

CME Clearing Europe Ltd. (“CMECE”) – Application for DCO Registration

Relevant Exhibits and supporting documents demonstrating compliance with each Core Principle for DCOs and applicable CFTC Regulations including the Part 39 Regulations are identified in the sections that follow.

Exhibit A-1 – Regulatory Compliance Chart

DCO Core Principles	Applicant Response	Related Documents
<p>(A) Compliance</p> <p>(i) IN GENERAL. To be registered and to maintain registration as a derivatives clearing organization, a derivatives clearing organization shall comply with each core principle described in this paragraph and any requirement that the Commission may impose by rule or regulation pursuant to section 8a(5).</p> <p>(ii) DISCRETION OF DERIVATIVES CLEARING ORGANIZATION. Subject to any rule or regulation prescribed by the Commission, a derivatives clearing organization shall have reasonable discretion in establishing the manner by which the derivatives clearing organization complies with each core principle described in this paragraph.</p>	<p>CME Clearing Europe Limited (“CMECE”) is applying for registration as a derivatives clearing organisation (“DCO”) to provide clearing services for swaps and exchange-listed futures and options on futures to intermediaries that are registered with the CFTC as futures commission merchants (FCMs) and their customers and to persons located in the US or which are otherwise US persons seeking only to self-clear their swaps or futures trades. CMECE proposes to provide clearing services in relation to a range of commodity, FX and interest rate swaps and futures and options on futures contracts (“futures” or “futures contracts”), including futures listed on CME Europe or other foreign boards of trade and on designated contract markets.</p> <p>CMECE is a private limited company organized under the laws of England and Wales. CMECE is an indirect, wholly owned subsidiary of CME Group Inc., a publicly traded company organized under the laws of Delaware in the United States.</p> <p>CMECE is a recognised clearing house in the United Kingdom under the UK Financial Services and Markets Act 2000 (as amended) (“FSMA”), supervised and regulated by the Bank of England and as such, it is a qualifying central counterparty (“QCCP”) for the purposes of the relevant regulatory rules on the capital requirements for bank exposures to central counterparties. CMECE is in</p>	<p>Document A-1 (Regulatory Compliance Chart)</p> <p>Document A-2.1 (CMECE Rules)</p> <p>Document A-2.2 (CMECE Clearing Procedures)</p> <p>Document A-2.3 (CME Europe Exchange Rules)</p> <p>Document A-3.1 (CMECE DCO list of products)</p> <p>Document A-3.2 (DCO Exhibit A-3 - Cover letter clean 29 July)</p> <p>Document A-3.3 (DCO Exhibit A-3 - Cover letter redacted 29 July)</p> <p>Document A-4.1 (CMECE Strategic Business Plan (updated July 2014))</p> <p>Document A-6.1 (Biography Adrienne Seaman)</p> <p>Document A-6.2 (Biography Anita Collett)</p> <p>Document A-6.3 (Biography Hugh Sachs Simpson)</p> <p>Document A-6.4 (Biography James Oliff)</p> <p>Document A-6.5 (Biography Kim Taylor)</p> <p>Document A-6.6 (Biography Marc Vial)</p> <p>Document A-6.7 (Biography Otto Nageli)</p> <p>Document A-6.8 (Biography Simon Stormer)</p> <p>Document A-6.9 (Biography Tina Hasenpusch)</p>

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	<p>the process of applying to become an authorised CCP under EU Regulation 648/2012 on OTC derivatives, central counterparties and trade repositories (known as the “European Market Infrastructure Regulation” or “EMIR”). Once it is authorised under EMIR, CMECE will continue being a QCCP.</p>	<p>Document A-6.10 (Biography Wesley Betsill)</p> <p>Document A-6.11 (Biography William Knottenbelt)</p> <p>Document A-6.12 (CMECE Directors and employees DCO Questionnaire)</p> <p>Document A-7.1 (CME Group Organisational Structure Chart)</p> <p>Document A-8.1 (CMECE Articles of Association)</p> <p>Document A-8.2 (CMECE Memorandum of Association)</p> <p>Document A-8.3 (CMECE Certificate of Incorporation)</p> <p>Document A-8.4 (CMECE Certificate of Good Standing)</p> <p>Document A-10.1 (Clearing Services Agreement)</p> <p>Document A-10.1.1 (Service Level Document Clearing Operations)</p> <p>Document A-10.1.2 (Service Level Document CME Audit and Membership Department)</p> <p>Document A-10.1.3 (Service Level Document CME Banking and Collateral Management Department)</p> <p>Document A-10.1.4 (Service Level Document CME Clearing IT Department)</p> <p>Document A-10.1.5 (Service Level Document CME Disaster Recovery and Business Continuity IT Department)</p> <p>Document A-10.1.6 (Service Level Document CME Group Internal Audit Department)</p> <p>Document A-10.1.7 (Service Level Document CME Market Regulation Department)</p> <p>Document A-10.1.8 (Service Level Document CME Risk Management Department)</p> <p>Document A-10.1.9 (Service Level Document General Services)</p>

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		<p>Document A-10.2 (General Services Agreement)</p> <p>Document A-6.2 (Biography Anita Collett)</p> <p>Document A-11.1 (CCO Job Description)</p> <p>Document A-11.2 (CMECE Whistleblowing Policy)</p> <p>Document A-11.3 (CMECE Disclosure of Potential Conflicts of Interest)</p> <p>Document A-11.4(CMECE Compliance Manual)</p> <p>Document A-11.5 (CMECE Conflicts of Interest Policy)</p> <p>Document A-11.6 (CME Group Code of Conduct)</p> <p>Document A-11.7 (CMECE Anti-Fraud Policy)</p> <p>Document A-11.8 (CMECE Financial Crime Policy)</p> <p>Document A-11.9 (CMECE Gifts and Entertainment Policy)</p> <p>Document A-11.10 (CMECE Outside Business Interests Policy)</p> <p>Document A-11.11 (CMECE Personal Account Dealing Policy)</p> <p>Document A-11.12 (CMECE Data Protection, Confidentiality and Privacy Policy)</p> <p>Document A-11.13 (CMECE Records and Information Management Policy)</p>
<p>(B) Financial Resources</p> <p>(i) IN GENERAL. Each derivatives clearing organization shall have adequate financial, operational, and managerial resources, as determined by the Commission, to discharge each responsibility of the derivatives clearing</p>	<p>CMECE is compliant with the capital requirements in EMIR and the CPSS-IOSCO Principles for financial market infrastructures applicable to CCPs which impose requirements on CMECE to hold minimum levels of financial resources based on the risks applicable to CMECE, based on its operating costs, operational and legal risks, credit, counterparty and market risks and business risks. In accordance with the requirements of EMIR, CMECE retains at all times sufficient financial resources to perform an orderly wind-down of its</p>	<p>Document B-1.1 (CMECE Audited Financial Statements to 31 Dec 2013)</p> <p>Document B-1.2 (CMECE Management Accounts June 2014)</p> <p>Document B-1.3 (CMECE DCO Financial Forecast (Monthly Split))</p> <p>Document B-1.4 (CMECE DCO Forecasted Capital Adequacy)</p> <p>Document B-1.5 (CMECE DCO 39 11(a)(1))</p>

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<p>organization.</p> <p>(ii) MINIMUM AMOUNT OF FINANCIAL RESOURCES. Each derivatives clearing organization shall possess financial resources that, at a minimum, exceed the total amount that would—</p> <p>(I) enable the organization to meet its financial obligations to its members and participants notwithstanding a default by the member or participant creating the largest financial exposure for that organization in extreme but plausible market conditions; and</p> <p>(II) enable the derivatives clearing organization to cover the operating costs of the derivatives clearing organization for a period of 1 year (as calculated on a rolling basis).</p>	<p>business.</p> <p>CMECE holds its regulatory capital in the form of paid-up equity share capital.</p> <p>These financial resources are primarily envisaged to cover the following (but may be used for other purposes):</p> <ul style="list-style-type: none"> Working and regulatory capital needs of the business; and Losses or liquidity requirements arising as a result of operational risk events materialising in the course of CMECE's business. <p>In addition to its regulatory capital, CMECE has financial resources in the form of CMECE's contribution to its Guarantee Funds and Clearing Member collateral, pre-funded initial margin and contributions to the CMECE Guarantee Funds, which are sized to reflect the market and counterparty risks related to contracts cleared by CMECE for its Clearing Members. This form of financial resources is designed continuously to cover the modelled extreme case default losses of the two largest Clearing Member exposures at CMECE. The second-tier default resources under powers of assessment under the CMECE Rules (the unfunded amount of the Guarantee Fund from non-defaulting Clearing Members) cover at least the losses of the third and fourth largest Clearing Member exposures of CMECE.</p> <p>CMECE holds its financial resources in forms that are sufficiently liquid to meet its potential obligations, in relation to a default event or other operational event. CMECE has appropriate arrangements in place with custodians and depositories providing CMECE with rapid access to assets held in secure custody with regulated custodians. Where CMECE invests its own funds or collateral received from Clearing Members, it invests only in accordance with its internal policies for investment activity, which in relation to investing of customer funds of FCM clearing member are consistent with requirements of CFTC Regulation 1.25. CMECE invests collateral and</p>	<p>Financial Resources)</p> <p>Document B-2.1 (CMECE Commodity and FX Stress Testing methodology)</p> <p>Document B-2.2 (CMECE IRS Stress Testing Methodology)</p> <p>Document B-2.3 (Citibank 10 July Statement)</p> <p>Document B-2.4 (Euroclear Collateral Management Services 9 July Statement)</p> <p>Document B-2.5 (Financial Resource Adequacy Liquidity Risk Stress Test)</p> <p>Document B-2.6 (CMECE Sovereign Risk Management Guidelines)</p> <p>Document B-2.7 (CMECE Collateral Policy)</p> <p>Document B-2.8 (CMECE DCO Liquidity Risk Calculation Q&A)</p> <p>Document B-2.9 (CMECE Liquidity Risk Framework)</p> <p>Document B-2.10 (CMECE Commodity and FX Guarantee Fund Policy)</p> <p>Document B-2.11 (CMECE IRS Guarantee Fund Policy)</p> <p>Document B-2.12 (CMECE Collateral Investment Policy)</p> <p>Document B-3.1 (CMECE Capital Investment Policy)</p> <p>Document B-3.2 (Portfolio Summary)</p> <p>Document B-3.3 (CME Group Information Technology policies document)</p> <p>Document B-3.4 (CMECE Liquidity Facility)</p> <p>Document B-3.5 (Citibank Capital Cash Reinvestment Agreement)</p> <p>Document A-7.1 (CME Group Organisational Structure Chart)</p>

