



**Summary of Requirements for
CME, CBOT, NYMEX and COMEX Clearing Membership
And OTC Derivatives Clearing Membership
September 2018**

CME Clearing (“Clearing House”) is the clearing house division of Chicago Mercantile Exchange Inc. (“CME”) which is wholly owned by CME Group Inc. (“CME Group”). CME Group is the ultimate parent of: (1) CME; (2) Board of Trade of the City of Chicago, Inc. (“CBOT”); (3) New York Mercantile Exchange, Inc. (“NYMEX”); and (4) Commodity Exchange, Inc. (“COMEX”) (hereafter referred to as “Exchange(s)”).

A firm may become a clearing member of one or more Exchanges and have privileges to clear exchange-traded futures and/or options on futures (“futures/options”) on that Exchange. Depending upon the clearing membership privileges held, these clearing members may be eligible to clear OTC derivatives products (i.e. cleared swaps and forwards) if additional requirements, including additional capital and risk management requirements, are met. For example, CME clearing members are eligible to clear FX OTC products and Interest Rate Swaps (“IRS”), CBOT clearing members are eligible to clear ethanol and grain swaps, NYMEX clearing members are eligible to clear energy OTC products and COMEX clearing members are eligible to clear metal forwards. A CBOT-only, NYMEX-only or COMEX-only clearing member is not eligible to clear IRS.

Clearing members that will clear exchange-traded futures/options and/or OTC derivatives for customers must be registered with the United States Commodity Futures Trading Commission (“CFTC”) as a Futures Commission Merchant (“FCM”). FCMs are subject to CFTC rules and regulated pertaining to regulatory capital, daily, semi-monthly, monthly and annual financial reporting, required notifications and customer protection. More detailed information concerning FCM registration can be found on the CFTC’s web site at www.cftc.gov.

The general requirements of clearing membership are stated in Chapter 9 of each Exchange’s rulebook. The additional requirements for clearing OTC derivative products are stated in Chapter 8F of CME’s Rulebook and for IRS are stated in Chapter 8G of CME’s. Also, the Clearing House may impose additional requirements upon the clearing member that may be specific to the products cleared by the clearing member. Below is a summary of the major requirements. For a more detailed account of clearing membership requirements, please review the Clearing Membership Handbook. It can be found on CME Group’s web site at: <http://www.cmegroup.com/company/membership/files/cme-group-clearing-membership-handbook.pdf>

Clearing membership in the Exchanges or for OTC derivatives is a privilege granted by the Clearing House Oversight Committee and may be withdrawn at any time.



General Requirements

1. A clearing member must be a corporation (including a C Corporation, Subchapter S Corporation or Limited Liability Company), partnership (including a Limited Partnership or General Partnership) or cooperative association.
2. A clearing member shall be qualified to do business in the State of Illinois or the State of New York or have an agency agreement in place with an entity already qualified in the State of Illinois or the State of New York. Such agency agreement must be in an Exchange approved format. This requirement provides a place for service of process and other communications in connection with the business of the clearing member.
3. A clearing member must have an authorized representative (i.e., officer, principal or partner), satisfactory to the Clearing House Risk Committee, to represent the clearing member before the Exchanges and their committees.
4. A clearing member shall be engaged in or demonstrate immediate capacity to engage in the conduct of the business of a clearing member.
5. A clearing member shall ensure that any and all necessary approvals have been received from regulatory authorities, including, but not limited to, the United States Federal Reserve and other foreign banking regulators, to allow the firm to conduct the business of a Clearing Member, if applicable.
6. A clearing member shall demonstrate such fiscal and moral integrity as would justify the Clearing House's assumption of the risks inherent in clearing its trades.
7. A clearing member shall agree to abide by all Exchange rules upon which it has membership privileges and to cooperate in their enforcement.
8. A clearing member shall agree to guarantee and assume complete responsibility for: (a) all trades executed or directed to be executed by floor brokers and traders qualified by it; and (b) all orders that floor brokers qualified by it negligently execute or fail to execute. In addition, a clearing member shall agree to guarantee and assume responsibility for all trading activity routed through any electronic trading system, if applicable, to the Clearing House for clearing of such transactions and which are guaranteed to the Clearing House by the clearing member via any connection, terminal, link, telecommunications hub or handheld unit provided by a clearing member to a third party, as well as any applicable electronic trading systems and terminals that the clearing member provides to a third party, including an eligible customer, to enter orders.
9. A clearing member 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. Any "GC2" credit control functionality required by the Exchange shall be in addition to a clearing member's initial risk monitoring and credit control procedures.



