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August 22, 2008

Ananda K. Radhakrishnan
Director, Division of Clearing & Intermediary Oversight
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: **Application For Registration As A Derivatives Clearing
Organization**

Dear Mr. Radhakrishnan:

On behalf of our client, International Derivatives Clearinghouse, LLC (the "Clearinghouse"), we hereby submit this Application for Registration as a Derivatives Clearing Organization ("DCO") pursuant to Section 5b of the Commodity Exchange Act (the "CEA") and Part 39 of the Regulations of the Commodity Futures Trading Commission (the "CFTC" or "Commission"). The Clearinghouse respectfully requests that the Commission issue an order granting the Clearinghouse registration as a DCO for the purpose of clearing interest rate swap futures contracts arising out of transactions: (a) executed through a trading facility, or (b) negotiated on a bilateral basis and submitted to a registration facility, in each case, subject to the rules of a designated contract market, derivatives transaction execution facility or an exempt board of trade.

This Application demonstrates that the Clearinghouse complies with the "Core Principles" set forth in Section 5b(c)(2) of the CEA and fulfills each of the various representations made in connection with its application to the Commission for DCO registration. A table providing cross-references between each Core Principle and the relevant sections of this Application demonstrating its satisfaction of such Core Principle is attached as Appendix A. The Clearinghouse represents that it will operate in accordance with the definition of "derivatives clearing organization" contained in Section 1a(9) of the Act.

Pursuant to the requirements of Part 39 of the CFTC Regulations, this Application also includes agreements entered into or to be entered into between or among the Clearinghouse (or its affiliates), and its technology, regulatory and banking service providers and/or its Clearing Members, that will enable the Clearinghouse to comply with the Core Principles. To the extent

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such an agreement is not final and executed, the Clearinghouse hereby represents that such services will be obtained as soon as operations as a DCO require. Additionally, this Application includes descriptions of system test procedures, tests conducted or test results that demonstrate the Clearinghouse's ability to comply with the Core Principles.

Schedule I sets forth the index of exhibits that support the Clearinghouse's ability to comply with the Core Principles.

The Clearinghouse has requested confidential treatment for specified exhibits to this Application.

The Clearinghouse hereby requests pursuant to CFTC Regulation 39.3(a)(3) that this Application be reviewed on an expedited basis and that the Clearinghouse be registered as a DCO not later than 90 days after the date of receipt of this Application.

I. CLEARINGHOUSE ORGANIZATION

A. International Derivatives Clearing Group, LLC

International Derivatives Clearing Group, LLC ("IDCG") is organized as a Delaware limited liability company.¹ The Clearinghouse is a wholly-owned subsidiary of IDCG. IDCG is currently owned by its principals (including entities affiliated with its principals) and the NASDAQ OMX Group, Inc. ("NDQ"). Upon the commencement of clearing operations, the Clearinghouse expects that IDCG will be owned by its principals and certain employees, NDQ and additional equity investors, some of which will be Class A Members (as defined below) of the Clearinghouse.

Upon the commencement of clearing operations, the board of directors of IDCG (the "IDCG Board") will consist of eleven members, which will include three independent directors selected by the nominating committee of the IDCG Board.²

B. Clearinghouse Management

The Clearinghouse is organized as a Delaware limited liability company.³ The Limited Liability Company Operating Agreement of International Derivatives Clearinghouse, LLC (the "Operating Agreement"), the Rules of International Derivatives Clearinghouse, LLC (the "Rules") and the Risk Control Procedures of International Derivatives Clearinghouse, LLC

¹ The Certificate of Formation and Limited Liability Company Operating Agreement of IDCG are attached as Exhibits A and B, respectively.

² A list of the current directors and senior management of IDCG, their respective biographical information, and an organizational chart of IDCG is attached as Exhibit C.

³ The Certificate of Formation of the Clearinghouse is attached as Exhibit D.

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adopted pursuant to the Rules (the “Risk Procedures”) govern the management and operation of the Clearinghouse.⁴

The Operating Agreement vests management oversight of the Clearinghouse to a board of directors (each, a “Director” and collectively, the “Board of Directors”), which are selected by IDCG in its capacity as the sole member of the Clearinghouse. It is anticipated that the members of the IDCG Board will also serve as the members of the Board of Directors. The Operating Agreement delegates the day-to-day operation of the Clearinghouse to its officers, which are appointed by and under the supervision of the Board of Directors and the committees established by the Board of Directors. In appointing officers and committee members, the Board of Directors will seek to appoint qualified persons with the requisite knowledge and experience to perform the obligations required of such office and to cause the Clearinghouse to implement and comply with the Core Principles. Initially, all persons responsible for the operation of the Clearinghouse will be employees of, and paid by, IDCG.

The Board of Directors will also establish four committees: the Nominating Committee, the Executive Committee, the Clearing Membership Committee and the Risk Management Committee. The Nominating Committee will be a committee of Directors responsible for nominating candidates to serve on the Executive Committee, the Clearing Membership Committee and the Risk Management Committee. The Executive Committee will be a committee of Directors that may exercise, when the Board of Directors is not in session, all powers of the Board regarding the supervision of the management of the business and affairs of the Clearinghouse. The Clearing Membership Committee will be a committee of Directors and non-Directors that is responsible for establishing, monitoring and verifying the qualifications, financial requirements and status of Clearing Members. The Risk Management Committee will be a committee of Directors and non-Directors responsible for determining the Clearinghouse’s regulatory scheme, risk management programs, budget and staffing proposals annually, appointing and directing the Chief Risk Officer, assessing regulatory performance on a regular basis, and recommending the adoption of rules to the Board concerning such matters as may be specified in the committee’s charter.⁵

The Clearinghouse will maintain office space in New York, New York, Chicago, Illinois and in such other locations as may be necessary to manage its operations and systems.

⁴ The Operating Agreement, Rules, and Risk Procedures are attached as Exhibits E, F and G, respectively.

⁵ A list of the current members of the Risk Management Committee and the Clearing Membership Committee and their respective biographical information is attached as Exhibit H.

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C. Clearing Membership

1. Categories of Clearing Membership

There will be two categories of clearing membership in the Clearinghouse, Class A Members and Class B Members (each a “Clearing Member” and collectively, the “Clearing Members”) the rights and obligations of which are set forth in the following table:

Rights and obligations	Class A Member	Class B Member
Required Guaranty Fund Deposit	\$5,000,000	\$2,500,000
Guaranty Fund Deposit Lock-up (measured from date of deposit)	Greater of 3 years or termination of Clearing Membership	Greater of 1 year or termination of Clearing Membership
Discount on clearing and execution fees for principal trades of the Clearing Member from rates charged to non-members subject to a minimum revenue threshold requirement	75%	25%
Must be an equity holder of IDCG	Yes	No

All Clearing Members will be entitled to clear contracts through the Clearinghouse for their proprietary account and, if appropriately registered, for customer accounts. Each Clearing Member must be an “eligible contract participant” as defined in Section 1a(12) of the CEA.⁶ The Guaranty Fund deposit of a Clearing Member must be maintained as long as it is a Clearing Member and may not be withdrawn after termination of its membership until the lockup period (3 years for Class A Members and 1 year for Class B Members) measured from the date it became a Clearing Member has expired.

Additionally, firms that do not wish to be Clearing Members but who hold a specified equity membership interest in IDCG (“IDCG Equityholder”) will be entitled to a 50% discount from the Clearinghouse’s clearing fees applicable to non-members in effect from time to time for transactions for their own account carried by a Clearing Member. IDCG Equityholders are not required to make a Guaranty Fund deposit and will be required to clear all of their contracts through a Clearing Member.

Clearing Members and IDCG Equityholders will be required to meet a monthly revenue threshold as specified by the Board of Directors from time to time. Initially, such revenue threshold is expected to be \$50,000 per month, which in the case of Clearing Members may be

⁶ Rule 302(a)(x).

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satisfied by the clearing fees charged to the proprietary accounts and customer accounts carried by each Clearing Member, and in the case of IDCG Equityholders, the clearing fees charged to the proprietary accounts for the IDCG Equityholder. Clearing Members and IDCG Equityholders that do not satisfy the revenue threshold in a given month will be required to pay such shortfall to the Clearinghouse. Clearing Members carrying customer accounts will be required to provide written disclosure to each customer that the Clearing Member receives discounted clearing fees for its proprietary account based in part on the volume of its proprietary transactions and its customer accounts that it clears in the Clearinghouse and that this may create an incentive for the Clearing Member to direct its Customer's transactions for clearing at the Clearinghouse.

