

Nodal Clear, LLC – Regulatory Compliance Chart

Subpart A - General Provisions Applicable to Derivatives Clearing Organizations (DCOs)			
Section	Description	Nodal Documents	
§39.1	Scope	Response not required	
§39.2	Definitions	Response not required	
§39.3	Procedures for registration	Form DCO, including all Exhibits thereto	
§39.4	Procedures for implementing derivatives clearing organization rules and clearing new products	Exhibit A-2: Rule 7.6 (Notice and Effect of Amendment, Repeal or New Rule)	
§39.5	Review of swaps for Commission determination on clearing requirement	Not applicable	
§39.7	Enforceability	Response not required	
§39.8	Fraud in connection with the clearing of transactions on a derivatives clearing organization	Exhibit A-2: Rule 3.6 (Prohibited Practices)	
Subpart B - Compliance with Core Principles			
Core Principle	Section	Description	Nodal Documents
	§39.9	Scope	
		The provisions of this subpart B apply to any derivatives clearing organization, as defined under section 1a(15) of the Act and §1.3(d) of this chapter, which is registered or deemed to be registered with the Commission as a derivatives clearing organization, is required to register as such with the Commission pursuant to section 5b(a) of the Act, or which voluntarily registers as such with the Commission pursuant to section 5b(b) or otherwise.	Response not required
A	§39.10	Compliance with core principles	
A		(c)(1) <i>Designation</i> . Each derivatives clearing organization shall establish the position of chief compliance officer, designate an individual to serve as the chief compliance officer, and provide the chief compliance officer with the full responsibility and authority to develop and enforce, in consultation with the board of directors or the senior officer, appropriate compliance policies and procedures, to fulfill the duties set forth in the Act and Commission regulations.	Exhibit A-2: Rule 2.2 (Officers)
A		(i) individual designated to serve as chief compliance officer shall have the background and skills appropriate for fulfilling the responsibilities of the position. No individual who would be disqualified from registration under sections 8a(2) or 8a(3) of the Act may serve as a chief compliance officer.	Exhibit A-6
A		(ii) The chief compliance officer shall report to the board of directors or the senior officer of the derivatives clearing organization. The board of directors or the senior officer shall approve the compensation of the chief compliance officer.	Exhibit A-2: Rule 2.4.3 (Risk Management Committee)
A		(iii) The chief compliance officer shall meet with the board of directors or the senior officer at least once a	Exhibit A-11: Compliance Policies &

		year.	Procedures Manual (“ Compliance Manual ”) §§ 2.6.2, 3.1, 3.2
A		(iv) A change in the designation of the individual serving as the chief compliance officer of the derivatives clearing organization shall be reported to the Commission in accordance with the requirements of §39.19(c)(4)(ix) of this part.	Exhibit A-11: Compliance Manual § 2.3
A		(2) Chief compliance officer duties. The chief compliance officer's duties shall include, but are not limited to: (i) Reviewing the derivatives clearing organization's compliance with the core principles set forth in section 5b of the Act, and the Commission's regulations thereunder;	Exhibit A-2: Rule 2.2.4 (Officers), Exhibit A11: Compliance Manual § 2.4 (1)
A		(ii) In consultation with the board of directors or the senior officer, resolving any conflicts of interest that may arise;	Exhibit A-11: Compliance Manual § 2.4(2)
A		(iii) Establishing and administering written policies and procedures reasonably designed to prevent violation of the Act;	Exhibit A-11: Compliance Manual § 2.4(3)
A		(iv) Taking reasonable steps to ensure compliance with the Act and Commission regulations relating to agreements, contracts, or transactions, and with Commission regulations prescribed under section 5b of the Act;	Exhibit A-11: Compliance Manual § 2.4(4)
A		(v) Establishing procedures for the remediation of noncompliance issues identified by the chief compliance officer through any compliance office review, look-back, internal or external audit finding, self-reported error, or validated complaint; and	Exhibit A-11: Compliance Manual § 2.4(5)
A		(vi) Establishing and following appropriate procedures for the handling, management response, remediation, retesting, and closing of noncompliance issues.	Exhibit A-11: Compliance Manual § 2.4(6)
A		(3) <i>Annual report</i> . The chief compliance officer shall, not less than annually, prepare and sign a written report that covers the most recently completed fiscal year of the derivatives clearing organization, and provide the annual report to the board of directors or the senior officer. The annual report’s required content is set forth in CFTC Regulation 39.10(a)(3). The requirements for submitting the annual report to the CFTC are set forth in CFTC Regulation 39.10(a)(4).	Exhibit A-11: Compliance Manual § 2.6
