearing House’s Rules, the Clearing House’s Rules shall prevail. Any capitalised terms not defined in this Handbook are as defined in the Rules. A copy of the Rules is available on our website at www.cmeclearingeurope.com.
1. Introduction

IRS Clearing Members assume full financial and performance responsibility for all IRS transactions submitted by them and accepted for clearing by the Clearing House, including transactions submitted on behalf of a client.

Existing Commodity Clearing Members may be eligible to clear IRS products if additional requirements, including additional financial and operational requirements, are met. A firm may be an IRS Clearing Member without also having to be a Commodity Clearing Member. An IRS Clearing Member is a member of the Clearing House and it is afforded full rights and privileges to clear for its own account and on behalf of its Clients (provided it complies with the Rules applicable to clearing on behalf of Clients). IRS Clearing Members are not entitled to clear products other than IRS products unless they also have a membership in relation to such other product class.

The general requirements of clearing membership and the specific requirements for IRS clearing membership are stated in Chapter 3 of the Rules and in the Membership Procedure. In addition, a Clearing House Manual of Operations (the Manual) is available for IRS products. The Manual contains information and directions for preparing trade data, completing prescribed memoranda and meeting other Clearing House requirements for certain products.

The Clearing House may impose additional requirements upon a Clearing Member in addition to those set out in the Rules and Membership Procedure. Section 2 contains a summary of the significant requirements.

For a more detailed account of the membership criteria for IRS Clearing Members, please review the Rules.

2. IRS Clearing Membership Application Process

IRS Clearing Member applicants must complete the Clearing Membership Application Form and Clearing Membership Agreement. If the firm wishing to clear IRS is already a Commodity Clearing Member, the application form and supporting documents may not be required, the firm will need to contact the Risk and Membership Team to discuss the process, which can be expedited if the Clearing House already has the required information and documentation.

Applications for IRS clearing membership will be reviewed by the IRS Risk Committee. The IRS Risk Committee will make a recommendation to the Board of the Clearing House concerning each IRS clearing membership application. The Board of the Clearing House will decide upon each IRS Clearing Membership Application.

The Rules and Membership Procedure state the requirements which must be satisfied to become an IRS Clearing Member.

The general requirements for Clearing Members are outlined below. A Clearing Member must:

1. be incorporated as a body corporate, partnership or other business organisation or entity in any jurisdiction;
2. have all necessary authorisations, licences, permissions, approvals or equivalent in respect of each Regulatory Authority;

3. be in good standing under, and comply with all Applicable Law and the requirements of each Regulatory Authority which has jurisdiction over the Clearing Member;

4. be subject to Applicable Law relating to money laundering and terrorist financing that requires it to undertake due diligence and identity verification measures on its Clients;

5. not be subject to an Insolvency Event or an Event of Default or any circumstances pursuant to which either an Insolvency Event or an Event of Default could be declared;

6. comply with all applicable regulatory capital requirements and maintain capital of at least the type and amount as set out in the Membership Procedure;

7. have provided to the Clearing House its Contribution to the IRS Guarantee Fund, in each case in accordance with the Rules and the Membership Procedure;

8. have provided to the Clearing House all Collateral as required in accordance with the Rules;

9. have the Bank Accounts set out in the CMECE Rules;

10. be party to an executed Clearing Membership Agreement and such other agreements as set out in the Membership Procedure;

11. have nominated a Representative to be responsible for the Clearing Member’s actions and represent the Clearing Member before the Clearing House and its Committees (a Nominee);

12. have nominated a Representative to be the Clearing House’s key contact person and to register such of its and its Clients’ Representatives as will be permitted to submit Transactions to the Clearing House (the Transaction Manager);

13. ensure that a Representative, who is sufficiently senior and familiar with the Rules and the Clearing Member’s activities in relation to the Clearing House, is available to deal with any query or issue raised by the Clearing House. Each IRS Clearing Member shall also nominate at least two officers or employees to be members to the IRS Default Management Committee. Upon request of the Clearing House, each IRS Clearing Member shall submit nominations for an independent member of the IRS Risk Committee;

