

Memorandum

TO: CLEARING MEMBERS
FROM: CME CLEARING
DATE: 1/5/15
ADVISORY #: 15-001
SUBJECT: **Implementation of Liquidity Rules 822 & 901.Q**

On December 23, 2014, CME received notice from the CFTC that it does not object to implementation of Proposed Rules 822 and 901.Q. Accordingly, effective February 12, 2015, CME will implement the following liquidity rules:

- CME/CBOT/NYMEX Rule 822. Liquidity Risk Management
- CME/CBOT/NYMEX Rule 901.Q. Requirement to Establish Uncommitted Repo

Regarding Rule 901.Q, CME Clearing will provide each clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate with the master repurchase agreement for execution.

If you have any questions, please contact Suzanne Sprague (by phone at 312-930-3260; by email at suzanne.sprague@cme.com) or Bryan McBlaine (by phone at 312-338-2469; by email at bryan.mcblaine@cme.com).

CME/CBOT/NYMEX RULE 822. Liquidity Risk Management.

A. Liquidity Rules. In the event the Clearing House needs liquidity for non-cash collateral of a clearing member or its customers for same day settlement, the Clearing House will first attempt to obtain liquidity for such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event the Clearing House is unable to obtain same day settlement through such means, the Clearing House may declare the occurrence of a Liquidity Event and in its sole discretion may take the following actions in the following order to secure same day liquidity for such assets as follows:

1. Substitution of Guaranty Fund Cash.

- a. The Clearing House may substitute any cash deposited by clearing members in a guaranty fund with U.S. Treasuries deposited as performance bond or guaranty fund by a clearing member that is the subject of such Liquidity Event and that participates in such guaranty fund in an amount of assets with haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of cash substituted. Any assets transferred by this rule shall be applied as guaranty fund deposit(s) of any such clearing member whose cash was substituted and will be allocated pro rata among any clearing members with cash deposits. The substitution of U.S. Treasuries for the clearing member's guaranty fund deposit(s) will be limited to the size of the clearing member's guaranty fund deposit(s) at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash in a guaranty fund, the impacted clearing member may, within 24 hours of substitution, request that the Clearing House replace the cash for the substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of substitution. Any clearing member requesting cash replacement will receive the exact value in cash received by the Clearing House upon liquidation the U.S. Treasuries.
- b. In order to ensure the Clearing House can obtain sufficient cash from a guaranty fund pursuant 1.a. above, the Clearing House may notify any clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate to replace its non-cash guaranty fund assets with cash within 60 minutes from the time of notification. To the extent that a clearing member(s) fails to provide cash within 60 minutes or the request occurs after 3 PM Central time, the Clearing House may debit cash from that clearing member's settlement bank account in the amount of the clearing member's non-cash guaranty fund assets.

2. U.S. Treasury Sale to Meet Clearing House Settlement Variation Obligations. The Clearing House may offset its US dollar settlement variation obligations to any clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate, up to the amount of that clearing member's guaranty fund contribution(s), by selling U.S. Treasuries valued based on the prior day's closing prices with prevailing CME haircuts applied in exchange for US dollar cash from the clearing member. The US dollar cash received by CME from the clearing member shall be in the form of the variation margin obligation owed by CME and CME shall deliver the purchased U.S. Treasury securities to the U.S. Government Securities Broker-Dealer.

B. Transfer or Disbursement of Collateral as Compensation for Portfolio Auction, Sale or Transfer with Notice in Advance. To the extent permitted by the terms of any auction, sale or transfer of a defaulted or suspended clearing member's or customer portfolio for which a payment is owed by the Clearing House to an auction winner, purchaser or transferee, in lieu of satisfying such payment with cash, the Clearing House may satisfy any payment owed to such persons by transferring Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such obligation.

CME/CBOT/NYMEX Rule 901.Q. Requirement to Establish Uncommitted Repo.

Each clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House.

CME/CBOT/NYMEX DEFINITIONS

“Liquidity Event” shall mean the Clearing House requires liquidity (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

“U.S. Government Securities Broker-Dealer” shall mean a broker-dealer registered with the Securities and Exchange Commission that functions in the operation of markets for U.S. Treasuries. The functions may include, but are not limited to:

- Acting as a channel for the United States Department of the Treasury and investors in primary market for U.S. Treasuries (for example, by participating in auctions);
- Acting as providers of liquidity in primary and secondary markets for U.S. Treasuries; and
- Acting as providers of asset transformation and market making services in the market for U.S. Treasuries.