A		(5) <i>Recordkeeping</i> . (i) The derivatives clearing organization shall maintain: (A) A copy of all compliance policies and procedures and all other policies and procedures adopted in furtherance of compliance with the Act and Commission regulations; (B) Copies of materials, including written reports provided to the board of directors or the senior officer in connection with the review of the annual report under paragraph (c)(4)(i) of this section; and (C) Any records relevant to the annual report, including, but not limited to, work papers and other documents that form the basis of the report, and memoranda, correspondence, other documents, and records that are created, sent, or received in connection with the annual report and contain conclusions, opinions, analyses, or financial data related to the annual report. (ii) The derivatives clearing organization shall maintain records in accordance with §1.31 of this chapter and §39.20 of this part.	Exhibit A-2: Rule 2.8 (Maintenance of Books and Records by Clearing House) Exhibit A-11: Compliance Manual §§ V, VIII
B	§39.11	Financial resources	

B	<p>(a) <i>General.</i> A derivatives clearing organization shall maintain financial resources sufficient to cover its exposures with a high degree of confidence and to enable it to perform its functions in compliance with the core principles set out in section 5b of the Act. A derivatives clearing organization shall identify and adequately manage its general business risks and hold sufficient liquid resources to cover potential business losses that are not related to clearing members' defaults, so that the derivatives clearing organization can continue to provide services as an ongoing concern. Financial resources shall be considered sufficient if their value, at a minimum, exceeds the total amount that would:</p> <p>(1) Enable the derivatives clearing organization to meet its financial obligations to its clearing members notwithstanding a default by the clearing member creating the largest financial exposure for the derivatives clearing organization in extreme but plausible market conditions; Provided that if a clearing member controls another clearing member or is under common control with another clearing member, the affiliated clearing members shall be deemed to be a single clearing member for purposes of this provision; and</p> <p>(2) Enable the derivatives clearing organization to cover its operating costs for a period of at least one year, calculated on a rolling basis.</p>	<p>Exhibit B-1: General Exhibit B-2: Default Resources Exhibit B-3: Operating Resources</p>
B	<p>(b) <i>Types of financial resources.</i> (1) Financial resources available to satisfy the requirements of paragraph (a)(1) of this section may include:</p> <p>(i) Margin to the extent permitted under parts 1, 22, and 190 of this chapter and under the rules of the derivatives clearing organization;</p> <p>(ii) The derivatives clearing organization's own capital;</p> <p>(iii) Guaranty fund deposits;</p> <p>(iv) Default insurance;</p> <p>(v) Potential assessments for additional guaranty fund contributions, if permitted by the derivatives clearing organization's rules; and</p> <p>(vi) Any other financial resource deemed acceptable by the Commission.</p> <p>(2) Financial resources available to satisfy the requirements of paragraph (a)(2) of this section may include:</p> <p>(i) The derivatives clearing organization's own capital; and</p> <p>(ii) Any other financial resource deemed acceptable by the Commission.</p> <p>(3) A financial resource may be allocated, in whole or in part, to satisfy the requirements of either paragraph (a)(1) or paragraph (a)(2) of this section, but not both paragraphs, and only to the extent the use of such financial resource is not otherwise limited by the Act, Commission regulations, the derivatives clearing organization's rules, or any contractual arrangements to which the derivatives clearing organization is a party.</p>	<p>Exhibit B-1: General; (1) Nodal Exchange, LLC Audited Financial Statements as of December 12, 2013 and 2012; (2) Nodal Exchange, LLC Unaudited Balance Sheet for the period ending November 30, 2014 (compared to audited financial statements as of December 31, 2013 and 2012)</p> <p>Exhibit B-2: Default Resources Exhibit B-3: Operating Resources</p>
B	<p>(c) <i>Computation of financial resources requirement.</i> (1) A derivatives clearing organization shall, on a monthly basis, perform stress testing that will allow it to make a reasonable calculation of the financial resources needed to meet the requirements of paragraph (a)(1) of this section. The derivatives clearing organization shall have reasonable discretion in determining the methodology used to compute such requirements, provided that the methodology must take into account both historical data and hypothetical scenarios. The Commission may review the methodology and require changes as appropriate.</p> <p>(2) A derivatives clearing organization shall, on a monthly basis, make a reasonable calculation of its projected operating costs over a 12-month period in order to determine the amount needed to meet the</p>	<p>Exhibit B-1: General Exhibit A-11: Compliance Manual § 7.2.1 (2. Quarterly Reports)</p>

		requirements of paragraph (a)(2) of this section. The derivatives clearing organization shall have reasonable discretion in determining the methodology used to compute such projected operating costs. The Commission may review the methodology and require changes as appropriate.	