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	<p>contributions received from Clearing Members only in a limited range of short maturity government securities and other liquid investments. CMECE maintains sufficient resources in cash to cover its short term operating expenses and also holds liquid financial resources at all times sufficient to cover its operating expenses for a minimum of 12 months.</p> <p>CMECE also has additional lines of liquidity and credit to call upon in the event of a significant liquidity event or default.</p> <p>CMECE has sufficient financial resources to meet the minimum financial resources requirements set out in the Core Principles and the applicable CFTC Regulations, including the requirements in relation to default resources and operating resources.</p> <p>The CMECE Risk Department is responsible for ensuring that adequate financial resources are held by CMECE in relation to cleared contracts. CMECE uses sophisticated risk management methodology and performs stress and scenario testing to review and test the margin held against the positions of Clearing Members held at CMECE.</p> <p>CMECE has adequate information technology systems and operational, communications and physical infrastructure capabilities to operate its clearing system and to fulfil all required operational and regulatory functions of an EMIR CCP and a DCO on a continuing basis. CMECE benefits from the technology, systems, operational and staff support and expertise of CME Inc. and other CME Group companies under outsourcing arrangements with CME Group companies. CMECE has adequate managerial and human resource covering the following functions: Operations, IT, Clearing Member Support; Risk and Membership; Banking and Settlement; Regulatory Compliance and Internal Audit / Global Assurance; and Clearing Strategy and Development. CMECE believes that its current and projected staffing levels, in conjunction with the services provided by CME Inc. and other CME Group companies under the</p>	<p>Document A-10.1 (Clearing Services Agreement)</p> <p>Document A-10.1.1 (Service Level Document Clearing Operations)</p> <p>Document A-10.1.2 (Service Level Document CME Audit and Membership Department)</p> <p>Document A-10.1.3 (Service Level Document CME Banking and Collateral Management Department)</p> <p>Document A-10.1.4 (Service Level Document CME Clearing IT Department)</p> <p>Document A-10.1.5 (Service Level Document CME Disaster Recovery and Business Continuity IT Department)</p> <p>Document A-10.1.6 (Service Level Document CME Group Internal Audit Department)</p> <p>Document A-10.1.7 (Service Level Document CME Market Regulation Department)</p> <p>Document A-10.1.8 (Service Level Document CME Risk Management Department)</p> <p>Document A-10.1.9 (Service Level Document General Services)</p> <p>Document A-10.2 (General Services Agreement)</p> <p>Document B-4.1 (Profiles of CME Clearing Europe Key Personnel)</p>

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	outsourcing arrangements are sufficient for its projected operations including as a DCO. CMECE will reassess its staffing needs from time to time based on the level of business and product types being cleared.	
<p>(C) Participant and product eligibility</p> <p>(i) IN GENERAL. Each derivatives clearing organization shall establish—</p> <p>i. appropriate admission and continuing eligibility standards (including sufficient financial resources and operational capacity to meet obligations arising from participation in the derivatives clearing organization) for members of, and participants in, the derivatives clearing organization; and</p> <p>ii. appropriate standards for determining the eligibility of agreements, contracts, and transactions submitted to the derivatives clearing organization for</p>	<p>The membership requirements of CMECE are objective, risk-based publicly disclosed and permit fair and open access. The CMECE Membership Procedure and Chapter 3 of the CMECE Rules set forth the admission and eligibility standards that applicants for clearing membership must satisfy to become a Clearing Member of CMECE. Both documents are publicly available on CMECE’s website. The membership requirements apply to all Clearing Members in the same way and allow all market participants who satisfy participation requirements to become Clearing Members of CMECE.</p> <p>The key membership requirements include:</p> <ul style="list-style-type: none"> • Relevant regulatory authorisation; • Compliance with applicable laws and regulatory requirements; • Minimum capital; • Minimum contribution to Guarantee Funds; • Execution of Membership Agreement • Fitness and propriety of firm and management; • Operational and technical capability to act as a Clearing Member; • Adequacy of disaster recovery and business continuity arrangements; • Risk management competence; • Any applicant wishing to be a FCM Clearing Member must also be registered with the CFTC as a “futures commission merchant” (an “FCM”) and 	<p>Document C-1.1 (CMECE Membership Agreement)</p> <p>Document A-2.2 (CMECE Clearing Procedures)</p> <p>Document A-2.1 (CMECE Rules)</p> <p>Document A-2.1 (CMECE Rules)</p> <p>Document A-2.2 (CMECE Clearing Procedures)</p> <p>Document A-2.3 (CME Europe Exchange Rules)</p> <p>Document A-4.1 (CMECE Strategic Business Plan (updated July 2014))</p> <p>Document C-2.1 (CMECE OTC Commodity Contract Module)</p> <p>Document C-2.2 (CMECE OTC IRS Contract Module)</p> <p>Document C-2.3 (CMECE OTC FX Contract Module)</p> <p>Document C-2.4 (CME Europe Energy Contract Module)</p> <p>Document C-2.5 (CME Europe FX Contract Module)</p> <p>Document C-2.6 (Manual of Operations CMECE Clearing Futures CME Europe v1)</p> <p>Document C-2.7 (CMECE OTC FX Operational Handbook)</p> <p>Document C-2.8 (CMECE Manual of Operations Phase 3)</p> <p>Document C-2.9 (CMECE Cocoa Operational Handbook)</p> <p>Document C-2.10 (Manual of Operations CMECE</p>

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<p>clearing.</p> <p>(ii) REQUIRED PROCEDURES. Each derivatives clearing organization shall establish and implement procedures to verify, on an ongoing basis, the compliance of each participation and membership requirement of the derivatives clearing organization.</p> <p>(iii) REQUIREMENTS. The participation and membership requirements of each derivatives clearing organization shall—</p> <p>(I) be objective;</p> <p>(II) be publicly disclosed; and</p> <p>(III) permit fair and open access.</p>	<p>be a member in good standing of the National Futures Association.</p> <p>The Clearing Member admission process involves the completion of an application form to provide CMECE with the information it requires in order to assess the application and the firm's satisfaction of the membership requirements and suitability for membership of CMECE, a visit from the CMECE risk staff to conduct an assessment of the risk expertise and operational capacity and clearing experience of the applicant firm and an assessment and analysis of legal risks and considerations. The CMECE Risk Committee and its sub-committees make a recommendation to the Board of CMECE on the suitability of the applicant firm once the Risk Committee is satisfied that the applicant has firm met the CMECE membership criteria.</p> <p>CMECE's membership requirements are broad in scope and the continuous monitoring of members' adherence to them is undertaken by the CMECE Risk Management Team and the CMECE Regulatory and Financial Surveillance function. CMECE utilises a combination of risk management capabilities to assess Clearing Members and their account exposure levels for all asset classes, 24 hours a day throughout the trading week, ensuring the safety and soundness of the markets served by CMECE and serving the risk management needs of customers.</p> <p>CMECE Risk Management Team monitors compliance with the capital requirements imposed on Clearing Members under the membership requirements, on the basis of regulatory and other returns supplied by Clearing Members. The Clearing Members themselves are subject to a range of notification requirements which supplement the returns and financial statements. CMECE supplements the information obtained from Clearing Members with other published data and the results of its own analysis of exposures and of contact, including visits, with the clearing membership. This is undertaken in the form of credit assessments of all Clearing Members undertaken by CMECE on a periodic basis, with a watch-</p>	<p>Clearing Futures CME Europe (non-physical))</p>

