

## Chapter 8-G Interest Rate Derivative Clearing

### 8G01. SCOPE OF CHAPTER

This chapter sets forth the rules governing clearing and settlement of all IRS Products. In the event there is a conflict between a rule in this Chapter 8G and another rule in the Rulebooks, the Rule in this Chapter 8G shall supersede the conflicting rule with respect to IRS Contracts. Rulebook Chapter 8-F and Rules 802, 813, 816, 913, 930 and 975 shall not apply to IRS Contracts, except for Rule 818 which shall supersede the rules in this chapter 8G. Chapter 6 shall be modified for IRS Contracts as set forth below.

### 8G02. DEFINITIONS

#### AFFILIATE

With respect to an IRS Clearing Member, any person or entity is an Affiliate of such IRS Clearing Member if such person or entity directly or indirectly, through one or more intermediaries, controls, owns, is controlled by or is under common control with such IRS Clearing Member.

#### IRS ADVISORY COMMITTEE

The IRS Advisory Committee shall be a committee having the powers set forth in Rule 8G26.

#### IRS DEFAULT MANAGEMENT COMMITTEE

The Default Management Committee shall be a committee having the powers set forth in Rule 8G25.

#### IRS PRODUCT CATEGORY

Each category and sub-category of IRS as determined by the Clearing House for default management purposes.

#### IRS RISK COMMITTEE

The IRS Risk Committee shall be a committee having the powers set forth in Rule 8G27.

### 8G03. CLASSIFICATION OF POSITIONS

IRS Contracts submitted for clearing by an IRS Clearing Member for its proprietary account shall be assigned to and held in a proprietary account of such IRS Clearing Member. All collateral deposited as performance bond to support positions in the proprietary account of an IRS Clearing Member shall be deemed the property of the IRS Clearing Member and shall be subject to the Exchange's lien and security rights as described in Rule 8G08.

IRS Contracts submitted for clearing for the account of an IRS Clearing Member's Cleared Swaps Customers shall be assigned and held in a Cleared Swaps Customer Account of such IRS Clearing Member. All IRS Clearing Members must comply with the requirements set forth in CME Rule 971 for such Cleared Swaps Customer Accounts.

Notwithstanding the foregoing, if the CFTC issues an order permitting IRS Clearing Members to commingle customer funds used to margin particular IRS Contracts that are cleared by the Clearing House with other funds held in CEA Section 4d(a)(2) customer segregated accounts, such positions may be held in the customer segregated accounts of an IRS Clearing Member and, if so held, all collateral deposited as performance bond to support such positions and all settlement variation payments made to such accounts shall be commingled with similar property of regulated customers. All IRS Clearing Members must comply with the requirements set forth in CME Rule 971 for such customer segregated accounts.

### 8G04. IRS CLEARING MEMBER OBLIGATIONS AND QUALIFICATIONS

IRS Clearing Members shall be subject to the requirements for IRS Clearing Members set forth in Chapter 8G, all CME Rules applicable to IRS Products, and the Clearing House Manual of Operations unless an exemption has been granted by the Clearing House Risk Committee or the IRS Risk Committee, as applicable. In addition, IRS Clearing Members are subject to all CME, CBOT and NYMEX Rules, as applicable, when clearing products traded on, or subject to the rules of, CME, CBOT or NYMEX. IRS Clearing Members must execute all agreements and documents required by the Clearing House.

An IRS Clearing Member must satisfy the requirements set forth below:

1. An IRS Clearing Member must be in compliance with all applicable regulatory capital requirements and it must maintain minimum capital (as defined in CFTC Regulation 39.12(a) (2)) of \$50 million. For an IRS Clearing Member that is a bank, "capital" shall mean Tier 1 Capital (as defined in accordance with regulation applicable to the relevant bank and acceptable to the Clearing House or, in the absence of any such regulation, as defined by the Basel Committee on Banking Supervision of the Bank for International Settlements).
2. The capital requirement with respect to the participation of an IRS Clearing Member in the Clearing House shall be scalable to the risks posed by such IRS Clearing Member. Accordingly, an IRS Clearing Member must maintain capital (as defined in 8G04.1 above) at least equal to 20% of the aggregate performance bond requirement for its proprietary and customer IRS Contracts.
3. An IRS Clearing Member and any applicant for IRS clearing membership shall be engaged in or demonstrate immediate capacity to engage in the conduct of the business of a IRS Clearing Member and to perform all other obligations of a IRS Clearing Member as described or referenced in these Rules, including the ability to properly risk manage IRS Products, monitor IRS Product exposures and comply with default management obligations. In the event that a IRS Clearing Member does not have the capabilities to perform such responsibilities or obligations, such IRS Clearing Member may contract with a third party (including an Affiliate) to fulfill certain operational or risk requirements; provided that all agreements relating to such service shall be subject to the prior review and approval by the Clearing House staff and consultation with the IRS Risk Committee. The Clearing House may impose limitations on IRS Clearing Member utilization of service providers, including limitations on the number of IRS Clearing Members to which a service provider may provide services. Notwithstanding the above, each IRS Clearing Member remains liable to the Clearing House for failure to comply with the obligations of an IRS Clearing Member.
4. Upon Clearing House request, each IRS Clearing Member shall submit nominations for an Independent Member of the IRS Risk Committee.
5. When required by the rotation established by the Clearing House, each IRS Clearing Member shall make at least one trader per IRS Product Category available to the Clearing House to participate in the IRS Default Management Committee immediately upon notice from the Clearing House that it is convening the IRS Default Management Committee for (i) a potential or actual default of an IRS Clearing Member or (ii) for IRS default drill exercises.  
Upon acceptance as an IRS Clearing Member and upon any update request by the Clearing House, each IRS Clearing Member shall provide a list of traders (at least one primary and one backup per IRS Product Category) that the IRS Clearing Member nominates for the IRS Default Management Committee. Any such trader shall have a title at the level of Vice President (or equivalent title) or above and/or shall have the minimum level of experience the Clearing House deems necessary for the relevant IRS Product Category. IRS Clearing Members shall make traders available for each IRS Product Category as requested by the Clearing House until the later of (i) the end of the relevant default management process or drill or (ii) the end of such traders' rotation.
6. Each IRS Clearing Member shall bid in each hedging or liquidation auction conducted by the Clearing House for part or all of a defaulted IRS Clearing Member's IRS Contracts (each a "Default Management Auction"), as required by the Clearing House. Each IRS Clearing Member shall participate in IRS default drill exercises as prescribed by the Clearing House. Each IRS Clearing Member shall have the ability to provide quotations to CME for hedging transactions for the IRS portfolio of a defaulted IRS Clearing Member.
7. Each IRS Clearing Member shall participate in each IRS Liquidity Poll ("Poll") for each IRS Product currency in which the IRS Clearing Member has open interest, unless exempted by the Clearing House for that currency. A Clearing Member's failure to provide required Poll submissions by the deadline established by the Clearing House may result in the IRS Clearing Member being assessed a monetary penalty up to \$50,000 and/or referred to the IRS Risk Committee for disciplinary action, in accordance with established CME Clearing procedures. Assessed penalties shall be added to the CME IRS Contribution within the IRS Priority of Payments as outlined at CME Rule 8G802.B.
8. Each IRS Clearing Member shall use systems and appropriate procedures to track accurately, and to provide to the Clearing House accurately, the IRS positions and collateral of each of its cleared swaps customers.
9. An IRS Clearing Member must comply with the financial requirements set forth in CME Rule 970. However, if the IRS Clearing Member is regulated by another regulatory authority, then it shall submit to CME annual audited financial statements as well as all unaudited financial

statements provided to its primary regulator within five days after such statements are provided to its regulator. All financial statements shall be in the English language.

10. The books and records of an IRS Clearing Member regarding IRS Contracts cleared by the Clearing House shall be made promptly available for inspection upon request by CME and such books and records shall be subject to reasonable standards of confidentiality.

11. Each IRS Clearing Member that is a Futures Commission Merchant shall keep the types of information and records that are described in Section 4g of the Commodity Exchange Act and CFTC regulations thereunder including, but not limited to, Regulation 1.35, with respect to all IRS Contracts submitted for clearing.

#### **8G05. SUBSTITUTION AND TIMEFRAME OF ACCEPTANCE FOR CLEARING**

If an IRS Product or a portfolio of IRS Products (i) is submitted by IRS Clearing Members who are in good standing, (ii) was executed and submitted in accordance with the rules governing such IRS Product and (iii) does not exceed the credit limits established by the Clearing House for the IRS Clearing Member submitting such IRS Product or portfolio of IRS Products, then the Clearing House shall substitute itself as the counterparty to each party of each original transaction and there shall be two equal and offsetting contracts for each original transaction as follows: one between the original buyer and the Clearing House, as seller and one between the original seller and the Clearing House, as buyer.

An existing IRS Product or portfolio of IRS Products (i.e., a backloaded trade) submitted to the Clearing House for clearing, shall be guaranteed by the Clearing House at the time payment of initial settlement of mark to market, performance bond and any other applicable initial OTC cash flows for such IRS Product or portfolio of IRS Products, in accordance with the procedures set forth in Rule 814, is confirmed by the appropriate settlement bank for both IRS Clearing Members. The Clearing House shall substitute itself as the counterparty to each party to the original transaction at the time of guarantee.

With regard to an IRS Product submitted for clearing that is executed on or subject to the rules of a Designated Contract Market or a Swap Execution Facility, the Clearing House shall accept or reject such OTC Derivative for clearing in accordance with the time frames required under CFTC Regulation 39.12(b)(7)(B)(ii). Except with respect to a backloaded trade, an IRS Product submitted for clearing that is not executed on or subject to the rules of a Designated Contract Market or a Swap Execution Facility, or that is executed noncompetitively on or subject to the rules of a Designated Contract Market or a Swap Execution Facility, shall be accepted or rejected for clearing in accordance with the time frames required under CFTC Regulation 39.12(b)(7)(B)(iii). The IRS Clearing Member shall be deemed the principal to the IRS Contract when cleared by such IRS Clearing Member for its own proprietary account and shall be deemed a guarantor and agent of the IRS Contract when cleared by such IRS Clearing Member for the account of an affiliate or customer of such IRS Clearing Member.

#### **8G06. [RESERVED]**

#### **8G07. IRS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT**

1. (i) The Clearing House shall establish a financial safeguards package to support IRS clearing, and each IRS Clearing Member shall make an IRS Guaranty Fund deposit with the Clearing House. An IRS Clearing Member's deposit to the IRS Guaranty Fund and assessments against it pursuant to these Rules may be used to cover losses incurred by the Clearing House if a defaulted IRS Clearing Member's assets, including amounts available pursuant to any guarantee from an Affiliate of an IRS Clearing Member, available to the Clearing House are insufficient to cover such loss, regardless of the cause of default. The Clearing House shall calculate the requirements for the IRS financial safeguards package, which shall be composed of:

- (a) a funded portion, determined by the Clearing House using stress test methodology equal to the theoretical two largest IRS Clearing Member losses produced by such stress test or such other methodology determined by the IRS Risk Committee (such amount, the "IRS Guaranty Fund"), where the risk of each IRS Clearing Member and its Affiliate(s) are taken into account in calculations sizing the IRS Guaranty Fund; and
- (b) an unfunded portion, determined by the Clearing House using stress test

methodology equal to the theoretical third and fourth largest IRS Clearing Member losses produced by such stress test (and assuming for purposes of the model that already-defaulted IRS Clearing Members will fail to contribute) or such other methodology determined by the IRS Risk Committee. Upon a default, after application of the IRS Guaranty Fund, each IRS Clearing Member (excluding any insolvent or defaulted IRS Clearing Member) shall be subject to assessment of its previously-assigned proportionate share of such amount (collectively the "IRS Assessments").

