

## Chapter 1 Membership

### 100. GENERAL

Membership with full privileges in the NYMEX Division shall be limited to 816; membership with full privileges in the COMEX Division shall be limited to 772; and COMEX Option Membership shall be limited to 238. Membership in the Exchange is a privilege subject to transfer only as authorized and on the conditions prescribed herein.

### 101. QUALIFICATIONS AND RESPONSIBILITIES

Any adult of good moral character, reputation and business integrity, with adequate financial resources and credit to assume the responsibilities and privileges of membership, is eligible for membership in the Exchange. A determination as to whether an applicant for membership or an applicant for an incentive program offered by NYMEX satisfies the Exchange requirements shall be made by the Membership Committee or by staff in the applicable department. A person approved for membership and an individual or entity approved for an incentive program shall be subject to all Exchange Rules. Notwithstanding a transfer of membership, a person shall continue to be responsible for violations of Exchange Rules committed by him while he was a member and also agrees to have any disputes, which arose while he was a member and which relate to or arise out of any transaction upon the Exchange or membership in the Exchange, resolved in accordance with Exchange Rules.

### 102. NON-MEMBER INVESTORS

A person may purchase a membership interest and be approved as a "Non-Member Investor" in the Exchange. The person shall file an Application to become a Non-Member Investor with the Membership Services Department (the "Department"). A Non-Member Investor is presumed to know all the rules and regulations of the Exchange and agrees to abide by and be subject to them. In the event that multiple individuals own a membership, such individuals shall appoint a designated individual who shall have the authority to sell, lease, pledge or otherwise dispose of or encumber the membership. Further, in the event that a legal entity owns a membership, such entity must provide the Department with appropriate corporate, partnership or other legal documentation indicating who has authority to sell, lease, pledge or otherwise dispose of or encumber the membership and any other documentation requested by the Department.

#### PROCEDURES FOR PURCHASE, SALE AND TRANSFER

### 103. PURCHASE OF MEMBERSHIP AND MECHANICS OF PURCHASE

#### 103.A. Purchase of Membership

The prospective purchaser of a membership shall sign and file with the Department a Bid to Purchase which shall be guaranteed by: a) a clearing member of the Exchange; or b) the deposit of a certified or cashier's check; or c) a wire transfer. The Bid to Purchase shall contain an agreement by the purchaser to take no recourse against the Exchange in the event his Application for Membership is rejected (except as provided in Section 8c of the Commodity Exchange Act).

#### 103.B. Mechanics of Purchase

The Department shall post the lowest offer to sell and the highest bid to purchase each type of membership. The Department shall match bids and offers and, in the event of an agreement, shall promptly notify the purchaser and the seller. Within two business days of such notification, the purchaser shall deposit with the Department the following:

- a. A check, payable to the Exchange, for a transfer fee in an amount set by Exchange staff; and
- b. (1) A wire transfer, or a certified or cashier's check, if not previously deposited, or a check or a wire transfer from a clearing firm, payable to the Exchange, in the amount of the purchase price.

### 104. SALE OF MEMBERSHIP

A membership in the Exchange may only be sold as provided for in the Rules. When the owner or the legal representative of an owner desires to sell a membership, he shall sign and file with the Department an Offer to Sell, which shall set forth the price at which he is offering his membership, and contain an agreement to the conditions of sale set forth in these rules.

Upon the sale of a membership, any and all membership privileges granted by these rules shall terminate.

## **105. APPLICATION FOR MEMBERSHIP**

### **105.A. Application Process for Members Accessing the Trading Floor**

The applicant shall file an Application for Membership and the appropriate fee with the Department. The applicant shall agree to take no recourse against the Exchange in the event his application is rejected (except as provided in Section 8c of the Commodity Exchange Act), set forth all financial arrangements made in connection with the proposed purchase or transfer of the membership and agree to abide by the applicable rules and regulations of the Exchange and all amendments thereto.

Upon completion of the foregoing, the Department shall notify the membership by posting for a period of 20 days of the name of the applicant, the seller, the purchase price and the transfer type. The notice shall request the submission to the Department of claims against the seller or transferor arising out of Exchange transactions or any other relationship regulated by the Exchange.

During the posting period, the Department shall prepare a report on the qualifications of the applicant.

The Short Form application of a member who is transferring onto a membership may be approved by Exchange staff before the expiration of the posting period, provided the member obtains an indemnification agreement in favor of the Exchange from a clearing member to cover Rule 110 claims up to the value of the membership at the time of the transfer.

An applicant who wishes to procure a membership by purchase, or by transfer, may do so either prior or subsequent to approval for membership pursuant to Rule 107. An applicant who has acquired a membership prior to approval for membership shall become a member upon such approval. An applicant approved for membership prior to acquiring a membership shall become a member if, within thirty calendar days after approval for membership, he procures a membership; otherwise his membership shall be deemed vacated and the Exchange shall retain the membership application processing fee. Extensions of the 30-day period in which the applicant must acquire a membership may be granted by the Department.