B		<p>(d) <i>Valuation of financial resources.</i> (1) At appropriate intervals, but not less than monthly, a derivatives clearing organization shall compute the current market value of each financial resource used to meet its obligations under paragraph (a) of this section. Reductions in value to reflect credit, market, and liquidity risks (haircuts) shall be applied as appropriate and evaluated on a monthly basis.</p> <p>(2) If assessments for additional guaranty fund contributions are permitted by the derivatives clearing organization's rules, in calculating the financial resources available to meet its obligations under paragraph (a)(1) of this section:</p> <p>(i) The derivatives clearing organization shall have rules requiring that its clearing members have the ability to meet an assessment within the time frame of a normal end-of-day variation settlement cycle;</p> <p>(ii) The derivatives clearing organization shall monitor the financial and operational capacity of its clearing members to meet potential assessments;</p> <p>(iii) The derivatives clearing organization shall apply a 30 percent haircut to the value of potential assessments, and</p> <p>(iv) The derivatives clearing organization shall only count the value of assessments, after the haircut, to meet up to 20 percent of those obligations.</p>	<p>Exhibit B-1: General</p> <p>Exhibit A-11: Compliance Manual § 7.2.1 (2. Quarterly Reports)</p>
B		<p>(e) <i>Liquidity of financial resources.</i> (1) (i) The derivatives clearing organization shall effectively measure, monitor, and manage its liquidity risks, maintaining sufficient liquid resources such that it can, at a minimum, fulfill its cash obligations when due. The derivatives clearing organization shall hold assets in a manner where the risk of loss or of delay in its access to them is minimized.</p> <p>(ii) The financial resources allocated by the derivatives clearing organization to meet the requirements of paragraph (a)(1) of this section shall be sufficiently liquid to enable the derivatives clearing organization to fulfill its obligations as a central counterparty during a one-day settlement cycle. The derivatives clearing organization shall maintain cash, U.S. Treasury obligations, or high quality, liquid, general obligations of a sovereign nation, in an amount greater than or equal to an amount calculated as follows:</p> <p>(A) Calculate the average daily settlement pay for each clearing member over the last fiscal quarter;</p> <p>(B) Calculate the sum of those average daily settlement pays; and</p> <p>(C) Using that sum, calculate the average of its clearing members' average pays.</p> <p>(iii) The derivatives clearing organization may take into account a committed line of credit or similar facility for the purpose of meeting the remainder of the requirement under paragraph (e)(1)(ii) of this section.</p> <p>(2) The financial resources allocated by the derivatives clearing organization to meet the requirements of paragraph (a)(2) of this section must include unencumbered, liquid financial assets (i.e., cash and/or highly liquid securities) equal to at least six months' operating costs. If any portion of such financial resources is not sufficiently liquid, the derivatives clearing organization may take into account a committed line of credit or similar facility for the purpose of meeting this requirement.</p> <p>(3)(i) Assets in a guaranty fund shall have minimal credit, market, and liquidity risks and shall be readily accessible on a same-day basis;</p>	<p>Exhibit B-2 (Default Resources)</p> <p>Exhibit B-3 (Operating Resources)</p> <p>Exhibit A-2: Rule 3.20.3 (Initial Margin; Additional Margin)</p> <p>Exhibit A-11: Compliance Manual § 7.2.1 (2. Quarterly Reports)</p>

		(ii) Cash balances shall be invested or placed in safekeeping in a manner that bears little or no principal risk; and (iii) Letters of credit shall not be a permissible asset for a guaranty fund.	
