

TO: Clearing Member Firms  
FROM: CME Clearing  
DATE: September 27, 2012  
ADVISORY #: 12-414  
SUBJECT: **CLARIFICATION: Timing of Acceptance of OTC SWAPS for Clearing**

The Division of Clearing and Risk (“DCR”) of the Commodity Futures Trading Commission (“Commission”) on Friday, September 21, 2012 set forth its expectations with regard to Futures Commission Merchant (“FCM”) compliance with Commission Regulation 1.74, Futures Commission Merchant acceptance for clearing.

The effective date for compliance with Regulation 1.74 is October 1, 2012.

The DCR expectations provide that –

Regulation 1.74(b) requires that “Each futures commission merchant that is a clearing member of a derivatives clearing organization shall accept or reject each trade submitted by or for it or its customers as quickly as would be technologically practicable if fully automated systems were used”.

The Commission clarified that this standard would require action in a matter of milliseconds or seconds or, at most, a few minutes, not hours or days.” See 77 FR 21278 at 21285. The Commission also stated that “...it believes.....that prudent risk management dictates that once a trade has been submitted to a clearing member or a DCO, the clearing member or DCO must accept or reject it as quickly as possible”.

Given the foregoing, DCR’s expectations, with respect to Regulation 1.74, are as follows:

1. With effect from October 1, 2012, each FCM that is a clearing member of a DCO or DCOs must, no later than 120 seconds (2 minutes) after a trade has been submitted to it by or for a customer:
  - accept or reject the trade for clearing; and
  - submit it to the relevant DCO for clearing.

Illustration of (1) above – **Assume** Customer A submits a trade to clearing FCM B at 0900 hours Eastern time for clearing at DCO C. We expect clearing FCM B to accept or reject the trade AND submit it to DCO C no later than 0902 hours Eastern time.

2. No later than ninety (90) days from the date of publication, in the Federal Register, of the final rule for the clearing requirement determination (as proposed in 77 FR 47170) for credit default swaps (CDS) and interest rate swaps (IRS), each FCM that is a clearing member of a DCO or DCOs must, no later than 60 seconds (1 minute) after a trade has been submitted to it by or for a customer:
  - accept or reject the trade for clearing; and
  - submit it to the relevant DCO for clearing

Illustration of (2) above – **Assume** that the Commission issues a final rule for the clearing determination requirement for CDS & IRS and it is published in the Federal Register on November 15, 2012. Also assume that Customer A submits a trade to clearing FCM B at 0900 hours Eastern time for clearing at DCO C. No later than 90 days from November 15, 2012, we expect clearing FCM B to accept or reject the trade AND submit it to DCO C no later than 0901 hours Eastern time.

In summary, the expected standard is 120 seconds from October 1, 2012. Once the clearing determination for CDS & IRS is published in the Federal Register, the expected standard is 60 seconds with effect from the 90<sup>th</sup> day after publication.

The DCR requested that each DCO inform their FCM clearing members as to the expectations with regard to compliance with Commission Regulation 1.74.

CME Clearing will accept or reject each trade submitted in accordance with Commission Regulation 39.12(b)(7).

For further information, please contact 312-338-7112.