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	<p>list maintained of those deemed to be declining in creditworthiness. The monitoring of adherence to the collateral requirements, which is critical to the risk management of a clearing house, allows full visibility of the collateral balances of Clearing Members and tracks the receipt of cash to satisfy uncovered liabilities as well as the transfer of non-cash collateral.</p> <p>CMECE has the right under the CMECE Rules to audit its Clearing Members (Rule 3.6) and review their financial returns in order to assess and monitor their ongoing compliance with CMECE's membership requirements relating to their financial resources. CMECE has ability to enforce compliance with its rules under Rule 2.1.1 and Chapter 3 of the CMECE Rules set out the procedures for the suspension and orderly removal of Clearing Members that no longer meet the requirements.</p> <p>CMECE accepts a range of products for clearing, including various commodity, FX and interest rate swaps and futures contracts. CMECE currently clears contracts executed in the OTC markets and contracts executed on CME Europe Limited ("CME Europe"), a UK recognised investment exchange under FSMA recognised and supervised by the UK Financial Conduct Authority ("FCA"). CMECE will engage in discussions with other execution venues in relation to a request for CMECE to provide clearing services to products traded on such markets, including from a swap execution facility ("SEF"), designated contract market ("DCM"), foreign board of trade ("FBOT") or other US or non-US venue. The CMECE Rules permit fair and non-discriminatory access. Rule 5.6 sets out the basis on which CMECE would clear Transactions executed on an exchange or other platform but CMECE would also wish to enter into a clearing services agreement with any such venue.</p> <p>CMECE accepts for clearing only products that are approved by the CMECE Risk Management team and the CMECE Risk Committee, based on analysis relating to the risks of clearing, margining, operational capacity to clear, potential trading volume and settlement of the relevant</p>	

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	<p>contracts. CMECE is also required to obtain regulatory permission to add additional products to its clearing services, including from the Bank of England, which requires a review of applicable legal and regulatory requirements (including a period of consultation with Clearing Members and participants on any substantive changes to the CMECE Rules and Clearing Procedures) and a demonstration of CMECE's ability to risk manage, clear and settle the relevant contract and to deal with a default event of one or more Clearing Members in relation to the relevant product. Details of the contracts currently cleared by CMECE and the terms on which CMECE clears such contracts are publicly available on the CMECE website.</p> <p>Rule 5.1.4 of the CMECE Rules sets out the circumstances where CMECE may accept a Transaction submitted for clearing by CMECE and Rule 5.1.5 sets out the circumstances where CMECE may reject a Transaction. The requirements concerning the novation of Transactions (whether traded OTC or on an Exchange) are set out in Rule 5.2 of the CMECE Rules. CMECE provides each Clearing Member with information about each Transaction it has submitted to CMECE and each Contract pursuant to Rule 5.5 of the CMECE Rules.</p>	
<p>(D) Risk management</p> <p>(i) IN GENERAL. Each derivatives clearing organization shall ensure that the derivatives clearing organization possesses the ability to manage the risks associated with discharging the responsibilities of the derivatives clearing organization through the use of appropriate tools and</p>	<p><u>Risk management framework and governance</u></p> <p>CMECE has the ability, including policies, procedures and appropriate technology, tools and staff resources and expertise, to identify and manage the risks associated with discharging its responsibilities as a clearing house and as a DCO. The CMECE Risk Management Department, headed by the CMECE Chief Risk Officer ("CRO"), and the CMECE Risk Committee are responsible for carrying out the CMECE risk management function. The CMECE Board has overall responsibility for the identification and management of risks arising in the course of CMECE's business.</p>	<p><u>Document D-1.1 (Operational Risk Containment Framework)</u></p> <p><u>Document D-1.2 (Operational Risk Event Management Procedures)</u></p> <p><u>Document D-1.3 (Internal Audit Charter)</u></p> <p><u>Document D-1.4 (Curve Building Methodology for Cleared IRS)</u></p> <p><u>Document D-1.5 (CMECE Risk Appetite Framework)</u></p> <p><u>Document D-2.1 (CMECE Commodity and FX Futures Initial Margin Policy)</u></p>

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<p>procedures.</p> <p>(ii) MEASUREMENT OF CREDIT EXPOSURE. Each derivatives clearing organization shall—</p> <p>(I) not less than once during each business day of the derivatives clearing organization, measure the credit exposures of the derivatives clearing organization to each member and participant of the derivatives clearing organization; and</p> <p>(II) monitor each exposure described in subclause (I) periodically during the business day of the derivatives clearing organization.</p> <p>(iii) LIMITATION OF EXPOSURE TO POTENTIAL LOSSES FROM DEFAULTS. Each derivatives clearing organization, through margin requirements and other risk control mechanisms, shall limit the exposure of the derivatives clearing organization to potential losses from defaults by members and participants of</p>	<p>CMECE identifies and documents the range of risks to which it is exposed and addresses the monitoring and management of those risks in its Risk Management Framework. The CRO is responsible for implementing the Risk Management Framework.</p> <p>The Risk Management Framework comprises a number of key elements:</p> <ul style="list-style-type: none"> • Risk management guidelines, procedures and controls documented in the form of risk management policies, including policies which address credit risk, counterparty risk and reviews, liquidity risk, concentration risk, default risk and default management, market risk, validation of risk models and operational risk. In addition, the CMECE Operational Risk Control Framework (“ORCF”) and internal operating procedures are used as a guide to policy and procedural implementation and oversight by CMECE staff; • A comprehensive risk assessment framework document setting out all the CMECE internal risk policies, procedures and controls, together with details of responsibilities, governance and review of adequacy (the “Risk Assessment Framework”); • Responsibility for oversight and review of the continued adequacy of the risk management policies allocated to the Risk Committee; • Responsibility for staff and the executive management for reporting to the governance committees and the CMECE Board on any deviation from agreed policies and procedures and any control failures, under the direction of the CRO, the executive management and subject to additional oversight from the CMECE Internal Audit Function; and • Decisions on adjustments of policies, procedures and controls resting with the CMECE Board on the basis of recommendations made to it by the 	<p>Document D-2.2 (CMECE FX Futures Margin Methodology)</p> <p>Document D-2.3 (CMECE Multi Currency IRS Model)</p> <p>Document D-2.4 (Extension of CMECE’s IRS, FRA and Basis Swap offering: supporting analysis)</p> <p>Document D-2.6 (CMECE IRS Initial Margin Policy)</p> <p>Document D-2.7 (CMECE Validation Policy)</p> <p>Document O.4 (Risk Committee Terms of Reference)</p> <p>Document A-10.1 (Clearing Services Agreement)</p> <p>Document B-2.1 (CMECE Commodity and FX Stress Testing methodology)</p> <p>Document D-2.8 (CMECE IRS Stress Testing Policy)</p> <p>Document F-1.7 (Bank of England Concentration Bank Service)</p> <p>Document D-3.1 (CMECE Commodity and FX Variation Margining Policy)</p> <p>Document D-3.2 (CMECE OTC IRS Variation Margining Policy)</p> <p>Document D-3.3 (CMECE IRS Portfolio Margining)</p> <p>Document D-3.4 (CMECE FX Portfolio Margining)</p> <p>Document D-3.5 (CMECE Commodity Portfolio Margining)</p> <p>Document B-2.7 (CMECE Collateral Policy)</p>

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<p>the derivatives clearing organization to ensure that—</p> <p>(I) the operations of the derivatives clearing organization would not be disrupted; and</p> <p>(II) nondefaulting members or participants would not be exposed to losses that nondefaulting members or participants cannot anticipate or control.</p> <p>(iv) MARGIN REQUIREMENTS. The margin required from each member and participant of a derivatives clearing organization shall be sufficient to cover potential exposures in normal market conditions.</p> <p>(v) REQUIREMENTS REGARDING MODELS AND PARAMETERS. Each model and parameter used in setting margin requirements under clause (iv) shall be:</p> <p>(I) risk-based; and</p> <p>(II) reviewed on a regular basis.</p>	<p>CMECE Audit and Risk Committees, the CMECE Internal Audit Function, the external auditors, the CRO and the executive management of CMECE.</p> <p>The Risk Management Framework is dynamic and is required to develop along with the growth of the product-range of CMECE cleared contracts. CMECE has in place detailed risk policies relating specific products and processes, which are described and provided in the supporting documentation to this application.</p> <p>CMECE's risk policies focus on all sources of risk and the quantification and coverage of those risks. The risk management tools employed by CMECE include standards for acceptable counterparties, counterparty credit rating, selective limits on incremental risk exposures tolerated during the course of a business day and the routine, conservative collateralisation of potential market exposure to positions cleared. Those policies together with the CMECE risk procedures and financial resources provide tools for CMECE to limit its exposure to potential losses from defaults by Clearing Members.</p> <p>All significant changes to policies are documented, agreed through formal governance arrangements and subject to regulatory review and sign-off. CMECE believes that its practices conform to regulatory expectations, principally embodied in the CPSS-IOSCO Principles and EMIR, and that they also meet the requirements to which a DCO is subject.</p> <p><u>Credit risk</u></p> <p>CMECE measures daily its credit risk exposure to clearing members through a combination of risk assessment, minimum counterparty ratings and limits on maximum exposure and the duration of exposures.</p> <p>As part of its risk management of Clearing Members, CMECE carries out a credit rating assessment in respect of each Clearing Member firm prior to their accession to the clearing membership. Following this assessment, risk management actions are taken in proportion to the level of risk posed by the Clearing Member, in order to maintain</p>	