- (ii) Each IRS Clearing Member's minimum contribution to the IRS Guaranty Fund shall be the greater of:
  - (a) such IRS Clearing Member's proportionate share of the IRS Guaranty Fund based on the 30-day trailing average of its potential residual loss ("PRL") and the 30-day trailing average gross notional open interest outstanding at the Clearing House (or in either case, such other shorter time interval determined by the IRS Risk Committee); or
  - (b) \$15,000,000.

- (iii) Notwithstanding CME Rule 8G802.H, any IRS Clearing Member whose trader fails to attend during an Active IRS Default Management Committee related to a potential or actual default will have its IRS Guaranty Fund contribution requirement increased by the Specified Attendance Failure Amount for the 12-month period commencing the date upon which the trader was originally expected to attend the Active IRS Default Management Committee. Such increased amount will be available to be used pursuant to CME Rule 8G802 for any IRS Losses occurring during such 12-month period (including any IRS Losses related to the default for which the relevant Active IRS Default Management Committee was convened). In addition, the IRS Clearing Member may be referred to the IRS Risk Committee for further discipline. Clearing House staff may grant an exception to the increase of an IRS Clearing Member's IRS Guaranty Fund contribution provided by this Rule 8G07.1(iii) for good cause shown by the affected IRS Clearing Member.

"Specified Attendance Failure Amount" means, for an IRS Clearing Member whose trader fails to attend an Active IRS Default Management Committee, an amount equal to the product of (i) the aggregate Specified Attendance Failure Percentages for such IRS Clearing Member and (ii) such IRS Clearing Member's contribution to the IRS Guaranty Fund at the beginning of the IRS Cooling-off Period during which the relevant Active IRS Default Management Committee was convened, subject to:

- (x) a minimum amount equal to 50% of the amount specified in Rule 8G07.1(ii)(b); and
- (y) a maximum amount equal to the lesser of (i) 10% of the IRS Guaranty Fund at the beginning of the IRS Cooling-off Period during which the relevant Active IRS Default Management Committee was convened and (ii) such IRS Clearing Member's contribution to the IRS Guaranty Fund at the beginning of the IRS Cooling-off Period during which the relevant Active IRS Default Management Committee was convened.

For the avoidance of doubt, in the event the minimum amount calculated under (x) exceeds the maximum amount calculated under (y), the maximum amount as calculated under (y) shall be applied.

"Specified Attendance Failure Percentage" means:

- (x) 50%, for each failure of a swaptions trader required to attend or for each failure of a trader for interest rate swaps denominated in USD, EUR or GBP required to attend, or
- (y) 25%, for each failure of any non-swaptions trader for interest rate swaps denominated in a currency other than USD, EUR or GBP required to attend.

2. The Clearing House shall calculate the aggregate required IRS Guaranty Fund and IRS Assessments on at least a monthly basis, as well as each IRS Clearing Member's required contribution to the Guaranty Fund and its maximum IRS Assessment.

Following any recalculation the Clearing House shall provide a report to each IRS Clearing Member showing the detail of its required deposit to the IRS Guaranty Fund and its maximum IRS Assessment. The notice shall specify the amount of any required additional deposit or any excess

in the then-existing deposit amount. In the event that an interim report is issued within five business days prior to the regularly scheduled monthly report, the Clearing House may opt to forego the issuance of an additional month-end report, provided that the amount of resources required has not changed substantially during this period. An IRS Clearing Member shall make any required additional deposit within two business days after delivery of such report and any reported excess may be withdrawn.

3. If the Clearing House determines that an additional deposit to the IRS Guaranty Fund is required from an IRS Clearing Member due to a material change in the business of such IRS Clearing Member (for example, but without limitation, changes pursuant to a merger or a bulk transfer of customer positions), where such change produces an increase in such IRS Clearing Member's aggregate performance bond requirements of 10% or greater, the Clearing House shall notify such IRS Clearing Member of the additional requirement and the IRS Clearing Member shall make any required deposit no later than the second business day following delivery of such notice.

4. Any changes to the methodology for calculating the IRS Guaranty Fund and IRS Assessments as described in this Rule 8G07.1 or 8G07.2 that results in a 15% increase to the IRS Guaranty Fund and IRS Assessments over a 30 day period shall be effective on the earlier to occur of (i) the 20th Business Day following the date the Clearing House provides notice to IRS Clearing Members of such change and (ii) the date reasonably determined by the IRS Risk Committee (which shall be no less than two Business Days following notice of such change to the IRS Clearing Members) if such increase is due to applicable law, regulation or regulatory request. IRS Clearing Members shall make any required additional deposit on or prior to the date such change is effective.

Upon receipt of notice of a 15% increase to the IRS Guaranty Fund and IRS Assessments pursuant to the preceding paragraph, an IRS Clearing Member may immediately notify the Clearing House and such IRS Clearing Member's customers of its intent to withdraw from status as an IRS Clearing Member. The notice shall specify that customers must close out or transfer to another IRS Clearing Member their affected open positions, and that the withdrawing IRS Clearing Member shall have the right to liquidate any customer positions that remain open on its books after 10 business days have passed from the customers' receipt of such notice. If any customer fails to close out or transfer to another IRS Clearing Member during such 10 business day period, the IRS Clearing Member shall have the right to liquidate any such customer position that remains open on its books.

For the avoidance of doubt, nothing in this Rule 8G07.4 shall apply to any increase to the IRS Guaranty Fund and IRS Assessments resulting from periodic calculations of the IRS Guaranty Fund and IRS Assessments pursuant to Rule 8G07.2 or any additional deposit to the IRS Guaranty Fund required by an individual IRS Clearing Members pursuant to Rule 8G07.3.

#### **8G08. LIEN ON COLLATERAL**

Each IRS Clearing Member hereby grants to the Clearing House to secure obligations of such IRS Clearing Member to the Clearing House a first priority and unencumbered security interest and lien against any property, cash, securities or collateral deposited with, transferred or pledged to, or otherwise where control is given to the Clearing House by the IRS Clearing Member. IRS Clearing Members shall take any action that may be required by the Clearing House to create, preserve, perfect, validate or enforce any such security interest.

#### **8G09. CUSTOMER REGISTRATION**

All IRS Contracts including, but not limited to, give-ups or transfers that are cleared at CME shall be identified with an account number which identifies the originator of that transaction, specifying whether the transaction was executed as a proprietary transaction of the IRS Clearing Member or arises from a transaction by a customer. IRS Clearing Members shall register, on CME-approved forms, all of the "ultimate" (or end) customer.

#### **8G10 RISK MANAGEMENT**

IRS Clearing Members will be subject to risk management and monitoring practices by CME relating to transactions submitted to the Clearing House. IRS Clearing Members shall promptly provide all information requested by Clearing House staff, including, without limitation, information respecting risk, settlement, liquidity, and operational issues. IRS Clearing Members shall make information and

documents regarding their risk management policies, procedures and practices available to the CFTC upon the CFTC's request.

In limited circumstances, the Clearing House may decline to accept certain IRS Product trades or migration positions if the Clearing House determines in good faith that, based on the exercise of prudent risk management standards, the Clearing House should not accept the IRS Product trades or migration positions. In the event that the Clearing House declines to accept certain IRS Product trades or migration positions, it shall incur no liability with respect to the trades and positions that are not accepted. It shall be the sole responsibility of the IRS Clearing Members who are parties to such trades or positions to take action as they deem necessary or proper for their own protection.

In addition, if the Clearing House determines in good faith that, based on the exercise of prudent risk management standards, that an IRS Clearing Member poses undue risk to the Clearing House based on its IRS Product portfolio, the Clearing House may take any or all of the following actions with respect to such IRS Clearing Member: 1) impose an additional performance bond requirement; 2) prohibit the addition of any new IRS Contract positions, or 3) require the reduction or unwinding of IRS Contract positions.

IRS Clearing Members shall permit on-site risk reviews in accordance with CME Rules and subject to reasonable standards of confidentiality. IRS Clearing Members will also be subject to on-going oversight by the IRS Risk Committee regarding their IRS activities related to the CME Clearing House. All such inquiries shall be conducted in a manner consistent with oversight of IRS Clearing Members and in accordance with reasonable standards of confidentiality.

**8G11-13. [RESERVED]**

**8G14. MITIGATION OF IRS LOSS**

In the event of a default by an IRS Clearing Member, all IRS Clearing Members shall work cooperatively with their customers, other IRS Clearing Members and the Clearing House to administer the mitigation of any losses that may occur as a result of such default and shall ensure that resources required to be provided by IRS Clearing Members to the IRS Default Management Committee are promptly made available.

IRS Clearing Members shall work cooperatively with the Clearing House, the IRS Risk Committee and the IRS Default Management Committee to (i) mitigate any losses that may occur as a result of a default, (ii) liquidate the defaulted IRS Clearing Member's IRS Contracts, (iii) bid in each Default Management Auction as required by the Clearing House and (iv) take any other action reasonably requested by the IRS Risk Committee.

**8G15. [RESERVED]**

**8G16. FINANCIAL CALCULATIONS**

Financial calculations required for IRS Contracts will be performed by CME Clearing on the date such IRS Contracts are cleared in the Clearing House in accordance with CME Clearing's procedures. Financial calculations for IRS Contracts that are received and processed after the daily clearing cycle will be performed on the next Business Day.

**8G17. IRS CLEARING SERVICE ACCESS**

CME shall provide open access to its IRS Contract clearing services for any execution venue or trade processing or confirmation service that desires to facilitate the submission of IRS Product transactions to the Clearing House for clearing, subject to the Clearing House's normal operational requirements applied to all such third-party services, including the requirement, in this instance, that an IRS Clearing Member guaranty all transactions in IRS Products that are submitted to the Clearing House for clearing.

**8G18. IRS SWAPTIONS MEMBERSHIP**

**8G18.A. IRS Swaptions Eligibility**

1. An IRS Clearing Member interested in clearing IRS Swaptions must demonstrate to CME Clearing it has the ability, commitment and expertise to risk manage IRS Swaptions and has the operational capability to clear IRS Swaptions.

2. IRS Clearing Members interested in clearing IRS Swaptions are required to respond to a questionnaire and are subject to CME Clearing diligence for assessment that such IRS Clearing

Member has sufficient internal market risk, credit risk and operational risk processes and management frameworks to clear IRS Swaptions, including the ability to properly measure, monitor and limit risks associated with clearing IRS Swaptions.

