

**UNITED STATES OF AMERICA**  
**Before the**  
**COMMODITY FUTURES TRADING COMMISSION**

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**In the Matter of the Application of**  
**AE Clearinghouse, LLC**  
**For Registration as a Derivatives Clearing Organization**

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**ORDER OF REGISTRATION**

The AE Clearinghouse (“AECH”) has submitted, pursuant to Section 5b of the Commodity Exchange Act (“Act”), an application for registration as a derivatives clearing organization (“DCO”) for the clearing of over-the-counter (“OTC”) derivatives contracts, agreements or transactions excluded from the Act (the “Application”). As part of its review of the Application, the Commodity Futures Trading Commission (“Commission”) posted on its website relevant portions of the Application for public comment. No comments were received. Based on the Application and information provided in support of the Application, the Commission finds that AECH has demonstrated compliance with the requirements under the Act and the Commission’s regulations thereunder applicable to registration of DCOs. Therefore,

IT IS ORDERED, under Section 5b of the Act, 7 U.S.C. § 7a-1, that the application of AECH for registration as a DCO is granted, subject to the terms and conditions specified herein, for and limited to the clearing by AECH of cash-settled contracts, agreements or transactions excluded under Section 2(d) of the Act or executed on a board of trade exempted under §5d of the Act.

IT IS FURTHER ORDERED, that:

(1) AECH shall remain in compliance with the core principles set forth in Section 5b of the Act and at all times fulfill each of the various commitments and representations made in its

Application to the Commission for DCO registration including those in all attachments and supporting materials, whenever submitted, including in particular, but not limited to:

- a) AECH shall clear only for eligible contract participants as defined in Section 1a(12) of the Act and shall monitor and enforce compliance by its members with each of its eligibility standards.
- b) AECH shall ensure, for each transaction it accepts for clearing, prior to acceptance, and at all times until that position is closed out by expiration or offset, that AECH has in its possession and control, (i) the amount of initial margin AECH requires to support that position plus (ii) a default protection facility in an amount which equals or exceeds the margin required by a factor of no less than three.
- c) AECH shall require initial margin to be in the form of (i) US dollar cash, (ii) US Treasury instruments, or (iii) an investment permissible under Commission Rule 1.25 (in the latter case subject to any haircuts applicable under that Rule).
- d) AECH shall require default protection facility contributions to be in the form of (i) US dollar cash, (ii) US Treasury instruments, (iii) an investment permissible under Commission Rule 1.25 (in the latter case subject to any haircuts applicable under that Rule) or (iv) an irrevocable letter of credit in the form specified by the Unified Clearing Group, issued by a banking institution with one of the top two ratings issued by a Nationally Recognized Statistical Rating Organization.
- e) AECH shall establish by rule, for any contract accepted for clearing, a maximum allowable change in price between a “Failed Obligation mark” and the next previous “mark” at which all Member obligations are satisfied, the value of which shall not exceed 95% of the sum of (i) the initial margin required for that contract and (ii) the amount of the default protection facility required to be on deposit and in its possession and control.
- f) AECH shall establish the initial margin for each product cleared, using available data, pertinent models or other indications, in an amount reasonably calculated to cover 95% of single day price moves.
- g) AECH shall obtain scheduled marks of contract prices of open positions for every trading account at least once every business day.
- h) AECH shall calculate funding requirements for each member firm at each mark, whether scheduled or unscheduled, and shall require each member firm to satisfy all outstanding obligations in the timeframes set forth in the rules and other documents governing AECH’s requirements for its Members, and Trading Accounts carried by its Members and shall initiate the recourse procedures when triggered under those documents;

(2) AECH shall notify the Commission directly of any failed obligation or defaulted Member Firm as soon as possible, but in any event within two hours. In such cases, AECH shall provide the Commission with information regarding the impact of the failed obligation or default on the adequacy of AECH's financial resources;

(3) AECH shall have sufficient financial resources to fund the required administrative capability to continue clearing for the time period required to wind down operations but in any event for at least six months forward, with a one-month cure period, before undertaking active clearing and at the beginning of every calendar month thereafter;

(4) AECH shall promptly inform the Commission directly of information regarding any event, circumstance, or situation concerning any of AECH's operations as a clearing organization that detracts from AECH's ability to continue complying with any of the core principles set forth in Section 5b of the Act; and

(5) AECH shall ensure the performance of all self-regulatory functions required of it as a DCO under the Act and Commission regulations, including enforcement of the terms of all AECH rules, regulations, and procedures.

(6) AECH shall provide all participants with full disclosure concerning applicable rules and policies including the limits on the credit support provided by AECH.

This Order is issued based upon the representations made and supporting material provided to the Commission by AECH. In the event of any material changes to or omissions in the facts and circumstances pursuant to which this Order is granted, or for any reason in its own discretion, the Commission may condition, modify, suspend, terminate or otherwise restrict the terms of this Order, as appropriate, on its own motion.

Issued in Washington, D.C., this 8<sup>th</sup> day of April, 2005.

By the Commission

/s/\_\_\_\_\_

Jean A. Webb  
Secretary of the Commission