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	<p>adequate protection for CMECE against that risk. CMECE also set outs 'exposure tolerances' for each Clearing Member which are used to flag Clearing Member settlement variation and/or initial margin payment obligation amounts to CMECE that are treated as exceptions, requiring risk staff to investigate and/or escalate as appropriate. In general, Clearing Members with strong internal credit ratings are given higher tolerances, whilst those with weaker tolerances are set lower tolerances.</p> <p>The focus of CMECE's risk management work is on establishing and monitoring the core financial obligations applying to all Clearing Members, regardless of counterparty strength or credit rating. CMECE monitors its credit exposure to each Clearing Member periodically each business day.</p> <p><u>Margin Requirements</u></p> <p>The purpose of margining is to ensure that the resources available to CMECE in the event of a Clearing Member default are sufficient to enable it to absorb the cost of such default. Those resources must also be sufficient to enable CMECE to provide the maximum possible continuity to the defaulting Clearing Member's Clients and continuity to non-defaulting Clearing Members and their Clients. CMECE's margining policies are formally documented and subject to the risk governance arrangements. The relevant margining policies are provided as supporting documents to this application.</p> <p>The core market risk quantity is initial margin. CMECE ensures that the resilience of its initial margin resources is maintained by routine re-evaluation, variation margin payments and intra-day settlement cycles.</p> <p>CMECE only accepts collateral which is sufficiently secure and liquid, based on the internal criteria of CMECE and in accordance with applicable regulatory requirements under EMIR and the CFTC Regulations. CMECE has</p>	

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	<p>appropriate arrangements necessary for the purposes of liquidation of collateral where necessary.</p> <p><u>Margin Models and Parameters</u></p> <p>CMECE employs CME SPAN as the core algorithm for establishing initial margin requirements for futures and options and swaps on energy commodities and metals. CMECE's initial margining policies specify a minimum coverage of 99% of future price moves over a two day margin period of risk (MPOR) for account-level portfolios relating such products.</p> <p>The model used to calculate initial margin requirements for interest rate swaps is a HVaR model. The initial margin requirement for interest rate swaps is calculated to cover losses over a five day MPOR for house accounts, and a seven day MPOR for client accounts, ensuring a 99% minimum coverage.</p> <p>CMECE's initial margin models have undergone extensive sensitivity testing and analysis, and back testing, and have been validated independently by third party risk consultants. The validation includes, but is not limited to, consideration of the appropriateness of the model for the products covered; independent implementation of the model (and potentially alternative models); simulation and back testing on random and bespoke portfolios (designed by the independent validators based on an assessment of the potential weaknesses of the model) to test the limit of the model under the coverage standards; and review of the model parameters. The models are also subject to annual independent validation of performance.</p>	
<p>(E) Settlement procedures</p> <p>Each derivatives clearing organization shall—</p> <p>i. complete money settlements on a timely basis (but not</p>	<p>CMECE has timely settlement procedures in place with two daily settlement cycles in place for certain products: an End of Day cycle which runs at midnight London time, and an Intra-Day cycle which runs at midday London time. During each cycle, each Clearing Member's Margin Requirement and Variation Requirement (initial and variation margin requirements) are calculated and a</p>	<p>Document A-2.1 (CMECE Rules)</p> <p>Document B-2.9 (CMECE Liquidity Risk Framework)</p> <p>Document E-1.1 (Barclays Settlement Bank Agreement)</p> <p>Document E-1.2 (Citibank Settlement Bank</p>

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<p>less frequently than once each business day);</p> <p>ii. employ money settlement arrangements to eliminate or strictly limit the exposure of the derivatives clearing organization to settlement bank risks (including credit and liquidity risks from the use of banks to effect money settlements);</p> <p>iii. ensure that money settlements are final when effected;</p> <p>iv. maintain an accurate record of the flow of funds associated with each money settlement;</p> <p>v. possess the ability to comply with each term and condition of any permitted netting or offset arrangement with any other clearing organization;</p> <p>vi. regarding physical settlements, establish rules that clearly state each obligation of the</p>	<p>comparison is made against any assets held on account for each Clearing Member. If a deficit is identified, a margin call is issued to the Settlement Bank of the Clearing Member although this is normally only done after the End of Day cycle.</p> <p>In the event of varying market circumstances or market volatility, CMECE reserves the right to issue intraday margin calls to Clearing Members. CMECE may run a Settlement Cycle and increase a Clearing Member's Collateral Requirement in respect of an Account at any time.</p> <p>CMECE has in place Settlement Bank arrangements with a number of banks and will update these as part of its preparations for becoming a DCO. CMECE has outlined the criteria and review process by which it selects Settlement Banks. These criteria are publicly available and can be found on the CMECE website. CMECE monitors the performance of its Settlement Banks periodically to ensure that they continue to meet the above criteria. CMECE's liability for Settlement Bank failure is limited by operation of Chapter 2 of the CMECE Rules, provided CMECE has taken appropriate steps in the appointment and monitoring of the Settlement Bank. CMECE has in place multiple Settlement Banks to guard against concentration risk. CMECE also has in place liquidity lines that could be drawn upon in the event of Settlement Bank payment difficulties giving rise to liquidity concerns for CMECE.</p> <p>CMECE is designated as a system pursuant to the UK Financial Markets and Insolvency (Settlement Finality) Regulations 1999 ("FMIR 1999"), which were introduced to reflect the EU's Settlement Finality Directive (No 2009/44/EC) ("SFD"), which legislation, together with the chapter 10 of the CMECE Rules, provides for the finality of transfer orders within CMECE's arrangements.</p> <p>The daily movements of cash and other assets involved in clearing and settlement are recorded by CMECE in its Books and Records management system. CMECE</p>	<p>Agreement)</p> <p>Document E-1.3 (Deutsche Bank Settlement Bank Agreement)</p> <p>Document E-1.4 (JPM Settlement Bank Agreement)</p> <p>Document E-1.5 (CMECE Banking & Collateral Management Escalation Policy)</p> <p>Document E-1.6 (GMSL Agreement)</p> <p>Document A-10.1 (Clearing Services Agreement)</p>

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<p>derivatives clearing organization with respect to physical deliveries; and</p> <p>vii. ensure that each risk arising from an obligation described in clause (vi) is identified and managed.</p>	<p>records the calculation of Margin Requirement and Variation Requirement along with any increases or reductions which are posted as expected movements within the Reconciliation tool immediately after settlement cycles.</p> <p>Chapter 11 of the CMECE Rules sets out the general rules for physical deliveries and is supported by Delivery Procedures (contained within the CMECE Clearing Procedures) that are specific to the relevant type of Contract and set out the obligations of CMECE and of Clearing Members. CMECE may direct the Clearing Members to settle directly with one another. In the event of a delivery failure, CMECE provides Replacement Cost to the Clearing Member that did not cause or contribute to the delivery failure provided certain conditions are satisfied. This amount is funded by an indemnity from the Clearing Member that caused such failure. The relevant Delivery Procedure sets out various practical steps that are designed to minimise the likelihood of a delivery failure.</p> <p>CMECE does not have any netting or offset arrangement with any other clearing organisation.</p>	
<p>(F) Treatment of funds</p> <p>(i) REQUIRED STANDARDS AND PROCEDURES. Each derivatives clearing organization shall establish standards and procedures that are designed to protect and ensure the safety of member and participant funds and assets.</p> <p>(ii) HOLDING OF FUNDS AND ASSETS. Each derivatives clearing organization shall hold member and participant funds</p>	<p>CMECE has in place standards and procedures designed to protect and ensure the safety of Clearing Member and Client funds. CMECE is fully compliant with its obligations under EMIR for the treatment of funds. In order to ensure compliance with a DCO's obligations under CFTC Regulation 39.15, CMECE will maintain separate accounts at depositories for holding of funds of (1) LSOC Clients, (2) DCM Futures Clients, and (3) FBOT Futures Clients, which will be separate and distinct from one another and from the accounts that CMECE will establish for holding (i) funds of Clients of Non-FCM Clearing Members, (ii) funds of Clearing Members relating to their House Accounts; and (iii) Guarantee Fund deposits of Clearing Members. Except as permitted and described in the FCM Clearing Procedures, funds of LSOC Clients, DCM Futures Clients and FBOT Futures Clients will not</p>	<p>Document A-2.1 (CMECE Rules)</p> <p>Document A-2.2 (CMECE Clearing Procedures)</p> <p>Document B-2.7 (CMECE Collateral Policy)</p> <p>Document B-2.9 (CMECE Liquidity Risk Framework)</p> <p>Document F-1.1 (Euroclear S.A. / N.V. Custody Agreement)</p> <p>Document F-1.2 (JP Morgan Chase Custody Agreement)</p> <p>Document F-1.3 (HSBC Unallocated Precious Metal Account Agreement)</p> <p>Document F-1.4 (JPM Unallocated Precious Metal Account Agreement)</p>