3. Each IRS Swaptions Clearing Member shall submit to ongoing diligence reviews by CME Clearing.

4. Each IRS Swaptions Clearing Member shall nominate IRS Swaptions trader(s) to the IRS Default Management Committee.

5. "IRS Swaptions Clearing Member" means an IRS Clearing Member that has been approved by the Clearing House as eligible to clear IRS Swaptions.

#### **8G18.B. IRS Swaptions Information Submissions**

1. Each IRS Swaptions Clearing Member shall submit the IRS Swaptions Information Submission File on each Business Day at the time specified by the Clearing House for each IRS Swaptions currency it is eligible to clear. The information submitted by an IRS Swaptions Clearing Member in the IRS Swaptions Information Submission File shall be consistent with the information used by the IRS Swaptions Clearing Member for its internal valuation of IRS Swaptions.

"IRS Swaptions Information Submission File" means the file containing the requested market data, internal price levels and such other information as specified by the Clearing House for each moneyness/expiry/tenor combination.

2. "Failed IRS Swaptions Submission" means a failure to submit (i) all or a portion of an IRS Swaptions Information Submission File at or prior to the time designated by the Clearing House or (ii) the IRS Swaptions Information Submission File in the proper format.

3. During a calendar month that is not during an IRS Cooling Off Period, an IRS Swaptions Clearing Member will be assessed a penalty per Failed IRS Swaptions Submission based on the following table:

# of Failed IRS Swaptions Submissions for that month	Penalty per Failed IRS Swaptions Submission
1	0
2	\$10,000
3	\$50,000
4+	\$100,000

During an IRS Cooling Off Period, an IRS Swaptions Clearing Member will be assessed a penalty per Failed IRS Swaptions Submission based on the following table:

# of Failed IRS Swaptions Submissions for that month	Penalty per Failed IRS Swaptions Submission
1	0
2	\$30,000
3	\$150,000
4+	\$300,000

Penalties shall be assessed monthly and payable with the IRS Guaranty Fund payment cycle. In addition, the IRS Swaptions Clearing Member may be referred to the IRS Risk Committee for further discipline. Penalties from Failed IRS Swaptions Submissions shall become part of the IRS Priority of Payments as additional CME IRS Contribution to the IRS Priority of Payments pursuant to CME Rule 8G802 and shall be applied to IRS Losses on a pro rata basis with other CME IRS Contribution.

#### **8G18.C. Withdrawal from IRS Swaptions Clearing Membership**

An IRS Swaptions Clearing Member that intends to no longer be eligible to clear IRS Swaptions shall provide written notice of such intent to the Clearing House. The IRS Swaptions Clearing

Member's withdrawal shall be effective on the earlier of (i) the date Clearing House Staff approves such withdrawal and (ii) the 10th Business Day following the date of the clearing cycle in which the withdrawing IRS Swaptions Clearing Member liquidates or transfers to an appropriate IRS Swaptions Clearing Member all of its open customer and house positions in IRS Swaptions (such earlier date, the "IRS Swaptions Withdrawal Date"). Promptly following the IRS Swaptions Withdrawal Date, the Clearing House shall post a notice of the IRS Swaptions Clearing Member's withdrawal from its eligibility to clear IRS Swaptions.

An IRS Swaptions Clearing Member withdrawing with an IRS Swaptions Withdrawal Date that is not during an IRS Cooling Off Period will not be responsible for the requirements of an IRS Swaptions Clearing Member following the IRS Swaptions Withdrawal Date. An IRS Swaptions Clearing Member withdrawing with an IRS Swaptions Withdrawal Date during an IRS Cooling Off Period shall remain liable for all requirements of IRS Swaptions Clearing Members until the end of the IRS Cooling Off Period in which it withdraws from eligibility to clear IRS Swaptions.

An IRS Swaptions Clearing Member may withdraw from eligibility to clear IRS Swaptions without withdrawing as an IRS Clearing Member.

**8G19-24. [RESERVED]**

**8G25. IRS DEFAULT MANAGEMENT COMMITTEE**

In the event of a potential or actual default with respect to IRS Contracts, an IRS Default Management Committee shall be convened which shall be comprised of traders nominated by IRS Clearing Members and approved by the Clearing House. The purpose of this committee shall be to advise the Clearing House with respect to issues arising from the potential or actual default of an IRS Clearing Member and to manage the process of the liquidation and/or transfer of such IRS Clearing Member's portfolio of IRS Contracts. Such advice may include advice on hedging the risk associated with a defaulted IRS Clearing Member's portfolio, structuring the defaulted IRS Clearing Member's portfolio for liquidation or transfer, and administration of the Default Management Auction process.

**8G26. [RESERVED]**

**8G27. IRS RISK COMMITTEE**

There shall be an IRS Risk Committee which shall serve to provide guidance to the Clearing House on general matters relating to IRS Products including risk management policies and practices. In addition to the responsibilities set forth in these Rules, the IRS Risk Committee shall have the composition, responsibilities and other characteristics as set forth in its Charter.

The IRS Risk Committee may conduct investigations, issue charges and consider offers of settlement with respect to violations of these Rules as relate to IRS Clearing on its own initiative or by referral from Clearing House staff.

If the IRS Risk Committee determines that a IRS Clearing Member fails to meet the requirements for being a IRS Clearing Member or is in a financial or operational condition which jeopardizes or may jeopardize the integrity of the Clearing House, the IRS Risk Committee may, by majority vote:

1. Order the IRS Clearing Member or its customers to deposit such additional performance bond with the Clearing House as deemed appropriate to protect the integrity of open contracts;
2. Prescribe such additional capital or other financial requirements as it deems appropriate;
3. Impose position limits on IRS Clearing Members based on their regulatory capital and such other criteria as it deems appropriate;
4. Suspend a IRS Clearing Member, subject to approval of any two of the following individuals: the Chief Executive Officer, Global Head of Clearing & Post-Trade Services, Chairman of the Board, Chairman of the IRS Risk Committee or Chairman of the Clearing House Oversight Committee;
5. Order the IRS Clearing Member to cease and desist from the conduct found to be contrary to the best interests of the Clearing House; and/or
6. Order the liquidation or transfer of all or a portion of the open positions of the IRS Clearing Member; provided that all costs associated with any such liquidation and/or transfer shall solely be obligations of the IRS Clearing Member.

No person shall serve on the IRS Risk Committee unless he has agreed in writing that he will not publish, divulge, or make known in any manner, any facts or information regarding the business of



any person or entity or any other information which may come to his attention in his official capacity as a member of the IRS Risk Committee, except when reporting to the Board or to a committee concerned with such information or to the Legal Department, Financial & Regulatory Surveillance Department or Market Regulation Department, when requested by the CFTC or other governmental agency or self regulatory organization or when compelled in any judicial or administrative proceeding.

All information and documents provided to the IRS Risk Committee and all deliberations and documents related thereto shall be treated as non-public and confidential and, subject to the provisions in the previous paragraph, shall not be disclosed, except as necessary to further a Clearing House investigation or as required by law.

The IRS Risk Committee shall have jurisdiction to enforce Rules pertaining to the following:

1. Financial integrity of IRS Clearing Members; and
2. Business conduct of and compliance with Rules by IRS Clearing Members.

## **8G28. WIND UP OF IRS CLEARING OPERATIONS**

Without prejudice to any other provision within this chapter 8G, the Exchange may wind-up clearing operations for IRS Products in the following situations:

- (a) As a result of a default in which the IRS financial safeguards package is exceeded, producing an IRS Termination Event, as defined in Rule 8G802.B.5. In such case, the Clearing House shall close out all open IRS Contracts in accordance with the provisions of Rule 8G802.B.6.
- (b) Following a default, during an IRS Cooling Off Period, as defined in Rule 8G802.H. In such case, the Clearing House shall provide such advance notice of termination as it determines to be reasonable and may establish other risk-reducing requirements, in both cases in consultation with the IRS Risk Committee. In such case, the Clearing House shall work with the IRS Risk Committee and IRS Clearing Members to provide for bulk porting of IRS Contracts and collateral to another clearing house that is willing to receive such positions, liquidation and/or termination of IRS Contracts, to the extent practicable under the circumstances. The final close-out of any open IRS Contracts on the termination date shall be conducted as set forth below.
- (c) Upon the determination of the Exchange to cease providing clearing services for IRS Products for any reason. Without prejudice to (b) above, in such case, the Clearing House shall provide not less than 90 days written notice to IRS Clearing Members and market participants of the final date of termination. The Clearing House shall work with the IRS Risk Committee and IRS Clearing Members to ensure an orderly termination process, including providing for bulk porting of IRS Contracts and collateral to another clearing house that is willing to receive such positions, and liquidation and/or termination of IRS Contracts. The final close-out of any open IRS Contracts on the termination date shall be conducted as set forth below.

If clearing services for IRS Products are terminated pursuant to paragraph (b) or (c) above, on the effective date of termination specified in the notice, the Clearing House shall fix a U.S. dollar amount (the "Close-out Value") to be paid to or received from the Clearing House in respect of all IRS Contracts to be terminated, by conducting a special settlement cycle to determine a final settlement price for all open IRS Contracts. Using such Close-out Value, the Clearing House shall determine for each IRS Clearing Member its total net pay obligation to, or net collect expectation from, the Clearing House in respect of its terminated proprietary and customer positions in IRS Contracts, if any. The Clearing House shall make payment to each IRS Clearing Member with a net collect, and each IRS Clearing Member with a net pay shall pay such amount to the Clearing House. The Clearing House may require pays from IRS Clearing Members to be funded immediately prior to making payment on collects. If any IRS Clearing Member fails to make a final payment to the Clearing House pursuant to this Rule 8G28, it shall be declared in default and the Clearing House shall process the default in accordance with Rule 8G802 as part of the final termination process. Promptly following the termination of all open IRS Contracts pursuant to this Rule 8G28 the Clearing House shall release to IRS Clearing Members their remaining contributions to the IRS Guaranty Fund.

## **8G29-599. [RESERVED]**

## **8G600. DISPUTES RELATING TO IRS PRODUCTS**

Neither the Clearing House nor any committee of the Exchange shall address disputes among IRS

Clearing Members and/or IRS Participants relating to any matter regarding the execution of any IRS Contract or any IRS Product. A sub-committee of the IRS Advisory Committee shall be responsible for the arbitration of disputes and claims among IRS Clearing Members, clients and/or CME relating to the submission of IRS Products for clearing at the Clearing House and other matters related to clearing at the Clearing House. The Chairman of the IRS Advisory Committee shall have the discretion to determine whether the dispute is or is not arbitrable under these Rules.

## **8G601-801. [RESERVED]**

## **8G802. PROTECTION OF CLEARING HOUSE**

### **8G802.A. Default by IRS Clearing Member**

The Clearing House shall establish a separate guaranty fund for IRS Contracts (the "IRS Guaranty Fund"). Each IRS Clearing Member shall contribute to the IRS Guaranty Fund in accordance with the requirements of Rule 8G07. A non-defaulted IRS Clearing Member's deposit to the IRS Guaranty Fund may be applied by the Clearing House in accordance with this Rule 8G802 to mitigate any loss to the Clearing House attributable to IRS Contracts and will not be applied to losses in any other product classes.

