



Special Executive Report

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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 CBOT rules appear below.

CBOT 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 that either: owns, directly or indirectly, 100% of a clearing member with shares, Rule 106.J. equity member firm or Rule 106.H. trading 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, Rule 106.J. equity member firm or Rule 106.H. trading member firm. Clearing Members with shares are those clearing members that maintain CME Group Class A shares in accordance with CBOT Rule 106.J. Equity Member Firm requirements in order to receive equity member rates.

A firm may qualify as a:

- Rule 106.I. affiliate equity member firm if a Series B-1 (Full) membership and 6,000 CME Group Class A Shares or a Series B-2 (Associate) membership and 1,750 CME Group Class A Shares are assigned for the firm's membership privileges; or
- Rule 106.I. affiliate trading member firm if the membership required by the Exchange is assigned for the firm's membership privileges or leased by the Rule 106.I. affiliate trading member firm; or

- Rule 106.I. qualified affiliate of a CBOT clearing member [with shares](#) or Rule 106.J. equity member which also qualifies for the CBOT membership umbrella.

A CBOT clearing member [with shares](#) or Rule 106.J. equity member firm may qualify for the CBOT membership umbrella if it has assigned to it four Series B-1 (Full) memberships, two Series B-2 (Associate) memberships and 6,000 CME Group ~~Class A S~~shares or five Series B-1 (Full) memberships and 6,000 CME Group ~~Class A S~~shares (Agricultural only). A CBOT clearing member [with shares](#) or Rule 106.J. equity member firm which qualifies for the CBOT membership umbrella may qualify an unlimited number of affiliates but the qualified affiliates must be registered with the Exchange. The memberships and CME Group ~~Class A S~~shares required to qualify for the CBOT membership umbrella include the memberships and shares required for the CBOT clearing member [with shares](#) or Rule 106.J. equity member firms' privileges, including any independent assignments.

Rule 106.I. affiliate equity member firms that held equity member firm status as of July 12, 2007 with a Series B-1 (Full) membership have a grandfathered share requirement of 4,725 CME Group Class A Shares.

The memberships and/or CME Group Class A Shares required by the Exchange must be owned by the clearing member [with shares](#), Rule 106.J. equity member firm, Rule 106.H. trading member firm, affiliate member firm, by one or more affiliates, or by principals or employees of the member firm or one or more affiliates, except for Rule 106.I. affiliate trading member firms where the qualifying membership may be leased by the affiliate trading member firm.

A qualifying membership may be held in the name of the clearing member [with shares](#), Rule 106.J. equity member firm, Rule 106.H. trading member firm, affiliate member firm, by one or more affiliates or a principal or employee of the clearing member [with shares](#), Rule 106.J. equity member firm, Rule 106.H. trading member firm or affiliate member firm. The firm may transfer the membership among such persons 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 firm shall have the right, at any time, to withdraw the authority of the transferee to trade on a membership but must withdraw such authority upon termination of his employment or other association with the clearing member [with shares](#), Rule 106.J. equity member firm, Rule 106.H. trading member firm or affiliate member firm. Notice of the withdrawal of the authority of the transferee to trade on a membership 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 firm, Rule 106.H. trading member firm or affiliate member firm shall designate on a form provided by the Exchange a representative who shall be authorized to deal with the Exchange with respect to any membership held under this Section.

The proceeds of the sale of a membership which has been assigned in order 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. affiliate member firm benefits apply to the firm trading activity of a Rule 106.I. affiliate equity member firm; a Rule 106.I. affiliate trading member firm or Rule 106.I. qualified affiliates of a CBOT clearing member [with shares](#) or Rule 106.J. equity member which qualifies for the CBOT membership umbrella which are registered with the Exchange. All such positions of 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. CATEGORIES OF CLEARING MEMBERS

The Exchange may establish different clearing member categories and alter the rights and responsibilities of such categories.

The term “clearing member” as used in the Rules, shall include all clearing member categories established by the Exchange, including Clearing FCMs, grandfathered Clearing Closely Held Corporate Members¹, Clearing Corporate Members, Financial Instrument Clearing Members and Sole Proprietor Clearing Members, unless otherwise specified. Clearing members that qualified as Clearing Closely Held Corporate Members prior to June 30, 2010 are grandfathered as Clearing Closely Held Corporate Members.

CBOT 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 CBOT products and all Expanded-Access Products listed for trading by CME after July 12, 2007.

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

901. GENERAL REQUIREMENTS AND OBLIGATIONS

Membership in the Clearing House is a privilege and license granted by the Board and may be withdrawn by the Board for cause at any time. Clearing House staff may grant exemptions to the General Requirements and Obligations set forth below for Clearing Members if it is determined that such an exemption will not jeopardize the financial integrity of the Clearing House. Subject to such exemptions, each applicant for qualification as a clearing member must satisfy the following requirements:

