

RECEIVED
C.F.T.C.
'99 OCT 25 PM 1 44

CHICAGO MERCANTILE EXCHANGE

OFFICE OF THE SECRETARIAT

October 22, 1999

Stephen M. Szarmack
Assistant General Counsel
Legal Department
Phone: 312/648-5422
Fax: 312/930-3323
email: sszarmac@cme.com

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Section 5a(a)(12)(A), Regulation §1.41(c) Submission. Amendments to Rule 830.—Cross-Margining and Rule 802.—Protection of Clearing House Submission No. 99-186

Dear Ms. Webb:

I. SUBMISSION

The Chicago Mercantile Exchange ("Exchange") hereby submits to the Commission, pursuant to Section 5a(a)(12)(A) of the Commodity Exchange Act and Commission Regulation §1.41(c), proposed amendments to Rules 830.—Cross-Margining and 802.—Protection of Clearing House.

II. TEXT OF RULE AMENDMENTS

The text of the rule amendments is set forth below with additions underscored and deletions bracketed and lined-out.

830. CROSS-MARGINING

830.A. Definitions

1. **Cross-Margining Affiliate:** An affiliate of a Participating Clearing Member with which such clearing member is cross-margining its positions at the Clearing House and a Cross-Margining Clearing Organization.

2. **Participating Clearing Member:** A clearing member that is cross-margining its positions at the Clearing House with its own or a Cross-Margining Affiliate's positions at a Cross-Margining Clearing Organization.
3. **Cross-Margining Clearing Organization:** A clearing organization that has entered into a Cross-Margining Agreement with the Exchange.
4. Joint Cross-Margining Program: A cross-margining program in which the Exchange and one or more Cross-Margining Clearing Organizations each hold a joint security interest in positions, margin and other property of Participating Clearing Members and, if applicable, their Cross-Margining Affiliates.
5. Guaranteed Cross-Margining Program: A cross-margining program in which a guaranty is provided by and between the Exchange and one or more Cross-Margining Clearing Organizations and each entity holds an individual security interest in positions, margin and other property of Participating Clearing Members and, if applicable, their Cross-Margining Affiliate.

830.B. Cross-Margining Programs ~~{Accounts}~~

1. A Class A clearing member may become a Participating Clearing Member in a Joint Cross-Margining Program by establishing with the Clearing House one or more cross-margin accounts for cross-margining positions with either its own positions or those of a Cross-Margining Affiliate at a Cross-Margining Clearing Organization. ~~{The Exchange shall determine what positions will be eligible for cross-margining.}~~ In order to establish a cross-margin account, a clearing member shall enter into a Cross-Margining Account Agreement and Security Agreement with the Exchange, the Cross-Margining Clearing Organization, and, if applicable, the member's Cross-Margining Affiliate. That Agreement shall provide, among other things, that the Exchange and the Cross-Margining Clearing Organization shall jointly have a first lien on and security interest in all positions held in the cross-margin account, all related performance bond, and all proceeds of the foregoing, as security for the obligations of the clearing member and, if applicable, its Cross-Margining Affiliate, to the Exchange and the Cross-Margining Clearing Organization. Failure to comply with the terms of that Agreement may constitute a major rule violation.
2. A Class A clearing member may become a Participating Clearing Member in a Guaranteed Cross-Margining Program by entering into a Cross-Margining Participant Agreement with the Exchange, the Cross-Margining Clearing

Organization, and, if applicable, the clearing member's Cross-Margining Affiliate. That Agreement shall provide, among other things, that a Participating Clearing Member shall immediately be obligated to reimburse the Exchange ("Reimbursement Obligation") in the event the Participating Clearing Member or its Cross-Margining Affiliate defaults in the payment of any obligation to a Cross-Margining Clearing Organization and the Exchange is required to make a guaranty payment to such Cross-Margining Clearing Organization. In addition, the Agreement shall provide that the Exchange shall have a first lien and security interest in all positions held, all related performance bond, and all proceeds of the foregoing, as security for the obligations of the clearing member and, if applicable, its Cross-Margining Affiliate, to the Exchange. Failure to comply with the terms of that Agreement may constitute a major rule violation.