#### **1. *Default by IRS Clearing Member***

- (i) If an IRS Clearing Member (i) fails to promptly discharge any obligation to the Clearing House or (ii) becomes subject to any bankruptcy, reorganization, arrangement, insolvency, moratorium, or liquidation proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law, the Clearing House may declare such IRS Clearing Member to be in default. If an Affiliate of an IRS Clearing Member fails to discharge any obligation to the Clearing House and the Clearing House determines that the default by such Affiliate is likely to cause a default of the IRS Clearing Member, the Clearing House may declare such IRS Clearing Member to be in default.

Upon a default, the Clearing House shall act promptly to mitigate any loss caused by such default. The Clearing House may engage in any commercially reasonable transaction to eliminate or reduce the risk created by the default, including but not limited to, entering into hedges, liquidating positions in the market, auctioning or selling a portion or all of the portfolio of the defaulting firm and, if applicable, its customers. The Clearing House shall maintain procedures for managing the default of an IRS Clearing Member (such procedures, the "IRS Default Management Guidelines"). All information received by a Clearing Member, its affiliate or customer in connection with the Clearing House's liquidation and default management processes shall be treated as confidential.

All obligations, costs and expenses incurred thereby shall be an obligation of the defaulted IRS Clearing Member to the Clearing House.

- (ii) Defaults by different IRS Clearing Members will each be considered a separate default event. After an IRS Clearing Member has been declared in default, subsequent failures by such defaulted IRS Clearing Member to discharge any obligation shall be considered part of the same original default and shall not be considered separate default events, unless and until the original default has been fully resolved and such IRS Clearing Member has been restored to good standing or is no longer an IRS Clearing Member.
- (iii) The defaulted IRS Clearing Member shall not take any action that would interfere with the ability of the Clearing House to mitigate the loss or to apply the assets of the defaulted IRS Clearing Member to offset any loss. The defaulted IRS Clearing Member shall not file any action in any court seeking to stay the actions of the Clearing House with respect to the default.
- (iv) A defaulted IRS Clearing Member shall immediately make up any deficiencies in its IRS Guaranty Fund deposit resulting from such default and in any event no later than the close of business on the banking day following demand by the Clearing House.

#### **2. *Application of Defaulted IRS Clearing Member's Collateral; Rights and Obligations of Clearing House***

Upon the default of an IRS Clearing Member IRS Collateral shall be applied by the Clearing House to discharge any loss to the Clearing House associated with such default (an "IRS Loss") in accordance with and subject to this Rule 8G802. An IRS Loss shall include, but shall not be limited to, costs associated with the liquidation, transfer and managing of IRS Contracts of the defaulted

IRS Clearing Member, hedging costs and other costs incurred by the Clearing House related to managing the risk surrounding the default of the IRS Clearing Member.

An IRS Loss arising in the defaulted IRS Clearing Member's proprietary account class shall be satisfied from the IRS Collateral. An IRS Loss resulting from any cleared swaps customer of a defaulted IRS Clearing Member shall be satisfied by application of performance bond, excess performance bond, other collateral and settlement variation gains ("IRS Customer Collateral") held for the respective cleared swaps customer consistent with Part 22 of the CFTC's regulations. After finalizing the IRS Loss of the defaulted IRS Clearing Member's proprietary account, the Clearing House shall reserve any excess IRS Collateral that remains first, to satisfy any IRS Loss arising in the defaulted IRS Clearing Member's customer account class for IRS Contracts, and second, to satisfy any losses to the Clearing House arising in other product classes, including, but not limited to, pursuant to Rule 818; provided however that such excess IRS Collateral shall not be applied to an IRS Loss arising from the IRS Contracts of a defaulted cleared swaps customer until after any permitted application of IRS Customer Collateral held in such customer account class.

Any remaining IRS Customer Collateral of a customer of an IRS Clearing Member following final resolution of any IRS Loss attributed to such customer shall remain in such customer account class, where it may be used to satisfy losses of such customer to the Clearing House arising in such account class with respect to other product classes. Any customer assets used by the Clearing House to cure an IRS Loss associated with a customer account shall not be added to the defaulted IRS Clearing Member's collateral generally. The Clearing House shall not use IRS Customer Collateral to satisfy a payment obligation, realized loss or expense to the Clearing House in respect of the defaulted IRS Clearing Member's proprietary account.

Should an IRS Loss continue to exist after application of the amounts above, any remaining deficiency shall be satisfied pursuant to the procedures in Rule 8G802.B, in accordance with Part 22 of the CFTC's regulations as applicable. Any such amount shall continue to be a liability of the defaulted IRS Clearing Member to the Clearing House, which the Clearing House may collect from any other assets of such clearing member or by process of law.

#### **8G802.B. Satisfaction of Clearing House Obligations**

##### *1. Application of Clearing House and non-defaulting IRS Clearing Member contributions*

If the IRS Collateral and the IRS Customer Collateral, as described in Rule 8G802.A, is insufficient to cover the IRS Loss produced by the default, the Clearing House shall cover, or reduce the size of, such IRS Loss by applying the following funds to such losses in the order of priority as follows (the "IRS Priority of Payments"):

- (i) First, the corporate contribution of CME for IRS Products (the "CME IRS Contribution"), which shall equal \$150,000,000;
- (ii) Second, the IRS Guaranty Fund (excluding the contribution of the defaulted IRS Clearing Member), which shall be applied in the following manner:
  - (a) the IRS Guaranty Fund contribution of Subordinated Bidders equal to the relevant Aggregate Subordinated Amounts of such Subordinated Bidders applied on a *pro rata* basis until the entire IRS Loss is allocated; then, to the extent not all IRS Losses have been applied after application pursuant to this sub-section (a);
  - (b) the (remaining) IRS Guaranty Fund of all IRS Clearing Members (excluding an amount of the IRS Guaranty Fund of each Winning Bidder equal to the Final Aggregate Seniorized Amounts for such Winning Bidders) will be applied *pro rata* until the entire IRS Loss is allocated; then, to the extent not all IRS Losses have been applied after application pursuant to this sub-section (b); and
  - (c) the (remaining) IRS Guaranty Fund of all Winning Bidders will be applied *pro rata*;
- (iii) Third, IRS Assessments against all IRS Clearing Members (excluding any defaulted IRS Clearing Members), which shall be assessed against each non-defaulted IRS Clearing Member *pro rata* in proportion to their required contributions to the IRS Guaranty Fund in accordance with Rule 8G07. Assessments against non-defaulted IRS Clearing Members shall be subject to a maximum of the maximum IRS Assessment assigned to such IRS Clearing Member pursuant to Rule 8G07 at the

time of the default, and also subject to the limits set forth in Rule 8G802.H in the case of multiple successive defaults.

Non-defaulted IRS Clearing Members and their customers shall not take any action that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 8G802.B, including, but not limited to, attempting to obtain a court order. Determinations under this Rule 8G802.B that are based upon an IRS Clearing Member's IRS Guaranty Fund deposit and/or IRS Assessment requirement shall be based upon the requirement in effect at the time of the default.

As used herein:

"Aggregate Subordinated Amount" means the sum of all subordinated amounts as determined by the Clearing House in accordance with the IRS Default Management Guidelines.

"Final Aggregate Seniorized Amount" means the sum of all seniorized amounts as determined by the Clearing House in accordance with the IRS Default Management Guidelines.

"Subordinated Bidder" means in respect of each Default Management Auction, the IRS Clearing Member(s) whose IRS Guaranty Fund contribution is subject to subordination as determined by the Clearing House in accordance with the IRS Default Management Guidelines.

"IRS Default Management Guidelines" means the IRS Default Management Guidelines of the Clearing House.

"Winning Bidder" means, in respect of each Default Management Auction, the IRS Clearing Member(s) designated as such by the Clearing House with respect to such Default Management Auction.

## 2. *Modification of Clearing House's Obligations for IRS Contracts*

(a) If at any time following a default of an IRS Clearing Member, the assets available to cover the default under the preceding sections of Rule 8G802 are insufficient to satisfy the IRS Loss and obligations of the Clearing House to IRS Clearing Members as a result of such default, then absent an IRS Termination Event, the Clearing House shall, in a manner that is consistent with the requirements of the Commodity Exchange Act and the regulations adopted thereunder, conduct its next settlement cycle as described in Rule [8G802.B.2(b)].

(b) If the circumstances described in Rule [8G802.B.2(a)] occur, the Clearing House shall issue a Clearing Advisory Notice to inform IRS Clearing Members and their customers of such circumstances and conduct a settlement cycle to determine settlement prices for all IRS Contracts and the net portfolio gain or loss for each IRS Clearing Member and its customers, in accordance with the following:

(i) The net portfolio gain of an IRS Clearing Member (a "collect"), or the net portfolio loss of an IRS Clearing Member (a "pay"), shall be determined separately for:

(A) the IRS Clearing Member's proprietary positions in IRS Contracts (the net portfolio gain or net portfolio loss for such positions, a "Proprietary IRS Collect" or a "Proprietary IRS Pay"), and

(B) the positions in IRS Contracts of each customer of the IRS Clearing Member held in an account consistent with Part 22 of the CFTC's regulations (each customer's net portfolio gain or net portfolio loss for such positions, an "Individual Customer IRS Collect" or an "Individual Customer IRS Pay").

(ii) The Clearing House Oversight Committee (after considering any recommendation of the IRS Emergency Financial Committee) may determine a maximum amount of position liquidation payments that may be included in the Aggregate IRS Collects, based upon then existing facts and circumstances, that it deems appropriate to mitigate further disruptions to the markets.

(iii) The Clearing House shall notify each IRS Clearing Member of the amount of its remaining IRS Assessments, Proprietary IRS Pays and Individual Customer IRS Pays and each IRS Clearing Member shall pay all such amounts no later than the time required for the relevant settlement cycle. If an IRS Clearing Member does not pay all such amounts to the Clearing House, the Clearing House shall determine such IRS Clearing Member to be in default and may take any of the actions specified in 8G802.A with respect to such IRS Clearing Member and its customers. Payments owed by each non-defaulted customer of

the defaulted IRS Clearing Member shall be paid by such non-defaulted customer to the Clearing House in accordance with Rule 8G802.I.

(iv) If the amount of Aggregate IRS Available Funds received by the Clearing House exceeds the Aggregate IRS Collects, the Clearing House shall calculate reimbursements of, and distribute, the excess funds, in reverse order of the utilization of the IRS Priority of Payments.