14. not have been, or have any senior Representative (in director position or above) who has been, convicted of any offence involving fraud, theft, false accounting, offences against the administration of public justice, serious tax offences or other dishonesty or an offence relating to companies, insurance, banking, other financial services, consumer credit or consumer protection, money laundering, market abuse or insider dealing or be, or have any senior Representative (in director position or above) who is, under investigation for committing such an offence;

15. satisfy the Clearing House as to its fitness and propriety, financial, operational, technical and risk management capacity and competence and have such personnel, facilities and organisational arrangements to be able to satisfy its obligations under the Rules;

16. satisfy the Clearing House that it has in place sound and safe risk management, adequate written anti-money laundering, disaster recovery and business continuity, record-keeping and reporting policies and procedures to ensure that it is able to perform its obligations under the Rules and Applicable Law;
17. be engaged in or demonstrate immediate capacity to engage in the conduct of a Clearing Member in respect of the Transactions to be cleared and to perform all the obligations of a Clearing Member as set out in the Rules;

18. upon request by the Clearing House, make promptly available to the Clearing House for inspection its books and records regarding Transactions cleared by the Clearing House and such books and records shall be subject to reasonable standards of confidentiality;

19. demonstrate that it is in compliance with the Rules; and

20. satisfy any further requirements which the Clearing House may reasonably impose on a Clearing Member from time to time.

3. IRS Clearing Members who are Facilities Managed

An IRS Clearing Member may determine that it is not cost-effective to establish a back office operation. IRS Clearing Members may enter into "facilities management" agreements with other entities (who may also be Clearing Members) to reduce their costs associated with clearing IRS products with the Clearing House. Under such an agreement, the IRS Clearing Member clears its trades with the Clearing House; however, another entity performs trade processing and/or manages the back office functions.

For example, if an IRS Clearing Member’s trade processing is conducted through another entity’s back office, the IRS Clearing Member defrays the cost of setting up a back office and hiring personnel to perform trade processing. The terms of the arrangement are private. However, the Clearing House will always look to the IRS Clearing Member responsible for clearing the trades in the event there are problems associated with the trade processing. An IRS Clearing Member may not contract out its responsibility to guarantee its trades or follow correct processing procedures.

An IRS Clearing Member may not contract out functions related to its banking operations to an entity who is not affiliated with, or related to, the IRS Clearing Member.

If an IRS Clearing Member enters into a facilities management agreement, it must always have a senior officer, director, or partner of the IRS Clearing Member available to represent the IRS Clearing Member before the Clearing House and its committees.

4. Guarantee Fund Requirements

The Guarantee Fund requirements for IRS Clearing Members of the Clearing House are stated in the Guarantee Fund Procedure.

The minimum Guarantee Fund contribution for an IRS Clearing Member is the greater of EUR 10 million or the IRS Clearing Member’s proportionate share of the two largest IRS Clearing Members’ losses as outlined in the Guarantee Fund Procedure.

Guarantee Fund minimums may be increased from time to time.

Information on the currencies or assets that may be accepted by the Clearing House to cover Guarantee Fund contributions are set out on the Website at: www.cmeclearingeurope.com
The minimum Guarantee Fund contribution must be paid into the account of the Clearing House prior to the Clearing Member commencing clearing.

5. Capital Requirements
The minimum capital requirement for an IRS Clearing member is the higher of:
(a) EUR 50 million;
(b) 20% of the aggregate collateral requirement for all of its IRS Accounts; or
(c) such other capital requirement recommended by the IRS Risk Committee and approved by the Clearing House.

The Clearing House will only recognise capital calculated pursuant to the rules and regulations of a Clearing Member’s primary regulatory authority. For banks and non-bank investment firms this will be Tier 1 capital computed according to the capital adequacy requirements to which the Clearing Member is subject. Clearing Members which are banks must also maintain a Total-Risk Based Capital Ratio of at least 10%. For Clearing Members which are not regulated the Clearing House will recognise the equivalent of Tier 1 capital when assessing whether the capital requirements are met.