- A. It shall be a corporation (defined by the Rules of the Exchange to include a limited liability company), partnership or other entity approved by Exchange staff. It shall agree to: 1) abide by all Exchange Rules and to cooperate in their enforcement; 2) be responsible, even after it has withdrawn as a clearing member, for any violations of Exchange Rules committed by it while it was a clearing member; and 3) continue to meet all requirements applicable to clearing members, including all financial requirements provided by these rules;
- B. It shall have an authorized representative (i.e., officer, principal, or partner) who shall represent the clearing member before the Exchange and its committees. Such authorized representative shall be responsible to the Exchange for any representations made to the Exchange as if such person were a member as defined by Rule 400.
- C. It shall be qualified to do business in the State of Illinois or the State of New York or have a valid agency agreement with an entity qualified to do business in the State of Illinois or the State of New York;
- D. It shall be engaged in or demonstrate immediate capacity to engage in the conduct of the business of a clearing member;
- E. It shall demonstrate such fiscal and moral integrity as would justify the Clearing House's assumption of the risks inherent in clearing its trades;
- F. It shall demonstrate financial capitalization commensurate with Exchange requirements as set by the Clearing House Risk Committee;
- G. If any person directly or indirectly controls, owns 10% or more of, or has the right to 10% or more of the profits of two or more clearing members, then each such clearing member shall guarantee the obligations of the others to the Clearing House and shall execute a written guarantee to the Clearing House on a form approved by the Clearing House.
- H. It shall notify the Exchange prior to any significant business transaction or significant change in operations which shall include, but is not limited to the following:
 - 1. The merger, combination or consolidation between the clearing member and another person or entity;
 - 2. The assumption or guarantee by the clearing member of all or substantially all of the liabilities of another in connection with a direct or indirect acquisition of all or substantially all of that person's or entity's assets;
 - 3. The sale by the clearing member of a significant part of its business and/or assets to another person or entity;
 - 4. A change in the direct or indirect beneficial ownership of 20% or more of the clearing member;
 - 5. Any change in the system provider used by the clearing member to process its trades; and
 - 6. A significant increase in the number of members that a clearing member qualifies.Additionally, a clearing member that qualifies members must provide fifteen days notice to the Exchange of any proposal to terminate such business or any material part of such business.

The Clearing House Risk Committee or Exchange staff, upon such notice, may disapprove or approve, subject to certain conditions, such changes in structure or

operations if it determines that the proposed change could jeopardize the financial or operational integrity of the Exchange or the Clearing House.

- I. It shall agree to guarantee and assume complete responsibility for the financial obligations attendant to: 1) all trades and orders executed or accepted for execution by a member it qualifies, including trades and orders executed, or which such member fails to execute, negligently, fraudulently or in violation of Exchange rules; 2) an unpaid arbitration award issued by a panel of the Arbitration Committee against a member it qualifies in circumstances where the dispute is related to a matter described in number 1) above; 3) an unpaid restitution order issued against a member it qualifies by a panel of the Business Conduct Committee, the Clearing House Risk Committee or a hearing panel of the Board of Directors; and 4) unpaid Exchange disciplinary fines imposed upon a member it qualifies if the member is also an employee of the clearing member or its affiliate, subject to a determination by the sanctioning entity.
- J. It shall notify the Audit Department in a timely manner of any material change in key personnel who are responsible to act on behalf of the clearing member.
- K. [Reserved]
- L. It shall submit to the Clearing House a written guarantee, on a form provided by the Clearing House, from each person or entity owning 5% or more of the equity securities of the clearing member, that shall guarantee all obligations of the clearing member to the Clearing House arising out of accounts cleared by the clearing member that are:
 - 1. non-customer accounts, including proprietary accounts as defined by CFTC Regulation 1.3(y); and
 - 2. accounts carried by another futures commission merchant if such accounts would be considered non-customer accounts, including proprietary accounts as defined by CFTC Regulation 1.3(y), of the clearing member, if carried directly by the clearing member.

Notwithstanding anything herein to the contrary, the guarantee required by this Rule 901.L. shall not apply to any obligations of the clearing member to pay an assessment to the Clearing House pursuant to Rule 802.B.

Each clearing member must submit and maintain with the Audit Department a current list of every person or entity which is directly, or indirectly through intermediaries, the beneficial owner of 5% or more of any class of equity security of the clearing member. If such person or entity owns the clearing member indirectly through intermediaries, all intermediaries must be listed including, if a corporation, all shareholders who own 5% or more of any class of equity security, or, if a partnership, all general and any limited or special partners who have contributed 5% or more of the partnership's capital. If the intermediary's shareholders or partners are not individuals, the clearing member must include the chain of ownership of 5% shareholders, general partners and 5% limited or special partners until individuals are listed.

If a corporation directly or indirectly owns 5% or more of the equity securities of the clearing member, the written guarantee shall be signed by an appropriate officer of the corporation, and a resolution granting such officer authority to sign the guarantee shall also be submitted to the Clearing House. Clearing House staff may also require each person or entity owning 5% or more of the equity securities of such parent corporation, or of parents of such

parent corporation, to execute guarantees.

For purposes of this Rule 901.L., the term "equity security" shall include any stock, partnership interest or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security that Clearing House staff shall deem to be of similar nature and consider necessary or appropriate to treat as an equity security.

- M. It shall guarantee and assume financial responsibility for all trading activity routed through a Globex portal, or routed through any other electronic trading system to CME for clearing of such transactions. Such activity is guaranteed to CME by the clearing member via any connection, terminal, link, telecommunications hub or handheld unit provided by the clearing member to a third party as well as any other applicable electronic trading systems and terminals that the clearing member provides to a third party to enter orders.
- N. It shall be responsible for the acts of Globex terminal operators accessing the Globex system through its connections, including direct connections or other connections that it provides to firms that are under common ownership with it. It shall be the duty of the clearing member to supervise its employees and agents acting as Globex terminal operators to ensure such employees and agents comply with Exchange rules, and any violation of Exchange rules by such terminal operators shall be considered a violation by the clearing member.²
- O. 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, CBOT 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 this CBOT Rule 901 (General Requirements and Obligations) with the exception of the parent guarantee requirement pursuant to CBOT Rule 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 CBOT 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 901.O for good cause if it is determined that such exceptions will not jeopardize the financial integrity of the Exchange.