B		(f) <i>Reporting requirements.</i> (1) Each fiscal quarter, or at any time upon Commission request, a derivatives clearing organization shall: (i) Report to the Commission; (A) The amount of financial resources necessary to meet the requirements of paragraph (a); (B) The value of each financial resource available, computed in accordance with the requirements of paragraph (d) of this section; and (C) The manner in which the derivatives clearing organization meets the liquidity requirements of paragraph (e) of this section; (ii) Provide the Commission with a financial statement, including the balance sheet, income statement, and statement of cash flows, of the derivatives clearing organization or of its parent company; and (iii) Report to the Commission the value of each individual clearing member's guaranty fund deposit, if the derivatives clearing organization reports having guaranty funds deposits as a financial resource available to satisfy the requirements of paragraph (a)(1) of this section. (2) The calculations required by this paragraph shall be made as of the last business day of the derivatives clearing organization's fiscal quarter. (3) The derivatives clearing organization shall provide the Commission with: (i) Sufficient documentation explaining the methodology used to compute its financial resources requirements under paragraph (a) of this section, (ii) Sufficient documentation explaining the basis for its determinations regarding the valuation and liquidity requirements set forth in paragraphs (d) and (e) of this section, and (iii) Copies of any agreements establishing or amending a credit facility, insurance coverage, or other arrangement evidencing or otherwise supporting the derivatives clearing organization's conclusions. (4) The report shall be filed not later than 17 business days after the end of the derivatives clearing organization's fiscal quarter, or at such later time as the Commission may permit, in its discretion, upon request by the derivatives clearing organization.	Exhibit A-11: Compliance Manual § 7.2.1 (2. Quarterly Reports)
C	§39.12	Participant and product eligibility	
C		(a) <i>Participant eligibility.</i> A derivatives clearing organization shall establish appropriate admission and continuing participation requirements for clearing members of the derivatives clearing organization that are objective, publicly disclosed, and risk-based.	Exhibit A-2: Rule 3.2 (Qualification of Clearing Members) Exhibit C-1 (Participant Eligibility)
C		(1) <i>Fair and open access for participation.</i> The participation requirements shall permit fair and open access; (i) A derivatives clearing organization shall not adopt restrictive clearing member standards if less restrictive requirements that achieve the same objective and that would not materially increase risk to the derivatives clearing organization or clearing members could be adopted; (ii) A derivatives clearing organization shall allow all market participants who satisfy participation requirements to become clearing members;	Exhibit A-2: Rule 3.3 (Applications for Membership); Rule 3.4 (Appeals of Clearing Membership Decisions) Exhibit C-1 (Participant Eligibility)

		(iii) A derivatives clearing organization shall not exclude or limit clearing membership of certain types of market participants unless the derivatives clearing organization can demonstrate that the restriction is necessary to address credit risk or deficiencies in the participants' operational capabilities that would prevent them from fulfilling their obligations as clearing members.	
C		(iv) A derivatives clearing organization shall not require that clearing members be swap dealers.	Exhibit A-2: Rule 3.2.1 (Qualification of Clearing Members) Exhibit C-1 (Participant Eligibility) Exhibit C-1(1): Clearing Member Agreement
C		(v) A derivatives clearing organization shall not require that clearing members maintain a swap portfolio of any particular size, or that clearing members meet a swap transaction volume threshold.	Exhibit A-2: Rule 3.5 (Duties and Responsibilities of Clearing Members) Exhibit C-1 (Participant Eligibility) Exhibit C-1(1): Clearing Member Agreement
C		(vi) No derivatives clearing organization shall require as a condition of accepting a swap for clearing that a futures commission merchant enter into an arrangement with a customer that: (A) Discloses to the futures commission merchant or any swap dealer or major swap participant the identity of a customer's original executing counterparty; (B) Limits the number of counterparties with whom a customer may enter into trades; (C) Restricts the size of the position a customer may take with any individual counterparty, apart from an overall limit for all positions held by the customer at the futures commission merchant; (D) Impairs a customer's access to execution of a trade on terms that have a reasonable relationship to the best terms available; or	Not applicable
C		(2) <i>Financial resources.</i> (i) The participation requirements shall require clearing members to have access to sufficient financial resources to meet obligations arising from participation in the derivatives clearing organization in extreme but plausible market conditions. A derivatives clearing organization may permit such financial resources to include, without limitation, a clearing member's capital, a guarantee from the clearing member's parent, or a credit facility funding arrangement. (ii) The participation requirements shall set forth capital requirements that are based on objective, transparent, and commonly accepted standards that appropriately match capital to risk. Capital requirements shall be scalable to the risks posed by clearing members. (iii) A derivatives clearing organization shall not set a minimum capital requirement of more than \$50 million for any person that seeks to become a clearing member in order to clear swaps.	Exhibit A-2: Rule 3.2.1(f) (Qualification of Clearing Members); Rule 3.9 (Capital Requirements) Exhibit C-1 (Participant Eligibility)
C		(3) <i>Operational requirements.</i> The participation requirements shall require clearing members to have adequate operational capacity to meet obligations arising from participation in the derivatives clearing organization. The requirements shall include, but are not limited to: the ability to process expected volumes and values of transactions cleared by a clearing member within required time frames, including at peak	Exhibit A-2: Rule 3.2.1(j) (Qualification of Clearing Members) Exhibit C-1 (Participant Eligibility)

		times and on peak days; the ability to fulfill collateral, payment, and delivery obligations imposed by the derivatives clearing organization; and the ability to participate in default management activities under the rules of the derivatives clearing organization and in accordance with CFTC Regulation 39.16.	