2. Application for Membership

Each prospective Clearing Member must complete a membership application that will be reviewed by the Clearing Membership Committee.⁷ The Clearing Membership Committee will have the authority to examine the books and records of the applicant and to take such steps as it deems necessary to ascertain the facts bearing upon the qualification of an applicant.⁸

A prospective Clearing Member must meet the qualifications set forth in the Rules to ensure that it has the operational capabilities and financial resources to function as a Clearing Member and that it will contribute to the soundness and integrity of the Clearinghouse. Such requirements include that the prospective Clearing Member be engaged in or demonstrate operational and systems capacity to engage in the conduct of the business of a Clearing Member, that it has obtained all necessary government approvals (if any), that it demonstrates such fiscal and moral integrity as would justify the Clearinghouse's assumption of the risk inherent in clearing its contracts, that it meets specified capitalization requirements, that it has an established relationship with an the Clearinghouse approved Settlement Bank, that it will maintain back-office facilities staffed with experienced and competent personnel and is not subject to statutory disqualification under the CEA.⁹ Moreover, any Clearing Member that is clearing for a customer with respect to contracts that are cleared as futures contracts in the customer segregated account must be registered as a futures commission merchant ("FCM").¹⁰ Each Clearing Member will be required to comply with all Rules, act in a manner consistent with the Rules, and be responsible to the Clearinghouse for any violation of the Rules that occurred during its tenure as a Clearing Member, even after it has withdrawn its membership.¹¹

⁷ The Membership Application is attached as Exhibit I.

⁸ Rule 303.

⁹ Rule 302.

¹⁰ Rule 302(a)(vii).

¹¹ Rule 305(p).

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3. Financial Requirements

Clearing Members will be required to maintain minimum adjusted net capital in an amount no less than the greater of: (a) \$5,000,000, and (b) for Clearing Members that clear customer business in customer-segregated accounts, such amounts as may be required from time to time by the Commission if the Clearing Member is also registered as an FCM or the Securities and Exchange Commission if the Clearing Member is also registered as a broker-dealer.¹² A Clearing Member that is not required to be registered as an FCM will nonetheless be required to compute its adjusted net capital in the same manner as an FCM.

D. Instruments Accepted for Clearing

The Clearinghouse intends to accept for clearing futures contracts that are (a) economically equivalent to "plain vanilla" fixed versus floating interest rate swaps denominated in U.S. Dollars, Euros, Japanese Yen, British Pound Sterling, Canadian Dollars, Swiss Francs, and Australian Dollars ranging for up to thirty years of daily maturities and (b) "offset" forward rate agreements for 3-month LIBOR that trade for every good London business day in the next six months (collectively, the "IDEX Swap Futures Contracts").¹³ The Clearinghouse will first clear U.S. Dollar denominated IDEX Swap Futures Contracts, and then will expand to additional currencies in 2009.

The product criteria developed by the Clearinghouse have been designed to assure that there will be sufficient market liquidity in such contracts to permit the Clearinghouse to accurately calculate daily mark-to-market values and, in the event of a default by a Clearing Member, to permit the Clearinghouse to liquidate contracts and/or enter into replacement transactions.

E. Financial Resources of the Clearinghouse

1. Performance Bonds

The Clearinghouse will require each Clearing Member to deposit initial margin (the "Original Performance Bond") at a level determined by the Risk Committee from time to time to protect the Clearinghouse from adverse market movements and the cost of liquidating a Clearing Member's portfolio in the event of a default by such Clearing Member. The Performance Bond required by the Clearinghouse will be comparable to the margin levels required by other DCOs listing comparable products; the Clearinghouse does not intend to compete with other DCOs based on margin levels. The Original Performance Bond will be based on the gross number of contracts held by such Clearing Member. On a monthly basis, the Risk Management Committee

¹² Rule 309.

¹³ The draft specifications for the IDEX Swap Futures Contracts are attached as Exhibit J. These are being provided in draft form, subject to discussions with the staff of the Division of Market Oversight.

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will conduct an analysis of each product group and will recommend margin interval and spread credit changes to the Risk Management Department.

2. Pledge of Equity in IDCG

To further secure its obligations to the Clearinghouse, each Class A Member must pledge its required equity interest in IDCG to the Clearinghouse. In the event of a default by a Class A Member, after such Class A Member's Performance Bond deposits have been depleted, the Clearinghouse may foreclose the pledged equity interest in further satisfaction of the obligations owed to the Clearinghouse.¹⁴

3. Guaranty of Clearing Member

In lieu of the requirement of a Class A Member to pledge its required equity interest in IDCG to the Clearinghouse, the Clearing Member Committee may in its discretion require a "parent guaranty" from the owner(s) of such Class A Member on such terms as may be determined by the Clearing Member Committee. The Clearing Member Committee may also in its discretion require a "parent guaranty" from the owner(s) of a Class A Member on such terms as may be determined by the Clearing Member Committee

4. Working Capital

The Clearinghouse is expected to be initially capitalized with working capital of \$500,000, which will be contributed by IDCG to the Clearinghouse. The initial capital of IDCG is expected to be approximately \$50,000,000, which will be used to establish and maintain the Clearinghouse.¹⁵ Included in the initial capital of IDCG is a six-year \$20,000,000 capital facility provided by NDQ under which IDCG is able to draw up to \$2,000,000 per month. As of the date hereof, IDCG has drawn approximately \$3.2 million from the NDQ capital facility. In consideration for providing this capital facility, NDQ will be granted an option to purchase up to 10% of the equity of IDCG for no more than \$30,000,000, a portion of which will be paid by any draws outstanding on the capital facility. If NDQ exercises its option to purchase equity of IDCG, it will be required to deposit \$50,000,000 into the Guaranty Fund, which will be subject to a three-year lockup. NDQ also has the right to purchase an additional 9% interest in IDCG during the three-year lockup period and if it exercises such option, a portion of the \$50,000,000 Guaranty Fund deposit may be counted towards consideration for such equity interest.¹⁶

¹⁴ Rule 305(g).

¹⁵ The financial statements of the Clearinghouse and a "cash burn" analysis are attached as Exhibit K.

¹⁶ The terms of the agreement with NDQ are set forth on the term sheet, attached hereto as Exhibit L.

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5. Liquidity Facility

If the Clearinghouse determines it is necessary to have access to additional short-term liquidity, the Clearinghouse may enter into a liquidity facility as determined by Board of Directors. Under the Rules, the Clearinghouse will be permitted to secure its repayment obligations under any such liquidity facility with the capital of the Clearinghouse and/or the funds held in the Guaranty Fund. The liquidity facility will be used by the Clearinghouse in its discretion to provide the funds necessary to operate the Clearinghouse in the event of short-term liquidity needs. Although the Clearinghouse currently does not have a liquidity facility in place, it is currently negotiating with a financial institution for a \$25 million liquidity facility.

6. Guaranty Fund

Members of the Clearinghouse will be required to make a deposit into the guaranty fund maintained by the Clearinghouse (the "Guaranty Fund") of a minimum of \$5,000,000 for Class A Members and \$2,500,000 for Class B Members. In the event a Clearing Member withdraws its Membership, such Clearing Member's Guaranty Fund deposit may not be withdrawn until the date that is 3 years (in the case of a Class A Member) or 1 year (in the case of a Class B Member) after the date it became a Clearing Member. IDCG also may from time to time deposit, or cause to be deposited, funds in to the Guaranty Fund. Additionally, NDQ will make a deposit of \$50,000,000 to the Guaranty Fund (for a minimum term of three years, subject to the 9% option discussed in above) if it exercises its initial option to purchase a 10% equity interest in the IDCG. Assuming NDQ exercises its options, the Clearinghouse expects that the Guaranty Fund will initially be funded with a minimum of \$80,000,000.

7. Assessment Powers

Under the Rules, the Clearinghouse has the power to levy an assessment against all Clearing Members for any remaining losses after the depletion of funds in the Guaranty Fund. The amount of any such assessment per Clearing Member will be limited to the lesser of: (a) \$30,000,000 and (b) 40% of such Clearing Member's net capital.

8. Additional Equity Contribution from IDCG

IDCG will commit to provide an additional equity contribution to the Clearinghouse in order to permit the Clearinghouse to satisfy its obligations in the event certain other resources of the Clearinghouse have been exhausted. The amount of such additional equity contribution will be determined by the IDCG Board on a quarterly basis.

