



## Advisory Notice

Clearing House

12-275

TO: All Clearing Members  
FROM: CME Clearing  
DATE: July 2, 2012  
RE: CFTC Regulation 1.73 – Clearing Member Risk Management

The Commodity Futures Trading Commission (CFTC) recently adopted new Regulation 1.73, Clearing Futures Commission Merchant Risk Management, that imposes certain risk management obligations upon futures commission merchants (FCMs) and non-futures commission merchant (non-FCMs) (See, parallel CFTC Regulation 23.609) clearing members of CME Clearing.

The specific risk management obligations include –

- The establishment of risk-based limits for the proprietary and each customer account based on position/order size, margin requirements or similar factors;
- The ability to screen orders for compliance with the risk-based limits -
  - By automated means for electronic market access,
  - By systems of risk controls for non-automated execution and bilateral execution that are reasonably designed to ensure compliance with the limits;
  - For give up orders, the carrying firm –
    - Must establish risk-based limits and, by agreement in advance, require the executing firm to screen the orders for compliance with the limits, and
    - Must maintain systems of risk management controls reasonably designed to ensure compliance with the limits;
  - For block orders –
    - The FCM that initially clears the order must establish risk-based limits for the block account and screen the orders for compliance,
    - FCMs that clear the allocated trades shall establish risk-based limits for each customer and, by agreement in advance, require the account manager to screen the orders for compliance with the limits, and
    - FCMs that clear the allocated trades for customers shall maintain systems of risk management controls that are reasonably designed to ensure compliance with the limits;

- Monitor for adherence to risk-based limits intra-day and overnight;
- At least once per week –
  - Stress test all positions in the proprietary account and each customer account that pose a material risk to the FCM,
  - Evaluate its ability to meet initial margin requirements, and
  - Evaluate its ability to meet variation margin requirements in cash;
  
- At least once per quarter –
  - Evaluate its ability to liquidate, in an orderly manner, the positions in the proprietary and customer accounts and estimate the cost of the liquidation;
- At least once per year –
  - Test all lines of credit.

Further, each FCM and non-FCM clearing member of CME Clearing must –

- Establish written procedures to comply with Regulation 1.73, and
- Keep full, complete, and systemic records documenting its compliance with the Regulation,
- Maintained in compliance with Commission Regulation 1.31 and made available promptly upon request to the Commission or other applicable prudential regulator.

Please be further reminded that CME Clearing requires that Clearing Members maintain written risk management policies and procedures pursuant to CME Rule 982, Risk Management.

CFTC Regulation 1.73 is effective on October 1, 2012. The full text may be found here –

<http://www.cftc.gov/ucm/groups/public/@Irfederalregister/documents/file/2012-7477a.pdf>

CME Clearing provides tools to assist with clearing members' compliance with the risk-based limit requirements mandated by CFTC Regulation 1.73. The CME EOS Trader, a web-based front-end system for electronic access to CME Globex, provides the functionality, as well as CME ClearPort, with the RAV Manager functionality. Risk-based limit functionality is also available for OTC products cleared at CME Clearing. Please contact Tim Maher (312) 930-2730 or [timothy.maher@cmegroup.com](mailto:timothy.maher@cmegroup.com) at CME Clearing for additional information regarding these tools.

CME Clearing requests that each clearing member consult with its legal counsel and chief compliance officer to ensure timely adherence to the CFTC's Regulation 1.73.