C		(4) <i>Monitoring</i> . A derivatives clearing organization shall establish and implement procedures to verify, on an ongoing basis, the compliance of each clearing member with each participation requirement of the derivatives clearing organization.	Exhibit A-11: Compliance Manual § 5.3 (Continued Eligibility Reviews) Exhibit A-2: Rule 3.2 (Qualification of Clearing Members)
C		(5) <i>Reporting</i> . (i) A derivatives clearing organization shall require all clearing members, including non-futures commission merchants, to provide to the derivatives clearing organization periodic financial reports that contain any financial information that the derivatives clearing organization determines is necessary to assess whether participation requirements are being met on an ongoing basis. (A) A derivatives clearing organization shall require clearing members that are futures commission merchants to provide the financial reports that are specified in §1.10 of this chapter to the derivatives clearing organization. (B) A derivatives clearing organization shall require clearing members that are not futures commission merchants to make the periodic financial reports provided pursuant to paragraph (a)(5)(i) of this section available to the Commission upon the Commission's request or, in lieu of imposing this requirement, a derivatives clearing organization may provide such financial reports directly to the Commission upon the Commission's request. (ii) A derivatives clearing organization shall adopt rules that require clearing members to provide to the derivatives clearing organization, in a timely manner, information that concerns any financial or business developments that may materially affect the clearing members' ability to continue to comply with participation requirements.	Exhibit A-2: Rule 3.11 (Financial Reporting Requirements)
C		(6) <i>Enforcement</i> . A derivatives clearing organization shall have the ability to enforce compliance with its participation requirements and shall establish procedures for the suspension and orderly removal of clearing members that no longer meet the requirements.	Exhibit A-2: Rule 3.29 (Defaults) Exhibit A-11: Compliance Manual § 5.6 (Formal Review Fails)
C		(b) <i>Product eligibility</i> . (1) A derivatives clearing organization shall establish appropriate requirements for determining the eligibility of agreements, contracts, or transactions submitted to the derivatives clearing organization for clearing, taking into account the derivatives clearing organization's ability to manage the risks associated with such agreements, contracts, or transactions. Factors to be considered in determining product eligibility include, but are not limited to: (i) Trading volume; (ii) Liquidity; (iii) Availability of reliable prices; (iv) Ability of market participants to use portfolio compression with respect to a particular swap product; (v) Ability of the derivatives clearing organization and clearing members to gain access to the relevant market for purposes of creating, liquidating, transferring, auctioning, and/or allocating positions; (vi) Ability of the derivatives clearing organization to measure risk for purposes of setting margin	Exhibit C-2: Product Eligibility Exhibit D-1(2): Nodal Clear Risk Policies ("Risk Policies") Part 5 (New Contract Approval Policy)

		requirements; and (vii) Operational capacity of the derivatives clearing organization and clearing members to address any unusual risk characteristics of a product.	
