

CFTC New Cleared OTC Derivatives Account Class

Frequently Asked Questions

1. What is the 4d account class?

- Pursuant to the Commodity Exchange Act and CFTC regulations, accounts governed by Section 4d of the Commodity Exchange Act contain funds of customers trading futures and options on futures on U.S. exchanges, separate from the FCM's own funds.
- The CFTC also permits funds margining cleared OTC transactions to be held in 4d accounts if a CFTC Section 4d order has been issued for specific products.

2. What is the new CFTC “cleared OTC derivatives” account class?

- The CFTC put into effect new regulations that created a new customer account class for cleared OTC derivatives, including but not limited to CDS.
- The new account class will provide customer protection parallel to the existing 4d/futures account class, including similar safeguards under CFTC Part 190 Bankruptcy rules.

3. Why withdraw the 4d petition for CDS?

Given that this new account class provides for parallel customer protection to the existing 4d futures account class under CFTC Part 190 Bankruptcy rules, we are withdrawing our 4d petition for CDS and instead will utilize the cleared OTC derivatives account class to ensure the safety and security of customer funds for cleared CDS.

4. Is CME eligible to re-file a 4d petition in the future?

Yes, CME could resubmit a 4d petition for CDS or other cleared-only OTC derivatives.

5. Does this impact CME Group's pursuit of 4d status for any other cleared OTC derivatives, such as Interest Rate Swaps?

- No, CME Group will continue its plans to request CFTC 4d status for other cleared OTC derivatives, including OTC IRS, which would enable margin offsets with listed futures in customer accounts.
- The new OTC account class for cleared OTC derivatives does not affect any existing 4d order, any pending 4d petition, or any new 4d petition submitted by CME Group.

6. What does CME need to do to launch the new account class for cleared OTC derivatives?

CME will adopt new rules for the OTC account class which will mirror CFTC regulations for the 4d/futures account class, including but not limited to rules regarding separation of customer and FCM assets and investment of customer funds.

7. When will CME implement the new OTC account class?

- CME Clearing will begin to provide firms with testing opportunities for the new OTC account class in late July.
- CME expects its rules for the new account class to go into effect on September 13, 2010.
- Existing customer positions and collateral currently in 30.7 secured accounts will be transferred into the new account class for cleared OTC derivatives.

8. Will CME continue to clear CDS while the transition is made to the new OTC account class?

Yes, until the new OTC account class is operational, CME will continue to utilize the 30.7 secured accounts for all products that are not eligible for the Section 4d futures account class.

9. Does the change in account class effect cross margin benefits?

There are no margin offset benefits with 4d for CDS, so the decision to rescind the 4d petition has no effect on cross margin benefits.

10. How will FCMs be impacted by CME's adoption of the new OTC account class?

- As further explained in a Clearing Advisory issued on June 17, 2010, FCMs should begin to develop the necessary accounting and operational systems, procedures, and controls to ensure they can adhere to these new requirements when they go into effect.
- FCMs should also open new bank and safekeeping accounts for cleared OTC customer assets.

This summary is neither intended nor written to be legal advice to any person, and individuals and entities should seek advice from their independent legal advisors with any questions regarding these issues.

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