



## Special Executive Report

S-5865

July 29, 2011

### RULE REVISIONS RELATING TO REDUCTION OF CME GROUP SHARE REQUIREMENT FOR CLEARING AND CORPORATE EQUITY MEMBER FIRMS

Effective October 29, 2010, CME, CBOT and NYMEX reduced the requisite number of CME Group Class A shares ("shares") that clearing and corporate equity members of CME, CBOT and NYMEX are required to have assigned for their member firm privileges. The amendments below, **effective August 12, 2011**, highlight revisions to the corresponding rules to reflect the Exchanges' fee differentials for proprietary trading associated with an Exchange clearing member who maintains CME Group shares.

If you have any questions regarding the changes to these rules, please contact Laurie Egan, Associate Director, Audits at 312.338.2405.

The amendments to the CME rules appear below.

#### CME Chapters 1 and 9 Rule Changes (Strikeout Version)

##### 106. TRANSACTIONS, SECURITY TRANSACTIONS, AND AUTHORIZATIONS TO TRANSFER OR SELL

###### 106.I. Affiliate Member Firm

An "affiliate" shall be defined to include a ~~firm clearing member or Rule 106.J. equity member firm or a firm~~ that either: owns, directly or indirectly, 100% of a clearing member with shares or Rule 106.J. equity member firm or has 100% ownership, direct or indirect, in common with a firm that owns, directly or indirectly, 100% of a clearing member with shares or Rule 106.J. equity member firm. Clearing members with shares are those clearing members that maintain CME Group Class A shares in accordance with CME Rule 106.J. Equity Member Firm requirements in order to receive equity member rates.

A membership may be owned by a clearing member with shares, Rule 106.J. equity member or affiliate firm under this Rule. The membership may be held in the name of the firm or principals or employees of an affiliate and be transferred among its principals and employees provided that: (1) the transfer is approved by Exchange staff; (2) the transferee is approved for membership pursuant to the rules of the Exchange; and (3) the transfer is for the legitimate business purposes of the firm. The affiliate firm shall have the right, at any time, to withdraw the authority of the transferee to trade on the membership owned by the clearing member with shares, Rule 106.J. equity member or affiliate firm, but must withdraw such authority upon termination of his employment or other association with the firm. Notice of the withdrawal of the authority of the transferee to trade on the membership owned by a clearing member with shares, Rule 106.J. equity member or affiliate firm must be given to his qualifying clearing member, and such clearing member must

subsequently notify the Exchange pursuant to Rule 511.A. The clearing member [with shares](#), Rule 106.J. equity member or affiliate firm shall designate on a form provided by the Exchange a representative who shall be authorized to deal with the Exchange with respect to the membership held under this Section.

The proceeds of the sale of a membership which is used to qualify a Rule 106.I. affiliate member firm shall be subject to Rule 110 claims against both the owner of the membership and the Rule 106.I. affiliate member firm.

A Rule 106.I. membership may not be transferred pursuant to any other provision of Rule 106. The membership may not be assigned for membership purposes under Rules [106.H.](#), [106.J.](#), [106.R.](#), [106.S.](#) or 902.

Rule 106.I. firm benefits apply to the firm trading activity of any affiliate as defined in this Rule. All such positions of the firm and its affiliates must be carried by a clearing member(s) in accounts separate from positions of subsidiaries, customers and other entities.

A Rule 106.I. affiliate member firm may not hold itself out to the public as a clearing member.

Exchange staff may grant exemptions from the requirements of this Rule.

## **Chapter 9. CLEARING MEMBERS**

### **900.A. CME Clearing Members**

CME Clearing Members shall have all applicable rights, responsibilities and privileges attendant thereto, subject to the provisions of these rules and shall be qualified to clear transactions for all CME products and all Expanded-Access Products listed for trading by CBOT after July 12, 2007.