### **105.B. Application Process for Members Not Requesting Access to the Trading Floor**

The applicant shall file an Application for Membership and the appropriate fee with the Department. The applicant shall agree to take no recourse against the Exchange in the event his application is rejected (except as provided in Section 8c of the Commodity Exchange Act), set forth all financial arrangements made in connection with the proposed purchase or transfer of the membership and agree to abide by the applicable rules and regulations of the Exchange and all amendments thereto.

The applicant may receive temporary membership privileges which do not permit trading floor access upon the filing of a complete Application unless the Department has reason to believe that the applicant is not qualified for membership. An applicant that receives temporary membership privileges shall be subject to all of the rules of the Exchange including the rules related to the approval and rejection of an applicant. Such temporary membership privileges will expire upon the earlier of: 1) sixty days after the temporary membership privileges are granted; 2) a rejection of the applicant's membership application by the Membership Committee; or 3) notification that the application for membership has been approved. An applicant who receives temporary non-trading floor membership privileges who is subsequently rejected for membership shall reimburse the Exchange for the difference between trading and clearing fees paid by reason of the temporary membership status and the fees that would have been paid on the same transactions at the rates that would have otherwise prevailed.

The Department shall notify the membership by posting for a period of 20 days of the name of the

applicant, the seller or transferor and the purchase price. The notice shall request the submission to the Department of claims against the seller or transferor arising out of Exchange transactions or any other relationship regulated by the Exchange. During the posting period, the Department shall prepare a report on the qualifications of the applicant.

The Application of a member who obtains a membership may be approved by the Department before the expiration of the posting period, provided the member obtains an indemnification agreement in favor of the Exchange from a clearing member to cover Rule 110 claims up to the value of the membership at the time of purchase or transfer.

An applicant who has acquired a membership prior to approval for membership shall become a member upon such approval. An applicant approved for membership prior to acquiring a membership shall become a member if, within thirty calendar days after approval for membership, he procures a membership; otherwise his membership shall be deemed vacated and the Exchange shall retain the membership application processing fee. Extensions of the 30-day period in which the applicant must acquire a membership may be granted by the Department.

#### **105.C. Application for Floor Broker's or Floor Trader's License**

Each membership applicant seeking a floor broker's or floor trader's license shall apply for registration as a floor broker or a floor trader with the National Futures Association. Individuals not accessing the trading floor are not required to obtain floor broker or floor trader registration.

### **106. TRANSFERS, SECURITY TRANSACTIONS, AND AUTHORIZATIONS TO TRANSFER OR SELL**

Transfers of memberships may be made only in accordance with the following provisions. All of the applicable procedures and requirements for the sale and purchase of a membership as set forth in Chapter 1, including the provisions of Rule 110, shall apply to transfers made under this rule. A transfer, reinstatement or revocation of a transfer shall not be completed until all valid Rule 110 claims against a member are satisfied unless a properly completed Indemnification Form is filed by a member's qualifying clearing member.

#### **106.A. Authorization to Sell**

An Authorization to Sell ("Authorization Agreement") is a grant of authority by a member or applicant for membership that may be used only for the purposes specified in Rule 106.B. Authorization Agreements shall be effective only if executed on the form supplied by the Exchange and filed with the Department. Authorization Agreements shall be irrevocable without the written consent of the grantee.

A member or applicant for membership who executes an Authorization Agreement relinquishes his power to direct the sale of his membership. A grantee shall have all powers of sale that otherwise would have been available to the grantor. The Exchange shall act at the grantee's direction as if the grantee was the member-owner.

Private agreements between the grantor and the grantee shall not be recognized by the Exchange and shall not affect the rights of the Exchange or its members. The grantee shall be entitled, in addition to any other rights he may have under Rule 110, to the residual proceeds after all Rule 110 claims have been satisfied up to the amount of the outstanding debt owed.

#### **106.B. Security Transactions**

A member, applicant for membership or a Non-Member Investor, may execute an Authorization Agreement, in favor of a clearing member, a financial institution or bank, or in favor of the member that financed the purchase of the membership in order to secure any outstanding debt connected with that financing.

A member, applicant for membership or a Non-Member Investor may execute an Authorization Agreement in favor of a member or clearing member to whom the member is indebted or may become indebted by reason of transactions upon the Exchange in order to secure such current or future debts.

#### **106.C. Family Transfers**

A member or Non-Member Investor may temporarily transfer his membership to a member of his immediate family who shall be subject to all Exchange rules and regulations. For purposes of this rule, immediate family members shall be limited to parents, siblings, children, grandchildren, grandparents, fathers-in-law, mothers-in-law, sons-in law, daughters-in-law and spouses.