(v) If the amount of the Aggregate IRS Collects exceed the amount of Aggregate IRS Available Funds received:

(A) the Clearing House shall notify IRS Clearing Members and provide an opportunity for IRS Clearing Members and their customers to make voluntary contributions to the Clearing House;

(B) if the amount of the Aggregate IRS Collects continues to exceed the amount of Aggregate IRS Available Funds after the Clearing House adds any voluntary contributions from Rule 8G802.B.2(b)(v)(A) to the Aggregate IRS Available Funds, then the Clearing House shall apply IRS Gains Haircuts (as defined below) to the Proprietary IRS Collects and Individual Customer IRS Collects for the current settlement cycle and each successor settlement cycle on the current Business Day and, unless a Bankruptcy Event has occurred, each of the next two Business Days in accordance with the following:

Proprietary IRS Collects and Individual Customer IRS Collects each shall be reduced on a pro rata basis according to the amount of such collects, to equal the amount of Aggregate IRS Available Funds received relative to the Aggregate IRS Collects (such process, an "IRS Gains Haircut");

(C) The Clearing House Oversight Committee may instruct the Clearing House to extend or reduce the number of days during which IRS Gains Haircuts are applied under the process under Rule 8G802.B.2(b)(v) by up to two Business Days at a time, provided that in no circumstance may the Clearing House conduct settlement cycles in which IRS Gains Haircuts are applied for longer than five Business Days. Before providing such instruction, the Clearing House Oversight Committee must consider any recommendation of the IRS Emergency Financial Committee. Any recommendation of the IRS Emergency Financial Committee and the decision of the Clearing House Oversight Committee, each regarding adjusting the duration of settlement cycles with IRS Gains Haircuts, must be based upon then existing facts and circumstances, be in furtherance of the integrity of the Clearing House and the stability of the financial system, and take into consideration the legitimate interests of clearing members and customers of clearing members.

(D) For each settlement cycle conducted in accordance with this subparagraph (v): For non-defaulted IRS Clearing Members, the Clearing House shall pay the haircut Proprietary IRS Collects and Individual Customer IRS Collects to IRS Clearing Members as soon as practicable after receipt of the Aggregate IRS Available Funds. For non-defaulted customers of a defaulted IRS Clearing Member, subject to applicable law, the Clearing House will account for Individual Customer IRS Collects owed to each customer.

(c) If a Bankruptcy Event occurs (i) following a default of an IRS Clearing Member and (ii) during the IRS Cooling Off Period, all IRS Contracts shall be terminated promptly in accordance with Rule [8G802.B.6].

### 3. *IRS Partial Tear-Ups and IRS Full Tear-Ups*

(a) The Clearing House may, at any time following a default of an IRS Clearing Member, notify IRS Clearing Members and provide an opportunity for IRS Clearing Members to voluntarily agree to have their proprietary positions or, with a customer's consent, to agree to have each such customer's positions, extinguished by the Clearing House.

(b) If proprietary or customer positions in IRS Contracts of a defaulted IRS Clearing Member remain open (the "Remaining Open IRS Positions") following the last settlement cycle conducted pursuant to Rule 8G802.B.2, the Clearing House shall extinguish the Remaining Open IRS Positions through a partial tear-up process ("IRS Partial Tear-Up") or a full tear-up process ("IRS Full Tear-Up") of proprietary and customer positions of non-defaulted IRS

Clearing Members and non-defaulted customers of the defaulted IRS Clearing Member in accordance with the following:

- i. The Clearing House Oversight Committee shall determine the appropriate scope of each IRS Partial Tear-Up or shall determine that an IRS Full Tear-Up is appropriate, in accordance with Part 22 of the CFTC's regulations. Before making such determination, the Clearing House Oversight Committee must consider any recommendation of the IRS Emergency Financial Committee. Any recommendation of the IRS Emergency Financial Committee and each determination of the Clearing House Oversight Committee made for purposes of this Rule 8G.802.B.3(b) must:
    - A. be based upon then existing facts and circumstances;
    - B. be in furtherance of the integrity of the Clearing House and the stability of the financial system;
    - C. take into consideration the legitimate interests of clearing members and customers of clearing members; and
    - D. aim to extinguish Remaining Open IRS Positions and any additional positions in IRS Contracts deemed necessary to mitigate further disruptions to the markets affected by the Remaining Open IRS Positions.
  - ii. Such IRS Partial Tear-Up may include, but need not be limited to, the following methods:
    - A. *Tear-Up of Positions in IRS Contracts that Offset Remaining Open IRS Positions*

Proportionate extinguishment of IRS Contracts held by non-defaulted IRS Clearing Members, their non-defaulted customers and the non-defaulted customers of the defaulted IRS Clearing Member whose positions offset the Remaining Open IRS Positions, relative to the size of the Remaining Open IRS Positions; and
    - B. *Tear-Up of All Positions in IRS Contracts within a Product or Combination of Products.*

Extinguishment of all open positions in IRS Contracts for a product or combination of products.
  - iii. An IRS Full Tear-Up would involve the extinguishment of all open positions in IRS Contracts.
- (c) In connection with any settlement cycle with IRS Gains Haircuts, the Clearing House Oversight Committee may instruct the Clearing House to extinguish a portion of the Remaining Open IRS Positions through an IRS Partial Tear-Up of proprietary and customer positions of non-defaulted IRS Clearing Members and non-defaulted customers of the defaulted IRS Clearing Member. The Clearing House Oversight Committee would determine the appropriate scope of each such IRS Partial Tear-Up in accordance with the procedures set forth in Rule 8G802.B.3(b)(i) and (ii), except that each reference to "Remaining Open IRS Positions" shall mean the relevant portion of Remaining Open IRS Positions.

#### 4. *IRS Product Limited Recourse*

If a default occurs, IRS Collateral, IRS Customer Collateral and the IRS Priority of Payments shall be the sole source of payments to cover the IRS Loss until the default is fully and finally resolved, as applicable. In the event the IRS Collateral, IRS Customer Collateral and the IRS Priority of Payments are insufficient to cover the IRS Loss, regardless of whether CME is able to require an IRS Clearing Member to cure a deficiency in the IRS Guaranty Fund because of the occurrence of a Bankruptcy Event (as such term is defined in Rule 818.A), IRS Clearing Members and the holders of IRS Contracts shall have no recourse to any other funds or any other entity, including without limitation the guaranty funds that support clearing of other products, CME, CME Group Inc. or any of its affiliates other than any amounts recovered as described in Rule 8G802.E.

#### 5. *IRS Termination Events*

If at any time following a default: (a) the Clearing House is unable to cover a settlement variation payment obligation when due and has no expectation of accessing funds to permit it to cover such payment obligation (for example through access to credit lines or assessment funds), (b) the Clearing House determines (after consultation with the IRS Risk Committee) that the available IRS

Collateral and the IRS Priority of Payments will be insufficient to satisfy Default Management Auction bid results for the defaulted IRS Clearing Member's portfolio, (c) the Clearing House otherwise determines (after consultation with the IRS Risk Committee) the IRS Loss will exceed the available IRS Collateral and IRS Priority of Payments, or (d) a Bankruptcy Event of the Exchange (each an "IRS Termination Event"), then all IRS Contracts shall be terminated and the IRS Collateral and IRS Priority of Payments shall be distributed in accordance with Rule 8G802.B.6 below. If the IRS Customer Collateral attributable to a cleared swaps customer of the defaulted IRS Clearing Member is sufficient to satisfy any IRS Loss associated with such cleared swaps customer, the IRS Customer Collateral shall be so applied and any remaining IRS Customer Collateral shall remain in such customer account class. The Clearing House shall, in a manner that is consistent with the requirements of the Commodity Exchange Act and the regulations adopted thereunder (including, without limitation Part 190 of the Regulations, if applicable) fix a U.S. dollar amount (the "IRS Close-Out Value") to be paid to or received from the Clearing House in respect of all IRS Contracts to be terminated by conducting a special settlement cycle to determine a final settlement price for all open IRS Contracts.

*6. Termination of IRS Contracts on an IRS Termination Event; Netting and Offset*

If an IRS Termination Event occurs as described in Rule 8G802.B.5, all IRS Contracts shall be terminated promptly. The Clearing House shall determine the amount to be paid to or collected from each non-defaulted IRS Clearing Member, and the IRS Collateral and IRS Priority of Payments shall be distributed, as follows:

(i) The Clearing House shall, in a manner that is consistent with the requirements of the Commodity Exchange Act and the regulations adopted thereunder (including, without limitation Part 190 of the Regulations, if applicable) fix a U.S. dollar amount (the "IRS Close-Out Value") to be paid to or received from the Clearing House in respect of all IRS Contracts to be terminated by conducting a special settlement cycle to determine a final settlement price for all open IRS Contracts.

(ii) The net portfolio gain of a non-defaulted IRS Clearing Member (a "collect"), or the net portfolio loss of a non-defaulted IRS Clearing Member (a "pay"), shall be determined separately for (a) its proprietary positions in IRS Contracts (a "Close-Out Proprietary IRS Collect" or a "Close-Out Proprietary IRS Pay") and (b) the positions of each of its customers in IRS Contracts (each, a Close-Out "Individual Customer IRS Collect" or a "Close-Out Individual Customer IRS Pay"), using the IRS Close-Out Value for IRS Contracts. The Clearing House shall also use the IRS Close-Out Value to determine a Close-Out Individual Customer IRS Collect or a Close-Out Individual Customer IRS Pay for each non-defaulted cleared swaps customer of a defaulted IRS Clearing Member. The sum of all Close-Out Proprietary IRS Collects and Close-Out Individual Customer IRS Collects shall be the "Aggregate Close-Out IRS Collects". The sum of all Close-Out Proprietary IRS Pays and Close-Out Individual Customer IRS Pays shall be the "Aggregate Close-Out IRS Pays".

(iii) The Clearing House shall determine the amount of each non-defaulted IRS Clearing Member's remaining payment obligations, if any, in respect of IRS Assessments (which, together with the CME IRS corporate contribution and any remaining IRS Guaranty Fund amounts and any IRS Assessments previously funded, constitute the "Remaining IRS Priority of Payments").

(iv) The Clearing House shall add any remaining IRS Collateral, IRS Customer Collateral (if applicable as described in Rule [8G802.A.2.] above) and Remaining IRS Priority of Payments to the Aggregate Close-Out IRS Pays, and deduct the amount of any uncovered IRS Loss (the sum of such amount, the "Aggregate Close-Out IRS Available Funds").

(v) The Clearing House shall then notify each IRS Clearing Member of the amount of its remaining IRS Assessments, Close-Out Proprietary IRS Pay and Close-Out Individual Customer IRS Pays and each IRS Clearing Member shall pay all such amounts no later than the time specified by the Clearing House in such notice. If an IRS Clearing Member does not make such payment, the Clearing House shall determine such IRS Clearing Member to be in default and may take any of the actions specified in 8G802.A with respect to such IRS Clearing Member and its customer. Payments owed by each non-defaulted customer of the defaulted IRS Clearing Member shall be paid by such non-defaulted customer to the Clearing House in accordance with Rule 8G802.I.

(vi) If the amount of Aggregate Close-Out IRS Available Funds received by the Clearing House exceeds the Aggregate Close-Out IRS Collects, the Clearing House shall calculate reimbursements of the excess funds, in reverse order of the IRS Priority of Payments.