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<p>and assets in a manner by which to minimize the risk of loss or of delay in the access by the derivatives clearing organization to the assets and funds.</p> <p>(iii) PERMISSIBLE INVESTMENTS. Funds and assets invested by a derivatives clearing organization shall be held in instruments with minimal credit, market, and liquidity risks.</p>	<p>be commingled in the same accounts.</p> <p>CMECE will establish appropriate accounts with depositories for the holding of securities, as required by the CFTC Regulations.</p> <p>CMECE will hold client collateral (cash and assets) of Clients of FCM Clearing Members by way of a NY law security interest. House collateral (cash and assets) of FCM Clearing Members will be received by CMECE through full title transfer.</p> <p>CMECE undertakes due diligence in respect of new and existing custodians, depositories and securities settlement systems appointed by CMECE to hold proprietary or customer funds, including a detailed assessment of legal and counterparty risk. In particular, the due diligence undertaken by CMECE considers the legal terms under which the custodian holds collateral for the account of its clients to ensure that the risk of loss or delay in access of CMECE to the relevant funds is minimized. Once a custodian / depository / securities settlement system is appointed, its external credit ratings are monitored and its internal credit scores are reviewed and updated on a periodic basis. CMECE will follow these processes to ensure any custodian / depository / securities settlement selected by CMECE to hold the funds and assets belonging to FCM Clearing Members and their customers are suitable.</p> <p>The CMECE Rulebook and Clearing Procedures, supported by both CMECE's books and records and its banking and custody arrangements, specify the separate treatment of Client accounts of Clearing Members from the house accounts of those firms, and more generally afford special status to Client accounts in the event of default of the Clearing Member. That special treatment protects the positions registered in Client accounts, and the related collateral, from post-default losses on a Clearing Member's house account. This separation and separate identification, recording and reporting is also maintained at the level of banking and custody accounts,</p>	<p>Document F-1.5 (Deutsche Bank Unallocated Precious Metal Account Agreement)</p> <p>Document F-1.6 (CMECE Concentration Risk Policy)</p> <p>Document F-1.7 (Bank of England Concentration Bank Service)</p> <p>Document O.3 (CMECE Custodian Due Diligence Checklist)</p> <p>Document B-2.3 (Citibank 10 July Statement)</p> <p>Document B-2.12 (CMECE Collateral Investment Policy)</p> <p>Document F-3.1 (Citibank Collateral Cash Reinvestment Agreement)</p>

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	<p>with the separation of Clearing Member house and client origins.</p> <p>In relation to physical gold collateral, CMECE uses bank custodians offering gold depository services. Such banks have to meet the minimum credit rating described above and being authorised in accordance with EU banking requirements.</p> <p>CMECE's Investment Policy restricts the investment of cash collateral in accordance with the requirements of EMIR and CFTC Regulation 1.25 and the relevant CEA provisions (as appropriate, and dependent on the source of the funds). Investment of cash is limited to reverse repo agreement transactions, purchases of highly liquid securities and the placement of unsecured deposits carried out on behalf of CMECE by one or more investment agents, in accordance with relevant CMECE procedures and applicable regulations. Investments will be secured and segregated in accordance with the requirements of applicable law and regulation. The aim of the CMECE Investment Policy is to ensure that at least 95% of the cash portfolio is secured on a daily basis. The remainder of the Clearing Members' cash portfolio is to be held in the form of unsecured deposits which are callable on demand.</p> <p>CMECE will value collateral in accordance with prudent valuation and haircutting procedures overseen by the CMECE Risk Management and Credit Risk teams.</p>	
<p>(G) Default rules and procedures</p> <p>(i) IN GENERAL. Each clearing organization shall have rules and procedures designed to allow for the efficient, fair,</p>	<p>CMECE has rules and procedures designed to allow for the efficient, fair and safe management of events during which Clearing Members become insolvent or otherwise default in their obligations under the CMECE Rules.</p> <p>CMECE's Default Rules are set out in Chapter 8 of the CMECE Rules, available publicly on the CMECE website. The rules set out the Events of Default and also general</p>	<p>Document A-2.1 (CMECE Rules)</p> <p>Document G.1 (CMECE Default Management Plan)</p> <p>Document G.2 (CMECE Default Management Policy)</p> <p>Document G.3 (CMECE IRS Default</p>

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<p>and safe management of events during which members or participants—</p> <p>(I) become insolvent; or</p> <p>(II) otherwise default on the obligations of the members or participants to the derivatives clearing organization.</p> <p>(ii) DEFAULT PROCEDURES. Each derivatives clearing organization shall—</p> <p>(I) clearly state the default procedures of the derivatives clearing organization;</p> <p>(II) make publicly available the default rules of the derivatives clearing organization; and</p> <p>(III) ensure that the derivatives clearing organization may take timely action—</p> <p>(aa) to contain losses and liquidity</p>	<p>powers of default declaration. Upon an Event of Default, CMECE will notify the defaulting Clearing Member in writing and provide a copy of such notice to the Bank of England and the CFTC. A defaulting Clearing Member is required to cease taking any action in respect of its Contracts, to not enter into any new Contracts, and to comply with any directions of CMECE. Upon issuing a Declaration of Default, CMECE will follow the steps set out in the CMECE Default Management Guidelines and the Default Rules.</p> <p>Until the open positions are either closed out or transferred, CMECE faces market risk on those positions. The Default Rules provide, inter alia, for CMECE to:</p> <ul style="list-style-type: none"> • hedge risk before close-out or transfer of the defaulting Clearing Member's positions; • close the positions out by any means it may choose, including through use of auctions managed by the CMECE Default Management Committee; • allow the positions to settle; • realise non-cash collateral and use the proceeds of such realisations and cash collateral to set off realised losses from the defaulting Clearing Member's positions; or • transfer client positions to a Clearing Member or Clearing Members that are not in default. <p>Default management by CMECE has three inter-related objectives, as specified in the CMECE Default Management Plan. Firstly, as soon as possible after the occurrence of default, CMECE aims to liquidate or sell the proprietary (house) account positions of the defaulting Clearing Member and to transfer, as a preference, or liquidate, if necessary, the Client account positions of the defaulting Clearing Member. Achievement of this objective closes the market risk exposure introduced by the default and restores the balanced book of CMECE in</p>	<p>Management Guidelines)</p> <p>Document G.4 (CMECE Default Management Guidelines for non-IRS cleared products)</p> <p>Document G.5 (CMECE Commodity Default Management Drill Feedback)</p> <p>Document G.6 (CMECE IRS Default Management Drill Feedback)</p> <p>Document G.7 (CMECE Credit Policy)</p> <p>Document G.8 (CMECE Commodity Default Management Drill Results)</p>

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<p>pressures ; and</p> <p>(bb) to continue meeting each obligation of the derivative clearing organization.</p>	<p>relation to cleared products. Secondly, CMECE aims to ensure that the default is managed without exhausting the available default resources of CMECE. Thirdly, CMECE aims to ensure that the management of the default will not interfere with the normal operation of clearing by CMECE and that the interests of non-defaulting Clearing Members and their Clients, and the integrity of the cleared markets, will be protected. The Default Rules have been drafted and designed to ensure that CMECE can take timely action to contain losses and liquidity pressures and to continue to meet its obligations as a clearing house to its Clearing Members. The Default Rules have, to date, proved effective and have provided the basis for the successful management of a Clearing Member default.</p> <p>CMECE's risk management and financial surveillance techniques are designed to maximise the liquidity and safety of the pool of Guarantee Fund contributions and CMECE's own default resource commitments. However, should a defaulting Clearing Member's obligation not be fully satisfied by applying the resources that it has transferred to CMECE as primary protection against such an event, CMECE will apply additional default resources in the following agreed order:</p> <ul style="list-style-type: none"> • If the defaulting Clearing Member's margin, excess margin cover and contribution to the Guarantee Fund are together insufficient to meet the financial obligations at the time of the default, CMECE will apply its funds (known as the CMECE default contribution); • If there is still an unsatisfied obligation, CMECE will apply the contributions made by other Clearing Members to the Guarantee Fund. These are held by CMECE in the form of cash or eligible securities; and • If financial obligations arising from the default are still unsatisfied, CMECE will invoke its right to assess Clearing Members to meet remaining 	

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	<p>obligations. The amount required would be allocated amongst each non-defaulting Clearing Member up to a sum determined under the rules.</p>	
<p>(H) Rule enforcement</p> <p>Each derivatives clearing organization shall—</p> <p>(i) maintain adequate arrangements and resources for—</p> <p style="padding-left: 40px;">(I) the effective monitoring and enforcement of compliance with the rules of the derivatives clearing organization; and</p> <p style="padding-left: 40px;">(II) the resolution of disputes;</p> <p>(ii) have the authority and ability to discipline, limit, suspend, or terminate the activities of a member or participant due to a violation by the member or participant of any rule of the derivatives clearing organization; and</p> <p>(iii) report to the Commission Regarding rule enforcement activities and sanctions imposed against members and participants as provided</p>	<p>The detection and assessment of any non-compliance with the relevant CMECE Rules (including the relevant membership criteria) by CMECE Clearing Members is the responsibility of CMECE's Credit Risk, Operations, and Banking and Settlement teams, supported as necessary by CME Group staff. All cases of non-compliance will be reported to the COO, the CEO, and to the Chief Compliance Officer.</p> <p>The CMECE credit risk team conducts annual due diligence visits of Clearing Members during which an analysis of the firm's risks may include an assessment of:</p> <ul style="list-style-type: none"> • business lines (e.g. types of customers); • account base (e.g. firm begins proprietary trading); • financial levels and trends: capital, customer funds, etc.; • significant changes in capital, operations, management, systems; and • results of previous examinations. <p>In the event that a Clearing Member no longer fulfils certain membership requirements but continues to meet its collateral requirements, CMECE has the power to initiate the termination of membership provisions set out in Rule 3.8 of the CMECE Rulebook. In such circumstances the special rights available under Rule 3.7 may be applied to reduce risk, including:</p> <ul style="list-style-type: none"> • require a Clearing Member to increase its capital; • increase a Clearing Member Collateral Requirement; 	<p>Document A-10.1 (Clearing Services Agreement)</p>