10. A clearing member must be in “good standing” under each applicable regulatory regime which it is subject to and must maintain this status while it is a clearing member.

Refer to Exchange Rule 901. (General Requirements and Obligations)

Clearing Members in Non-U.S. Jurisdictions

Clearing members that are incorporated/domiciled in non-U.S. jurisdictions must be subject to a legal and insolvency regime acceptable to the Clearing House. Clearing members from non-U.S. jurisdictions must use the Clearing House’s approved settlement banks for performance bond deposits and variation margin.

Choice of Law

The rules of the Exchange shall be governed by and construed in accordance with the laws of the State of Illinois in the United States. Any action, claim, dispute or litigation of any kind between the clearing member and the Exchanges shall be adjudicated in a federal or state court in Chicago, Illinois. Clearing members must consent to the jurisdiction of such court and to service of process by any means authorized by Illinois or U.S. federal law and waive the right to transfer the venue of such litigation. Refer to Rule 905. In addition, the rule provides that clearing members irrevocably waive any grounds of sovereign immunity in any legal action with the Exchanges.

Additional General Requirements for OTC

1. The clearing member shall agree to guarantee and assume responsibility for all OTC derivatives trading activity executed via outside means and submitted for clearing to the Clearing House by any customer, broker or affiliate authorized by the clearing member.
2. A clearing member that will clear IRS must have appropriate risk management capabilities, operational infrastructure and experience to support their IRS clearing activity, as prescribed by the Clearing House.

Refer to CME Rule 8F04 (OTC Clearing Member Obligations and Qualifications) and CME Rule 8G04 (IRS Clearing Member Obligations and Qualifications) for additional information.

Membership Requirements

To become a CME clearing member, the firm must purchase and/or acquire by assignment seven CME memberships (i.e. 2 CME division, 2 IMM division, 2 IOM division and 1 GEM division). One CME, IMM, IOM and the GEM must be owned by the clearing member or parent company or individual owner with an acceptable proprietary interest of at least \$500,000 in the clearing member (i.e. “firm owned”). The other CME, IMM and IOM memberships may be independently assigned.



To become a CBOT clearing member, the firm must purchase and/or acquire by assignment two Full/B-1 CBOT memberships, if the firm is registered with the CFTC as an FCM, or one Full/B-1 CBOT membership, if the firm is not registered as an FCM. If the firm is required to have two Full CBOT memberships, one Full membership must be owned by the clearing member or a person, including a parent company, with an acceptable proprietary interest of at least \$500,000 in the clearing member. The other may be independently assigned. If only one CBOT Full membership is required to be assigned for clearing membership, then that one membership must be owned by the clearing member or a person, including a parent company, with an acceptable proprietary interest of at least \$500,000 in the clearing member.

To become a NYMEX clearing member, the firm must purchase and/or acquire by assignment two NYMEX memberships. One membership must be owned by the clearing member or parent company or individual owner with an acceptable interest of at least \$500,000 in the clearing member. The other membership may be independently assigned.

To become a COMEX clearing member, the firm must purchase and/or acquire by assignment two COMEX memberships. One membership must be owned by the clearing member or parent company or individual owner with an acceptable proprietary interest of at least \$500,000 in the clearing member. The other may be independently assigned.

Approved clearing member firms of CME, CBOT and/or NYMEX which also maintain CME Group Inc. shares in accordance with Exchange Rule 106.J. Equity Member Firm requirements are entitled to receive equity member rates on their proprietary trading. CME and CBOT clearing members who do not maintain CME Group Inc. shares are entitled to Rule 106.H. Trading Member Firm rates and NYMEX clearing member firms who do not maintain CME Group Inc. shares are entitled to Non-Member rates on their proprietary trading activity. Approved COMEX clearing member receive equity member rates on their proprietary trading in accordance with Exchange Rule 106.J. Member Firms.

Guaranty Fund Requirements

All clearing members must deposit with the clearing house a guaranty fund deposit for their obligations to the Clearing House.

The minimum guarantee fund deposit for a clearing member which will clear:

- Exchange-traded futures and options is \$500,000 or its proportionate share of the Aggregate Guaranty Fund Deposit;
- Exchange-traded futures and options and OTC products (excluding IRS) and/or using ClearPort is \$2,500,000 or its proportionate share of the Aggregate Guaranty Fund Deposit; and
- IRS is the greater of \$15,000,000 or the clearing member's proportionate share of the two largest IRS Clearing Member's losses as outlined in CME Rule 8G07.

The guaranty fund requirements of the Clearing House are stated in Exchange Rule 816 (Guaranty Fund Deposit) for Exchange-traded futures and options and OTC derivatives



(excluding IRS) in CME Rule 8F07 (Guaranty Fund Deposit); and for IRS products in CME Rule 8G07 (IRS Financial Safeguards and Guaranty Fund Deposit).