3. The provisions of this Rule 830 and the corresponding sections of the Clearing House Manual shall apply to all CME-cleared positions held pursuant to a Joint and a Guaranteed ~~in a~~ Cross-~~m~~Margining ~~account~~ Program and shall supersede all other provisions of the Rules to the extent inconsistent therewith. In addition, the Exchange shall determine what positions will be eligible for cross-margining in a Joint and Guaranteed Cross-Margining Program.

830.C. [Reserved]

830.D. Performance Bonds for Cross-Margining Program ~~{Accounts}~~

Performance bond requirements for a Joint and Guaranteed ~~c~~Cross-~~m~~Margining ~~accounts~~ Program shall be determined as set forth in the Cross-Margining Agreement, and that Agreement shall also govern what forms of performance bond will be permitted and how such performance bond will be held.

830.E. Close-Out of Cross-Margin ~~{Account}~~ Positions

A Participating Clearing Member may be suspended if it or its Cross-Margining Affiliate, if any, is in default in payment of any obligation, including a Reimbursement Obligation, with respect to a Joint or Guaranteed ~~c~~Cross-~~m~~Margining Program~~{ accounts at the Clearing House or a Cross-Margining Clearing Organization}~~.

The cross-margin account of a clearing member participating in a Joint Cross-Margining Program may be liquidated by the Clearing House at the request of a Cross-Margining Clearing Organization whether or not the Exchange suspends, or is permitted under the Rules to suspend, such clearing member. Upon the suspension of a Participating Clearing

Ms. Jean A. Webb

October 22, 1999

Page 4

Member, or upon receiving notice from a Cross-Margining Clearing Organization of its suspension of a Participating Clearing Member or its Cross-Margining Affiliate, the Clearing House shall have the right to liquidate the positions in the cross-margin account, convert to cash the performance bond therefor, and dispose of the proceeds thereof, all in accordance with the terms of the Cross-Margining Agreement.

The positions of a clearing member participating in a Guaranteed Cross-Margining Program may be liquidated by the Clearing House in the event that the Participating Clearing Member or its Cross-Margining Affiliate defaults in the payment of any obligation to the Clearing House or a Cross-Margining Clearing Organization. Upon the suspension of a Participating Clearing Member, or upon receiving notice from a Cross-Margining Clearing Organization of its suspension of a Participating Clearing Member or its Cross-Margining Affiliate, the Clearing House may liquidate: the positions of the Participating Clearing Member; all related performance bond; and all proceeds of the foregoing. The Exchange may then apply all such liquidated proceeds to satisfy the Participating Clearing Member's obligations to the Exchange, all in accordance with the terms of the Cross-Margining Agreement.

802.A. Default by Clearing Member and Other Participating Exchanges

1. Default by Clearing Member.

If a clearing member fails promptly to discharge any obligation to the Clearing House, its security deposit (pursuant to Rule 816), its performance bonds on deposit with the Clearing House, and any of its other assets available to the Exchange, and the proceeds of the sale of any memberships assigned to it for clearing qualification shall be applied by the Clearing House to discharge the obligation. The clearing member shall take no action, including but not limited to attempting to obtain a court order, that would interfere with the ability of the Clearing House to so apply such assets and proceeds. For the purposes of this Rule, (i) the positions ~~[in the cross-margin account]~~ of a Participating Clearing Member or its Cross-Margining Affiliate at a Cross-Margining Clearing Organization, and the performance bond thereon, shall be considered assets of the Participating Clearing Member available to the Exchange ~~[to the extent]~~ unless otherwise provided in the Cross-Margining Agreement between the Exchange and such Cross-Margining Clearing Organization, and (ii) any excess proceeds from performance bond deposited by a Joint Clearing Member with respect to positions at a Common Banking and Settlement Clearing Organization shall be considered assets of the Joint Clearing Member available to the Exchange to the extent provided in the Common Banking and Settlement Agreement between the

Exchange and such Common Banking and Settlement Clearing Organization. The clearing member shall immediately make up any deficiencies in its security deposit resulting from such application.

