

Chapter 277H

Cleared OTC U.S. Dollar/ Peruvian Nuevo Sol (USD/PEN) Spot, Forwards and Swaps

277H.00. SCOPE OF CHAPTER

This chapter is limited in application to U.S. Dollar/Peruvian Nuevo Sol Spot, Forwards, and Swaps that are executed between two counterparties on an Over-the-Counter ("OTC") basis and subsequently novated to the CME Clearing House for purposes of clearance ("Cleared OTC Contracts"). Parties to transactions in Cleared OTC Contracts shall be limited to "eligible contract participants" as defined in Section 1a(18) of the Commodity Exchange Act. Cleared OTC Contracts are listed by CME for clearing-only. Transactions in Cleared OTC Contracts shall also be subject to the general rules of the Exchange insofar as applicable. The clearing and settlement of transactions in Cleared OTC Contracts shall also be subject to the provisions of Chapter 8-F of the CME Rulebook (Over-the-Counter Derivative Clearing). For purposes of these Rules, the minimum-fluctuations currency is the Peruvian Nuevo Sol and the clearing-unit currency is the U.S. dollar.

For purposes of this chapter, unless otherwise specified, times referred to herein shall refer to and indicate Chicago time.

277H.01. CONTRACT SPECIFICATIONS

277H.01.A. Unit of Clearing

The unit of clearing shall be 1 U.S. Dollar in any amount down to a precision of 0.01 U.S. Dollar.

277H.01.B. Hours for Clearing Entry

The Exchange shall determine the hours during which Cleared OTC Contracts may be submitted to the Clearing House. Positions shall be initiated or closed out using off-exchange transactions.

277H.01.C. Minimum Price Increments

Minimum price fluctuations shall be in multiples of 0.000001 Peruvian Nuevo Sol per U.S. Dollar for transactions in Cleared OTC Contracts.

277H.01.D. Valid Value Dates for Cash Settlement

Cleared OTC Contracts shall be cash settled for any valid value date(s) mutually agreed to by buyer and seller, and accepted by the Exchange for the applicable currency pair as a valid value date(s) for cash settlement and clearing. In general, for any currency pair, a valid value date shall be any business day that is a banking business day in the countries of issue for both currencies.

277H.01.E. Delivery Price and Delivery Value

Delivery for the Cleared OTC Contracts assigned pursuant to Chapter 277H shall be by cash settlement according to Rule 277H.02.

277H.01.F. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

277H.01.G. Last Day of Clearing

The last day on which a Cleared OTC Contract may be submitted for clearing in respect of a specified cash settlement date shall be one valid business day prior to the cash settlement date.

277H.01.H. Liquidation and Delivery Standards

(1) At Maturity. After clearing of Cleared OTC Contracts in respect of a specified cash settlement date has ceased, in accordance with Rule 277H.01.G. of this chapter, outstanding contracts for such cash settlement date shall be liquidated by cash settlement through procedures as prescribed in Rule 277H.02 and in a manner prescribed by the Clearing House.

(2) Prior to Maturity. Standard offsets of futures and options on futures, if applicable, shall not apply to positions in Cleared OTC Contracts. Prior to the Cash Settlement Date, positions may be closed out upon the request of the clearing firm to the Clearing House, and in the manner prescribed by the Clearing House.

277H.01.I. [Reserved]

277H.02. CASH SETTLEMENT

277H.02.A. Day of Cash Settlement

Each Cleared OTC Contract, for the valid value date for cash settlement in two business days, shall be liquidated by cash settlement at a price equal to the daily Final Settlement Price (FSP) for that day. The daily Final Settlement Price shall be equal to the "PEN INTERBANK AVE (PEN05)," which is the "Peruvian Nuevo Sol per U.S. dollar" average exchange rate published by the Banco Central de Reserva del Peru (BCRP) as the "Tipo de Cambio Interbancario Promedio" at approximately 2:00 p.m. Lima time on Reuters "PEBCR05" page, rounded to six decimal places. This rate is used widely by the interbank foreign exchange market to cash settle non-deliverable forward contracts for Peruvian Nuevo Sol versus U.S. dollars. All open positions for that valid value date for cash settlement will be cash settled in U.S. dollars based upon the difference between the Final Settlement Price for the valid value date for cash settlement and the original trade price as submitted for clearing times the notional value of the transaction in USDs divided by Final Settlement Price. In the event, this U.S. dollar amount is positive, then the Clearing House shall debit the seller's clearing member account and credit the buyer's clearing member account for this amount in U.S. dollars. In the event, this U.S. dollar amount is negative, then the Clearing House shall debit the buyer's clearing member account and credit the seller's clearing member account for this amount in U.S. dollars.

