CME CLEARING EUROPE NOTICE - CONSULTATION ON THE CLEARING RULES AND CLEARING PROCEDURES

1. CME Clearing Europe Limited (“CMECE”) is consulting on proposed changes to its Clearing Rules and Clearing Procedures. A summary of the changes is set out below.

2. Changes to the Powers of Assessment and changes to the Termination Rights:

   • The current rule regarding CMECE’s right of assessment in the event of a member default (Rule 8.5.2) provides maximum assessment liability per clearing member for a single clearing member default but does not address any aggregate maximum for a series of defaults over a short period of time. This means that in the event that there are multiple defaults occurring in quick succession, firms could potentially be exposed to a number of assessments and have very little time to make the risk management and business decision to withdraw from clearing membership.

   • To address these concerns while also maintaining a sound risk management structure, CMECE is proposing changes to the termination procedures and assessment powers for multiple defaults. Specifically, CMECE proposes amendments to Rule 8.5.2 which would allow for a “5 day cooling off period” during which a firm’s Guarantee Fund (GF) and Assessment obligations are capped. Each cooling off period would begin on declaration of clearing member default and continue for 5 business days, provided that should an additional default or defaults occur during such 5 business days, the cooling off period would be extended for additional 5 business day periods until a 5 business day period concludes without any additional clearing member defaults. The cooling off period would provide non-defaulting firms with certainty of assessment liability during the time that they analyse the impact to their capital and contemplate terminating their membership.

   • To address the risk that CMECE would no longer have assessment powers on a “per default” basis, and the limited assessment authority for cascading defaults, the proposed rule provides for changes to CMECE’s existing assessment powers. CMECE would continue to maintain its current 275% x GF Powers of Assessment for the first default, but if multiple defaults occur
throughout the cooling off period, the maximum CMECE could claim is 550% x GF. Therefore, whereas previously, regardless of the number of defaults that may take place in a short period of time, a firm would potentially be liable for GF + 275% for each and every default (e.g. 5 defaults would have previously meant 5 * GF + 1375%), the total Assessment liability would now be capped at 550% of the firm’s Guarantee Fund contribution.

- The proposed changes were discussed in CMECE’s Risk Committee and agreed by the Board ahead of the consultative process. Similar capping of the Powers of Assessment has been introduced at CME Clearing in the US.

3. Additional changes proposed in this round of consultation include:

- Gold collateral – certain changes are necessary in order to enable CMECE to accept gold as collateral, such as the addition of a definition of Allocated Precious Metals Account.

- Euro – a definition of “euro” has been inserted. With the current focus on the developments in the Eurozone, CMECE feels it is appropriate to clarify our meaning of the term “euro”, used in our various legal agreements.

- Changes to the delegation power – currently the CEO of CMECE has certain powers under the default rules, including the discretion to determine whether an Event of Default exists. For practical reasons, we propose to extend these powers to “any other executive director of the Clearing House whom the CEO has authorised for the purpose”.

- Changes to the definition of precious metal contracts – in order to facilitate future product development at CMECE, we wish to include Silver, Platinum and Palladium in the definition of Precious Metal and add a definition of Precious Metal Forward Contracts.

4. We would welcome comments from Clearing Members. Responses should be sent to compliance@cmeclearingeurope.com by 6 July 2012.

Anita Collett
Head of Regulatory Compliance
Telephone +44 (0)20 3379 3136
e-mail: Anita.Collett@cmeclearingeurope.com

Attachments
Appendix 1: Proposed Changes to CMECE Clearing Rules (marked up version)
Appendix 2: Proposed Changes to CMECE Clearing Procedures (marked up version)