Default management procedures for exchange-traded futures and options and OTC products, excluding IRS, may be found in Exchange Rule 802: Protection of Clearing House.

The Clearing House has established separate guaranty funds for IRS which is separate and distinct from the guaranty fund for each and all other products. The IRS default management procedures may be found in CME Rule 8G.802 (Protection of Clearing House) at <http://www.cmegroup.com/rulebook/CME/I/8G/8G.pdf>.

Guaranty fund minimums may be increased from time to time, depending on the mix of OTC asset classes for which the Clearing House provides clearing services.

The Clearing House Oversight Committee, the Clearing House Risk Committee, the IRS Risk Committee or the Clearing House may prescribe additional financial, including, but not limited to, increased guaranty fund and/or performance deposit, requirements or grant exemptions.

Capital Requirements

Capital requirements for clearing members which are not Banks are specific to its exchange membership privileges and, if applicable, any OTC products that it will clear. For non-Bank clearing members, capital is defined as Adjusted Net Capital as computed in accordance with CFTC Regulation 1.17. For Bank clearing members, capital is defined as Tier I Capital, as defined in accordance with regulations applicable to the bank clearing member. The following are the applicable capital requirements:

For a CME Clearing Member, the exchange capital requirement is the greater of the CFTC or SEC capital requirement or:

For a non-Bank clearing member:

- \$5,000,000 if it will clear only exchange-traded futures/options; or,
- \$50,000,000 if a clearing member will clear any OTC derivative product, including, but not limited to, FX OTC or IRS; or,
- 20% of aggregate performance bond requirement for all customer and house accounts containing CME-cleared IRS positions.

For a Bank clearing member:

- \$5,000,000,000 if it will clear exchange-traded futures/options; or,
- \$50,000,000 if it will clear only OTC derivative products, including, but not limited to, FX OTC or IRS; or
- 20% of aggregate performance bond requirement for all proprietary and affiliate accounts containing CME-cleared IRS positions.

For a CBOT Clearing Member, the exchange capital requirement is the greater of the CFTC or SEC capital requirement or:

For a non-Bank clearing member:

- \$5,000,000 if it will clear exchange-traded futures/options or agricultural OTC derivative products; or,



- \$50,000,000 if it will clear any OTC derivative products excluding agricultural OTC derivatives.

For a Bank clearing member:

- \$5,000,000,000 if it will clear exchange-traded futures/options; or,
- \$50,000,000 if it will clear only OTC derivative products, including, but not limited to, agricultural OTC derivative products.

For a NYMEX Clearing Member, the exchange capital requirement is the greater of the CFTC or SEC capital requirement or:

For a non-Bank clearing member:

- \$5,000,000 if it will clear only exchange-traded futures/options; or,
- \$50,000,000 if it will clear any OTC derivative products, including, but not limited to energy OTC derivative products.

For a Bank clearing member:

- \$5,000,000,000 if it will clear exchange-traded futures/options; or,
- \$50,000,000 if it will clear only OTC derivative products, including, but not limited to energy OTC derivative products.

For a COMEX Clearing Member, the exchange capital requirement is the greater of the CFTC or SEC capital requirement or:

For a non-Bank clearing member:

- \$5,000,000 if it will clear only exchange-traded futures/options; or,
- \$50,000,000 if it will clear any OTC derivative products, including, but not limited to metal OTC derivative products.

For a Bank clearing member:

- \$5,000,000,000 if it will clear exchange-traded futures/options; or
- \$50,000,000 if it will clear only OTC derivative products, including, but not limited to, metal OTC derivative products.

For additional information on capital requirements, refer to Rule 970 for Exchange-traded futures/options, CME Rule 8F04 for OTC derivatives and CME Rule 8G04 for IRS.

The Clearing House Oversight Committee, the Clearing House Risk Committee, the IRS Risk Committee or the Clearing House may prescribe additional capital requirements or grant exemptions.

Hedge Funds

Hedge funds approved for clearing membership are subject to various additional requirements which include, but are not limited to:

- If a hedge fund is the CME, CBOT, NYMEX or COMEX Clearing Member, the hedge fund is subject to additional requirements, including (i) maintaining separate clearing accounts for each fund whose activity it will clear, (ii) additional reporting of risk



exposures and liquidity resources from the funds, and (iii) maintaining assets under management of \$1 billion.

- If the investment manager of a hedge fund is the CME, CBOT, NYMEX or COMEX Clearing Member, its exchange minimum capital requirement for exchange-traded futures/options is \$50,000,000 (instead of \$5,000,000 per the above).