Rule 106.C transfers shall be subject to the following terms and conditions:

1. The transferor may revoke the transfer upon written notice filed with the Department.
2. The transferor shall have the right at any time to withdraw the authority of the transferee to trade on the membership by giving notice to the transferee's qualifying clearing member and such clearing member must subsequently notify the Exchange.
3. The transfer shall be revoked and the membership shall revert to the transferor's estate or conservator upon official notice of the death or formally declared incompetence of the transferor. However, the legal representative of a deceased member's estate may transfer his membership pursuant to this Rule 106.C. during the pendency of probate.
4. Upon a transferor's expulsion from the Exchange, the transfer shall be revoked and the membership shall revert to the transferor who must sell the membership within 30 days.
5. Upon approval for membership, the transferee shall be treated as a member for all purposes, except that the transferee shall have no authority to sell, transfer or assign the membership. The transferor shall be considered the member and an assignment of the membership for membership purposes pursuant to Rules 106.J. or 902 shall not be terminated by the transferee.
6. The transferor may sell the membership at any time in accordance with the provisions of Rule 104 or transfer the membership pursuant to Rule 106. The proceeds of the sale of the membership will be distributed to the transferor following the settlement of all claims pursuant to Rule 110.
7. The transferred membership may be sold in accordance with Rule 133, and the proceeds may be applied as provided in Rule 110, to satisfy financial obligations of the transferee to the Exchange, to another member or to a clearing member arising out of the transferee's use of the membership in the event that such financial obligations have not been otherwise satisfied.

#### **106.D. Futures Industry Transfers**

A member or Non-Member Investor may temporarily transfer his membership to another member who shall be subject to all Exchange rules and regulations.

Transfers under this section shall be subject to the following terms and conditions:

1. The transferor may revoke the transfer upon written notice filed with the Department.
2. The transferor shall have the right at any time to withdraw the authority of the transferee to trade on the membership by giving notice to the transferee's qualifying clearing member and such clearing member must subsequently notify the Exchange.
3. The transfer shall be revoked and the membership shall revert to the transferor's estate or conservator upon official notice of the death or formally declared incompetence of the transferor. However, the legal representative of a deceased member's estate may transfer his membership pursuant to this Rule 106.D. during the pendency of probate.
4. The transferor is eligible to be elected to the Board of Directors. A transferor who is a member of the Board may have access to the trading floor in order to meet with other members, but may not trade while on the trading floor.
5. The transferor may sell the membership at any time in accordance with the provisions of Rule 104 or transfer the membership pursuant to Rule 106. The proceeds of the sale of the membership will be distributed to the transferor following the settlement of all claims pursuant to Rule 110.
6. The transferee's guarantor(s) shall have no right of indemnification against the transferor for any and all claims against the transferee which have been satisfied in accordance with the

terms of the guarantee. The transferor shall neither be liable for nor shall the transferred membership be used to satisfy any and all claims against the transferee which have not been satisfied by the transferee and/or the transferee's guarantor(s). Transferees shall have continuing personal liability for any claims which accrued during the term of the transfer which were not satisfied by the transferee's guarantor(s); for the payment of disciplinary fines assessed against the transferee which were not otherwise satisfied; and for any other financial obligations to the Exchange and/or its members that were not otherwise satisfied.

7. The transferor may not assign the membership for membership purposes pursuant to Rules 106.J. or 902.
8. A transferee shall place all trades on the books of his qualifying clearing member unless written authorization to the contrary from said clearing member has been filed with the Department. Failure to adhere to the requirements of this rule and Rule 903.F. shall exclude a clearing member not qualifying the transferee from receiving proceeds under Rule 110. 9. Upon a transferor's expulsion from the Exchange, the transfer shall be revoked and the membership shall revert to the transferor who must sell the membership within 30 days.
- 10.-11. [Reserved]
12. A lessor shall notify the Exchange, in a manner designated by the Exchange, of the terms of a new lease agreement or any renewal of a lease agreement within two (2) business days of the negotiation of the lease agreement, or renewal thereof. A lessor's failure to comply with this Rule 106.D.12 may result in the issuance of a warning letter to the lessor. A lessor may then be subject to an automatic fine of \$500 and \$1000 respectively for a second and third violation of this rule within a rolling 12-month period from the issuance of the warning letter. Repeated violations of this rule may be referred to a disciplinary committee.
13. Unless otherwise previously agreed to by the transferor and the transferee, notice must be provided by the parties of their intention to continue a leasing arrangement at least ten (10) days prior to the expiration of the current lease term. If either party fails to provide such notice, it is assumed that the lease will not be renewed upon its expiration. Terms of the renewal, if any, will be subject to negotiation between the parties.
14. No Option Membership may be transferred pursuant to this Rule 106.D.