9. Default Insurance

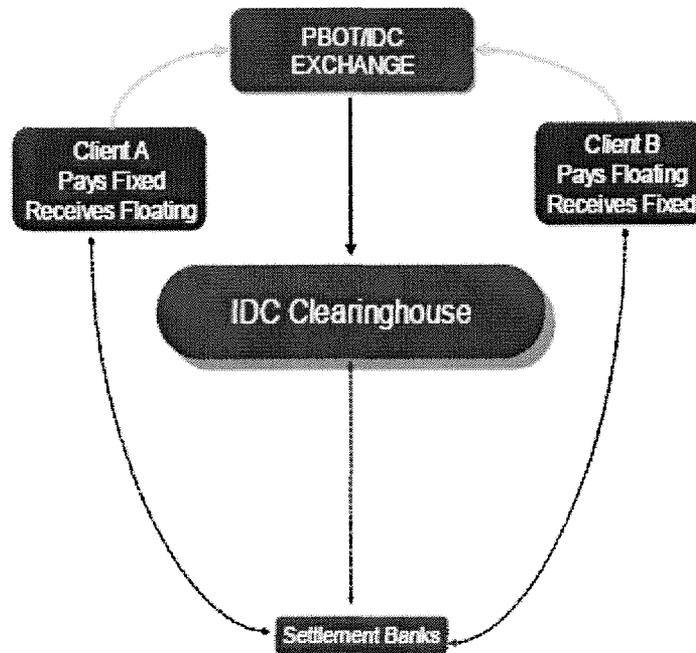
The Clearinghouse is currently negotiating with default insurance providers for a default insurance policy. The Clearinghouse makes no assurances that such a policy will be obtained.

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II. TRADING PROCESS AND SETTLEMENT PROCEDURES

A. Competitive Trading Process

The Clearinghouse has entered into a License Agreement and Clearing Services Agreement with the Philadelphia Board of Trade (“PBOT”), a designated contract market.¹⁷ IDCG will license the IDEX Swap Futures Contracts to PBOT, which will list them for competitive trading, and such trades will be cleared by the Clearinghouse. IDCG also will license to PBOT an electronic order matching engine developed by IDCG for the matching of transactions in IDEX Swap Futures Contracts. Such trading will be supervised by PBOT, in its capacity as a DCM, and governed by PBOT rules. Any transaction in the IDEX Swap Futures Contracts on PBOT will be cleared by the Clearinghouse. This trading process is illustrated in the following diagram:

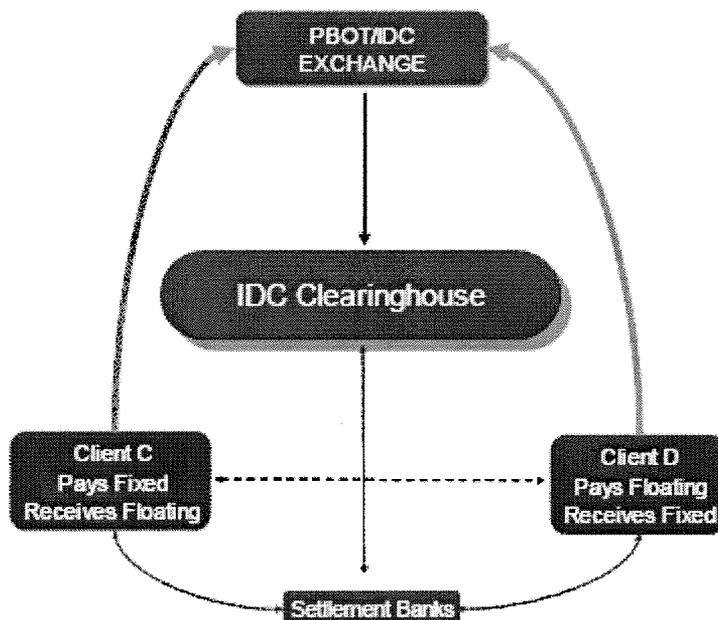


¹⁷ The License Agreement and the Clearing Services Agreement are attached as Exhibits M and N, respectively.

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B. SwapDrop

In addition to competitive trading on PBOT, interest rate swap contracts that are negotiated away from the PBOT electronic order matching engine will be “dropped in” to PBOT through IDCG’s “SwapDrop” interface that is licensed to PBOT. Such interest rate swap contracts are then replaced by the corresponding PBOT listed IDEX Swap Futures Contract that are cleared by the Clearinghouse through a replacement transaction. Such transactions will be supervised by PBOT in its DCM capacity and governed by PBOT rules. Any transaction in the IDEX Swap Futures Contracts on or subject to the rules of PBOT that complies with the Clearinghouse rules will be cleared by the Clearinghouse. This trading process is illustrated in the following diagram:



C. Clearing Process

After transactions are matched through PBOT order matching engine or the SwapDrop facility, they will be submitted electronically to the Clearinghouse. Each transaction will then proceed through the Clearinghouse Risk Filter (described below), through Deal Capture which will record each trade into a trade database for recordkeeping purposes, through Clearing_Srv which will disseminate private trade messages to each Clearing Member with confirmed trade details and then to RAZOR, the Clearinghouse’s risk management software. RAZOR will provide the Clearinghouse swap rate information that will be used to calculate the yield curve that will be published by the Clearinghouse. RAZOR will also provide settlement information and collateral management information. The collateral management information will be

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provided to the Settlement Banks. Additionally, the Clearinghouse will have other front office systems to monitor risk and manage network security.¹⁸

D. Daily Settlement Procedures

An IDEX Swap Futures Contract submitted by a Clearing Member for clearing will only be accepted by the Clearinghouse if (1) it was submitted through a participating trading facility, which is initially intended to be a designated contract market such as PBOT, or negotiated away from the participating trading facility's order matching engine and "dropped in" the IDCG's SwapDrop interface, and in each case (2) only if it has passed through the risk filter established by the Clearinghouse (the "Clearinghouse Risk Filter").¹⁹

The Risk Committee will set the Clearinghouse Risk Filter levels for the proprietary accounts of each Clearing Member, and each Clearing Member will be responsible for setting the Clearinghouse Risk Filter levels for each of its customer accounts. The Risk Committee will set the Clearinghouse Risk Filter levels based upon the financial strength of each Clearing Member, as well as their trading patterns. The Clearinghouse will dynamically adjust the Clearinghouse Risk Filter levels based upon position size, market events and financial statement analysis. The Clearinghouse Risk Filter will be monitored by the Clearinghouse, and Clearing Members will receive warning notifications if they are approaching levels that may trigger the Clearinghouse Risk Filter. If the Clearinghouse Risk Filter is triggered by the acceptance for clearing of a contract for an account, no additional contracts (other than contracts that would have the effect of reducing the risk in such account) will be accepted by the Clearinghouse for such account unless the Clearing Member carrying such account deposits additional collateral in an amount and form acceptable to the Clearinghouse or otherwise reduces its risk to the Clearinghouse. Additionally, the Clearinghouse may, in its discretion, liquidate the contracts that triggered or exceeded the Clearinghouse Risk Filter levels established for the account. A Clearing Member must act promptly to prevent the submission of further transactions for any account that it carries that is in excess of its Clearinghouse Risk Filter levels.

Upon receipt and acceptance of a matched trade, there will be a novation of the IDEX Swap Futures Contract wherein the buying Clearing Member will be deemed to have bought the contract from the Clearinghouse and the selling Clearing Member will be deemed to have sold the contract to the Clearinghouse.²⁰ To the extent a IDEX Swap Futures Contract remains open, end of day and intraday settlement and mark-to-market processes will occur to bring the contract up to the daily and intra-day settlement prices.²¹ The Clearinghouse will value the interest rate swap futures contracts held by the Clearing Member and the sufficiency of the Clearing Member's Performance Bond at least twice per day. Clearing Members may be required to provide additional Variation Performance Bond on the basis of the daily settlements to latest

¹⁸ A diagram of the Clearing process is attached as Exhibit O.

¹⁹ Rule 403.

²⁰ Rule 401.

²¹ Rule 409.

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market prices. All such cash payments are made through the Clearinghouse's payments arrangement with its Settlement Banks.

The standard daily settlement cycle will be as follows (all times are Eastern Time):

- 6:00pm: Clearinghouse Business Day commences.
- 6:00am: LIBOR is reset by BBA.
- 7:30am: Deadline for Settlement Banks to have made irrevocable commitments to make payments due from Clearing Members to the Clearinghouse. Confirmations made by Settlement Banks using standard form SWIFT ISO 15022 message type.
- 10:30am: Deadline for receipt of Performance Bond payments from Clearing Members' Settlement Banks.
- 11:00am: Intra-Day Fixing of Contract Values. The Clearinghouse determines which Clearing Member accounts have sufficient Performance Bond in place. The Clearinghouse sends notices to Settlement Banks and Clearing Members for accounts which need to supply Intra-day Variation Performance Bond payments.
- 11:00am-11:30am: The Clearinghouse sends full instructions to Settlement Banks on calls and pays, arranging simultaneous funding of its accounts at Settlement Banks and transfers of surpluses.
- 4:00pm: Mark-to-market of the IDEX Swap Futures Contracts.
- 5:30pm: End of Clearinghouse Business Day.
- 5.45pm: End of day mark-to-market of open IDEX Swap Futures Contracts calculated based on 4:00pm Eastern Time mark price. Settlement information, including amounts due from and owing to Clearing Members, will be provided to each Clearing Member and the Settlement Banks. Clearing Members will receive a daily trade ledger.

