

Advisory Notice

Clearing House

10-153

TO: Clearing Member Firms
Back Office Managers

FROM: CME Clearing

SUBJECT: Phased Introduction of Mandatory Globex Credit Controls

DATE: April 9, 2010

In order to enhance the risk management tools available to clearing firms utilizing CME Globex®, CME Group (on behalf of CME/CBOT/NYMEX/COMEX) rolled out enhanced Globex Credit Control functionality, commonly referred to as “GC²”, in May 2009. The purpose of GC² is to provide clearing firms with an additional, backstop risk management tool that allows for flexible administration of limits on the accumulation of daily exposure on CME Globex. GC² was initially made available to clearing firms on a voluntary basis. Effective June 25, 2010, it will be mandatory that clearing members employ GC² credit control functionality on every one of their Globex Execution Firms per the phased schedule noted below.

In assessing the risks attendant to today’s electronic trading environment, the Clearing House Risk Committee recently approved Rule 949 (Credit Control Policy). Rule 949 states:

Clearing Members shall comply with all credit control policies developed by the Exchange for customer and proprietary transactions. Such credit control policies may include, but not be limited to, registration of credit control administrators with the Exchange, definition of credit control limits, and maintenance of written procedures verifying compliance with Exchange credit control requirements. For general reference purposes, credit control functionality that may be developed for Globex is a system or service pursuant to Rule 578.

In conjunction with the approval of CME Rule 949, the Clearing House Risk Committee also considered and approved an approach towards the mandatory utilization of GC². CME Clearing, working in conjunction with Globex Account Management, will coordinate with each clearing firm to implement GC² across each clearing firm’s Globex Execution Firms, utilizing the phased approach below (please also see the “Functional Overview” section below for a basic description of GC²). Please note that any GC² credit control functionality required by the Exchange shall be **in addition** to a clearing member’s internal risk monitoring and credit control procedures.

PHASED IMPLEMENTATION:

Phase I of the Mandatory Electronic Trading Controls policy will go into effect this summer. Clearing firms will be required to register at least one Risk Administrator for the CME GC² system, per the following schedule:

<u>Active Clearing Firm Numbers</u>	<u>Deadline</u>
001 - 152	June 25
153 – 350	July 7
351 – 700	July 23
701 - 999	August 6

In addition, each clearing firm will be required to enter a value for the Automated Controls in CME GC² for each of its Globex Execution Firms by that same date. Please note that while the primary goal in Phase I is for each clearing firm to go “live” on GC², in order to allow clearing firms to get acclimated with GC², each clearing firm will have a degree of freedom to determine the value it wants to initially establish for each of its Globex Execution Firms by the dates above. **Please be advised that manual clip sizes do not satisfy the requirement.**

Phase II will go into effect on January 1, 2011. At that time, CME Clearing will evaluate the values in the CME Globex Credit Controls system for each clearing firm’s Globex Execution Firms relative to the historical activity for that Globex Execution Firm and the resources of the clearing firm. Please note that the Phase II evaluation will check to ensure that the value in GC² is a reasonable backstop value.

The GC² tool is in no way meant to replace any other risk management tools or procedures that should be put in place. This tool is also not intended for granular risk management of individual customers. It is simply intended to act as a backstop system outside the clearing firm’s systems that can limit the risk exposure an execution firm can accumulate in the course of one day.

FUNCTIONAL OVERVIEW:

The functional framework of GC² can be described as follows:

- * Clearing Firm access to CME Globex is achieved via the establishment of one or more “Globex Execution Firms”. A Globex Execution Firm is in turn tied to an iLink session, which establishes the logical connection to CME Globex.
- * GC² allows clearing firms to establish credit limits for each Globex Execution Firm.
- * Clearing firms register one or more “Risk Administrators”. The primary responsibilities of Risk

Administrators are to establish and maintain limits in GC² for each of the clearing firm's Globex Execution Firms, and to maintain 'notification thresholds' associated with the credit limits in place for each Globex Execution Firm. Risk Administrators establish the automatic notification levels and who will receive GC² order activity information for a given Globex Execution Firm as the order activity approaches and/or exceeds GC² credit limit thresholds.

More information and a detailed Client Overview on the CME Globex Credit Controls System is available at <http://www.cmegroup.com/gc2>. Please contact the Clearing House Risk Management Department at 312.648.3888 for more information.