C		(2) A derivatives clearing organization shall adopt rules providing that all swaps with the same terms and conditions, as defined by product specifications established under derivatives clearing organization rules, submitted to the derivatives clearing organization for clearing are economically equivalent within the derivatives clearing organization and may be offset with each other within the derivatives clearing organization.	Not applicable
C		(3) A derivatives clearing organization shall provide for non-discriminatory clearing of a swap executed bilaterally or on or subject to the rules of an unaffiliated swap execution facility or designated contract market.	Not applicable
C		(4) A derivatives clearing organization shall not require that one of the original executing parties be a clearing member in order for a product to be eligible for clearing.	Exhibit A-2: Rule 3.16 (Acceptance for Clearing; Novation)
C		(5) A derivatives clearing organization shall select product unit sizes and other terms and conditions that maximize liquidity, facilitate transparency in pricing, promote open access, and allow for effective risk management. To the extent appropriate to further these objectives, a derivatives clearing organization shall select product units for clearing purposes that are smaller than the product units in which trades submitted for clearing were executed.	Exhibit A-2: Rule 3.16 (Acceptance for Clearing; Novation)
C		(6) A derivatives clearing organization that clears swaps shall have rules providing that, upon acceptance of a swap by the derivatives clearing organization for clearing: (i) The original swap is extinguished; (ii) The original swap is replaced by an equal and opposite swap between the derivatives clearing organization and each clearing member acting as principal for a house trade or acting as agent for a customer trade; (iii) All terms of a cleared swap must conform to product specifications established under derivatives clearing organization rules; and (iv) If a swap is cleared by a clearing member on behalf of a customer, all terms of the swap, as carried in the customer account on the books of the clearing member, must conform to the terms of the cleared swap established under the derivatives clearing organization's rules.	Not applicable
C		(7) Time frame for clearing. (i) Coordination with markets and clearing members. (A) Each derivatives clearing organization shall coordinate with each designated contract market and swap execution facility that lists for trading a product that is cleared by the derivatives clearing organization in developing rules and procedures to facilitate prompt, efficient, and accurate processing of all transactions submitted to the derivatives clearing organization for clearing. (B) Each derivatives clearing organization shall coordinate with each clearing member that is a futures commission merchant, swap dealer, or major swap participant to establish systems that enable the clearing member, or the derivatives clearing organization acting on its behalf, to accept or reject each trade submitted to the derivatives clearing organization for clearing by or for the clearing member or a customer of the clearing member as quickly as would be technologically practicable if fully automated systems were	Exhibit A-2: Rule 3.16 (Acceptance for Clearing; Novation) Exhibit C-1(1): Clearing Member Agreement

		<p>used.</p> <p>(ii) Transactions executed competitively on or subject to the rules of a designated contract market or swap execution facility. A derivatives clearing organization shall have rules that provide that the derivatives clearing organization will accept or reject for clearing as quickly after execution as would be technologically practicable if fully automated systems were used, all contracts that are listed for clearing by the derivatives clearing organization and are executed competitively on or subject to the rules of a designated contract market or a swap execution facility. The derivatives clearing organization shall accept all trades:</p> <p>(A) For which the executing parties have clearing arrangements in place with clearing members of the derivatives clearing organization;</p> <p>(B) For which the executing parties identify the derivatives clearing organization as the intended clearinghouse; and</p> <p>(C) That satisfy the criteria of the derivatives clearing organization, including but not limited to applicable risk filters; provided that such criteria are non-discriminatory across trading venues and are applied as quickly as would be technologically practicable if fully automated systems were used.</p>	
D	§39.13	Risk management	
D		(a) <i>General.</i> A derivatives clearing organization shall ensure that it possesses the ability to manage the risks associated with discharging the responsibilities of the derivatives clearing organization through the use of appropriate tools and procedures.	Exhibit A-2: Rule 3.10 (Position Risk); Exhibit A-2: Rule 2.4.3 (Risk Management Committee)
D		(b) <i>Documentation requirement.</i> A derivatives clearing organization shall establish and maintain written policies, procedures, and controls, approved by its board of directors, which establish an appropriate risk management framework that, at a minimum, clearly identifies and documents the range of risks to which the derivatives clearing organization is exposed, addresses the monitoring and management of the entirety of those risks, and provides a mechanism for internal audit. The risk management framework shall be regularly reviewed and updated as necessary.	Exhibit D-1(1): Nodal Clear Risk Management Framework (“Risk Management Framework”) Exhibit D-1(2): Risk Policies