[CME Clearing Members receive fees in conjunction with CME Rule 106.H. Trading Member Firms. CME Clearing Members with shares are those clearing members that maintain CME Group Class A shares in accordance with CME Rule 106.J. Equity Member Firm requirements in order to receive equity member rates.](#)

### **900.B. Financial Instrument Clearing Members**

A Financial Instrument Clearing Member ("FICM") shall have the right to clear, for its own account, trades in certain CME and CBOT interest rate products executed in connection with a cash versus futures trading strategy.

The FICM must be guaranteed by a CME and/or CBOT Clearing Member that is entitled to clear all of the products cleared by the FICM. The guarantor must be the clearing member for the FICM's transactions in U.S. Treasury Securities and report to the Clearing House, at appropriate intervals, the FICM's open positions in U.S. Treasury Securities. The guarantor shall assume complete responsibility for all of the FICM's obligations to the Exchange and Clearing House arising from its operations as a FICM. In the event of a default by the FICM to the Clearing House in

respect of any futures or options on futures, the FICM shall be suspended by the Exchange and the open positions of the FICM shall be transferred to, owned by, and become the direct responsibility of the guarantor. In the event of a default by the FICM or a related entity to the guarantor clearing firm, the Exchange will, at the request of the guarantor clearing firm, and upon due verification of the facts, facilitate the suspension of the FICM, in which case the open positions of the FICM shall be transferred to, owned by, and become the direct responsibility of the guarantor.

The FICM shall be subject to applicable CME and CBOT Rules, including those contained in CME and CBOT Rules Chapter 8 and Chapter 9, and including without limitation, CME Rule 802 (Protection of the Clearing House, including the primary responsibility for the Clearing House assessment obligation therein). The FICM shall comply with all of the requirements and obligations of a clearing member pursuant to CME Rule 901 (General Requirements and Obligations) with the exception of the parent guarantee requirement pursuant to CME 901(L). The FICM must satisfy the following requirements:

- (i) Adjusted Net Capital of \$500,000;
- (ii) Initial minimum guaranty fund deposit of \$50,000 to be increased to reflect transaction volume, open interest and risk;
- ~~(iii)~~ The assignment of one Full or two Associate Memberships and 4,000 CME Group shares for the privilege of clearing CBOT interest rate products and two CME, two IMM, two IOM, and one GEM membership and 6000 CME Group shares for the privilege of clearing CME interest rate products. The CME Group share requirement for FICMs eligible to clear both CBOT and CME interest rate products is 7,750 shares. Memberships and shares may be independently assigned.
- ~~(iii)~~ FICMs receive fees in conjunction with CME and/or CBOT Rule 106.H. Trading Member Firms as applicable. FICMs that maintain CME Group Class A shares in accordance with CME Rule 106.J. Equity Member Firm requirements are eligible to receive equity member rates.
- (iv) The applicant shall be engaged in or demonstrate immediate capacity to engage in U.S. Treasury/interest rate futures spread trades and in order to maintain the status of a FICM, shall actively execute both sides of U.S. Treasury/interest rate futures spread trades.

A FICM applicant shall execute and place on file with the Exchange the following documents:

- (v) An application for the FICM clearing membership;
- (vi) Globex System access documentation;
- (vii) Settlement bank account documents to permit the Clearing House to collect and disperse monies directly to the FICM;
- (viii) An acknowledgement from the guarantor that it agrees to guarantee the performance and financial obligations of the FICM to the Clearing House for certain identified interest rate products;

- (ix) Authorization to the Clearing House to verify, at its discretion, the transactions and open positions of the FICM in U.S. Treasury Securities;
- (x) Authorization to the Clearing House to deliver the FICM's trade register and recap ledger to the FICM's Clearing Member guarantor;
- (xi) A Clearing Member and FICM authorization pursuant to which the Clearing Member/guarantor will be authorized to submit complete and accurate transaction and position information respecting the U.S Treasury Securities of the FICM to the Clearing House; and
- (xii) Any additional documents or information requested by the Clearing House for risk management purposes.

Exchange staff may grant exceptions to the requirements of Rule 900.[CB](#) for good cause if it is determined that such exceptions will not jeopardize the financial integrity of the Exchange.