6. Settlement Banks
IRS Clearing Members must maintain cash and securities safekeeping accounts at one or more Clearing House approved banks for the purposes of posting cash and securities to meet mark-to-market variation, initial margin and Guarantee Fund deposit requirements on their IRS products. It is the Clearing Member’s responsibility to establish these banking relationships.

Currently, the approved settlement banks for Collateral and Guarantee Fund Contributions are:

- Barclays Bank plc.
- Citibank NA
- JP Morgan Chase Bank NA
- Deutsche Bank

The Clearing House must have information on all bank and safekeeping accounts established by IRS Clearing Members for settlements and initial margin. Further, the Clearing House requires direct debit authorisation over these IRS Clearing Member bank accounts

7. Withdrawal from IRS Clearing Membership
If an IRS Clearing Member wishes to withdraw from clearing membership, it must provide written notice to the Clearing House. Following the giving of such notice the IRS Clearing Member will remain an IRS Clearing Member (and subject to all obligations under the Rules applicable to IRS Clearing Members) until its IRS Membership Termination Date (which will be notified to it by the Clearing House).
8. Financial Reporting Requirements

All financial reports provided by a Clearing Member to the Clearing House must:

- demonstrate compliance with the Clearing House’s minimum capital requirements;
- demonstrate a Total Risk-Based Capital Ratio of at least 10%, if applicable;
- be presented in English; and
- be stated in the currency in which the Clearing Member is legally required to produce its audited financial reports.

The audited financial statements of Clearing Members must include at a minimum the following:

- external auditor’s opinion letter;
- statement of financial condition;
- statement of income (loss);
- statement of cash flows;
- statement of changes in ownership equity; and
- appropriate footnote disclosures.

If the information is not included in the financial reports, Clearing Members must also notify the Clearing House of any planned capital withdrawals and subordinated debt maturing within six months of the date of such reports.

8.1. Regulated Clearing Members

- Must submit any and all financial reports that are required to be filed with their Regulatory Authority to the Clearing House unless the Clearing House is able to obtain them directly from such Regulatory Authority.
- Must submit audited financial statements as of the Clearing Member’s financial year-end unless the Clearing House is able to obtain them directly from the Regulatory Authority.
- Such financial statements must be filed within five Business Days after they are provided to the Clearing Member’s primary Regulatory Authority.

8.2. Unregulated Clearing Members

- Must submit monthly unaudited financial reports in a form acceptable to the Clearing House. Such financial reports must be filed within fifteen business days of each month-end.
- Must also submit an audited financial statement as of the Clearing Member’s financial year-end. These annual financial reports must be filed within sixty business days of the Clearing Member’s financial year-end.

Any IRS Clearing Members may be placed on more frequent reporting at the discretion of the Clearing House.
9. Notification Requirements

Each Clearing Member must notify the Clearing House in writing immediately if:

- it ceases to be able to satisfy any of the Membership Criteria or reasonably believes it may cease to be able to do so;
- any material changes are made to the information previously provided to the Clearing House;
- it is notified that a Regulatory Authority shall investigate any of its affairs or those of any of its Parent Undertakings or Guarantors which is material in terms of the overall size of the group or take disciplinary or other formal action against it or a Parent Undertaking or the Clearing Member has reason to believe that a Regulatory Authority is considering the same; or
- of anything relating to the Clearing Member of which the Clearing House would reasonably expect notice.

All Clearing Members must give the Clearing House prompt prior notice of any material change in its former organisation, ownership structure or business operations including:

- the merger, combination, or consolidation between the Clearing Member and another person or entity;
- the sale of a significant part of the Clearing Member’s business and/or assets to another person or entity;
- a change in the direct or indirect beneficial ownership of 10% or more of the equity of the Clearing Member; and
- a material change in its business operations.

Maintaining up-to-date personnel contact information is critical in order to continue communications with our Clearing Members during normal, as well as crisis, situations. Therefore, Clearing Members are required to inform the Clearing House of updated contact information when changes occur.

10. Other Requirements

10.1. 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. Depending on the firm’s size and its business and product mix, Clearing Members must have procedures in place to allow them to monitor the risks associated with trading, use appropriate tools to limit the impact of significant market moves and set automated credit controls or position limits in order entry systems.