(vii) If the Aggregate Close-Out IRS Collects exceed the amount of Aggregate Close-Out IRS Available Funds received, the Clearing House shall haircut the amount of each Close-Out Proprietary IRS Collect (such haircut amount, the "Allocated Close-Out Proprietary IRS Collect") and Close-Out Individual Customer IRS Collect (such haircut amount, the "Allocated Close-Out Individual Customer IRS Collect") on a pro rata basis based on the amount of Aggregate Close-Out IRS Available Funds received relative to the amount of the Close-Out Proprietary IRS Collects and Close-Out Individual Customer IRS Collects (such process, a "Close-Out IRS Gains Haircut").

(viii) For non-defaulted IRS Clearing Members, the Clearing House shall pay the Close-Out Proprietary IRS Collect or Allocated Close-Out Proprietary IRS Collects, as applicable, and Close-Out Individual Customer IRS Collects or Allocated Close-Out Individual Customer IRS Collects, as applicable, as soon as practicable after receipt of the Aggregate Close-Out IRS Available Funds. For non-defaulted customers of a defaulted-IRS Clearing Member, subject to applicable law, the Clearing House will account for Individual Customer IRS Collects owed to each such non-defaulted customer.

(ix) Upon the completion of payments, all IRS Contracts shall be extinguished, and the Clearing House shall have no further access to funds or collateral in respect of IRS Contracts or IRS clearing activity of a non-defaulting IRS Clearing Member. For the avoidance of doubt, neither IRS Contracts that are extinguished under this Rule [8G802.B.6] nor any claims thereunder shall be available for netting under Rule 818.

#### 7. *No Claims Against the Exchange or Clearing House*

(a) IRS Clearing Members, their affiliates and their customers shall have no claim against the Exchange, CME Group Inc. or any affiliates of the Exchange or CME Group or any directors, officers or employees of any of the foregoing, including but not limited to claims against any other guaranty fund established by the Exchange, CME Group Inc. or any of its affiliates with respect to losses suffered as a result of the application of any provision of this Rule 8G802.B.

No beneficial holder of an IRS Contract shall have any claim against its non-defaulted IRS Clearing Member as a result of the application of this Rule 8G802.B. other than any amounts recovered as described in Rule 8G802.E.

(b) Notwithstanding anything in subparagraph (a), IRS Clearing Members, for both their proprietary positions in IRS Contracts and their customers' positions in IRS Contracts, and non-defaulted customers of defaulted IRS Clearing Members will have a claim on any recovery from the defaulted IRS Clearing Member or the estate of the defaulted IRS Clearing Member in the amount of the IRS Gains Haircuts and Close-Out IRS Gains Haircuts, each in the aggregate, applied to such positions (such amount with respect to all non-defaulted IRS Clearing Members and their customers and the non-defaulted customers of the defaulted IRS Clearing Member, "Aggregate IRS Gains Haircuts"), as set forth more fully in Rule 8G802.E. If the recovery from the defaulted IRS Clearing Member is less than the Aggregate IRS Gains Haircuts, non-defaulted IRS Clearing Members and their customers and the non-defaulted customers of defaulted IRS Clearing Members will share pro rata in the recovery.

#### 8. *Non-Petition*

No IRS Clearing Member and no customer of an IRS Clearing Member shall institute against, or join any other person in instituting against, the Exchange any bankruptcy, reorganization, arrangement, insolvency, moratorium, liquidation or examinership proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law arising out of any claimed default by the Clearing House on an IRS Contract as a result of the termination of such IRS Contract and related payments in accordance with these Rules.

#### 9. *Fedwire and Satisfaction of IRS Assessments*

All amounts assessed by the Clearing House against an IRS Clearing Member pursuant to this Chapter and any advance assessments pursuant to Rule 8G802.C where notice of such assessment is delivered to an IRS Clearing Member during the hours in which the Federal Reserve's wire transfer system (Fedwire) is in operation shall be paid to the Clearing House by



such IRS Clearing Member prior to the close of the Fedwire on such day; provided, however, that where notice of such assessment is delivered to an IRS Clearing Member within one (1) hour prior to the close of Fedwire or after the close of Fedwire shall be paid to the Clearing House within one (1) hour after Fedwire next opens.

Any IRS Clearing Member that does not satisfy an assessment made pursuant to this Chapter 8G shall be in default. Any IRS Loss that occurs as a result of such default shall itself be assessed by the Clearing House to non-defaulted IRS Clearing Members pursuant to Rule 8G802.A and 8G802.B.

After payment of an IRS Assessment pursuant to Rule 8G802.B, an IRS Clearing Member shall charge other clearing members for whom it clears contracts or carries positions on its books to recover their proportional share of the assessment. Such other clearing members shall promptly pay the charge.

#### *10. Details of Implementation*

While adherence to the provisions of this Rule 8G802.B shall be mandatory, the detailed implementation of the process of finalizing an IRS Loss with respect to a default, including the liquidation, hedging, auction or sale of positions or assets of the defaulted IRS Clearing Member, shall be conducted by the Clearing House in consultation with the IRS Default Management Committee.

#### **8G802.C. Limited Advance Assessment Authority**

If a default occurs and the collateral for IRS Contracts of the defaulted IRS Clearing Member for its proprietary and customer accounts (including any IRS Contracts entered into by the Clearing House to hedge such defaulted Clearing Members' IRS Contracts) held by the Clearing House (after taking into account settlement variation payment obligations) is less than 50 percent of the performance bond requirement for IRS Contracts calculated using the performance bond methodology at the time of default, the Clearing House may issue an advance assessment demand to non-defaulted IRS Clearing Members to contribute capital up to a maximum of the amount that would be necessary to bring the collateral of the defaulted IRS Clearing Member to 100% of the relevant requirement. Any such assessment shall be subject to any cap on assessments pursuant to Rule 8G802.B and shall be made pro rata among IRS Clearing Members on the same basis as assessments under Rule 8G802.B.

#### **8G802.D. Utilization of Remaining IRS Collateral of Defaulted IRS Clearing Member; Restoration of Funds Following Final Determination of Losses**

1. After the default of an IRS Clearing Member is finally resolved, excess IRS Collateral of the IRS Clearing Member may be used by the Clearing House for losses to the Clearing House of such IRS Clearing Member for Base Products on a pro rata basis based on the amount of any unresolved losses for such product classes.

2. If, after the default of an IRS Clearing Member is finally resolved, the Clearing House determines that collateral of the defaulted IRS Clearing Member, surplus funds, IRS Guaranty Funds, IRS Assessments, other guaranty fund contributions, or assessment powers were employed in a manner different from what would have occurred had all assets been secured and liquidated immediately and the IRS Loss finalized simultaneously, then the Clearing House shall make distributions or rebalancing allocations to non-defaulted IRS Clearing Members and/or the guaranty funds, as appropriate.

#### **8G802.E. Rights of Clearing House for Recovery of Loss**

Losses caused by the default of an IRS Clearing Member are amounts due to the Clearing House from such IRS Clearing Member and shall remain legal obligations thereof notwithstanding the Clearing House's recourse to the loss-mutualization provisions of this Rule 8G802 and Rule 802, which amounts the Clearing House shall take commercially reasonable steps to recover (including claims submitted in an insolvency or resolution proceeding). If any portion of these amounts is subsequently recovered by the Clearing House, the net amount of such recovery shall be credited to non-defaulted IRS Clearing Members (whether or not they are still IRS Clearing Members at the time of recovery) on a pro rata basis based on (1) the amount of their (and their customers', if applicable) voluntary contributions with respect to such default, (2) the amount of their (and their customers', if applicable) Aggregate IRS Gains Haircuts with respect to such default, (3) the amount of their IRS Assessments utilized by the Clearing House with respect to such default, and (4) the amount of their guaranty fund contribution utilized by the Clearing House with respect to such default, each in the order listed, and then to the Exchange for the amount of the CME

Contribution utilized by the Clearing House with respect to such default..

If an IRS Clearing Member clears contracts or carries positions for other clearing members and such other clearing members were required to pay an assessment pursuant to Rule 8G802.B, such IRS Clearing Member shall return to such other clearing members, a pro rata share of any recoveries received by such IRS Clearing Member which shall be calculated on the basis of the assessed amount paid by the other clearing member relative to the total assessment paid by the IRS Clearing Member.

**8G802.F. IRS Guaranty Fund Contributions to be Restored**

In the event it shall become necessary to apply all or part of the IRS Guaranty Fund to meet obligations to the Clearing House pursuant to this Rule 8G802, IRS Clearing Members shall restore their deposits to the IRS Guaranty Fund to previously required level prior to the close of business on the next banking day after notice that such amount is due from the Clearing House, subject to the maximum obligations to contribute to the IRS Guaranty Fund and to fund IRS Assessments set forth in 8G802.H.

**8G802.G. Default Management Across Account Classes**

Subject to Rule 8G831, the procedures set forth in 8G802.A and 8G802.B shall be conducted separately by the Clearing House with respect to open positions and associated performance bond deposits for different product classes and account classes. Upon a default, the Clearing House may, in accordance with applicable law, act immediately to attempt to transfer to alternate IRS Clearing Members part or all customer positions and associated performance bond collateral with respect to any cleared swaps customer that has not defaulted on payment obligations.

**8G802.H. IRS Cooling Off Period and Multiple Defaults**

The provisions set forth in Rule 8G802.A and 8G802.B shall apply with respect to each default by an IRS Clearing Member. If more than one IRS Clearing Member default occurs at a time or in close sequence, including a default that occurs by reason of an IRS Clearing Member's failure to satisfy an assessment demand, the Clearing House shall manage the defaults separately. Upon a default, non-defaulted IRS Clearing Members shall be subject to a maximum obligation to contribute to the IRS Guaranty Fund and to fund IRS Assessments equal to the aggregate amounts set forth in Rules 8G07 and 8G802. This maximum shall apply from the date of the original default until the later of (i) the 25th Business Day thereafter and (ii) if another IRS Clearing Member is in default during the 25 Business Days following the initial or any subsequent default, the 25th Business Day following the last default (the "IRS Cooling Off Period"), regardless of the number of defaults that occur during such IRS Cooling Off Period.

The maximum does not limit IRS Clearing Members' obligations to restore their IRS Guaranty Fund contributions as set forth in Rule 8G802.F, except that if the IRS Clearing Member's required IRS Guaranty Fund contribution would exceed the maximum, the IRS Clearing Member's IRS Guaranty Fund requirement shall be reduced accordingly for the remainder of the IRS Cooling Off Period. Following an IRS Cooling Off Period, the Clearing house shall notify each IRS Clearing Member of its IRS Guaranty Fund deposit obligation and its IRS Assessments exposure.

The aggregate maximum contribution for the IRS Cooling Off Period shall be based upon each IRS Clearing Member's IRS Guaranty Fund requirement and IRS Assessments in effect at the time of the original default, provided that if an IRS Clearing Member's IRS Guaranty Fund requirement and IRS Assessments is increased during the IRS Cooling Off Period due to material changes in its own business creating a material shortfall as to the requirement (as described in Rule 8G07) then the maximum shall be based on the revised requirement.