For example, if the "PEN INTERBANK AVE (PEN05)," for the valid value date for cash settlement in two business days, is as follows: MMMMM, DD - YYYY is 2.739600 PEN per USD," and the original trade price submitted for clearing by clearing firms of the buyer and seller was 2.728156 PEN per USD for a notional amount of 100,000 USD, then the Clearing House on the business day following the valid value date for cash settlement shall credit the clearing members account for the buyer with US\$417.73 (*i.e.*, $2.739600 \text{ PEN per USD} - 2.728156 \text{ PEN per USD} = (+0.011444 \text{ PEN per USD} \times 100,000 \text{ USD}) / 2.739600 \text{ PEN per USD} = \417.73). Similarly, the Clearing House on the business day following the valid value date for cash settlement shall debit the clearing member account for the seller with US\$417.73.

277H.02.B. Procedures if No Cash Settlement Price is Available

In the event that the "PEN INTERBANK AVE (PEN05)" Peruvian Nuevo Sol per U.S. dollar rate for a valid value date for cash settlement is not published on a given day by Banco Central de Reserva del Peru (BCRP), and in order to minimize basis risk between the U.S. dollar / Peruvian Nuevo Sol cleared only contracts and the non-deliverable forward ("NDF") market, the Exchange shall determine a Final Settlement Price based on the EMTA PEN Indicative Survey Rate (PEN04), when available. The EMTA PEN Indicative Survey Rate Methodology follows this chapter in an Interpretation. In the event that the PEN INTERBANK AVE (PEN05) Peruvian Nuevo Sol per U.S. dollar rate is not published on a valid date for cash settlement and the EMTA PEN Indicative Survey does not provide a rate, then Force Majeure shall be in effect.

277H.02.C. Amendments to Timings

The Exchange may amend the timings of notifications, deliveries, and transfers under this Rule 277H.02 to reflect as appropriate the adoption of daylight savings time in the relevant countries of delivery.

277H.03. DISPUTES

All disputes between interested parties may be settled by arbitration as provided in the Rules.

INTERPRETATION TO CHAPTER 277H

In order to reduce basis risk for market participants trading and/or clearing CME cleared only U.S. dollar/Peruvian Nuevo Sol spot, forwards and swaps, over-the-counter (OTC) NDF U.S. dollar / Peruvian Nuevo Sol transactions and CME Peruvian Nuevo Sol/ U.S. dollar futures and options on futures contracts, if applicable, CME has also adopted procedures to settle terminated cleared only U.S. dollar/ Peruvian Nuevo Sol spot, forward and swap contracts to the EMTA PEN Indicative Survey Rate when the "PEN INTERBANK AVE (PEN05)" Peruvian Nuevo Sol per U.S. dollar rate is unavailable.

I. The EMTA PEN Indicative Survey

- Commencing the Indicative Survey: (A) on any Business Day on which a Price Source Disruption has occurred or is continuing OR (B) on any Valuation Date that is NOT a Business Day (or that would have been a Business Day but for the occurrence of an Unscheduled Holiday), and in each case following the lapse of a 30 calendar day period during which the primary settlement rate option shall have been continuously unavailable and as a consequence, valuation shall have been deferred or postponed, upon receipt of a Valid Survey Request, EMTA (or a service provider EMTA shall select in its sole discretion) shall conduct a survey of financial institutions for the purpose of determining the EMTA PEN Indicative Survey Rate for that day.
- Valid Survey Request: A "Valid Survey Request" is a request received by EMTA from not less than two unaffiliated EMTA members not later than 5 business days before the contemplated start of the Survey.
- Polled Banks: For purposes of determining the EMTA PEN Indicative Survey Rate for any Valuation Date, at approximately 11:00 a.m. (Lima time¹), EMTA (or a service provider EMTA may select in its sole discretion) shall survey no more than 30 randomly selected financial institutions that are active participants in the Peruvian Sol/U.S. Dollar market (each, a "Participating Bank").
- Survey Question: Each Participating Bank will be asked to provide its reasonable judgment of what is (or, in the case of an Unscheduled Holiday, would be) the current prevailing free market Peruvian Sol spot rate (bid-offer pair) for a standard size Peruvian Sol/U.S. Dollar wholesale financial transaction for same-day settlement in the Peruvian marketplace on the Valuation Date. In arriving at this indicative quotation, survey participants will be directed to take such factors into consideration as they deem appropriate, which factors may (but need not) include any or all of the following: the spot rate(s) implied in the offshore non-deliverable foreign exchange market for Peruvian Sol/U.S. Dollar transactions; the spot rate implied by any other financial market transactions (to the extent that such other financial markets are open for business); the spot rate used in connection with any commercial transactions for goods or services from offshore suppliers or providers; any existing rate for trade finance transactions; and any other existing unofficial rate for Peruvian Sol/U.S. Dollar transactions (commercial or otherwise).