IRS Clearing Members will be subject to risk management and monitoring practices by the Clearing House relating to transactions submitted to the Clearing House. IRS Clearing Members shall promptly provide all information requested by Clearing House staff, including, without limitation, information respecting risk, settlement, liquidity, and operational issues.
10.2. **Clearing for Clients**

If the IRS Clearing Member clears IRS products for Clients, it must be properly registered or authorised for such activity by its primary regulator and meet the client clearing requirements set out in Chapter 3A of the Rules.

IRS Contracts submitted to clearing for the account of a Client will be assigned and held in a Client Account; the Clearing House provides a choice of Client Accounts. Please see the Rules for further information.

11. **Contact Listing**

<table>
<thead>
<tr>
<th>Contact</th>
<th>Position</th>
<th>Phone</th>
<th>E-Mail</th>
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</thead>
<tbody>
<tr>
<td>Tina Hasenpusch</td>
<td>Chief Operating Officer, CME Clearing Europe</td>
<td>(44) 20 3379 3135</td>
<td><a href="mailto:tina.hasenpusch@cmeclearingeurope.com">tina.hasenpusch@cmeclearingeurope.com</a></td>
</tr>
<tr>
<td>Dean Noble</td>
<td>Executive Director, Intermediary Relationships, CME Group London</td>
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<td><a href="mailto:dean.noble@cmegroup.com">dean.noble@cmegroup.com</a></td>
</tr>
<tr>
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<td><a href="mailto:will.ingram@cmegroup.com">will.ingram@cmegroup.com</a></td>
</tr>
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<td><a href="mailto:marc.vial@cmegroup.com">marc.vial@cmegroup.com</a></td>
</tr>
<tr>
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<td><a href="mailto:dennis.mullany@cmeclearingeurope.com">dennis.mullany@cmeclearingeurope.com</a></td>
</tr>
<tr>
<td>Adam Husted</td>
<td>Head of Business Development</td>
<td>(44) 20 3379 3170</td>
<td><a href="mailto:adam.husted@cmegroup.com">adam.husted@cmegroup.com</a></td>
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12. Supporting Documents

The application process for IRS Clearing Members requires the submission of numerous documents, the establishment of various relationships, and approval by the Clearing House Board. To assist OTC IRS Clearing Member applicants, the following checklist has been established to provide guidance. Please note that not all items on the checklist will apply to every IRS Clearing Member. Likewise, items not included on the checklist may be required for IRS clearing membership approval dependent upon the unique circumstances of the applicant.

All IRS Clearing Member applicants must execute and submit the following documents unless otherwise indicated:

<table>
<thead>
<tr>
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<th>IRS Clearing Membership Application including:</th>
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<tbody>
<tr>
<td>1.</td>
<td>Articles of Incorporation, Operating Agreement, or Partnership Agreement (including all sub-agreements)</td>
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<td>Certificate of banking license or authorisation, or equivalent, from the organisation’s primary regulator (with an English language translation), if applicable</td>
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<td></td>
<td>List of Officers, Managing Members, or Partners, including titles, direct telephone and fax numbers and e-mail addresses</td>
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<td>Authorisation to do business in the UK</td>
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<td>Resolution authorising the person signing the application to represent the organisation</td>
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<td>Corporate Structure (including percentages of ownership and business form) of all significant entities in the corporate structure</td>
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<tr>
<td></td>
<td>Most current examination report from the organization’s primary regulator, if applicable</td>
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<tr>
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<th>The organisation’s most recent certified financial statement (in the English language)</th>
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<tr>
<td>2.</td>
<td>The organisation’s most recent monthly/quarterly, as applicable, financial statement (in the English language) filed with its primary regulator, if applicable, including the calculation of capital. Also, if applicable, a summary of the capital and financial reporting requirements imposed the organisation by its primary regulator.</td>
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<th>Deposit of Minimum Guarantee Fund deposit</th>
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<td>4.</td>
<td>Other Documentation, as applicable</td>
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<td>5.</td>
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