The CME IRS Contribution shall be limited to an aggregate maximum of \$150,000,000 during the Cooling Off Period, regardless of the number of defaults that occur during such Cooling Off Period.

**8G802.I. Post-Default Cleared Swaps Customer Account Processing**

1. In order to minimize disruptions and loss to its public customers if an IRS Clearing Member defaults, each IRS Clearing Member shall cause its cleared swaps customers to establish arrangements to directly make all required performance bond and settlement variation payments directly to the Clearing House and to keep current and on file with the Clearing House any direction to transfer its open positions and collateral to another IRS Clearing Member.

2. The Clearing House shall treat positions and collateral of the cleared swaps customers of an IRS Clearing Member, which has been declared to be in default, in accordance with Part 22 of the

CFTC's regulations. Immediately after the default of an IRS Clearing Member, the Clearing House shall cease netting settlement variation among the cleared swaps customers of the defaulted Clearing Member.

3. If the Clearing House ceases to net settlement variation margin of the customers of a defaulted IRS Clearing Member, the Clearing House will calculate the settlement variation margin obligation owed to each customer ("collects"), and also calculate the settlement variation margin obligation owed to the Clearing House by each customer ("pays"). The Clearing House will account for settlement variation margin collects owed to each customer. The Clearing House will procure customer settlement variation margin pays from the following sources:

- (i) Directly from the obligated customer in accordance with the arrangements established pursuant to 8G802.1.1 or by attaching any excess collateral attributable to that customer; and
- (ii) By means of liquidating the IRS collateral supporting the customer's position attributed to a customer that fails to make a required settlement variation payment when due. The proceeds of such liquidation shall be used to meet the customer's variation pay obligation to the clearing house. (If the collateral is liquidated, the positions supported by the collateral shall be promptly liquidated.)

4. Any unmet customer obligation to the Clearing House will be an "IRS Loss," per 8G802.A.2, and will be cured in accordance with the provisions of 8G802.B. Consistent with Part 22 of the CFTC's regulations, if the IRS Customer Collateral attributable to a cleared swaps customer of the defaulted IRS Clearing Member is sufficient to satisfy any IRS Loss associated with such cleared swaps customer, the IRS Customer Collateral shall be so applied and any remaining IRS Customer Collateral shall remain in such customer account class.

5. The Clearing House shall rely on its own books and records to identify the portfolio of rights and obligations arising from the IRS Contracts of each cleared swaps customer. To the extent the Clearing House's books and records are not available or the Clearing House determines that its books and records are not accurate, the Clearing House shall rely on the information provided by the defaulted IRS Clearing Member to identify the portfolio of rights and obligations arising from the IRS Contracts for each of its cleared swaps customers.

#### **8G803-812. [RESERVED]**

#### **8G813. IRS SETTLEMENT PRICE**

Settlement prices for IRS Contracts shall be determined each Business Day pursuant to one or more of the procedures set forth below.

1. The Clearing House shall determine settlement prices for such IRS Contracts based upon a consideration of relevant market data, including, but not limited to, trading activity, pricing data obtained from IRS Contract market participants, the settlement prices of related products and any other pricing data from sources deemed reliable by the Clearing House.

2. Notwithstanding the above, if a settlement price in any IRS Product, as derived by the normal methodology used for that IRS Product, is inconsistent with trades, bids or offers in other months/ strikes during the closing range, or other relevant market information, or if there is no relevant market activity, a Clearing House official may establish a settlement price that best reflects in its reasonable judgment the true market valuation at the time of the close.

3. Notwithstanding the above, in the case of inaccuracy or unavailability of a settlement price, or if a settlement price creates risk management concerns for the Clearing House, the Clearing House reserves the right to calculate settlement variation using an alternate price determined by the Clearing House.

#### **8G814-820. [RESERVED]**

#### **8G821. EXCESS PERFORMANCE BOND OF IRS CLEARED SWAPS CUSTOMERS**

IRS Clearing Members are permitted to transmit performance bond of its cleared swaps customers for IRS Products in excess of the amount required by the Clearing House in accordance with CME Rule 821.

**8G822-823. [RESERVED]****8G824. ADDITIONAL IRS PERFORMANCE BOND**

Whenever, in the opinion of the IRS Risk Committee, the President of Global Operations, Technology & Risk, the Global Head of Clearing & Post-Trade Services or, in their absence, their delegate, unstable conditions relating to one or more products exist, they may from time to time, call for additional performance bond collateral from IRS Clearing Members. Such additional performance bond calls may be as much as or more than the original performance bond collateral. The performance bond collateral thus called for may be for one or more contract(s) from one or more IRS Clearing Member(s) and on long positions, short positions or both.

In the event market conditions and price fluctuations at any time shall cause the IRS Risk Committee, the President of Global Operations, Technology & Risk or the Global Head of Clearing & Post-Trade Services or, in his absence, his delegate, to conclude that additional performance bond collateral is required to maintain an orderly market or to preserve fiscal integrity the IRS Risk Committee or the Global Head of Clearing & Post-Trade Services or their delegate may call for additional performance bond collateral to be deposited with the Clearing House during the next banking hour after demand therefor, or at such times as may be specified. Such additional performance bond collateral may be called from the longs or the shorts or from both.

When the IRS Risk Committee, the President of Global Operations, Technology & Risk or the Global Head of Clearing & Post-Trade Services or, in their absence, their delegate, shall be of the opinion that any IRS Clearing Member is carrying commitments or incurring risk in its proprietary, customer and/or cross-margin accounts, that are larger than is justified by the financial condition of that IRS Clearing Member, then the IRS Risk Committee, the President of Global Operations, Technology & Risk or the Global Head of Clearing & Post-Trade Services or, in their absence, their delegate, may require additional performance bond collateral of such IRS Clearing Member which shall be deposited with the Clearing House during the next banking hour after demand therefor, or at such time as may be specified, or a portion of the open positions of such IRS Clearing Member may be required to be transferred to the books of another IRS Clearing Member.

**8G825-828. [RESERVED]****8G829. MEASURES TO MITIGATE PROCYCLICALITY**

In order to limit procyclical performance bond changes, with respect to IRS contracts, the Clearing House shall establish performance bond requirements not lower than those that would be calculated using volatility estimated over a ten (10) year historical lookback period.

**8G830. [RESERVED]****8G831. COMMINGLING OF ELIGIBLE FUTURES, OPTIONS ON FUTURES, AND SWAPS POSITIONS**

The Clearing House shall determine Base Guaranty Fund Products that may be commingled with positions in IRS Contracts in order to provide risk offsets for proprietary and customer positions on the basis that the price risks with respect to such products are significantly and reliably correlated (such products, "Commingling Eligible Futures and Options on Futures Products"). Eligible Clearing Members may elect that any of their proprietary positions in Commingling Eligible Futures and Options on Futures Products be commingled with proprietary positions in IRS Contracts and subject to the financial safeguards package for IRS Contracts. Eligible Clearing Members may elect that any of their customer's positions in Commingling Eligible Futures and Options on Futures Products be commingled with such customer's positions in IRS Contracts and subject to the financial safeguards package for IRS Contracts. Any such commingled positions will be subject to the risk methodology associated with IRS Contracts. Notwithstanding Rule 814, the Clearing House will not make variation settlement payments (but will require collections) associated with Commingled Futures and Options on Futures Positions during intra-day variation settlement cycles which do not include variation settlements for IRS Contracts. If the Clearing House determines at any time that any Commingled Futures and/or Options on Futures Positions are non-risk reducing, the Clearing House may either restrict such participant from commingling additional positions or require such participant to move and/or liquidate any of such Commingled Futures and/or Options on Futures Positions. At no time shall the risk of commingled futures and/or options on futures positions exceed the risk of IRS positions within a commingled portfolio by more than \$1m DV01. In the event of a default by an Eligible Clearing Member, Commingled Futures and Options on

Futures Positions of such Eligible Clearing Member or its customers will be subject to the default management procedures of IRS Products.

Upon the occurrence of an IRS Termination Event, (i) Commingled Futures and Options on Futures Positions will be subject to the risk methodology associated with futures and options on futures positions and subject to the Base Guaranty Fund, (ii) proprietary Commingled Futures and Options on Futures Positions of non-defaulted IRS Clearing Members will be removed from the associated IRS accounts of such IRS Clearing Member and moved (together with all performance bond of such IRS Clearing Member) to the relevant Base Guaranty Fund Product proprietary accounts of such Clearing Member and (iii) Commingled Futures and Options on Futures Positions of customers of non-defaulted IRS Clearing Members will remain in the commingled portfolio and the associated performance bond will remain in the relevant Cleared Swaps Account of such IRS Clearing Member until transferred by the customer or Clearing Member to segregated accounts maintained in accordance with Section 4d of the CEA (such transfers shall occur as soon as reasonably practicable) and (iv) the Clearing House will make regular intraday variation settlement payments during intra-day settlement cycles.

“Commingled Futures and Options on Futures Positions” shall mean any positions in Base Guaranty Fund Products commingled with positions in IRS Contracts in accordance with this Rule 8G831. As used in Rules 8G04, 8G14, 8G25, 8G28 (except for 8G28(a)), 8G600, 8G802.A, 8G802.B.2,3,7 and 8, 8G802.C, 8G802.I and 8G931, except as otherwise provided therein, the term “IRS Contracts” shall include Commingled Futures and Options on Futures Positions.

“Eligible Clearing Member” shall mean a firm that has been approved as a Clearing Member and an IRS Clearing Member.

## **8G832-912. [RESERVED]**

### **8G913. WITHDRAWAL FROM IRS CLEARING MEMBERSHIP**

#### **8G913.A. Voluntary Withdrawal**

An IRS Clearing Member that intends to withdraw from clearing membership for IRS Products shall provide written notice of such intent to the Clearing House and the Clearing House Oversight Committee. An IRS Clearing Member’s withdrawal shall be effective on the earlier of (i) the date Clearing House Staff approves such withdrawal or (ii) the 10th Business Day following the date of the clearing cycle in which the withdrawing IRS Clearing Member liquidates or transfers to an appropriate IRS Clearing Member all of its open customer and house positions in IRS Contracts (such earlier date, the “IRS Withdrawal Date”); provided that the withdrawing IRS Clearing Member shall remain liable for IRS Guaranty Fund contributions and IRS Assessments in accordance with Rule 8G913.B. Promptly following the IRS Withdrawal Date, the Clearing House shall post a notice of the IRS Clearing Member’s withdrawal.

An IRS Clearing Member may withdraw from serving as an IRS Clearing Member clearing IRS Products without withdrawing as a CME, CBOT, NYMEX or COMEX clearing member for any other products, if applicable.