#### **106.E. Unconditional Bequests and Bona Fide Gifts of Membership**

A member or Non-Member Investor may make a bona fide gift or bequest of membership. The bona fide gift may be made only to immediate family members as defined in Rule 106.C. Unless otherwise required by law, a letter affirming the gift or Letters of Office from the Probate Court and a letter from the decedent's personal representative allowing the transfer will be required as a precondition of transfer.

#### **106.F. Clearing Member**

A membership may be owned by a clearing member, or a person or an entity having an acceptable proprietary interest in the clearing member. The membership may be transferred provided that: (1) the transfer is approved by Exchange staff; and (2) the transferee is approved pursuant to the rules of the Exchange.

#### **106.G. Transfer to Wholly-Owned Entities**

A membership may be transferred to an entity which is wholly-owned by the member or his immediate family members as that term is used in Rule 106.C. Transfers pursuant to this authorization shall be limited to transfers pursuant to Rules 106.C., D. or E.

A 106.G. transferee may assign the membership for membership purposes in accordance with Rules 106.J. and 902 except in circumstances where the transfer has been made pursuant to Rule 106.D.

#### **106.H.-I. [Reserved ]**

#### **106.J. Member Firm**

A firm may qualify as a:

- NYMEX Rule 106.J. member firm if two NYMEX Division memberships and 6,000 CME Group Class A Shares are assigned for the firm's membership privileges.
- COMEX Rule 106.J. member firm if two COMEX Division memberships are assigned for the firm's membership privileges.
- COMEX Rule 106.J. member firm (Options only) if two COMEX Option Division memberships are assigned for the firm's membership privileges.

A NYMEX Rule 106.J. member firm shall at all times have assigned to it at least 9,000 CME Group Class A Shares if it is also either: (a) a CME clearing member or CME Rule 106.J. equity member firm or (b) a CBOT clearing member or a CBOT member firm that has an 6,000 share requirement (including a CBOT clearing member or CBOT member firm with a grandfathered share requirement of 4,725). If the CBOT member firm has a 1,750 share requirement, the combined share requirement will be 7,750.

A NYMEX Rule 106.J. member firm shall at all times have assigned to it at least 12,000 CME Group Class A Shares if it is also both: (a) a CME clearing member or CME Rule 106.J. equity member firm and (b) a CBOT clearing member or a CBOT member firm that has an 6,000 share requirement (including a CBOT clearing member or CBOT member firm with a grandfathered share requirement of 4,725). If the CBOT member firm has a 1,750 share requirement, the combined share requirement will be 10,750.

For NYMEX Rule 106.J. member firms, at least one membership and 50% of the CME Group Class A Shares required for membership pursuant to this Rule must be owned by the member firm, principals or employees of the member firm or persons, including a parent company, with an acceptable proprietary interest in the member firm, or if the member firm is a pool or fund, the investment manager of the pool or fund. One membership and 50% of the CME Group Class A Shares required for membership may be independently assigned.

For COMEX Rule 106.J. member firms and COMEX Rule 106.J. member firms (Options only), at least one membership in each Division required for membership pursuant to this Rule must be owned by the member firm, principals or employees of the member firm or persons, including a parent company, with an acceptable proprietary interest in the member firm, or if the member firm is a pool or fund, the investment manager of the pool or fund. One membership in each Division required for membership may be independently assigned.

COMEX Option Memberships may be assigned solely for the purpose of trading those contracts which a COMEX Option Member is permitted to trade.

The memberships may be held in the name of the member firm, principals or employees of the member, or persons with an acceptable proprietary interest in the member firm. The owner of the membership may transfer the membership among such persons provided that: (1) the transfer is approved by Exchange staff; (2) the transferee is approved pursuant to the rules of the Exchange; and (3) the transfer is for the legitimate business purposes of the firm. The firm shall have the right, at any time, to withdraw the authority of the transferee to trade on the membership, but must withdraw such authority upon termination of his employment or other association with the firm. Notice of the withdrawal of the authority of the transferee to trade on the membership must be given to his qualifying clearing member who in turn must notify the Exchange pursuant to Rule 511.A. The member firm shall designate on a form provided by the Exchange a representative who shall be authorized to deal with the Exchange with respect to the membership transferred under this Section.

The proceeds of the sale of a membership which has been assigned in order to qualify a Rule 106.J. member firm shall be subject to Rule 110 claims against both the owner of the membership and the Rule 106.J. member firm.

A Rule 106.J. member firm membership may not be transferred pursuant to any other provision of Rule 106. The membership may not be assigned for membership purposes under Rule 902.

