



Advisory Notice

Clearing House

10-521

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

SUBJECT: Date Change for Phase II of Mandatory CME Globex Credit Controls

DATE: December 28, 2010

In order to enhance the risk management tools available to clearing firms utilizing CME Globex®, CME Group (on behalf of CME/CBOT/NYMEX/COMEX) rolled out enhanced CME Globex Credit Control functionality, commonly referred to as "GC2", in May 2009. The purpose of GC2 is to provide clearing firms with an additional, backstop risk management tool that allows for flexible administration of limits on the accumulation of daily exposure on CME Globex. GC2 was initially made available to clearing firms on a voluntary basis. Effective August 6, 2010, it was mandatory that clearing members employ GC2 credit control functionality on every one of their CME Globex Execution Firms.

In assessing the risks attendant to today's electronic trading environment, the Clearing House Risk Committee approved Rule 949 (Credit Control Policy). Rule 949 states: Clearing Members shall comply with all credit control policies developed by the Exchange for customer and proprietary transactions. Such credit control policies may include, but not be limited to, registration of credit control administrators with the Exchange, definition of credit control limits, and maintenance of written procedures verifying compliance with Exchange credit control requirements. For general reference purposes, credit control functionality that may be developed for CME Globex is a system or service pursuant to Rule 578.

In conjunction with the approval of CME Rule 949, the Clearing House Risk Committee also considered and approved an approach towards the mandatory utilization of GC2. Please note that any GC2 credit control functionality required by the Exchange shall be **in addition** to a clearing member's internal risk monitoring and credit control procedures.

PHASED IMPLEMENTATION:

Phase I of the Mandatory Electronic Trading Controls policy went into effect this summer. **Please be advised that manual clip sizes do not satisfy the requirement.**

Phase II was originally scheduled to go into effect on January 1, 2011. This date is being extended to May 1, 2011 in order to allow for development of firm-requested changes to the GC2 functionality. At that time, CME Clearing will evaluate the values in the CME Globex Credit Controls system for each clearing firm's CME Globex Execution Firms relative to the historical activity for that CME Globex Execution Firm and the resources of the clearing firm. Please note that the Phase II evaluation will check to ensure that the value in GC2 is a reasonable backstop value.

The GC2 tool is in no way meant to replace any other risk management tools or procedures that should be put in place. This tool is also not intended for granular risk management of individual customers. It is simply intended to act as a backstop system outside the clearing firm's systems that can limit the risk exposure an execution firm can accumulate in the course of one day.

More information and a detailed Client Overview on the CME Globex Credit Controls System is available at <http://www.cmegroup.com/gc2>. Please contact the Clearing House Risk Management Department at 312.648.3888 for more information.