#### **8G913.B. Release of Guaranty Fund Deposit, Membership and Assignments**

When an IRS Clearing Member withdraws from clearing membership for IRS Products (whether voluntarily or involuntarily), its IRS Guaranty Fund deposit or any other deposits required by the Clearing House, and any remaining assets available to the Clearing House associated with IRS Products will be released when Clearing House staff determines that the following has occurred: (1) all contracts and obligations with the Clearing House relating to IRS Products have been settled and paid, (2) all sums owing to the Clearing House relating to IRS Products have been paid, (3) all obligations to other members and customers arising out of claims directly related to IRS Contracts have been paid or otherwise provided for, (4) all obligations to other members and customers arising out of other arbitration claims relating to IRS Products filed pursuant to Chapter 6 or Rule 8G600 have been paid or otherwise provided for, and (5) the requisite liquidity providers for the Clearing House have released the security interest in such IRS Clearing Member’s “assets” associated with the clearing of IRS Products in accordance with the terms of the liquidity facility described in Rule 817; provided, however, that in the event that Clearing House staff determines that all of the foregoing other than (4) have occurred, the IRS Risk Committee may in its discretion authorize the release of such property.

Generally, no such property shall be released prior to the 60th day following the posting of the

notice of the IRS Clearing Member's withdrawal. Notwithstanding the above, Clearing House staff may grant an exemption to the above restriction for good cause shown. Further, for purposes of the paragraph above, if the withdrawing IRS Clearing Member will not remain a clearing member in any other capacity with the Exchange, all obligations of the withdrawing IRS Clearing Member to the Exchange, of whatever nature or kind, shall be accelerated and become due and payable upon the effective date of withdrawal. If the IRS Clearing Member will remain a clearing member for other product classes other than IRS Products, the foregoing sentence shall apply only to obligations related to the clearing of IRS Products.

For purposes of Rule 8G802 and 8G07, the IRS Guaranty Fund contributions and IRS Assessments of a non-defaulted IRS Clearing Member that has withdrawn shall not be accessible by the Clearing House to satisfy any losses in respect of the default of another IRS Clearing Member where such default occurred after the IRS Cooling Off Period as of which the withdrawing IRS Clearing Member had liquidated or transferred all of its open customer and house positions in IRS. For the avoidance of doubt, a withdrawing IRS Clearing Member shall be subject to IRS Assessments for all defaults occurring during the Cooling Off Period in which such IRS Clearing Member withdraws.

#### **8G913.C. Customer Positions of Withdrawing Clearing Member Following a Default**

If, following a default that causes mutualized losses under Rule 8G802.B, an IRS Clearing Member notifies the Clearing House during the applicable IRS Cooling Off Period of its intent to withdraw from status as an IRS Clearing Member, the IRS Clearing Member shall promptly notify its customers in writing of such decision. The notice shall specify that customers must close out or transfer to another IRS Clearing Member their affected open positions, and that the withdrawing IRS Clearing Member shall have the right to liquidate any customer positions that remain open on its books after 10 business days have passed from the customers' receipt of such notice. If any customer fails to close out or transfer to another IRS Clearing Member during such 10 business day period, the IRS Clearing Member shall have the right to liquidate any such customer position that remains open on its books. The IRS Clearing Member shall cooperate with customers and with the Clearing House on any proposed transfer of customer positions, and shall include in its notice to customers such information as the Clearing House may require at the time regarding other IRS Clearing Members that may receive transfers of customer positions. With respect to customer positions in products that are listed for electronic trading on any exchange for which the Clearing House provides clearing services, the IRS Clearing Member shall liquidate such positions in the open market unless otherwise agreed with the customer. With respect to customer positions in IRS products that are not so listed for electronic trading, the IRS Clearing Member may liquidate such positions by submitting to the Clearing House for clearing an offsetting trade executed at a commercially reasonable price reflecting the clearing member's side of the market (*i.e.*, the bid side if liquidating a long position and the offer side if liquidating a short position), taking into account any pricing information that is available to it in the market at the time, which pricing information shall be shared with the Clearing House and the customer. Each IRS Clearing Member will promptly provide to its customers reasonable detail of how it determined the liquidation amount for any liquidation effected pursuant to this Rule 8G913.C.

### **8G914-929. [RESERVED]**

## **8G930. IRS PERFORMANCE BOND REQUIREMENTS**

### **8G930.A. Performance Bond System**

A Performance Bond System will be adopted by the Exchange.

Performance bond systems other than the Exchange adopted system may be used to meet Exchange performance bond requirements if the IRS Clearing Member can demonstrate that its system will always produce a performance bond requirement equal to or greater than the CME Clearing performance bond requirements.

### **8G930.B. Performance Bond Rates for IRS Products**

Exchange staff shall determine initial and maintenance performance bond rates used in determining Exchange performance bond requirements.

### **8G930.C. Acceptable Performance Bond Deposits for IRS Products**

IRS Clearing Members may accept from their account holders as performance bond cash currencies of any denomination, readily marketable securities (as defined by SEC Rule 15c3-1(c)(11) and applicable SEC interpretations), money market mutual funds allowable under CFTC

Regulation 1.25, bank-issued letters of credit, gold warrants that are registered as deliverable for gold futures contracts traded on Commodity Exchange, Inc., and "London Good Delivery" gold, as defined by the London Bullion Market Association.

IRS Clearing Members shall not accept as performance bond from an account holder securities that have been issued, sponsored or otherwise guaranteed by the account holder or an affiliate of the account holder unless the IRS Clearing Member files a petition with and receives permission from Clearing House staff.

Unless permitted (either not restricted or specifically authorized) by OFAC and/or any Sanctioning Body, as applicable, IRS Clearing Members may not accept from their account holders as performance bond any debt or equity issued by Sanctioned Parties as defined in Rule 543, assets in which Sanctioned Parties have an interest, or any other assets that are or would be subject to blocking restrictions or sectoral sanction restrictions imposed by the U.S. Department of Treasury's Office of Foreign Assets Control or are subject to similar restrictions imposed by another Sanctioning Body.

Bank-issued letters of credit must be in a form acceptable to the Clearing House. Such letters of credit must be drawable in the United States. IRS Clearing Members shall not accept as performance bond from an account holder letters of credit issued by the account holder, an affiliate of the account holder, the clearing member, or an Affiliate of the clearing member.

All assets deposited by account holders to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing account holder.

Except to the extent that Clearing House staff shall prescribe otherwise, cash currency performance bond deposits shall be valued at market value. All other performance bond deposits other than letters of credit shall be valued at an amount not to exceed market value less applicable haircuts as set forth in SEC Rule 240.15c3-1. Warrants shall be valued at an amount not to exceed the market value of the commodities represented by the warrants less a deduction in the same amount as the inventory haircut specified in Commission Regulation 1.17(c)(5)(ii).

#### **8G930.D. Acceptance of Positions**

IRS Clearing Members may accept positions for an account provided sufficient performance bond is on deposit in the account or is forthcoming within a reasonable time.

For an account which has been subject to calls for performance bond for an unreasonable time, IRS Clearing Members may only accept positions that reduce the performance bond requirements of existing positions in the account.

Clearing members may not accept positions for an account that has been in debit an unreasonable time.

#### **8G930.E. Calls for Performance Bond**

1. IRS Clearing Members must issue calls for performance bond that would bring an account up to the initial performance bond requirement: a) when performance bond equity in an account initially falls below the maintenance performance bond requirement; and b) subsequently, when performance bond equity plus existing performance bond calls in an account is less than the maintenance performance bond requirement.

Such calls must be made within one business day after the occurrence of the event giving rise to the call. IRS Clearing members may call for additional performance bond at their discretion. Notwithstanding the foregoing, an IRS Clearing Member is not required to call for or collect performance bond for day trades.

2. IRS Clearing Members shall only reduce a call for performance bond through the receipt of performance bond deposits permitted under subsection C. of this rule. IRS Clearing Members may cancel a call for performance bond through: a) the receipt of performance bond deposits permitted under subsection C. of this rule only if such deposits equal or exceed the amount of the total performance bond call; or b) inter-day favorable market movements and/or the liquidation of positions only if performance bond equity in the account is equal to or greater than the initial performance bond requirement. IRS Clearing Members shall reduce an account holder's oldest outstanding performance bond call first.

3. IRS Clearing Members must maintain written records of all performance bond calls issued and satisfied in whole or in part.

#### **8G930.F. Release of Excess Performance Bond**

Subject to exceptions granted by Exchange staff, IRS Clearing Members may only release performance bond deposits from an account if such deposits are in excess of initial performance bond requirements.

**8G930.G. Loans to Account Holders**

IRS Clearing Members may not make loans to account holders to satisfy their performance bond requirements unless such loans are secured as defined in CFTC Regulation 1.17(c)(3). The proceeds of such loans must be treated in accordance with CFTC Regulation 1.30.

**8G930.H. Aggregation of Accounts and Positions**

IRS Clearing Members may aggregate and net positions in accounts under identical ownership within the same classifications of customer segregated, customer secured, customer sequestered and non-segregated for performance bond purposes. IRS Clearing Members may compute performance bond requirements on identically owned concurrent long and short positions on a net basis.

**8G930.I. Liquidation of Accounts**

If an account holder fails to comply with a performance bond call within a reasonable time (the IRS Clearing Member may deem one hour to be a reasonable time), the IRS Clearing Member may close out the account holder's trades or sufficient contracts thereof to restore the account holder's account to required performance bond status. IRS Clearing Members shall maintain full discretion to determine when and under what circumstances positions in any account shall be liquidated.

**8G930.J. Clearing House Authority to Require Additional IRS Performance Bond**

The Clearing House, in its sole discretion, has the authority to require IRS Clearing Members to collect additional performance bond from specific account holders in circumstances deemed necessary by the Clearing House.

**8G931-974. [RESERVED]**

**8G975. IRS EMERGENCY FINANCIAL CONDITIONS**

If the Global Head of Clearing & Post-Trade Services determines that the financial or operational condition of an IRS Clearing Member or one of its Affiliates is such that to allow that IRS Clearing Member to continue its operation would jeopardize the integrity of the Exchange, or negatively impacts the financial markets by introducing an unacceptable level of uncertainty, volatility or risk, whether or not the IRS Clearing Member continues to meet the required minimum financial requirements, he may empanel the Chief Executive Officer, Chairman of the Board, Chairman of the IRS Risk Committee, and Global Head of Clearing & Post-Trade Services (the "IRS Emergency Financial Committee"). Such committee shall be duly authorized and, upon a unanimous vote of the panel, be empowered to order (a) an immediate position limitation, (b) an immediate suspension of the IRS Clearing Member, (c) that all open trades of said clearing member be for liquidation only, (d) the liquidation or transfer of all or a portion of the open positions of the clearing member, (e) additional performance bond to be deposited with the Clearing House and/or (f) any other action necessary to protect the financial integrity of the Clearing House. The IRS Clearing Member affected by action taken shall be notified and may request a hearing before the Board as provided in Rule 412. In the event of suspension, the Chief Executive Officer shall, promptly after a suspension, set the matter for hearing before the Board for final determination. To the extent that the IRS Emergency Financial Committee orders that all open trades of a clearing member be for liquidation only, or the panel orders the liquidation or transfer of all of the open positions of an IRS Clearing Member, Rule 8G913.B. shall apply and the clearing member shall be treated as a withdrawing clearing member.