Rule 106.J. member firm benefits apply only to the firm's member firm trading and not to the trading of any affiliates, subsidiaries or customers. All positions of the member firm must be carried by a clearing member(s) in accounts separate from positions of affiliates, subsidiaries, customers and other entities.

Any holder or transferee of a Rule 106.J. membership may not solicit or contact customers from the floor of the Exchange, unless the member firm is an Introducing Broker or Futures Commission Merchant as those terms are defined in Section 1a of the Commodity Exchange Act and/or 17 C.F.R. 1.3..

A Rule 106.J. member firm may not hold itself out to the public as a clearing member.

Exchange staff may grant exemptions from the requirements of this Rule.

#### **106.K. Transfer to a Trust**

A member may transfer his membership to a trust for which the member is the grantor. The document(s) establishing the trust shall at all times include the restrictions as to permissible beneficiaries and state that (1) the trust takes the membership subject to all of the rules of the Exchange, as may be amended, (2) the interests in the membership that inure to the beneficiaries of the trust shall be subject to all of the rules of the Exchange, as may be amended, (3) the Exchange's rights with respect to the membership are superior to those of the beneficiaries, and (4) the Exchange shall have no liability to the beneficiaries of the trust in the event of the mishandling of the trust assets by the trustee. Permissible beneficiaries are immediate family members as set forth in Rule 106.C. The grantor (or the grantor's personal representative) and the trustee (and any successor) shall each provide in the form provided by the Exchange an acknowledgment that the trust takes the membership subject to all of the rules of the Exchange and that the trust is in compliance with the requirements of this Rule. The grantor shall comply with any request to produce trust information made by Exchange staff.

If such a transfer is made by a bona fide gift or bequest, it shall also be subject to the requirements of Rule 106.E.

The grantor's liability to the Exchange under Rule 439 shall continue with respect to any claim arising out of an act or omission occurring prior to such transfer, and the membership will continue to be treated as the asset of the grantor for the purposes of Rule 439 and for otherwise meeting any obligations to the Exchange arising out of the grantor's use of the membership prior to the transfer to the trust, including fines imposed with respect to conduct occurring prior to the transfer. A membership held pursuant to a transfer under this section may be assigned for membership privileges under Rules 106.J. or 902 or reinstated to the transferor pursuant to this section. The transfer shall be revoked and the membership shall revert to the transferor upon official notice to the Exchange that the trust has been revoked. The membership must be transferred out of the trust within 90 days of the closing of the member's estate.

#### **106.L. [Reserved]**

#### **106.M. Transfer to Joint Tenants With Right of Survivorship**

A member may transfer his membership to himself and a member of his immediate family, as defined in Rule 106.C., as joint tenants with right of survivorship.

The joint tenants shall designate on a form provided by the Exchange which one of them shall be authorized to deal with the Exchange with respect to the membership transferred under this Section. The designee must qualify for membership by satisfying the requirements of Chapter 1 of these rules, and shall be treated as a member for all purposes. In the designation form, the joint tenants shall acknowledge that the designee shall have the exclusive right to transfer the membership or to execute an Authorization to Sell pursuant to Rule 106.A. and that the Exchange shall have no liability to the non-designee in the event of such transfer or execution or the mishandling of the membership by the designee. The joint tenants may at any time change such designation in writing signed by both of them, and each such change shall be deemed a transfer for the purposes of these rules. Upon such change in designation, the new designee must qualify for membership by satisfying the requirements of Chapter 1 of these rules.

Whether or not the transferor is the designee, the transferor's liability to the Exchange under Rule 439 shall continue with respect to any claim arising out of an act or omission occurring prior to a transfer under this rule, and the membership will continue to be treated as an asset of the transferor for the purposes of Rule 439 and for otherwise meeting any obligations to the Exchange arising out of the transferor's use of the membership prior to such transfer, including fines imposed with respect to conduct occurring prior to the transfer. Upon receipt of satisfactory proof of the

death of a joint tenant, the Exchange will transfer the membership to the survivor.

Upon receipt by the Exchange of written notice signed by both joint tenants terminating joint ownership of the membership transferred under this section and instructing the Exchange to transfer the membership to one of the joint tenants as sole owner, the Exchange shall transfer such membership pursuant to such instructions.

A membership held pursuant to a transfer under this section may not be assigned for membership privileges under Rules 106.J. or 902.