Settlement and Performance Bond Banks

All clearing members must maintain bank and securities safekeeping accounts at one or more Clearing House banks for purposes of posting cash and securities to meet mark-to-market variation, performance bond (i.e. margin) and guaranty fund requirements.

For a complete listing see:

<http://www.cmegroup.com/clearing/financial-and-collateral-management/settlement-banks.html>

Periodic Financial Reporting Requirements

FCM clearing members are subject to daily, bi-monthly, monthly and annual financial statement reporting requirements. Clearing members must submit to CME Group's Financial and Regulatory Surveillance ("FRS") Department monthly CFTC Form 1-FRs or SEC FOCUS reports (if a U.S. registered broker dealer) through the WinJammer™ system, a CME Group electronic financial statement filing system. Such monthly reporting includes the submission of an unaudited monthly report as of the clearing member's fiscal year-end.

In addition, clearing members must submit an annual certified financial statement to CME Group's FRS Department within 60 days of its fiscal year-end.

Clearing members which are not Banks must comply with the requirements set forth in CFTC Regulations 1.10, 1.12, 1.17 and 1.18 unless an exemption is granted by the Clearing House.

Clearing members which are Banks are required to file any and all financial reports which are filed with its primary banking regulator. However, such financial reports must be filed on, at least, a quarterly basis, including as of the bank clearing member's fiscal year-end if such reports are also required by its primary banking regulator, and are due five calendar days after such statements are filed with its primary banking regulator. These financial reports must demonstrate compliance with the Exchange minimum capital requirements.

In addition, clearing members which are Banks must submit an annual certified financial statement to CME Group's FRS Department. The annual certified financial statement is due five calendar days after such statements are filed with its primary banking regulator.

All clearing members, including clearing members which are not registered as an FCM, shall make available to the CFTC, upon the CFTC's request, copies of financial reports required to be submitted to the FRS Department. The financial reporting requirements of clearing members are stated in Exchange Rule 970.

Notification Requirements

A clearing member must provide written notice to the FRS Department whenever the clearing member:

- Fails to maintain minimum capital;
- Fails to maintain early warning capital;
- Fails to maintain current books and records;
- Determines the existence of a material inadequacy as specified in CFTC Regulations;
- Fails to comply with additional accounting, reporting, financial and/or operational requirements as prescribed by the Exchange or Clearing House;
- Changes its fiscal year; or
- Changes its public accountant.

In addition, Exchange Rule 972 requires a clearing member to provide written notice to the FRS Department of any substantial reduction in its capital as compared to the most recently filed financial report.

The above list is not all inclusive and is in addition to any notifications required by CFTC regulations.

Clearing members are also subject to additional notification requirements which include, but are not limited to:

1. Significant Business Transaction or Change in Operations. All clearing members are required to provide notice to the applicable Exchange prior to any significant business transaction. The purpose of such notification is to enable the Clearing House to better identify and monitor risks presented by significant business transactions. The notification requirements are contained in Exchange Rule 901.H (General Requirements and Obligations).

Corporate organization and structure changes may be subject to review and approval by the Clearing House Oversight Committee or Exchange staff.

2. Firm Contact Listings. 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 immediately notify the applicable Exchange of all changes to its key personnel and update its personnel contact information via the CME portal when changes occur. Further, on a semi-annual basis, firm personnel are required to review its personnel listing and signoff that all information is current and accurate. Refer to Rule 983.B.
3. Ownership Changes. All clearing members must submit and maintain with the FRS Department a current list of every person or entity that is directly or indirectly through intermediaries, the beneficial owner of 10% or more of any class of equity security of the clearing member.

Other Clearing Membership Requirements (General)

1. **Futures Commission Merchant Activity.** Clearing members that are registered as FCMs are required to maintain appropriate staff, systems, procedures and controls to meet the requirements and obligations of being a FCM. This includes, but is not limited to, staff with customer futures industry experience who are conversant with CFTC customer protection, capital adequacy and compliance rules; bookkeeping systems to account for customers futures activity and regulatory reporting requirements; performance bond, risk management and other compliance procedures and sufficient internal accounting controls over safeguarding customer and firm assets.
2. **Anti-Money Laundering and Economic Sanctions Compliance.** All clearing members are required to have a written compliance program approved by its senior management which is reasonably designed to achieve and monitor the clearing member's compliance with all applicable requirements of the Bank Secrecy Act, the International Emergency Economic Powers Act, the Trading with the Enemy Act, Executive Orders and the regulations issued by the U.S. Department of Treasury. Refer to Rule 981 (Anti-Money Laundering and Economic Sanctions Compliance).
3. **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.