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<p>in clause (ii).</p>	<ul style="list-style-type: none"> • require a Clearing Member to decrease the size or volume of its Contracts; • prohibit a Clearing Member from entering into any new Contracts; • require a Clearing Member to cease to take any action in respect of the Contracts to which it is party save as directed by the Clearing House; • transfer some or all of its Contracts or Collateral; • suspend a Clearing Member; • impose additional account, reporting and other financial and/or operational requirements on a Clearing Member; or • close out or settle Contracts of a Clearing Member. <p>CMECE also has the power to suspend a Clearing Member (see Rules 3.7.1(i) and 3.9) for a breach of the CMECE Rulebook and membership requirements. Suspension means that the Clearing Member loses the right to register new transactions but must remain compliant with all membership requirements and follow any instructions deemed appropriate by CMECE (Rule 3.9). Suspension may be invoked by the management of CMECE, which may but is not obliged to consult the relevant Risk Committee prior to making such a determination. CMECE management has the option of referring any breach of the CMECE Rulebook requirements to a disciplinary panel, which has the power to recommend suspension (Rule 9.4.16(e)).</p> <p>A suspended Clearing Member has the right to appeal the decision (see Rule 9.5) to an independent panel of experts which will consider the appeal and issue a judgment binding on both parties (Rule 9.5.6). CMECE will report disciplinary actions to the Bank of England, the CFTC, and other relevant regulatory authorities, where appropriate.</p>	

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<p>(I) System safeguards</p> <p>Each derivatives clearing organization shall—</p> <p>(i) establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk through the development of appropriate controls and procedures, and automated systems, that are reliable, secure, and have adequate scalable capacity;</p> <p>(ii) establish and maintain emergency procedures, backup facilities, and a plan for disaster recovery that allows for—</p> <p style="padding-left: 40px;">(I) the timely recovery and resumption of operations of the derivatives clearing organization; and</p> <p style="padding-left: 40px;">(II) the fulfillment of each obligation and responsibility of the derivatives clearing organization; and</p> <p>(iii) periodically conduct tests to verify that the backup resources of the derivatives clearing organization are sufficient to ensure daily processing, clearing, and</p>	<p>CMECE has in place appropriate systems, rules and procedures for the identification and management of operational risk, which includes processes for risk analysis and oversight with respect to its operations and automated systems. The two key internal policies setting out the operational risk and risk controls are the Operational Risk Containment Framework (ORCF) and the Operational Risk Event Management Procedures (OREMP) which, respectively, set out the governance and oversight structure for operational risk, assessment and review and detailed procedural requirements and reporting lines for risk events, breaches and audit controls.</p> <p>CMECE uses information technology systems provided and supported by CME, Inc. pursuant to intragroup services agreements, supported by detailed service level documents. The core systems standards and procedures that underpin performance and resilience are those established and set out under the relevant legal and operational documentation agreed between the parties. CMECE's systems are subject to capacity analysis and planning, system development and testing and regular audit to ensure the systems are adequate for cleared volumes and sufficiently robust. The CMECE Operations Team is responsible for overall monitoring of the operation of the CMECE IT systems and the provision of IT services by CME Inc. under the outsourcing arrangements. The services provided to CMECE are also subject to regular monitoring and review by the CMECE Internal Audit Function to ensure that service levels are being met. The contractual arrangements and operational controls between CMECE and CME Inc. are compliant with the requirements for outsourced arrangements under EMIR.</p> <p>Systems security standards are set and monitored at CME Group level, with entity level oversight remaining with CMECE. Assessment, identification and remedial action in relation to system security issues are undertaken by</p>	<p>Document D-1.1 (Operational Risk Containment Framework)</p> <p>Document D-1.2 (Operational Risk Event Management Procedures)</p> <p>Document I.1 (CMECE BCM Policy Document – Business Continuity Management)</p> <p>Document I.2 (System Development & Quality Assurance)</p> <p>Document I.3 (Information and System Security)</p> <p>Document I.4 (Business Continuity-Disaster Recovery Planning & Resources)</p> <p>Document I.5 (Capacity Planning)</p> <p>Document I.6 (System Operations)</p> <p>Document I.7 TOCC Problem Management Review Process Guide)</p> <p>Document I.8 (BCP for Banking and Collateral Management)</p> <p>Document I.9 (BCP for Compliance)</p> <p>Document I.10 (BCP for Operations and Technology)</p> <p>Document I.11 (BCP for Solutions)</p> <p>Document I.12 (BCP for Risk)</p> <p>Document I.13 (Pandemic Response Plan)</p>

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settlement.	<p>several teams of CME Group employees. These teams have systems and processes designed to ensure that vulnerabilities are not introduced that may jeopardise the confidentiality, integrity, or availability of CME Group systems as a whole, including those on which CMECE relies. In addition, CMECE and CME Group have a systematic program for maintaining the security of and access to the network, supported by systems and protocols which include intrusion detection systems, connectivity controls, multi-tiered network controls, firewalls, network access control and wireless network security. To ensure that CME Group security practices and protocols are in line with industry standards, its network infrastructure and security protocols are subjected to periodic independent third party vulnerability assessment (penetration testing).</p> <p>CMECE is physically segregated from all other CME Group businesses, including those CME Group companies which share the same office accommodation in London. External auditors carry out an annual review to ensure that physical access controls are effective. Access to the building in which the offices are located is controlled by swipe cards. Swipe card access to CMECE's segregated area within the shared office space is strictly controlled in order to protect the confidentiality of the clearing data held, and no external visitors are permitted other than consultants and advisers under non-disclosure agreements who need to work closely with CMECE staff.</p> <p>The building has its own security staff who have a full-time presence at the main entrance and monitor and patrol the premises during the day and at night. The building's security staff liaise with CME Group's London office premises and business continuity specialists on all security matters, including any fire alerts or other potential dangers and incidents. CME Group's specialists have links to information and alerts from the City of London police and others sources about possible security threats.</p> <p>With regard to testing, the CME Clearing IT Department includes a dedicated Quality Assurance Team responsible</p>	

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	<p>for manual and automated testing of all clearing systems. It has developed a large suite of regression test cases that cover all existing functionality and continues to add new test cases to cover new functionality added to the various systems. It executes various types of tests, including testing individual systems in isolation as well as end-to-end integration tests that exercise the functions of the clearing systems. In addition, the CME Clearing IT Department includes a dedicated performance and reliability testing team responsible for executing tests that stress the clearing systems with large numbers of transactions to ensure that the systems are sized to support at least twice the last known transaction volume peak. The Quality Assurance Team also executes tests that simulate various types of system failure and ensures that these scenarios are handled predictably and can be recovered with no impact on data integrity.</p> <p>CMECE's business continuity and recovery plans are robust and subject to regular testing. The disaster recovery (DR) component of CMECE's policies and plans sets out the DR testing schedule for systems. The system recovery time performance standard is tested for recovery within two hours, which aims for no loss of data or negative impact on participants. CME Group Business Continuity and Management staff analyse all DR test results and pass the results and their analysis and conclusions to internal audit as well as senior management. There are twice-yearly full operating systems environment fail-over exercises, from the two geographically remote data centres maintained by CME Group. Regional centres, including London, are included in the overall policy and planning, and in the testing schedules. Local systems are tested on a yearly cycle, including full fail-over. CMECE is reliant on local systems for office computation but the core clearing and risk management systems rely on the CME infrastructure, and which are therefore covered by the outlined DR strategy..</p> <p>With regard to capacity and performance planning, CMECE maintains scalable capacity to address increased volumes, while maintaining service-level objectives.</p>	

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	<p>Capacity planning is an ongoing cyclical process that involves monitoring production systems, modeling CMECE's capacity for anticipated future growth, testing the performance of the system under load, upgrading capacity, and resetting service level standards. Forecasts of future transactional and performance level needs are turned into models to use in estimating future capacity needs. The systems are tested against the models to identify if and when capability upgrades are necessary. Operational service level documentation and performance goals are updated to remain current with business service objectives. The purpose of the capacity planning process is to encompass all aspects of capacity management for critical systems. On a quarterly basis the long-term capacity model for CMECE systems is monitored, adjusted, reviewed, and published by senior management.</p>	
<p>(J) Reporting Each derivatives clearing organization shall provide to the Commission all information that the Commission determines to be necessary to conduct oversight of the derivatives clearing organization.</p>	<p>Once it is registered as a DCO, CMECE will provide to the CFTC all information required by the CFTC for the purposes of the CFTC carrying out its oversight of CMECE under the CEA with respect to its activities as a DCO. This includes the submission of DCO rules in accordance with the requirements of Part 40 of the Commission's regulations. The details of CMECE's policies and procedures on reporting are set out in CMECE's DCO Communication Protocol.</p> <p>CMECE will report derivative trades in accordance with applicable legislation relating to the G20 commitments to report the details of OTC derivative contracts to trade repositories. In addition to discharging its own responsibilities to report derivative trades to a US Swap Data Repository (CME Inc. SDR) and to an EMIR trade repository (CME European Trade Repository), CMECE also offers its customers certain delegated reporting services under the applicable legislation in order to assist them in discharging their reporting obligations.</p>	<p>Document J.1 (Guidelines for Managing Non-Compliance with Clearing Member Standards)</p> <p>Document J.2 (CMECE DCO Communication Protocol Scenarios)</p> <p>Document J.3 (DCO Financial Resources Narrative 2014)</p> <p>Document J.4 (DCO Application technology development requirements summary)</p> <p>Document J.5 (Trade Repository User Agreement)</p> <p>Document J.6 (Trade Repository - Delegated Reporting Service Provider Agreement)</p>
<p>(K) Recordkeeping</p>	<p>CMECE will maintain records relating to its activities as a</p>	<p>Document A-10.1 (Clearing Services Agreement)</p>