#### **106.N.-106.O. [Reserved]**

#### **106.P. Transfer to a Family Limited Partnership**

A member may transfer his membership to a Family Limited Partnership ("FLP") with respect to which all partners are members of the member's family who would be eligible for a family transfer from the member pursuant to Rule 106.C. The limited partnership agreement or other document(s) governing the FLP shall at all times prohibit transfers of an interest in the FLP to any person who is not eligible pursuant to Rule 106.C and shall state that (1) the FLP's interest in the membership shall at all times be subject to all of the rules of the Exchange, as may be amended, including, but not limited to, Rule 110 and, if the membership is assigned to a member firm for membership qualification, Rules 106.J. and 902; (2) management of the FLP shall be vested exclusively in a managing general partner, who must qualify for membership by satisfying the requirements of Chapter 1 of these rules; and (3) the Exchange shall have no liability to the partners for any loss, damage, or expense resulting from any acts or omissions by the managing general partner or any person acting by or through the authority of a general partner. The transferor and the managing general partner (and any successor) shall each provide in the form provided by the Exchange a certification that the FLP acquires the membership subject to all of the rules of the Exchange and that the FLP is in compliance with the requirements of this Rule. The FLP also may transfer the membership back to the transferor.

If the transfer of a membership to the FLP is made by a bona fide gift or bequest, it shall also be subject to the requirements of Rule 106.E.

Transfer of a membership pursuant to this rule shall not relieve the transferor of any liability to the Exchange under Rule 439 with respect to any claim arising out of an act or omission occurring prior to such transfer, and the membership will continue to be treated as the asset of the transferor for the purposes of Rule 439 and for otherwise meeting any obligations to the Exchange arising out of the transferor's use of the membership prior to the transfer to the FLP, including fines imposed with respect to conduct occurring prior to the transfer. A membership held pursuant to a transfer under this section may be assigned for membership purposes under Rules 106.J. and 902.

#### **106.Q.-106.S. [Reserved]**

### **107. APPROVAL OF APPLICANT**

Department staff shall review and approve applicants for membership on the Exchange. Such approval shall be based upon admission criteria established by the Membership Committee. The Membership Committee shall review applicants for membership not meeting the staff-administered admission criteria.

Department staff shall inquire into and be satisfied with respect to the reputation and financial responsibility of the applicant and the details of the financial arrangements made in connection with the purchase or transfer of the membership. After review of all of the information, a decision shall be made as to whether the applicant is qualified for membership.

An applicant not approved for membership by Department staff shall be referred to a panel of the Membership Committee. A panel of the Membership Committee shall consist of two members and a chairman, who shall have a vote. A unanimous vote of the panel is required for approval of the applicant.

An applicant approved for membership either by Department staff or the Membership Committee, as applicable, shall assume the responsibilities and privileges of membership once a membership is obtained.

**108. [RESERVED]****109. REJECTION OF APPLICANT**

If an applicant is rejected by the Membership Committee panel, the applicant may appeal the decision to the full Membership Committee. The Membership Committee shall decide, by majority vote, whether the applicant is qualified for membership. The decision of the Membership Committee shall be final. An applicant rejected by the Membership Committee may be reconsidered for membership if new or additional information is subsequently brought to the attention of the Membership Committee. If an applicant is rejected for membership or if for any reason his application is withdrawn, the Exchange shall retain the processing fee and the applicant shall assume all risk of gain or loss from the resale of any membership purchased by him prior thereto.

If the applicant executed and filed an Authorization to Sell pursuant to Rule 106.A. with the Department in connection with the financing of the purchase of a membership, then the proceeds of any sale of such membership shall be paid to the grantee, up to the amount of the debt, including interest.

**110. CLAIMS AGAINST MEMBERSHIP, APPLICATION OF PROCEEDS**

For the purposes of this rule "sale" shall include a sale made pursuant to Rule 104 or a transfer made in accordance with the provisions of Rule 106; "seller" shall include firms that have membership privileges pursuant to Rules 106. F., G. or J.; and "claim" shall be limited to claims involving incidents that occurred prior to the sale of the membership and which arose in connection with transactions on the Exchange or membership in the Exchange. Claims resulting from conduct subsequent to the sale of a membership may not be asserted against that membership or its proceeds. All claims against the seller's membership or its proceeds shall be submitted in writing to the Department within 20 days of the posting of notice of the sale of said membership. At the conclusion of the 20-day claim filing period, the Market Regulation Department and the Department shall conduct an investigation of all claims properly filed against the seller's membership or its proceeds. This investigation shall be completed within 20 days unless the investigation cannot be resolved within that period.

The total proceeds of the sale, or in the case of a transfer, the value at the mid-point of the bid-offer spread as of the date of the transfer, of the membership shall be applied to the following purposes and in the following order of priority:

- a. Payment of all dues, fines, contributions, charges and other indebtedness due to the Exchange;
- b. Payment of any indebtedness to the clearing member who last qualified the selling member prior to the sale arising out of: (i) a pledge of such membership as collateral security on such indebtedness, or (ii) a deficit which the Exchange staff determines to have arisen directly out of transactions on the Exchange;
- c. Payment of amounts due to other clearing members on claims filed which the Exchange staff determines to have arisen directly out of transactions on the Exchange;
- d. Payment of amounts due to members and member firms on claims filed which the Exchange staff determines to have arisen directly out of transactions on the Exchange; and
- e. Payment of amounts due to public customers of the seller based on claims filed by such customers or based on reports of the Market Regulation Department, which claims are determined by the Exchange staff to be based upon misappropriation of customer funds, improperly executed transactions, unpaid credit balances, or other similar matters, directly related to transactions on the Exchange.