Intra-day calls must be confirmed by Settlement Banks no later than one hour after they are made. The latest time at which the Clearinghouse may make a call to a Settlement Bank is 4:00pm. Calls for dollar payments between 4:00pm and 6:00pm will be made into its New York account by FedWire transfer.

The Clearinghouse obtains "next day" statements from all Settlement Banks. These are subject to an automatic reconciliation process and any discrepancies are immediately taken up with the Settlement Banks.

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The Clearinghouse will establish a zero-coupon yield curve that will be updated on a continuous basis and will include the BBA-LIBOR, the Eurodollar rate, a composite of swap rates, the Clearinghouse's own swap rates and treasury rates.

The Clearinghouse is not currently a party to any cross-margining programs with any other clearing organization.

E. Contract Settlement

As central counterparty, the Clearinghouse is responsible for the performance of all novated IDEX Swap Futures Contracts through their final settlement. In the case of the IDEX Swap Futures Contracts, there will be a series of periodic floating rate and fixed rate settlements and a final settlement. There will be interim settlements every 90 days with the exact number of interim settlements dependent upon the term of the particular interest rate swap futures contract. The floating interest rate of IDEX Swap Futures Contract will be reset on the interim settlement dates until the contract expires. On the interim settlement dates cash payments will be received by the Clearinghouse from one Clearing Member and paid by the Clearinghouse to another Clearing Member. Periodic settlements will occur quarterly with respect to the floating rate portion of a contract and semi-annually with respect to the fixed rate portion of a contract. Final settlement will take the form of the final cash payment from one Clearing Member to the Clearinghouse and the final cash disbursement by the Clearinghouse to the other Clearing Member.

F. Record Keeping

Clearing Members will file daily trade reports with the Clearinghouse, or will confirm automatically generated trade reports, with respect to each trade made on such day. At the end of each business day, the Clearinghouse will provide each Clearing Member a "Clearing Member Statement" that sets forth amounts owed to or owing from the Clearinghouse and amounts of Performance Bond required by such Clearing Member as well as a daily trade register report. This information will be stored by the Clearinghouse in compliance with applicable CFTC Regulations.

III. RISK MANAGEMENT

The Risk Management Committee, the Chief Risk Officer (under the supervision of the Risk Management Committee), and the Risk Management Department are responsible for monitoring risk exposures at the Clearinghouse. The Risk Procedures contain detailed procedures regarding the evaluation of a Clearing Member's satisfaction of the admission standards, establishment of the Guaranty Fund and periodic evaluation of its sufficiency, risk monitoring, credit monitoring, variation settlement, original performance bond requirements, and governance and oversight. Additionally, the Clearing Membership Committee, including its staff, will be responsible for monitoring and verifying the qualifications and financial status of Clearing Members.

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1. Monitoring of Clearing Members

On an ongoing basis, each Clearing Member will be required to provide the Clearinghouse with monthly and annual financial reports to permit the Clearing Membership Committee to evaluate its financial status. Clearing Members will be required to submit financial reports electronically in the Form 1-FR-FCM or FOCUS Report format. Clearing Members will be required to submit additional or more frequent reports at the discretion of the Clearing Membership Committee.

The Clearing Membership Committee will review the financial reports provided by each Clearing Member to ensure that such Clearing Member meets the minimum capital requirements. Additionally, the Clearing Membership Committee will (i) discuss with the Clearing Member any material changes in pertinent balances that have occurred since the previous filings, (ii) review any footnotes to the financial reports for any unusual items or legal proceedings and bring them to the attention of the legal department, (iii) review the report of the Clearing Member's independent auditor to ensure that the statements fairly present, in all material respects, the financial position of the Clearing Member in accordance with GAAP and that no material weaknesses or qualified opinions have been granted, and (iv) review the report of the Clearing Member's independent auditor on internal controls to ensure that the Clearing Member's practices and procedures are adequate and meet the standards of the Clearinghouse and any applicable regulator. The Clearing Membership Committee may, in its discretion, impose additional capital requirements with respect to any Clearing Member to safeguard the financial integrity of the Clearinghouse.²²

Clearing Members are required to notify the Clearinghouse upon the occurrence of certain material events set forth in the Rules, including significant decreases in capital, under-segregation of customer segregated accounts, business combinations or changes in control, damage or inadequacy of any of its facilities, suspensions or withdrawals from self-regulatory organizations, failure to perform any material contracts or obligations, or insolvency of the Clearing Member or any guarantor thereof.²³

In the event that a Clearing Member violates the Rules (including failing to maintain compliance with Clearing Membership eligibility requirements), the Board may impose limitations on the activities of such Clearing Member or terminate the Clearing Member's clearing privileges in accordance with the enforcement procedures set forth in the Rules.²⁴

On a daily basis, the positions in all contracts of a Clearing Member will be stress tested using a non-directional shift in the yield curve created in a scenario generator. These shifts will be generated by moving the underlying portions of the yield curve in different directions and different magnitudes in order to arrive at a worst case scenario. Each Clearing Member's

²² Rule 309.

²³ Rule 312.

²⁴ See Rule 307 and Chapter 6.

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positions will be revalued according to this stress test and compared against its existing collateral and its last reported adjusted net capital.

On a monthly basis, a report of each Clearing Member's trading activity, margin levels and activity will be presented to the Risk Committee.

The Clearinghouse will have the right to establish position limits. A Clearing Member that violates any position limits that may be established by the Clearinghouse will have its positions subject to liquidation and may be fined by the Clearinghouse.²⁵

B. Monitoring of Financial Resources

The Clearinghouse will ensure that it has sufficient financial resources to operate its clearing system for its Clearing Members in accordance with the Core Principles. Financial and other material information relating to the financial resources available to the Clearinghouse will be posted on the Clearinghouse's website from time to time and provided to the Commission upon request.

1. Guaranty Fund

On a daily basis during the first 6 months of operation, the Risk Committee will evaluate the adequacy of the Guaranty Fund as a whole and each Clearing Member's required Guaranty Fund deposit if the daily average of Performance Bond requirements of all Clearing Members multiplied by 5% exceeds 125% of the then current Guaranty Fund for any three consecutive days. Thereafter, the Risk Committee will evaluate the adequacy of the Guaranty Fund as a whole and each Clearing Member's required Guaranty Fund deposit on at least a quarterly basis. On each day that the Risk Committee performs such an evaluation, it will multiply the highest daily average of Performance Bond requirements of all Clearing Members for the three prior days by 5%. If the result of the calculation is more than the current Guaranty Fund level, Clearing Members will be required, within one business day, to deposit additional amounts into the Guaranty Fund *pro rata* based on each Clearing Member's daily average Performance Bond requirement, such that the Guaranty Fund deposits equal or exceed the result of the calculation. Any Clearing Member that does not meet this deadline to make an additional deposit will have its proprietary account automatically debited for such deficit on the second business day following the adjustment. If the result of the calculation is less than the Guaranty Fund level, there will be no change to the Guaranty Fund.

On a daily basis, the Risk Committee will compare the Guaranty Fund requirements of each Clearing Member to its deposits in the Guaranty Fund to ensure such deposits are sufficient. If such deposit is insufficient, the Risk Committee will notify the Clearing Member of such deficiency and the Clearing Member will be required to deposit additional amounts into the Guaranty Fund within one business day. Any Clearing Member that does not meet this deadline

²⁵ Rule 420.

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will have its proprietary account automatically debited for such deficit on the second business day following the notice.

The Guaranty Fund will be stress tested on a daily basis to simulate the default of the largest two Clearing Members (based on Performance Bond requirements) and a randomly selected third Clearing Member. The default scenario will assume a worst case price change in the underlying swap as calculated by the Risk Committee using a non-directional shift in the interest curve. The resulting defaults will be simulated over a one-, two- and three-day cure period. The sufficiency of the Guaranty Fund will be gauged in curing the positions of the defaulting Clearing Members. If the result of this stress test shows that the then current Guaranty Fund would be insufficient to cure the defaults over a three day period, Clearing Members will be required to deposit additional amounts into the Guaranty Fund *pro rata* based on each Clearing Member's daily average Performance Bond requirement, within one business day, such that the Guaranty Fund deposits will be sufficient to cure the defaults over a three day period. Any Clearing Member that does not meet this deadline will have its account proprietary account automatically debited for such deficit on the second business day following the adjustment.