A clearing member that will clear OTC products must have sufficient risk management and operational procedures in place for its OTC activity. These risk management and operational procedures include procedures for settlement and default management.

Refer to Rule 982 (Risk Management) and CME Rule 8F010 (Risk Management).

4. **Disaster Recovery and Business Continuity.** All clearing members must have written disaster recovery and business continuity policies and procedures in place to ensure they are able to perform certain basic operational functions in the event of a significant internal or external interruption to their operations. Refer to Exchange Rule 983 (Disaster Recovery and Business Continuity).
5. **Required Records and Reports.** The books and records of a clearing member shall be made promptly available for inspection upon request by the Exchange. Refer to Rule 980 (Required Records and Reports) and CME Rule 8F0004.9 (OTC Clearing Member Obligations and Qualifications).
6. **Cross Guarantee.** Unless an exemption is granted, all clearing members must submit to the Exchange a written cross guarantee, on a form provided by the Exchange, from each clearing member where the clearing member shares ownership of 10% or more with any other clearing member. By executing the cross guarantee, each clearing member guarantees the obligations of the other clearing member to the Clearing House. This rule is applicable if any CME, CBOT, NYMEX, COMEX or OTC Derivatives Clearing Member has common ownership of 10% or more. Refer to Rule 901.G (General Requirements and Obligations).

Note: If a cross guarantee affiliation exists, absent an exemption, only one entity may trade in a given OTC clearing class within the house origin (i.e., only one entity may clear IRS activity).

7. Examinations. Each clearing member will be subject to on-site examinations and on-going oversight by the Clearing House Risk Committee. Required documents must be submitted in a timely manner and in the requested format.

Other Clearing Membership Requirements

1. Customer Activity: If the clearing member will clear Exchange-traded futures/options, foreign futures/options for U.S. customers or OTC derivative products for customer accounts, it must be properly registered or authorized for such activity by its primary regulator and it must be registered as an FCM with the CFTC and NFA. FCMs are subject to CFTC rules and regulations including rules and regulations pertaining to regulatory capital, financial reporting and customer protection.

Exchange-traded futures/options for the account of a customer will be held in a Customer Segregated Account. Foreign futures and/or foreign options traded by U.S. customers must be held in a Customer Secured 30.7 Account. OTC derivatives submitted to clearing for the account of a customer will be assigned and held in a Customer Cleared Swap Account unless the CFTC has issued an order permitting particular OTC derivatives products to be included in customer segregated accounts. Refer to CME Rule 8F03 (Classification of Positions) and CME Rule 8H03 (Classification of Positions).

Clearing Members are required to:

- Maintain sufficient funds in segregated, secured and cleared swap accounts;
- Compute, record and report daily Segregation, Secured and Cleared Swap Amounts Statements;
- Compute, record and report semi-monthly, investments of segregated, secured 30.7 and cleared swap customer funds;
- Obtain satisfactory segregation, secured and cleared swap acknowledgement letters;
- Allow and provide for access to account information, in a form and manner prescribed by FRS Department, for each FCM clearing member's customer segregated, secured 30.7 and cleared swap customer account;
- Provide immediate written notice to CME Group's FRS Department of a failure to maintain sufficient funds in segregation, secured or cleared swap accounts;
- Provide notice of pre-approval by CEO, CFO or authorized representative of disbursement not made for the benefit of customers from segregated, secured 30.7 or cleared swap customer account which exceeds 25% of the previous day's excess funds in the respective origin.

Refer to CFTC Regulations 1.20 through 1.32 regarding customer segregated protection requirements, CFTC Regulation 30.1 through 30.12 regarding customer secured



protection requirements, CFTC Regulation Part 22 regarding cleared swap protection requirements and CME Rules 8F120 through 8F132 regarding cleared OTC derivatives customer protection requirements.

2. All clearing members must ensure that its customers meet any eligibility requirements established for trading certain OTC derivatives products.

All OTC derivative transactions must be identified with an account number which identifies the originator of the transaction and indicate whether the transaction was executed as a proprietary or customer transaction. In addition, a clearing member must register all "ultimate" or end customers. Refer to CME Rule 8F09. (Customer Registration)

Disclaimer

This summary is designed to provide a brief overview of the requirements for CME, CBOT, NYMEX and COMEX Clearing Membership and OTC Derivatives Clearing Membership. The information contained in this summary has been compiled by CME Group for general purposes only. All matters pertaining to rules and specifications herein are made subject to and are superseded by official Exchange rules. Current rules should always be consulted.