No other claims against the proceeds of the sale of a membership shall be recognized and administered by the Exchange, but the creditors of the seller of a membership not falling in the foregoing categories may pursue other legal means of securing payment of their obligations.

The Exchange staff shall make a final determination of all claims filed in time or reported by the Market Regulation Department and the Department against the proceeds of the sale of a

membership.

Except as provided in Rule 913, the Exchange staff shall make a distribution of such proceeds within 40 days after receiving notification and confirmation of the sale of the membership, unless claims to the proceeds are not resolved within that period. If, however, at such time an Exchange disciplinary proceeding is pending against the seller or, based upon a pending investigation, is highly probable, or if a legal proceeding, in respect to which the indemnification provisions of Rule 439 would operate, is pending, has been announced or is highly probable, then the Exchange staff shall retain so much of the proceeds as determined by staff in order to satisfy such obligations until such time as the pending matter is concluded. Distribution of proceeds shall be made by the payment of claims in the categories listed in this rule to the extent the proceeds from the sale are sufficient to meet those obligations. If the proceeds of the sale of a membership are insufficient to pay all amounts determined to be due under the categories listed in this rule, the proceeds shall be applied to pay the full amounts determined to be due under subparagraphs a, b, c, d and e in the priority named. If the proceeds are insufficient to pay the amounts determined to be due under any priority, the claims due under that priority shall be paid pro rata, and the remaining priorities shall be left unpaid. In determining the amount of any claim, the Exchange staff shall first deduct the fair cash value of any collateral held by that claimant. Creditors of the seller of a membership whose obligations are not fully satisfied pursuant to this paragraph may pursue other legal means of securing payment of their obligations.

The surplus, if any, shall be paid to the person whose membership was sold or his legal representative or a 106.A.-B. grantee, as applicable, upon the execution of a satisfactory release. The Exchange staff's determination and allowance of claims hereunder shall be final. The death, incompetence, expulsion, suspension, insolvency or bankruptcy of a member shall not affect the rights of claimants under this rule.

## **111.— 119. [RESERVED]**

### **PRIVILEGES AND RESPONSIBILITIES**

#### **120. MEMBERSHIP CATEGORIES**

There are three categories of membership: NYMEX Division, COMEX Division and COMEX Option Membership. NYMEX Division membership privileges extend to all NYMEX products and to any COMEX products for which cross-divisional trading privileges have been granted by the Board; COMEX Division membership privileges extend to all COMEX products and to any NYMEX products for which cross-divisional trading privileges have been granted by the Board; and COMEX Option Membership privileges are limited to products assigned to COMEX Option Members by the Board. A member of the NYMEX Division or COMEX Division or a COMEX Option Member who personally executes trades on the floor in products other than those assigned to his respective Division or category shall be deemed to have committed an act detrimental to the interest or welfare of the Exchange. A member who trades products on Globex in which he does not have membership privileges is not entitled to member's rates for such trades.

#### **121. MEMBERSHIP PRIVILEGES**

Membership in the Exchange entitles the member to certain privileges including the right:

- a. To access the trading floor if properly qualified by a clearing member;
- b. To act as a floor broker and/or floor trader in accordance with Exchange rules; and
- c. To receive member or lessee clearing fee rates in accordance with Exchange requirements.

#### **122. MEMBERSHIP DUES AND ASSESSMENTS PAYABLE**

Dues and other amounts owed to the Exchange are payable upon receipt of the invoice. Members in arrears 60 days after the invoice date may forfeit all membership privileges, including the privilege of accessing the floor and reduced clearing and trading fees, including Globex fees. Exchange staff shall use reasonable efforts to notify the member before any privileges are forfeited.

**123. COMPLIANCE WITH THE COMMODITY EXCHANGE ACT**

All members of the Exchange shall comply with the provisions of the Commodity Exchange Act and the rules and regulations duly issued pursuant thereto by the CFTC, including the filing of reports, maintenance of books and records, and permitting inspection and visitation by duly authorized representatives of the CFTC.

**124. VIOLATIONS OF COMMODITY EXCHANGE ACT**

Within a reasonable time following the receipt of final notice under Section 6(c) of the Commodity Exchange Act from the CFTC that any person has been found guilty of violating the provisions of the Commodity Exchange Act, Exchange staff shall take the necessary action to effectuate the order of the CFTC, as applicable, and shall report such action to the Board.

