

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

ADVISORY #: 16-312

SUBJECT: **Amendments to CME/CBOT/NYMEX/COMEX Rule 816, CME Rule 8G07, and CME Rule 8H07**

Effective August 23, 2016, and pending all relevant CFTC regulatory review periods, CME, CBOT, NYMEX and COMEX (collectively, the “Exchanges”) will adopt amendments to Rules 816 (“Guaranty Fund Deposit”), 8G07 (“IRS Financial Safeguards and Guaranty Fund Deposit”), and 8H07 (“CDS Financial Safeguards and Guaranty Fund Deposit”).

The amendments to each Exchange Rule 816 will allow for monthly resizing of the Base guaranty fund and require clearing member firms to deposit their respective updated guaranty fund contributions within two business days. Presently, Rule 816 contains provisions for only quarterly guaranty fund resizing and allows five business days to deposit the required contribution amount.

CME Rules 8G07 and 8H07 governing resizing of the IRS Guaranty Fund and CDS Guaranty Fund will also be amended. The current rules dictate that intra-month recalculations are restricted to when the risk profile of the two largest exposures has fluctuated more than 10% from the prior month’s calculation. This restriction is being removed.

The amendments will reduce the risk of potential under-coverages in the CME Clearing House’s financial resources requirement due to a change in risk profiles during the interim period and limit the likelihood that a default during the payment window would result in an undercoverage. The Exchanges believe that harmonizing the time frames of all guaranty funds will better manage risk of undercoverage and allow for more frequent withdrawals of any excess guaranty funds by clearing members.

There will be no change to the current methodology employed to calculate the guaranty fund or allocate firm contributions. The revised rules are included on the following pages.

Should you have any questions please contact Lee Betsill (lee.betsill@cmegroup.com; (312) 338-2779) or Matt Waldis (matthew.waldis@cmegroup.com; (212) 299-2148).

CME/CBOT/NYMEX/COMEX
Chapter 8
Clearing House and Performance Bonds
(additions are underlined; deletions are overstruck)

816. GUARANTY FUND DEPOSIT

Each clearing member shall make a Base Guaranty Fund deposit with the Exchange as security for its obligations to the Clearing House. The minimum Base Guaranty Fund deposit of a clearing member shall equal the greater of (a) a minimum amount specified by the Clearing House Risk Committee or (b) the clearing member's proportionate share of the "Aggregate Guaranty Fund Deposit." The Aggregate Guaranty Fund Deposit shall be an amount determined by the Clearing House.

Each clearing member's proportionate share of the Aggregate Guaranty Fund Deposit shall consist of:

- (i) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share (including the total risk performance bond requirement in respect of positions in its cross-margin accounts and any applicable short option value) of the average aggregate risk performance bond requirement (including the risk performance bond requirement in respect of positions in all cross-margin accounts and any applicable short option value) for the preceding three months; plus*
- (ii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of the total number of contracts executed on the Exchange and any applicable exchange or market during the preceding three months; plus*
- (iii) a specified percentage of the Aggregate Guaranty Fund Deposit multiplied by the clearing member's proportionate share of foreign currency settlements for the preceding three months.*

*The percentages in (i) through (iii) above shall be determined and modified by the Clearing House Risk Committee as appropriate. Some contracts may be weighted more heavily than others in order to reflect the greater risk associated with those contracts. The average aggregate risk performance bond requirement, the total number of contracts executed, the gross notional amount of open interest cleared and each clearing member's proportionate share of each will be calculated by the Clearing House, and a report setting forth such information and the clearing member's required Base Guaranty Fund deposit will be given to the clearing member each quarter month, and the Clearing House may provide such reports on an interim basis at any time during the quarter month as the Clearing House staff shall determine. ~~On a quarterly basis~~ *If at any time*, such report indicates that the clearing member's current Base Guaranty Fund deposit with the Clearing House is smaller than the amount required, the clearing member shall increase its amount within ~~five~~ two business days. If such report indicates that the clearing member's current Base Guaranty Fund deposit with the Exchange is larger than the amount required, the clearing member may withdraw the excess amount. If, prior to the issuance of the ~~quarterly~~ monthly report, the Clearing House determines that an increase in the Base Guaranty Fund deposit is necessary to protect the financial integrity of the Clearing House, the clearing member, upon demand of the Clearing House, shall increase its Base Guaranty Fund deposit amount within ~~five~~ two business days.*

A clearing member's Base Guaranty Fund deposit may be in a form as set forth in the Manual. Such Base Guaranty Fund deposit forms and amounts shall be subject to the terms and conditions as approved by Exchange staff

Chapter 8-G
Interest Rate Derivative Clearing
(additions are underscored; deletions are ~~overstruck~~)

8G07. IRS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT

8G07.2

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. ~~The Clearing House may calculate such requirements more frequently than monthly should the risk profile of the top two largest net debtors change by more than 10% from the calculation for the prior period.~~

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. 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...