The Risk Committee also will have the right to require additional deposits from any Clearing Member at any time in its sole discretion.²⁶

2. Performance Bond

The Risk Management Department will calculate Performance Bond using a two day move in the price of the underlying interest rate swap over a 30-, 90- and 125-day trading day time horizon. The resulting variances will be recalculated using a 95%, 97% and 99.7% confidence intervals for each time period. According to the risk policy adopted for each product, the highest Performance Bond requirement, rounded up to the nearest \$100, will be applied. This procedure also provides a methodology for back-testing the sufficiency of Performance Bond over the previous 125 trading days.

The Risk Management Department will ensure that the higher risk in longer dated contracts is reflected in the levels chosen for Initial Performance Bond. The primary methods to protect the Clearinghouse are:

- Time value of money: the discount factor calculation will reflect greater levels of risk inherent in the longer dated portions of the curve.
- Confidence interval: the application of higher confidence intervals will result in higher Initial Performance Bond amounts.

²⁶ Rule 510.

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- Holding periods: the level of liquidity of longer dated contracts is generally lower and will result in higher Initial Performance Bond levels by adjusting the holding period.

With the approval of the Chief Executive Officer or its designee, after consultation with the Risk Committee, the Risk Management Department may impose the following additional Performance Bond requirements.

- Spot month Performance Bond charges
- Calendar spread Performance Bond charges
- Short option minimums (when and if options are offered)

The variable Performance Bond rule is employed to mitigate the risk associated with potential volatility triggered by an initial market move greater than the Performance Bond required. The variable Performance Bond rule automatically (without approval from the Chief Risk Officer or its designee) increases the Performance Bond interval by a predetermined percentage of the Original Performance Bond and time period.

Additionally, the Chief Risk Officer or its designee will have the authority to change Performance Bonds as necessary to protect the interests of the Clearinghouse (concentration risk, credit downgrades, excessive price movements).

Concentration Performance Bond amounts are set to ensure that Clearing Members are charged higher Initial Performance Bond amounts should they represent more than 25% of the open interest in any given contract “bucket”. The “bucket” is calculated with respect to contracts outstanding for a specified time period (0-2 years, 2-3 years, 3-4 years, 4-5 years, etc.). The application of the concentration levels is designed to (1) protect the Clearinghouse for the increased risk in case of a default by the Clearing Member and (2) act as an incentive to the Clearing Member to reduce the concentration in the contracts. The Risk Committee has set the following concentration Performance Bond levels:

Concentration Level	Performance Bond
25%	125%
50%	150%
75%	200%

Initially, Clearing Members will be permitted to provide Original Performance Bond to the Clearinghouse in U.S. currency, shares of certain mutual funds approved by the Clearinghouse and U.S. Treasury and agency securities.²⁷ Clearing Members may be permitted

²⁷ Rules 508-509.

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to post additional forms of non-cash Performance Bond or non-US dollar denominated deposits in the future, subject to the approval of the Risk Committee and applicable haircuts.

Additionally, the Clearinghouse will require each Clearing Member to post additional margin ("Variation Performance Bond" and together with Original Performance Bond, "Performance Bond") on a twice daily basis to cover the mark-to-market losses in a contract. The revaluation process will rely on the construction of a blended interest rate curve to generate discount factors for any point along the curve. The resulting net present value of the cash flows (fixed side and floating side in the case of an interest rate swap future) will determine the value or mark-to-market of the interest rate swap future. Clearing Members will be required to deposit Variation Performance Bond in U.S. currency.²⁸ A Clearing Member must deposit Performance Bond within the time frame specified by the Clearinghouse, or it may be deemed to be in default.

Each Clearing Member is required to maintain Performance Bond from its customers at levels determined by the Risk Committee from time to time with respect to each contract. A Clearing Member will not be permitted to accept a trade from a customer to establish a risk increasing position from a customer that has a debit account or a deficiency in its Performance Bond deposit with the Clearing Member when such debit or deficiency is more than three days old. Clearing Members will be required to accept Performance Bond from its customers in the same form in which the Clearing Member is permitted to maintain Performance Bond with the Clearinghouse.²⁹

All Performance Bond deposits will be held at a Settlement Bank in one of two accounts established by the Clearinghouse in the name of the Clearing Member: (1) a proprietary (house) account, or (2) a customer segregated account.³⁰

C. Risk Monitoring

The Risk Committee will review and assess Clearinghouse and Clearing Member risk at the predetermined intervals (intraday, daily, monthly, quarterly, annually) and pursuant to the functions set forth in detail in the Risk Management Procedures.

D. Settlement Banks; Safe Custody of Funds

All Performance Bond deposits will be held at one or more banks designated as "Settlement Banks" by the Board of Directors.³¹ Each of these Settlement Banks are located in New York, NY and/or Chicago, IL and are supervised by federal banking regulators. Maintenance of funds at these Settlement Banks is intended to ensure the safe custody and

²⁸ Rule 507.

²⁹ Rules 515.

³⁰ Rule 504.

³¹ A list of Settlement Banks with whom the Clearinghouse is currently negotiating is attached as Exhibit P

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availability of such funds. Clearing Members are not permitted to use any Settlement Bank except those designated by the Clearinghouse.³²

The Settlement Banks will contract to make irrevocable transfers to the Clearinghouse accounts on receiving payment instructions from the Clearinghouse (such instructions also being sent to the Clearing Members, the account holders of the Settlement Bank). The Clearinghouse makes payments to Clearing Members by the same arrangements, instructing transfers from the Clearinghouse's accounts to Clearing Members' accounts at the Settlement Banks. There is no mechanism for making settlement payments other than through Settlement Banks.³³

As noted above, all Performance Bond deposits will be held at a Settlement Bank in one of two accounts established by the Clearinghouse in the name of the Clearing Member and specifically identified as: (1) a proprietary (house) account, or (2) a customer segregated account. The Clearinghouse will obtain a customer segregation acknowledgement letter in accordance with CFTC Regulation 1.20 from each Settlement Bank, including acknowledgements by the Settlement Bank that it was informed by the Clearinghouse that funds in the customer segregated account are held pursuant to the CEA for the benefit of customers, are being held in accordance with the provisions of the CEA and CFTC Regulations, and that the Settlement Bank will not look to the funds in such account to satisfy any obligations of a Clearing Member or the Clearinghouse to such Settlement Bank.³⁴

IV. SYSTEM SAFEGUARDS

The Clearinghouse recognizes that the management of counterparty and market risk associated with its central counterparty role, maintenance of adequate capacity and security with respect to its automated IT systems and the establishment, testing, evaluation and modification of, and back-up plans with respect to, such systems is integral to the achievement of its objective of providing secure and efficient clearing services to members.

The Clearinghouse will maintain office space in New York, NY, Chicago, IL and in such other locations as may be necessary to manage its operations and systems. The Clearinghouse will be able to maintain complete operations independently from each location and each location will be staffed with employees who are trained to maintain the operations of the Clearinghouse in the event of a disruption to the other location.

The Clearinghouse will run two data centers for its core clearing, risk management and banking systems. The Clearinghouse also will operate a fully redundant disaster recovery data center located in the central United States. The disaster recovery facility will be appropriately

³² Forms of Custody Agreement and Settlement Agreement are attached as Exhibits Q and R, respectively.

³³ Rule 516.

³⁴ Rule 516.

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sited separately from the primary data center, which will be located in Chicago, IL. The mission of the disaster recovery program is to maintain a constant state of readiness to take over the operation of the clearing systems should the primary production facility become inoperable.³⁵

All of the Clearinghouse's applications will have full disaster recovery capability in the disaster recovery data center. All of the core applications will run "hot-hot," meaning they will be active in both the production and disaster recovery data centers every day. The Clearinghouse will maintain an extensive network with redundant paths to both data centers. Clearing Members will be able to connect directly to either data center or designated post office protocol (POP), which allows Clearing Members to utilize backup connectivity throughout the network and then can be directed to either facility. All applications can be managed locally and remotely, allowing for continued operation in the event of the main office becoming inoperable.

The Clearinghouse's core operating systems are intended to be the OMX Click & Secur Systems and IT&e's Razor platform. The Clearinghouse will enter into a Technology Services Agreement with NDQ and IT&e for the provision of clearing technology systems.³⁶ IT&e will provide the Clearinghouse with risk management and margin calculation services. The Clearinghouse believes that both the OMX Click & Secur Systems and the IT&e Razor platform have fully adequate capacity and that adequacy will be regularly reviewed.

Security standards will be coordinated by the Chief Technology Officer (the "CTO"), whose responsibility is technology, security and business continuity and contingency planning.

The Clearinghouse will be performing various "internal" and "external" security penetration testing, with both technology partners over the coming months. The Clearinghouse anticipates that all tests will confirm the highest level of impenetrability.