**125. [RESERVED]****126. MEMBERSHIP EDUCATION PROGRAMS**

A member's right to access the trading floor requires that he first attend an initial educational program respecting CFTC and Exchange trading rules, federal, Exchange, and administrative sanctions for violating rules, and members' legal and professional responsibilities concerning treatment of customer orders and handling of customer business.

Continued access requires members to comply with the ethics standards set forth in Appendix B to Part 3 of the CFTC's Regulations-Statement of Acceptable Practices, or any equivalent ethics training.

**127. TRADING AND SOLICITATION PRIVILEGES**

A member shall have the right, subject to the rules of the Exchange, to trade as principal and as broker for others by open outcry only with respect to products assigned to his membership division or as otherwise designated by the Exchange. The Exchange shall designate the products which NYMEX and COMEX members may solicit from the combined NYMEX and COMEX trading floor. In order to solicit customer business, the member must have proper industry registration. All solicitations must take place from the trading floor or the premises of an entity registered to conduct customer business. Solicitations occurring from the premises of an entity registered to conduct customer business must be on behalf of the entity or one of its properly registered affiliates and such entity or affiliate must be an NFA member if required by NFA rules.

**128-129. [RESERVED]****130. REQUIRED NOTICES BY MEMBER FIRMS AND SUSPENSION OF MEMBER FIRM PRIVILEGES**

Rule 106.J. member firms shall notify the Audit Department prior to any proposed merger, acquisition, consolidation, combination, sale, or any other change of ownership involving the Rule 106.J. firm.

Rule 106.J. member firms shall notify the Audit Department in a timely manner of any material change in key personnel who are responsible to act on behalf of the member firm.

If any Rule 106.J. firm:

- has notified the Exchange or the Exchange otherwise becomes aware of a significant event as defined in Rule 442; or
- that is an FCM fails to meet CFTC minimum financial requirements in the opinion of the Audit Department; or
- neglects to promptly furnish a statement upon request

the membership privileges of the Rule 106.J. firm may be suspended, subject to the procedures set forth in Rule 974.B.

## INVOLUNTARY SALE

### 131. **EXPULSION FOR FRAUD OR DISHONESTY PRIOR TO ELECTION TO MEMBERSHIP**

A member or a firm with membership privileges who is found guilty of fraud or dishonest conduct by any court, commodity or securities exchange or related clearing organization, the Securities and Exchange Commission, the Commodity Futures Trading Commission or the securities commission or equivalent authority of any state, territory, the District of Columbia or foreign country, the National Futures Association, the Financial Industry Regulatory Authority, or any self-regulatory or regulatory organization prior to becoming a member and of failing to make full disclosure thereof in his or its application for membership, or who is found guilty of having made a false statement of a material fact in or in connection with his or its application, may be expelled from membership in the Exchange by a Panel of the Business Conduct Committee.

### 132. **[RESERVED]**

### 133. **SALE OF MEMBERSHIP WHEN MEMBER DEFAULTS**

If Exchange staff determines that a member or a firm that has membership privileges is in default upon any financial obligation due to the Exchange or any financial obligation to another member or to a clearing member in connection with transactions on the Exchange, the CEO may order the membership of the defaulting member or firm sold and the proceeds applied as provided in Rule 110. If, within 30 days of such CEO order of sale, the defaulting member or firm satisfies the indebtedness and provides proof of such satisfaction to staff, the ordered sale of the membership shall be cancelled. If full payment is not made within the 30-day period, then the membership involved shall be sold by the Exchange to the highest bid on file with the Department for such membership upon the opening of the seat sale market on the sixth business day after expiration of the 30-day period. If the proceeds from the sale are less than the indebtedness of the defaulting member or firm, such debtor shall remain liable to the Exchange or its members or clearing members for the deficit.

### 134.-194. **[RESERVED]**

### 195. **MARKET MAKER PROGRAMS**

Exchange staff shall approve the implementation of market maker programs, pursuant to which market makers would be authorized to maintain two-sided markets in those products designated by the Exchange. With the exception of allowable privately negotiated transactions and orders executed in accordance with Rule 539.C., an individual responsible for performing the duties of a market maker pursuant to this Rule may not accept, hold or in any manner have possession or non-public knowledge of orders for any other person, including knowledge of customer orders, in the same or a related market. All contract months in the product and any related futures or options contracts, in addition to any corresponding mini-sized futures or options contracts, shall be considered to be the same or a related market for purposes of this Rule.

To the extent that the terms of any such market maker program may be in conflict with any Rules of the Exchange, such terms shall supersede such Rules. Nothing in this Rule shall alter or waive a member's responsibility to comply with provisions of the Commodity Exchange Act or Rules or Regulations of the Commodity Futures Trading Commission unless exempted by the Commission.

(End Chapter 1)