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<p>Each derivatives clearing organization shall maintain records of all activities related to the business of the derivatives clearing organization as a derivatives clearing organization—</p> <p>(i) in a form and manner that is acceptable to the Commission; and</p> <p>(ii) for a period of not less than 5 years.</p>	<p>DCO in accordance with the requirements of the relevant CEA and CFTC Regulations.</p> <p>CMECE has policies and procedures in place for record keeping which provide guidelines for the creation or receipt, use, maintenance, retention, and disposition of information generated in connection with the business activities of CME Group and its subsidiaries, including CMECE. In accordance with the internal records and information management programme, all records will be maintained for as long as they are required to be retained as required by applicable law and regulation and appropriate records can be provided to the CFTC in a format required by the CFTC.</p>	<p>Document A-10.2 (General Services Agreement)</p> <p>Document A-11.13 (CMECE Records and Information Management Policy)</p> <p>Document K.1 (UK Record Retention Schedule)</p>
<p>(L) Public information</p> <p>(i) IN GENERAL. Each derivatives clearing organization shall provide to market participants sufficient information to enable the market participants to identify and evaluate accurately the risks and costs associated with using the services of the derivatives clearing organization.</p> <p>(ii) AVAILABILITY OF INFORMATION. Each derivatives clearing organization shall make information concerning the rules and operating and default procedures governing the clearing and settlement systems of the derivatives clearing organization available to market participants.</p>	<p>CMECE provides market participants with information to enable them to identify and evaluate the risks and costs associated with using its services. The information is or will in due course (once CMECE is authorised as an EMIR CCP and as a registered DCO) be made available to the public on the CMECE website and shall include:</p> <ul style="list-style-type: none"> • Risk Disclosure Document setting out the risks associated with using its services including the margin methodology and the size and composition of its financial resource package • Terms and conditions of each contract and transaction cleared and settled by CMECE • Clearing fees and charges • Daily settlement prices, volume and open interest for each cleared or settled contract • Account Disclosure Document setting out the risks associated with each account type offered by CMECE • Clearing Rules and Procedures including default procedures 	<p>Document L.1(CMECE Procedures for Updating CMECE Website)</p>

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<p>(iii) PUBLIC DISCLOSURE. Each derivatives clearing organization shall disclose publicly and to the Commission information concerning—</p> <p>(I) the terms and conditions of each contract, agreement, and transaction cleared and settled by the derivatives clearing organization;</p> <p>(II) each clearing and other fee that the derivatives clearing organization charges the members and participants of the derivatives clearing organization;</p> <p>(III) the margin-setting methodology, and the size and composition, of the financial resource package of the derivatives clearing organization;</p> <p>(IV) daily settlement prices, volume, and open interest</p>	<ul style="list-style-type: none"> Eligible Collateral List 	

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<p>for each contract settled or cleared by the derivatives clearing organization; and</p> <p>(V) any other matter relevant to participation in the settlement and clearing activities of the derivatives clearing organization.</p>		
<p>(M) Information-sharing</p> <p>Each derivatives clearing organization shall—</p> <p>(i) enter into, and abide by the terms of, each appropriate and applicable domestic and international information-sharing agreement; and</p> <p>(ii) use relevant information obtained from each agreement described in clause (i) in carrying out the risk management program of the derivatives clearing organization.</p>	<p>CMECE is authorised, regulated and supervised by the Bank of England (BoE) in the UK. The BoE has regulatory information sharing agreements with regulators in the other countries in which CMECE currently operates and those in which it wishes to operate.</p> <p>CMECE has information sharing arrangements in place with CME Europe Limited, for which it conducts clearing activities. In addition to this, CMECE is a member of the European Association of Clearing Houses (EACH), which establishes guidelines for the sharing of information on pre- and post- default basis between risk managers of clearing houses in Europe. CMECE is also an active participant of the Futures Industry Association Europe, the International Swaps and Derivatives Association (ISDA), and various asset management and other industry groups in order to contribute to industry solutions and best practices and also to solicit feedback to help form overall policy and procedures within CMECE.</p> <p>Additionally, CMECE's parent company, CME Inc., is a member and active participant of the Joint Audit Committee (JAC), the Shared Market Information System (SHAMIS), the International Information Sharing Memorandum of Understanding and Agreement, and the Payments Risk Committee, CCP – Joint Study Group.</p>	

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	<p>CMECE will enter into any further information-sharing agreements to coordinate surveillance in accordance with best practices in the clearing industry, as appropriate.</p> <p>CMECE strives to constantly update and enhance its Risk Management Framework (including credit risk assessment framework) and compliance assessments. The information obtained through discussions within the Committees outlined above may, subject to relevant restrictions on the use of such information, be used as input to our Risk Management Framework and compliance assessments to the extent required.</p>	
<p>(N) Antitrust considerations</p> <p>Unless necessary or appropriate to achieve the purposes of this Act, a derivatives clearing organization shall not—</p> <ul style="list-style-type: none"> (i) adopt any rule or take any action that results in any unreasonable restraint of trade; or (ii) impose any material anticompetitive burden. 	<p>CMECE is subject to and in compliance with UK and EU competition (antitrust) legislation and laws, which require CMECE to observe requirements in relation to anti-competitive practices, abuse of market dominance, merger controls and state aid.</p> <p>In conformity with Title 7 of the United States Code, CMECE has not and shall not adopt any rule or take any action that results in any unreasonable restraint of trade, or impose any material anti-competitive burden unless necessary or appropriate to achieve the purposes of the Act.</p> <p>CMECE believes that its Clearing Member eligibility criteria and the CMECE Rules have been designed to avoid unreasonable restraints of trade or the imposition of any material anticompetitive burden. In particular, access to CMECE will be available to qualified applicants on a fair, equitable, and timely basis. The criteria for access to the CMECE system are publicly disclosed in the CMECE Rules. The CMECE system operates without discrimination among different Clearing Members.</p>	<p>Document A-11.6 (CME Group Code of Conduct)</p>
<p>(O) Governance fitness standards</p>	<p>The CMECE Board is responsible for the management of the business of CMECE and for ensuring that CMECE has</p>	<p>Document O.1 (CMECE procedure for the appointment of directors)</p>

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<p>(i) GOVERNANCE ARRANGEMENTS.—Each derivatives clearing organization shall establish governance arrangements that are transparent—</p> <p>(I) to fulfill public interest requirements; and</p> <p>(II) to permit consideration of the views of owners and participants.</p> <p>(ii) FITNESS STANDARDS.—Each derivatives clearing organization shall establish and enforce appropriate fitness standards for—</p> <p>(I) directors;</p> <p>(II) members of any disciplinary committee;</p> <p>(III) members of the derivatives clearing organization;</p> <p>(IV) any other individual or entity with direct access to the settlement or clearing activities of the derivatives clearing organization; and</p> <p>(V) any party affiliated</p>	<p>in place robust governance arrangements which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which CMECE is or might be exposed, and adequate internal control mechanisms, including sound administrative and accounting procedures. Information about the composition and experience of the CMECE Board is publicly available on the CMECE website.</p> <p>The CMECE Board currently comprises eight directors. Three of the directors are INEDs, having no other connection with CME Group or with any of CMECE’s suppliers or customers. Three of the directors are CME Group directors, serving as NEDs of CMECE and employed by CME Group companies. The remaining two directors are the CEO and the COO of the company, both of whom are directly employed by CMECE.</p> <p>The INEDs provide the CMECE Board with an independent voice and scrutiny of the activities of CMECE. They therefore fulfil public interest requirements and ensure that at least one third of the CMECE Board is deemed to be independent of CMECE and the CME Group. The INEDs are experienced in the fields of derivatives, clearing and settlement, financial management and financial services regulation, and have the ability to bring that experience to bear in an objective and independent manner. The INEDs are not representatives of market participants but have significant combined experience of working for and with market participants. The views of both Clearing Members and Clients are taken into account through their involvement as members of the CMECE Risk Committee, CMECE Risk Working Groups, the CMECE FX Settlement Group, the CMECE Operations Forum and Product Advisory Groups.</p> <p>The CMECE Articles of Association contain the special provision that would allow the shareholders of CMECE ‘...by special resolution, to direct the CMECE Board to take, or refrain from taking, specified action’. These powers permit the consideration of the views of CMECE’s</p>	<p>Document O.2 (CMECE Clearing Member Due Diligence Checklist)</p> <p>Document O.3 (CMECE Custodian Bank Due Diligence Checklist)</p> <p>Document O.4 (Risk Committee Terms of Reference)</p>