All new functionality and products will be fully tested on multiple testing systems and environments separate from the live system. Each test system will be maintained to mimic the live platform at all times.

All automated systems employed by the Clearinghouse will meet the guidelines issued by the International Organization of Securities Commission (IOSCO) in 1990, as supplemented in October 2000, including those involving physical security, environmental controls, network management, capacity and systems testing.³⁷

³⁵ A copy of the Clearinghouse's Disaster Recovery and Business Continuity Plan, along with a response to questions from Commission staff, is attached as Exhibit S.

³⁶ The Technology Service Agreements are attached as Exhibits T and U, respectively.

³⁷ A description of testing procedures and a summary of indicative test results are attached as Exhibit V.

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V. DEFAULT PROCEDURES

A. Clearing Member Default

The Clearinghouse has established rules, policies, and procedures designed to assure efficient, fair and safe management of events when Clearing Members become incapacitated, insolvent, or default on their obligations to the Clearinghouse.

A Clearing Member that fails to meet any of its obligations to the Clearinghouse, that fails to deposit Performance Bond within one hour of demand by the Clearinghouse or who is suspended or expelled by a market or the Clearinghouse will be in default. Upon a default by a Clearing Member, the Clearinghouse will have the ability to resolve open trades of the Clearing Member and collect any debit balance owing to the Clearinghouse. The Clearinghouse will have the right to liquidate a defaulting Clearing Member's positions and to offset profits and losses from such positions or to transfer such positions to another Clearing Member. The Clearinghouse may also enter into replacement transactions to maintain a matched book to assure other Clearing Members of its continued ability to perform. The Clearinghouse may charge the replacement costs to the amount of losses that it may claim from the defaulting Clearing Member. If after the resolution of its open trades the defaulting Clearing Member has a balance owing to the Clearinghouse, the Clearinghouse may first apply funds from the Performance Bond deposit of the Clearing Member to satisfy such debit balance. Upon a default on contracts held in the customer-segregated account, Performance Bond held in the proprietary account of the defaulting Clearing Member may be used to satisfy such default in the customer account if there are insufficient funds in the customer account. However, Performance Bond held in the customer-segregated account may not be used to satisfy a default on contracts held in the proprietary account. If the Performance Bond deposits are not sufficient to satisfy the defaulting Clearing Member's debit balance, the Clearinghouse may next satisfy the defaulting Clearing Member's obligations in the following order:

- If a Class A Member, its pledged equity interest in IDCG.
- Funds deposited by such defaulting Clearing Member in the Guaranty Fund.

If the assets and proceeds set forth in above are insufficient to satisfy all of the defaulting Clearing Members obligations to the Clearinghouse, including all claims against the Clearinghouse by reason of novation of the contract, the Clearinghouse will be responsible for paying (including by drawing on the proceeds of any liquidity facility maintained by the Clearinghouse) all such claims, and which shall be a liability of the defaulting Clearing Member to the Clearinghouse, which the Clearinghouse may collect from any other assets of such Clearing Member or by process of law.

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B. Clearinghouse Satisfaction of Obligations

If the Clearinghouse is unable to immediately satisfy all claims against it arising out of its substitution for a Clearing Member in default or for any other cause, then such claim will be met and made good promptly by the Clearinghouse by the use and application of funds from the following sources in the order of priority below. Each source of funds will be required to be completely exhausted before the next following source is applied.

- Capital: Surplus funds of the Clearinghouse in excess of funds necessary for normal operation.
- Guaranty Fund. The amount of the Guaranty Fund deposits from all Clearing Members shall be applied toward meeting such loss, in direct proportion to the total Guaranty Fund deposit requirement of each Clearing Member
- Default Insurance, if any.
- Additional Equity Contribution from IDCG.
- Performance Bond: The amount of Performance Bond from all Clearing Members, in direct proportion to the total Performance Bond requirement of each Clearing Member.
- Member Assessments.

VI. ENFORCEMENT OF RULES; DISPUTE RESOLUTION

The Clearinghouse will put in place adequate arrangements to monitor and enforce compliance with the Rules, and to resolve disputes among Clearing Members, and will have the authority and ability to discipline, limit and suspend a Clearing Member for violations of the Rules.

The Clearinghouse intends to outsource the administration of its rule enforcement and dispute resolution processes to its regulatory services provider and will maintain ultimate decision making authority over these functions.³⁸

A. Rule Enforcement

The Rules set forth the mechanisms for rule enforcement by the Clearinghouse. The Regulatory Oversight Department of the Clearinghouse will be responsible for investigating any violation of the Rules by a Clearing Member. The Regulatory Oversight Department will have the authority to initiate and conduct investigations, prepare reports and make recommendations concerning initiating disciplinary proceedings, prosecute alleged violations of the Rules and represent the Clearinghouse on appeal from a Clearinghouse proceeding. After notice and

³⁸ A form of Regulatory Services Agreement is attached as Exhibit W.

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opportunity for a hearing in accordance with the Rules, if a Clearing Member is found to have violated the Rules, the Clearinghouse will have the ability to impose sanctions, including limitation, suspension, expulsion, restitution, fines, or other sanctions permitted by the Rules. These procedures will be administered by a regulatory services provider.

B. Dispute Resolution

The Clearinghouse's regulatory services provider will also provide arbitration services for disputes between Clearing Members and between Clearing Members and their customers.³⁹

C. Information Sharing

The Clearinghouse will, as appropriate, enter into and abide by the terms of information-sharing agreements and use relevant information obtained from such agreements in carrying out its risk management program. Although the Clearinghouse has not yet entered into any information-sharing arrangements, it is authorized to share information pursuant to such arrangements with other relevant clearing organizations to monitor and assure the ability of Clearing Members to perform their obligations to the Clearinghouse. The Clearinghouse will advise the Commission of its entry into information-sharing arrangements with other clearing organizations or other groups or associations, on a timely basis.⁴⁰

VII. REPORTING; RECORDKEEPING; PUBLIC INFORMATION; ANTITRUST

A. Reporting

The Clearinghouse will provide to the Commission on request all information necessary for the Commission to conduct its oversight function of the Clearinghouse under the CEA with respect to its activities.

B. Recordkeeping

In accordance with the CEA and CFTC Regulations, the Clearinghouse will maintain records of all activities related to its business as a DCO in a form and manner set forth in CFTC Regulation 1.31 for a period of at least five years.⁴¹

C. Public Information

The Clearinghouse will provide the Rules to each applicant for Clearing Membership and as a condition to Clearing Membership, an applicant must certify that it has received the Rules, reviewed the Rules and agrees to abide by the Rules. Additionally, the Rules will be made

³⁹ Chapter 7.

⁴⁰ Rule 210.

⁴¹ Rule 209.

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publicly available on the Clearinghouse website. The Clearinghouse will make publicly available on the Clearinghouse website certain information about its financial resources.

The Clearinghouse will provide notices to all Clearing Members by posting a "Notice to Members" in a designated area of its website. A notice other than a "Notice to Members" will be delivered by email or facsimile, mail or personal service.⁴²

D. Antitrust

The Clearinghouse will not adopt any regulation or take any other action that would result in an unreasonable restraint of trade or impose any material anticompetitive burden on trading in the products it clears in its capacity as a DCO unless such action is appropriate to achieve the purposes of the CEA. Prior to adopting any new or revised rule, or when taking other actions, the Clearinghouse will consider whether such rule or action is the least anticompetitive way to achieve its objective.

VIII. CONCLUSION

Based on the foregoing information and the information contained in the Schedules and Exhibits attached hereto, the Clearinghouse believes that it is eligible to establish registration as a DCO and that its proposed activities in that capacity satisfy the applicable Core Principles set forth in Section 5b(c)(2) of the CEA.

The Clearinghouse respectfully requests that the Commission issue an order granting the Clearinghouse registration as a DCO.

Should you have any questions regarding this Application, please feel free to contact the undersigned at (312) 558-8918 or Patrick J. McCarty, Interim General Counsel, IDCG, at (212) 792-8961.

Very truly yours,



Michael Philipp

Enclosures Exhibits A-W

cc: Acting Chairman Walter Lukken
Commissioner Michael Dunn
Commissioner Jill E. Sommers
Commissioner Bart Chilton
Robert Wasserman, Associate Director, Division of Clearing and Intermediary Oversight

⁴² Rule 211.