8G07.4

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...

CME
Chapter 8-H
Credit Default Swaps Clearing
(additions are underscored; deletions are overstruck)

8H07. CDS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT

8H07.2.

The Clearing House shall calculate the aggregate required CDS Guaranty Fund and CDS Assessments, as well as each CDS Clearing Member's required contribution to the CDS Guaranty Fund and its maximum CDS Assessment, on at least a monthly basis (other than during a CDS Cooling Off Period). The Clearing House ~~may reset such requirements more frequently than monthly (other than during a CDS Cooling Off Period)~~ should the largest two losses described in Rule 8H07.1(i)(a) ~~above change by more than 10% from the calculation for the prior period and shall reset such requirements~~ (i) following a CDS Cooling Off Period as provided below and (ii) following the termination of CDS Guaranty Fund and CDS Assessments liability of any withdrawing CDS Clearing Member as described in Rule 8H913.B.

Following any recalculation the Clearing House shall, within one Business Day, provide a report to each CDS Clearing Member showing the detail of its required deposit to the CDS Guaranty Fund and its maximum CDS Assessment. The notice shall specify the amount of any required additional deposit or any excess in the then-existing deposit amount. A CDS Clearing Member shall make any required additional deposit within two Business Days after delivery of such report and any reported excess may be withdrawn immediately.

On the first Business Day following (i) a CDS Cooling Off Period or (ii) the day on which the CDS Guaranty Fund and CDS Assessments liability of a withdrawing CDS Clearing Member is terminated, as described in Rule 8H913.B, the Clearing House shall recalculate the required CDS Guaranty Fund and CDS Assessments and shall provide, within one Business Day, a report to each CDS Clearing Member showing the detail of its required deposit to the CDS Guaranty Fund and its maximum CDS Assessment. The notice shall specify the amount of any required additional deposit or any excess in the then-existing deposit amount. Any additional required contribution shall be made by each CDS Clearing Member within two Business Days after delivery of such notice and any reported excess may be withdrawn immediately...

8H07.4

Any changes to the methodology for calculating the CDS Guaranty Fund and CDS Assessments as described in Rule 8H07.1 or 8H07.2 that collectively result in a 15% or greater increase to the aggregate CDS Guaranty Fund and CDS Assessments over a not more than 30 day period shall collectively be effective on the earlier to occur of (i) the 20th Business Day following the date the Clearing House provides notice to CDS Clearing Members of such change and (ii) the date reasonably determined by the CDS Risk Committee (which shall be no less than two Business Days following notice of such change to the CDS Clearing Members) if such increase is due to applicable law, regulation or regulatory request and a shorter period is necessary to comply with such applicable law, regulation or regulatory request. CDS Clearing Members shall make any required additional deposit on or prior to the date such change is effective.

Upon receipt of notice of an at least 15% increase to the CDS Guaranty Fund and CDS Assessments pursuant to the preceding paragraph, a CDS Clearing Member may notify the Clearing House and such CDS Clearing Member's customers of its intent to withdraw from status as a CDS Clearing Member. The

notice shall specify that customers must close out or transfer to another CDS Clearing Member their affected open positions, and that the withdrawing CDS Clearing Member shall have the right to liquidate any customer positions that remain open on its books after the lesser of (i) 10 Business Days (or any shorter period determined by the Clearing House in consultation with the CDS Risk Committee) and (ii) the number of Business Days notice given to CDS Clearing Members pursuant to the prior paragraph minus two (in any event, subject to a minimum of two Business Days) have passed from the customers' receipt of such notice. If any customer fails to close out or transfer to another CDS Clearing Member during such period, the CDS 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 8H07.4 shall apply to any increase to the CDS Guaranty Fund and CDS Assessments resulting from periodic calculations of the CDS Guaranty Fund and CDS Assessments pursuant to Rule 8H07.2 or any additional deposit to the CDS Guaranty Fund required by or increase in the maximum CDS Assessment of an individual CDS Clearing Member pursuant to Rule 8H07.3...