

TO: Clearing Member Firms
Margin Managers
Back Office Managers

FROM: CME Clearing

ADVISORY #: 16-191

SUBJECT: **Performance Bond Requirements: Clearing Member Proprietary Positions; Proposed New Rule 826**

Effective Wednesday, May 25, 2016, pending all relevant regulatory review periods, CME, CBOT, NYMEX and COMEX (collectively, the “Exchanges”) will adopt new Rule 826 (“Proprietary Account Minimum Liquidation Period”).

New Rule 826 provides that performance bond requirements for clearing member proprietary positions will be calculated to reflect a two-day liquidation period. New Rule 826 and this advisory are filed in response to the European Commission’s Implementing Decision on the equivalence of the regulatory framework of the United States of America for central counterparties that are authorized and supervised by the Commodity Futures Trading Commission to the requirements of the Regulation (EU) No 648/2012 of the European Parliament and of the Council.

The specific rules contained in the internal rules and procedures of systemically important derivatives clearing organisations and opt-in derivatives clearing organisations referred to in paragraph 1 shall, with respect to the principle set out in CFTC Regulation 39.13, include specific risk management measures ensuring that initial margins are calculated and collected on the basis of the following parameters:

(a) in the case of clearing members’ proprietary positions in derivative contracts executed on regulated markets or designated contract markets pursuant to Section 5 of the Commodity Exchange Act (CEA)

The Rule does not apply to positions in agricultural commodity derivatives that meet the exclusion criteria outlined in the Implementing Decision, outlined below:

Derivative contracts referred to in paragraph 2 of Article 1 shall not include agricultural commodity derivative contracts which fulfil all of the following conditions:

(a) they are based on an underlying agricultural product referencing grades, prices, weights, measures or conversion factors for agricultural commodities and their products as published by the United States Department Of Agriculture and traded on a US-designated contract market pursuant to Section 5 of the Commodity Exchange Act (CEA), 7 USC 7, or are based on an underlying agricultural product of sugar, soybean oil, soybean meal, cocoa, coffee, or lumber and traded on a US-designated contract market pursuant to Section 5 of the Commodity Exchange Act (CEA), 7 USC 7;

(b) they are based on an underlying agricultural product that forms the basis of an agricultural commodity derivative contract offered for clearing by a derivatives clearing organization established in the USA;

(c) where they specify one or more places of production of the underlying agricultural product, none of those places of production is inside the Union;

(d) they meet any of the following conditions:

(i) they are physically settled and, except where they are based on an underlying agricultural product of coffee, all the places of delivery are outside the Union;

(ii) they are cash settled and, except where they are based on an underlying agricultural product of coffee or sugar, the settlement amount is not based on prices for an underlying agricultural product for which at least one of the places of delivery is inside the Union.

The condition laid down in point (b) of the first subparagraph shall be deemed not to be fulfilled for a given agricultural commodity derivative contract where the majority of such contracts cleared by the derivatives clearing organization established in the USA are cleared for counterparties established in the Union and those contracts are also offered for clearing by a central counterparty authorised in the Union.

CME Clearing will calculate performance bond requirements for all clearing member proprietary positions in accordance with new Rule 829, which reflects the criteria of the Implementing Decision, detailed above. Pursuant to this change, we will provide clearing members with a daily CSV-format data file which will provide information on the impacts to clearing members' performance bond requirement for their proprietary positions. The file will be available both on the Firm FTP Server and via the web-based Enterprise Reporting Portal (EREP) distribution system. The file will be available beginning on Monday, May 9 and the new Rule 826 will take effect with the end-of-day settlement cycle on Wednesday, May 25.

For more information regarding this advisory or to discuss the impacts of the two-day liquidation period for your clearing member please contact:

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