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<p>with any individual or entity described in this clause.</p>	<p>shareholders, although in practice these powers have not been used to date.</p> <p>CMECE enforces fitness standards in accordance with all applicable law, regulations and good practice, in respect of all members of the CMECE Board, senior management, all committees, shareholders and employees. The service contracts of all directors and the employment contracts of all employees seek to ensure that each employee is fit and proper.</p> <p>CMECE ensures that the CMECE Board as a whole incorporates members with skills and expertise from a variety of fields of specialisation to ensure that the CMECE Board is operating effectively and is focused on maintaining a successful business and ensuring the integrity and safety of the clearing services offered by CMECE and the markets served by CMECE. In selecting candidates, the CMECE Board endeavours to find individuals who have a solid record of accomplishment in their chosen fields and who display the independence of mind and strength of character necessary to effectively represent the best interests of CMECE and the marketplace whilst supporting prudent risk management practices. CMECE requires that each member of the CMECE Board is able to dedicate sufficient time, energy, and attention to the diligent performance of his or her duties.</p> <p>CMECE also enforces fitness standards in accordance with its Clearing Rules and Clearing Procedures (including the membership criteria setting out minimum standards for membership) in respect of Clearing Members, their representatives and delegates which have direct access to the settlement and clearing activities of CMECE.</p>	
<p>(P) Conflicts of interest</p> <p>Each derivatives clearing organization shall—</p> <p>(i) establish and enforce rules to minimize conflicts of</p>	<p>The CMECE Board is responsible for ensuring that adequate systems and controls are in place to identify and manage conflicts of interest. The CMECE Articles of Association, applicable UK companies legislation and the EMIR regulations impose requirements on the CMECE Board to identify and manage potential conflicts of</p>	<p>Document A-7.1 (CME Group Organisational Structure Chart)</p> <p>Document A-8.1 (CMECE Limited Articles of Association)</p> <p>Document A-8.2 (CMECE Limited Memorandum</p>

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<p>interest in the decision-making process of the derivatives clearing organization; and</p> <p>(ii) establish a process for resolving conflicts of interest described in clause (i).</p>	<p>interest of directors of CMECE. Members of the CMECE Board are required to declare a potential conflict and abstain from any votes taken in respect of the agenda item in question. The relevant CMECE committees have similar requirements in place. The requirement to identify, declare and manage conflicts of interest is an important protection which ensures that decisions of the CMECE Board and CMECE committees are made in the best interests of CMECE. As a result of these protections, the CMECE Board of CMECE and its committees have formal procedures to address potential conflicts of interest that could restrict effective decision taking.</p> <p>All directors and employees of CMECE are required by their contractual relationship with CMECE to read and agree to the CMECE Conflicts of Interest Policy, which requires the prompt disclosure of a conflict of interest to the Chief Compliance Officer or to the relevant Board or Committee Chairman, as appropriate. The Chief Compliance Officer is responsible for identifying and addressing the conflict and setting out procedures by which the conflict will be managed. The Chief Compliance Officer liaises as appropriate with the CEO, COO, and the CME legal department.</p> <p>The CMECE Conflicts of Interest Policy sets forth examples of conflicts involving CMECE directors, managers, or employees that could arise in the course of CMECE's operation as a DCO and describes procedures for the mitigation and management of such conflicts.</p>	<p>of Association)</p> <p>Document A-11.3 (CMECE Disclosure of Potential Conflicts of Interest)</p> <p>Document A-11.5 (CMECE Conflicts of Interest Policy)</p> <p>Document A-11.6 (CME Group Code of Conduct)</p> <p>Document A-11.12 (CMECE Data Protection, Confidentiality and Privacy Policy)</p> <p>Document O.1 (CMECE Procedures for the Appointment of Directors)</p> <p>Document O.4 (CMECE Risk Committee Terms of Reference)</p> <p>Document P.1 (CMECE Audit Committee Terms of Reference)</p> <p>Document P.2 (CMECE Remuneration Committee Terms of Reference)</p> <p>Document P.4 (CME Group Confidentiality Policy)</p>
<p>(Q) Composition of governing boards</p> <p>Each derivatives clearing organization shall ensure that the composition of the governing board or committee of the derivatives</p>	<p>CMECE's governance structure ensures the independent challenging of the Board and includes representation of market participants in governing committees.</p> <p>CMECE has three Independent Non-Executive Directors (INEDs) who are permanent members of the Board of Directors and who have a wealth of industry experience between them. The appointment of these INEDs to the</p>	

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<p>clearing organization includes market participants.</p>	<p>Board ensures there is appropriate independent challenge to the executive and non-executive members of the Board.</p> <p>In addition, CMECE has a number of clearing members and representatives of their clients on its Risk Committee, which acts as an advisory body to the CMECE Board. This includes representatives of Clearing Members and their customers and provides an opportunity for market participants to influence the products and certain practices adopted by CMECE.</p>	
<p>(R) Legal Risk</p> <p>Each derivatives clearing organization shall have a well-founded, transparent, and enforceable legal framework for each aspect of the activities of the derivatives clearing organization.</p>	<p>In December 2010, CMECE was granted recognised clearing house (“RCH”) status under FSMA by the UK Financial Services Authority (FSA), and thus obtained regulatory authorisation to provide clearing services from the UK. The BoE has since assumed responsibility for the supervision of CMECE and other RCHs in the UK, together with the supervision of securities depositories and payment systems.</p> <p>Under EMIR, all clearing houses in the EU, including UK RCHs, are required to obtain ‘re-authorisation’ as a CCP. Following re-authorisation, a CCP will be supervised by the main home country authority – the BoE for UK RCHs – in conjunction with a college of regulators composed of national authorities across the EU. CMECE is reaching the final stages of the application process and will be reauthorised as a CCP under EMIR soon, with 4th August as the agreed target date.</p> <p>In addition to its status as an RCH, CMECE is designated as a designated system under FMIR 1999.</p> <p>CMECE has been granted an exemption from the requirement to obtain clearing house status in Ontario by the Ontario Securities Commission (“OSC”), as a result of which it is able to offer clearing services to Clearing Members who are incorporated in Ontario or whose principal place of business is Ontario.</p>	<p>Document R.1 (DCO Exhibit R Part (a) – Summary of CMECE Legal Framework)</p> <p>Document R.2 (Exhibit R Part (b)(i) - Memorandum from Norton Rose Fulbright LLP on ring fencing of CMECE accounts under UK law)</p> <p>Document R.3 (Exhibit R Part (b) (ii) - Memorandum from Foley & Lardner LLP on ring fencing of CMECE accounts under US law)</p>

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	<p>CMECE does not provide services in any jurisdiction without appropriate regulatory authorisation. Whenever it considers expanding its business into another jurisdiction, it undertakes appropriate analysis of the legal and regulatory requirements. Where CMECE holds a regulatory authorisation, license or permission from a third country jurisdiction, it ensures that it complies with the terms of such authorisation, licence or permission together with all relevant local legal and compliance requirements.</p> <p>The CMECE Board recognises that the legal basis for its activities is of critical importance and accordingly assigns a high priority to legal certainty and risk analysis. The relevant English law and EU legal framework consists of the following key pieces of legislation and sources of rules relevant to the clearing activities of CMECE:</p> <ul style="list-style-type: none"> • FSMA; • EMIR and the relevant EMIR implementing regulatory and technical standards; • the UK Insolvency Act 1986; • FMR 1999; • Financial Services and Markets Act 2000 (Recognition Requirements) Regulations 2001; • the UK Companies Acts 1986, 1989 and 2006; • the Banking Act 2009; and • CMECE's Clearing Membership Agreement and Rules and related policies and procedures, <p>each as amended from time to time.</p> <p>EMIR and certain provisions under FSMA and the UK Companies Act 1989 establish a framework under which the rules of an EMIR CCP are adopted and enforced.</p> <p>CMECE's Clearing Membership Agreement and Rules set out the legal basis of CMECE's clearing and settlement</p>	

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	<p>activities, and the terms and conditions under which CMECE, Clearing Members operate in terms of submitting contracts for clearing and the novation and settlement of cleared contracts.</p> <p>The CMECE Rulebook and the provisions of English law in the Insolvency Act 1986 and the Companies Act 1989, Part VII, establish a framework for the resolution of a Clearing Member default. The Companies Act 1989 Part VII affords special insolvency law protection to actions taken by clearing houses in respect of all cleared contracts, both exchange-traded and OTC, provided their default rules and actions taken under those rules are consistent with the relevant provisions of the legislation.</p> <p>In addition, the insolvency of an FCM Clearing Member would likely be subject to the US commodity broker liquidation provisions of the US Bankruptcy Code and the CFTC Part 190 Regulations, because FCM Clearing Members must be organized under US law and have the main center of their interests in the US. The CMECE default rules in Chapter 8 of its Rules expressly provide that the insolvency of an FCM clearing member is subject to applicable law, including the foregoing provisions.</p> <p>CMECE's arrangements relating to position, margin and payment netting which is key to CMECE's clearing activities, and also to its exercise of the rights of close-out and offset (of losses against collateral) are based on principles that are commonly used in English law and market standard documentation.</p> <p>CMECE evaluates and mitigates legal risk arising from a potential conflict of laws across jurisdictions in a number of ways. Most importantly, CMECE relies upon the legal framework within England and Wales under which the CMECE Rules are adopted and enforceable, except as otherwise expressly provided, and to which all Clearing Members agree to be bound. (Chapter 3B of the CMECE Rules and the FCM Clearing Procedure are governed by US law.) With respect to potential conflict of laws across international jurisdictions, CMECE carefully evaluates any</p>	

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	<p>such risks and takes appropriate action to limit them. CMECE ensures that the relevant provisions in the CMECE Rules are enforceable against Clearing Members in all relevant jurisdictions.</p> <p>Further, CMECE will not accept for membership or as a settlement bank or custodian any institution as to which the laws of a jurisdiction outside the UK may materially impede CMECE's ability to enforce the CMECE Rulebook or to access, liquidate, and apply collateral to a Clearing Member's obligations to CMECE. CMECE obtains legal advice and legal opinions as necessary to ensure there is a high degree of certainty that the provisions of the CMECE Rules and such contracts are effective.</p>	