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Vincent Viola, Director

Richard L. Sandor, Non-executive Chairman

J. Robert Collins, Jr., Interim Chief Executive Officer and Director

Patrick J. McCarty, Interim General Counsel

Douglas A. Cifu, Director

Christopher Edmonds, Chief Operating Officer

SCHEDULE I

INDEX OF EXHIBITS

Exhibit	Description
Exhibit A	IDCG – Certificate of Formation
Exhibit B	IDCG – Limited Liability Company Agreement
Exhibit C	IDCG – Directors and Senior Management
Exhibit D	Clearinghouse – Certificate of Formation
Exhibit E	Clearinghouse – Limited Liability Company Agreement
Exhibit F	Rules of the Clearinghouse
Exhibit G	Risk Management Procedures
Exhibit H	Clearinghouse Membership Application
Exhibit I	Risk Committee and Clearing Membership Committee Members
Exhibit J	Draft Contract Specifications
Exhibit K	Financial Statements
Exhibit L	NDQ Term Sheet
Exhibit M	License Agreement (PBOT)
Exhibit N	Clearing Services Agreement (PBOT)
Exhibit O	Diagram of Trade Processing
Exhibit P	List of Settlement Banks
Exhibit Q	Form of Cash Settlement Agreement
Exhibit R	Form of Custody Agreement
Exhibit S	Business Continuity and Disaster Recovery Plan
Exhibit T	OMX Technology Services Agreement
Exhibit U	IT&e Technology Services Agreement
Exhibit V	Systems Testing Procedures and Summary Results
Exhibit W	Regulatory Services Agreement

Appendix A**DEMONSTRATION OF COMPLIANCE WITH CORE PRINCIPLES
APPLICABLE TO DERIVATIVES CLEARING ORGANIZATIONS**

CORE PRINCIPLE	CLEARINGHOUSE PROPOSAL	CLEARINGHOUSE COMMENTS
<p><i>Core Principle A: IN GENERAL—To be registered and to maintain registration as a derivatives clearing organization, an applicant shall demonstrate to the Commission that the applicant complies with the core principles specified in this paragraph. The applicant shall have reasonable discretion in establishing the manner in which it complies with the core principles.</i></p>		<p>The application of International Derivatives Clearinghouse, LLC (the “Clearinghouse”), including the exhibits thereto demonstrates that the Clearinghouse complies with each of the derivatives clearing organization core principles specified in Section 5b(c)(2) (7 USC §7a-1) of the Commodity Exchange Act (the “Act”).</p>
<p><i>Core Principle B: FINANCIAL RESOURCES—The applicant shall demonstrate that the applicant has adequate financial, operational, and managerial resources to discharge the responsibilities of a derivatives clearing organization.</i></p>	<p>Application §§ I.B., I.E., IV. and V.</p> <p>Rulebook:</p> <p>Rule 504. Clearing Member Default</p> <p>Rule 505. Application of Clearinghouse Resources</p> <p>Rule 506. Original Performance Bond</p> <p>Rule 507. Variation Performance Bond Deposits</p> <p>Rule 508. Cash Performance Bond Deposits</p> <p>Rule 509. Non-Cash Performance Bond Deposits</p> <p>Rule 510. Guaranty Fund</p> <p>Rule 511. Liquidity Facility</p> <p>Rule 512. Default Insurance</p>	<p>The Clearinghouse will initially be capitalized with \$500,000 and will be solely owned by IDCG, which is expected to have approximately \$50,000,000 in initial capital. To protect the Clearinghouse from default of a Clearing Member, the Clearinghouse will require a Clearing Member to post Performance Bond. A Clearing Member will also be required to make a deposit to the Guaranty Fund. A Class A Member will be required to pledge its equity interest in IDCG and in the event of a default by the Class A Member, such equity interest may be liquidated to satisfy the default.</p> <p>The Clearinghouse expects that the Guaranty Fund will contain a minimum of \$80,000,000 (including a deposit by NDQ as described in the Application). These amounts are in addition to Performance Bond requirements, which are intended to be set at levels consistent with other clearinghouses.</p> <p>Among the funds available in the event of a default by the Clearinghouse are the excess capital</p>

CORE PRINCIPLE	CLEARINGHOUSE PROPOSAL	CLEARINGHOUSE COMMENTS
	<p>Rule 513. Clearing Member Assessment</p>	<p>of the Clearinghouse, the proceeds from any liquidity facility maintained by the Clearinghouse, the Guaranty Fund deposits, the default insurance maintained by the Clearinghouse (if any), the Performance Bond posted by Clearing Members and any Clearing Member Assessment.</p> <p>Initial Performance Bond may be deposited in cash, shares of mutual funds acceptable to the Clearinghouse, and United States Treasury and agency securities. Settlement Performance Bond must be deposited in cash. The Clearinghouse expects that it will be able to promptly liquidate these assets upon an event of default.</p>
<p><i>Core Principle C: PARTICIPANT AND PRODUCT ELIGIBILITY—</i> <i>The applicant shall establish (i) appropriate admission and continuing eligibility standards (including appropriate minimum financial requirements) for members of and participants in the organization; and (ii) appropriate standards for determining eligibility of agreements, contracts, or transactions submitted to the applicant.</i></p>	<p>Application §§ I.C. and I.D.</p> <p>Rulebook:</p> <p>Rule 301. Categories of Membership</p> <p>Rule 302. Qualification of Clearing Members</p> <p>Rule 309. Capital Requirements</p> <p>Rule 310. Financial Reporting Requirements</p> <p>Rule 311. Guaranty Requirement</p> <p>Rule 312. Notices Required of Clearing Members</p> <p>Chapter IX. Contract Specifications</p>	<p>The admission standards for Clearing Members will ensure that each Clearing Member has sufficient financial resources and adequate personnel and systems to function as a Clearing Member. Every Clearing Member must be an “eligible contract participant”.</p> <p>Generally, the admissions standards for Class A Members and Class B Members are the same. However, a Class A Member must also hold an equity interest in IDCG and pledge such interest to the Clearinghouse. The minimum Guaranty Fund deposit for a Class A Member is \$5,000,000, whereas the minimum Guaranty Fund deposit for a Class B Member is \$2,500,000.</p> <p>Each Clearing Member is required to file monthly and annual financial reports. Additionally, a Clearing Member is required to notify the Clearinghouse in the event of certain financial circumstances. The Clearing Member Committee will be responsible for monitoring the financial status of Clearing</p>

CORE PRINCIPLE	CLEARINGHOUSE PROPOSAL	CLEARINGHOUSE COMMENTS
		<p>Members.</p> <p>The Clearing Member Committee may prescribe additional capital requirements with respect to any Clearing Member. Additionally, upon a “Termination Event” (as defined in the Rules) or a violation of the Rules, the Board may, in its sole discretion, restrict access and impose varying eligibility requirements.</p> <p>Initially, the Clearinghouse will clear U.S. dollar denominated fixed versus floating interest rate swaps. Product criteria for U.S. dollar denominated fixed versus floating interest rate swaps was designed to assure sufficient market liquidity to allow accurate daily mark to market values and the ability of the Clearinghouse to enter into offsetting transactions.</p> <p>Swap agreements that are traded over the counter and submitted for clearing by the Clearinghouse will be cleared as futures contracts through a replacement process whereby the original over the counter swap agreement is replaced by an economically equivalent futures contract. All contracts will be cash settled.</p>

CORE PRINCIPLE	CLEARINGHOUSE PROPOSAL	CLEARINGHOUSE COMMENTS
<p><i>Core Principle D: RISK MANAGEMENT—The applicant shall have the ability to manage the risks associated with discharging the responsibilities of a derivatives clearing organization through the use of appropriate tools and procedures.</i></p>	<p>Application III</p> <p>Clearinghouse Risk Control Procedures</p> <p>Rulebook:</p> <p>Rule 419. Clearinghouse Risk Filter</p> <p>Rule 420. Position Limits</p> <p>Rule 506. Original Performance Bond</p> <p>Rule 507. Variation Performance Bond Deposits</p> <p>Rule 508. Cash Performance Bond Deposits</p> <p>Rule 509. Non-Cash Performance Bond Deposits</p>	<p>The Clearinghouse’s testing of overall financial resources is described in the Clearinghouse Risk Control Procedures.</p> <p>The Clearinghouse’s use of stress testing and value at risk calculations is described in the Clearinghouse Risk Control Procedures.</p> <p>The Clearinghouse’s contingency plans for managing extreme market risk are described in the Clearinghouse Risk Control Procedures.</p> <p>Initial Performance Bond may be deposited in cash, shares of mutual funds acceptable to the Clearinghouse, and United States Treasury and agency securities. Settlement Performance Bond must be deposited in cash. Guaranty Fund Deposits must be made in cash. These forms of Performance Bond deposit are highly liquid and in the event of a default by a Clearing Member or the Clearinghouse, will be promptly available to satisfy such default.</p> <p>The levels of Performance Bond and Guaranty Fund deposit required are determined by the Risk Committee in accordance with the Clearinghouse Risk Control Procedures. The level of Original Performance Bond level will be based on the gross number of contracts held by such Clearing Member. The Clearinghouse will have the ability to calculate Performance Bond using a matrix based on various coverage scenarios (i.e., 95%, 99%, 99.7% levels of certainty) over different periods of time of exposure (i.e., 1 day, 3 days). The Clearinghouse will have the ability to run the scenarios using cash flow analysis, time-series</p>