2. Default by Other Participating Exchanges.

If another Participating Exchange fails promptly to discharge any obligation to the Clearing House arising out of the Mutual Offset System, its letters of credit, performance bonds or other assets available to the Exchange shall be applied by the Clearing House Manager to discharge the obligation.

802.B. Satisfaction of Clearing House Obligations

If the Clearing House is unable to satisfy immediately all claims against it arising out of 1) its substitution (pursuant to Rule 804) for a defaulting clearing member or a defaulting Participating Exchange, ~~or~~ 2) a shortfall in a Joint Cross-Margining Program Liquidating Account, or 3) a shortfall in a Guaranteed Cross-Margining Program that occurs as a result of a default by a Participating Clearing Member or its Cross-Margining Affiliate, as described in a Cross-Margining Agreement between the Exchange and a Cross-Margining Clearing Organization; or if the Clearing House is unable to meet any of its obligations as a result of the failure of a depository, larceny, embezzlement or for any other cause, then such claim or obligation shall be met and made good promptly by the use and application of funds from the following sources in the order of priority hereafter listed, with each source of funds to be completely exhausted before the next following source is applied. While such application of funds shall be mandatory, the detailed implementation of Rule 802.B. shall be the responsibility of the Clearing House Committee with the approval of the Board.

[Remainder of Rule Unchanged]

III. EFFECTIVE DATE AND RULE PROMULGATION AUTHORITY

At its regular meeting on Wednesday, October 13, 1999, the Board of Directors, pursuant to Rule 230.j. approved amendments to Rules 830 and 802. The amendments shall become effective November 4, 1999.

IV. OPERATION, PURPOSE AND EFFECT OF THE AMENDMENTS

The Exchange currently is a participant in cross-margining programs with the Options Clearing Corporation ("OCC") and the Board of Trade Clearing Corporation ("BOTCC"). The

Ms. Jean A. Webb
October 22, 1999
Page 6

rules that govern these cross-margining programs are contained in Rule 830 ("Cross-Margining") and also, indirectly, in Rules 802.A. and B. ("Protection of Clearing House").

In preparation for cross-margining with the London Clearing House ("LCH"), several modifications are required to these rules. The modifications are required because the cross-margining program with LCH provides that each participating clearing organization will maintain positions, performance bond collateral and the proceeds thereof, individually. This is a departure from the cross-margining programs with OCC and BOTCC in that, under those programs, all of the positions and performance bond collateral are held in joint accounts. In addition, the cross-margining program with LCH contemplates a cross-guarantee arrangement between CME and LCH which is not present in the cross-margining programs with OCC and BOTCC.

Due to these differences, Rule 830 and Rules 802.A. and B. were modified to accommodate a "joint cross-margining program," such as the OCC and BOTCC programs and a "guaranteed cross-margining program" such as the CME-LCH program.

V. OPPOSING VIEWS

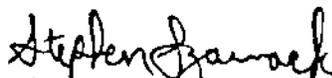
No opposing views have been expressed.

VI. RELEVANT PROVISIONS OF THE CEA OR COMMISSION REGULATIONS

Upon review of the CEA and Commission Regulations, we believe it is not necessary for the Commission to amend or interpret any such Rules or Regulations in order to approve this Submission.

If you have any questions, please call me at (312) 648-5422.

Sincerely,


Stephen M. Szarmack
Senior Attorney

cc: Mr. David Van Wagner
CFTC Division of Trading and Markets
CFTC - Chicago Regional Office