II. Calculation Methodology

- EMTA will determine the mid-point of each bid-offer pair. The arithmetic mean of the mid-points will be used to determine the PEN Indicative Survey Rate, rounded to the fourth decimal point as described below.

¹ New York time and Lima time are the same when it is Standard Time in New York. New York time is one hour ahead of Lima Time when it is Daylight Savings Time in New York. Lima does not observe Daylight Savings Time.

- If the PEN Indicative Survey results in 21 or more responses, then the 4 highest and 4 lowest mid-points will be eliminated, and the arithmetic mean of the remaining mid-points shall be computed and will constitute the PEN Indicative Survey Rate for such Valuation Date. For purposes of eliminating the 4 highest and 4 lowest mid-points, if more than 4 mid-points have the same highest value or lowest value, then only 4 such mid-points shall be eliminated.
- If the PEN Indicative Survey results in less than 21 but 12 or more responses, then the 2 highest and 2 lowest mid-points will be eliminated, and the arithmetic mean of the remaining mid-points shall be computed and will constitute the PEN Indicative Survey Rate for such Valuation Date. For purposes of eliminating the 2 highest and 2 lowest mid-points, if more than 2 mid-points have the same highest value or lowest value, then only 2 such mid-points shall be eliminated.
- If the PEN Indicative Survey results in less than 12 but 10 or more responses, then the highest and the lowest rate will be eliminated and the arithmetic mean of the remaining midpoints shall be computed and will constitute the PEN Indicative Survey Rate for such Valuation Date. For purposes of eliminating the highest and lowest mid-points, if more than 1 mid-point has the same highest value or lowest value, then only 1 such mid-point shall be eliminated.
- If the PEN Indicative Survey results in less than 10 but 8 or more responses, then no mid-point will be eliminated and the arithmetic mean of all mid-points obtained shall be computed and will constitute the PEN Indicative Survey Rate for such Valuation Date.
- Quotes shall be provided to the fourth decimal point (e.g., 10000).

III. Insufficient Responses

- If the PEN Indicative Survey results in less than 8 responses from Participating Banks, no PEN Indicative Survey Rate will be available for the relevant Valuation Date.

IV. PEN Indicative Survey Rate Publication

- The PEN Indicative Survey Rate will be published on EMTA's web site (www.emta.org) (the "Publication Site") by approximately 12:00 p.m. (Lima time), or as soon thereafter as practicable, on the Valuation Date.
- As soon as it is determined that the PEN Indicative Survey will result in Insufficient Responses, a notice that no PEN Indicative Survey is available for the Valuation Date shall be published on the Publication Site.

V. Discontinuing the PEN Indicative Survey

The PEN Indicative Survey will be discontinued (a) following the publication of a PEN WT AVE Rate (PEN03) (or any successor primary settlement rate option) on any Valuation Date or (b) on the third day following polling for the PEN Indicative Survey Rate that results in less than 8 responses for more than two consecutive polling days. Notwithstanding the foregoing, nothing herein shall be construed to prevent EMTA from re-initiating the PEN Indicative Survey at an appropriate time in the future.

A notice that the PEN Indicative Survey has been discontinued will be published on the Publication Site.

VI. Amendments to the Methodology

EMTA may, in its discretion, from time to time, make such administrative, procedural or other modifications to this Methodology as are appropriate to ensure the continued operation and integrity of the PEN Indicative Survey.

VII. Disclaimer

EMTA (and any service provider EMTA may select) disclaim liability for the PEN Indicative Survey Rate, and no representation or warranty, express or implied, is made concerning the PEN Indicative Survey Rate (including, without limitation, the methodology for determining the PEN Indicative Survey Rate and its suitability for any particular use).