CORE PRINCIPLE	CLEARINGHOUSE PROPOSAL	CLEARINGHOUSE COMMENTS
		<p>analysis, and value at risk analysis. Additionally, the Clearinghouse will have the ability to require additional Performance Bond from certain Clearing Members based on their concentrations in any contract or their creditworthiness.</p> <p>Once daily during the trading day and at the end of each trading day, the Clearinghouse will mark-to-market open positions and evaluate the need for additional Performance Bond deposits.</p> <p>The Clearinghouse will mark-to-market open positions and evaluate the need for additional Performance Bond deposits. Intra-day calls must be confirmed by Settlement Banks no later than one hour after they are made.</p> <p>A trade will be cleared only after it has passed through the Clearinghouse Risk Filter.</p>
<p><i>Core Principle E: SETTLEMENT PROCEDURES—The applicant shall have the ability to (i) complete settlements on a timely basis under varying circumstances; (ii) maintain an adequate record of the flow of funds associated with each transaction that the applicant clears; and (iii) comply with the terms and conditions of any permitted netting or offset arrangements with other clearing organizations.</i></p>	<p>Application §§ II.</p> <p>Rulebook:</p> <p>Rule 501. Cash Settlement</p> <p>Rule 502. Settlement Price</p> <p>Rule 516. Settlement Banks</p> <p>Chapter IX. Contract Specifications</p>	<p>As central counterparty, the Clearinghouse is responsible for the performance of all novated contracts through to their final settlement. In the case of interest rate swap futures contracts, there will be a series of interim settlements and a final settlement. On the interim settlement dates cash payments will be received by the Clearinghouse from one Clearing Member and paid by the Clearinghouse to another Clearing Member. Final settlement will take the form of the final cash payment from one Clearing Member to the Clearinghouse and the final cash disbursement by the Clearinghouse to the other Clearing Member. Settlement will be facilitated through the clearing accounts maintained by Clearing Members at the Settlement Banks</p>

CORE PRINCIPLE	CLEARINGHOUSE PROPOSAL	CLEARINGHOUSE COMMENTS
<p><i>Core Principle F: TREATMENT OF FUNDS—The applicant shall have standards and procedures designed to protect and ensure the safety of member and participant funds.</i></p>	<p>Application § III.D.</p> <p>Rulebook:</p> <p>Rule 515. Clearing Member Accounts</p> <p>Rule 516. Settlement Banks</p>	<p>Clearing Members will be required to maintain separate clearing accounts for proprietary and customer accounts with Settlement Banks approved by the Clearinghouse. The Clearinghouse will invest customer funds only in instruments permitted under Commission regulations and will segregate such instruments. Settlement banks will be required to acknowledge that such funds belong to customers and are being held according to the Act and Commission regulations.</p>
<p><i>Core Principle G: DEFAULT RULES AND PROCEDURES—The applicant shall have rules and procedures designed to allow for efficient, fair, and safe management of events when members or participants become insolvent or otherwise default on their obligations to the derivatives clearing organization.</i></p>	<p>Application § V.</p> <p>Rulebook:</p> <p>Rule 504. Clearing Member Default</p> <p>Rule 505. Application of Clearinghouse Resources</p> <p>Chapter VI. Rule Enforcement</p>	<p>A Clearing Member who fails to meet any of its obligations with the Clearinghouse or who fails to deposit Performance Bond within one hour after demand by the Clearinghouse, among other things, will be in default.</p> <p>Upon a default, the Clearinghouse may cause all Trades of such Clearing Member to be closed and any debit balance owing to the Clearinghouse shall be immediately due and payable.</p> <p>To satisfy any outstanding obligations of the defaulting Clearing Member, the Clearinghouse may apply, in the following order, any Performance Bond deposit of the defaulting Clearing Member; the defaulting Clearing Member’s pledged equity interest in IDCG (in the case of a Class A Member), and any amounts deposited by the defaulting Clearing Member into the Guaranty Fund.</p>
<p><i>Core Principle H: RULE ENFORCEMENT—The applicant shall (i) maintain adequate arrangements and resources for the effective monitoring and</i></p>	<p>Application § VI.</p> <p>Rulebook:</p>	<p>The Regulatory Oversight Department of the Clearinghouse will be responsible for investigating any violation of the Rules by a Clearing Member. The Regulatory</p>

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<p><i>enforcement of compliance with rules of the applicant and for resolution of disputes; and (ii) have the authority and ability to discipline, limit, suspend, or terminate a member's or participant's activities for violations of rules of the applicant.</i></p>	<p>Chapter VI. Rule Enforcement</p>	<p>Oversight Department will have the authority to initiate and conduct investigations, prepare reports and make recommendations concerning initiating disciplinary proceedings, prosecute alleged violations of the Rules and represent the Clearinghouse on appeal from a Clearinghouse proceeding. After notice and opportunity for a hearing in accordance with the Rules, if a Clearing Member is found to have violated the Rules, the Clearinghouse will have the ability to impose sanctions, including limitation, suspension, expulsion, restitution, fines, or other sanctions permitted by the Rules. These procedures will be administered by a regulatory services provider.</p>
<p>Core Principle I: SYSTEM SAFEGUARDS—<i>The applicant shall demonstrate that the applicant (i) has established and will maintain a program of oversight and risk analysis to ensure that the automated systems of the applicant function properly and have adequate capacity and security; and (ii) has established and will maintain emergency procedures and a plan for disaster recovery, and will periodically test backup facilities sufficient to ensure daily processing, clearing, and settlement of transactions.</i></p>	<p>Application § IV. Rulebook: Rule 205. Emergency Rules</p>	<p>All automated systems employed by the Clearinghouse will meet the guidelines issued by the International Organization of Securities Commission (IOSCO) in 1990, as supplemented in October, 2000, including those involving physical security, environmental controls, network management, capacity and systems testing.</p> <p>The Clearinghouse will run two fully redundant data centers for its core clearing, risk management and banking systems.</p> <p>The Clearinghouse will be able to maintain complete operations independently from each location and each location will be staffed with employees able to maintain the operations of the Clearinghouse in the event of a disruption to the other location.</p>
<p>Core Principle J: REPORTING—<i>The applicant shall provide to the Commission all information necessary for the Commission to conduct the oversight function of</i></p>	<p>Application § VII.A. Rulebook:</p>	<p>The Clearinghouse will provide to the Commission, on request, all information necessary for the Commission to conduct its oversight function of the Clearinghouse under</p>

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<i>the applicant with respect to the activities of the derivatives clearing organization.</i>	Rule 209. Maintenance of Books and Records by the Clearinghouse	the Act with respect to its activities.
Core Principle K: RECORDKEEPING — <i>The applicant shall maintain records of all activities related to the business of the applicant as a derivatives clearing organization in a form and manner acceptable to the Commission for a period of 5 years.</i>	Application § VII.B. Rulebook: Rule 209. Maintenance of Books and Records by the Clearinghouse	The Clearinghouse will maintain books and records for the time and in the manner specified by the Act, Commission Regulations, and the Delaware Limited Liability Company Act. Clearing Members must keep a record of all trades entered into, accessible by the Clearinghouse.
Core Principle L: PUBLIC INFORMATION — <i>The applicant shall make information concerning the rules and operating procedures governing the clearing and settlement systems (including default procedures) available to market participants.</i>	Application § VII.C. Rulebook: Rule 211. Notice to Members and Service of Notices	The Rules of the Clearinghouse and each Notice to Members will be published on the Clearinghouse website. Additionally, the Clearinghouse will publish its Rules and a summary of its financial resources on the Clearinghouse website.
Core Principle M: INFORMATION SHARING — <i>The applicant shall (i) enter into and abide by the terms of all appropriate and applicable domestic and international information-sharing agreements; and (ii) use relevant information obtained from the agreements in carrying out the clearing organization's risk management program.</i>	Application § VI.C. Rulebook: Rule 210. Information-Sharing Agreements	The Clearinghouse is not a party to any information sharing agreements at this time.
Core Principle N: ANTITRUST CONSIDERATIONS — <i>Unless appropriate to achieve the purposes of this Act, the derivatives clearing organization shall avoid (i) adopting any rule or taking any action that results in any unreasonable restraint of trade; or (ii) imposing any material anticompetitive burden on trading on the contract market.</i>	Application § VII.D.	The Clearinghouse will not adopt any regulations or take other actions that would be an unreasonable restraint of trade or impose any additional anticompetitive burden.