D		(c) <i>Chief risk officer.</i> A derivatives clearing organization shall have a chief risk officer who shall be responsible for implementing the risk management framework, including the procedures, policies and controls described in paragraph (b) of this section, and for making appropriate recommendations to the derivatives clearing organization's risk management committee or board of directors, as applicable, regarding the derivatives clearing organization's risk management functions.	Exhibit A-2: Rule 2.2 (Officers) Exhibit D-1(2): Risk Policies
D		(d) [Reserved]	
D		(e) <i>Measurement of credit exposure.</i> A derivatives clearing organization shall: (1) Measure its credit exposure to each clearing member and mark to market such clearing member's open house and customer positions at least once each business day; and (2) Monitor its credit exposure to each clearing member periodically during each business day.	Exhibit D-1(1): Risk Management Framework Exhibit D-2: Measuring Risk Exhibit D-3: Limiting Risk
D		(f) <i>Limitation of exposure to potential losses from defaults.</i> A derivatives clearing organization, through margin requirements and other risk control mechanisms, shall limit its exposure to potential losses from	Exhibit A-2: Rule 3.10 (Position Risk); Rule 3.20 (Initial Margin; Additional Margin);

	<p>defaults by its clearing members to ensure that:</p> <p>(1) The operations of the derivatives clearing organization would not be disrupted; and</p> <p>(2) Non-defaulting clearing members would not be exposed to losses that non-defaulting clearing members cannot anticipate or control.</p>	<p>Rule 3.21 (Variation Margin); Rule 3.22 (Cash Margin Deposits); Rule 3.23 (Margin Payments); Rule 3.24 (Deposit of Securities as Initial Margin)</p> <p>Exhibit D-3: Limiting Risk</p>
D	<p>(g) <i>Margin requirements</i>—(1) <i>General</i>. Each model and parameter used in setting initial margin requirements shall be risk-based and reviewed on a regular basis.</p>	<p>Exhibit D-1(2): Risk Policies</p> <p>Exhibit D-2: Measuring Risk</p> <p>Exhibit D-3: Limiting Risk</p>
D	<p>(2) <i>Methodology and coverage</i>. (i) A derivatives clearing organization shall establish initial margin requirements that are commensurate with the risks of each product and portfolio, including any unusual characteristics of, or risks associated with, particular products or portfolios, including but not limited to jump-to-default risk or similar jump risk.</p> <p>(ii) A derivatives clearing organization shall use models that generate initial margin requirements sufficient to cover the derivatives clearing organization's potential future exposures to clearing members based on price movements in the interval between the last collection of variation margin and the time within which the derivatives clearing organization estimates that it would be able to liquidate a defaulting clearing member's positions (liquidation time); provided, however, that a derivatives clearing organization shall use:</p> <p>(A) A minimum liquidation time that is one day for futures and options;</p> <p>(B) A minimum liquidation time that is one day for swaps on agricultural commodities, energy commodities, and metals;</p> <p>(C) A minimum liquidation time that is five days for all other swaps; or</p> <p>(D) Such longer liquidation time as is appropriate based on the specific characteristics of a particular product or portfolio; provided further that the Commission, by order, may establish shorter or longer liquidation times for particular products or portfolios.</p> <p>(iii) The actual coverage of the initial margin requirements produced by such models, along with projected measures of the models' performance, shall meet an established confidence level of at least 99 percent, based on data from an appropriate historic time period, for:</p> <p>(A) Each product for which the derivatives clearing organization uses a product-based margin methodology;</p> <p>(B) Each spread within or between products for which there is a defined spread margin rate;</p> <p>(C) Each account held by a clearing member at the derivatives clearing organization, by house origin and by each customer origin; and</p> <p>(D) Each swap portfolio, including any portfolio containing futures and/or options and held in a commingled account pursuant to §39.15(b)(2) of this part, by beneficial owner.</p> <p>(iv) A derivatives clearing organization shall determine the appropriate historic time period based on the characteristics, including volatility patterns, as applicable, of each product, spread, account, or portfolio.</p>	<p>Exhibit D-1(2): Risk Policies</p> <p>Exhibit D-2: Measuring Risk</p> <p>Exhibit D-2: Appendix B (Initial Margin Example)</p> <p>Exhibit D-3: Limiting Risk</p> <p>Exhibit D-4: Existence of Collateral</p>

D		(3) <i>Independent validation.</i> A derivatives clearing organization's systems for generating initial margin requirements, including its theoretical models, must be reviewed and validated by a qualified and independent party, on a regular basis. Such qualified and independent parties may be independent contractors or employees of the derivatives clearing organization, but shall not be persons responsible for development or operation of the systems and models being tested.	Exhibit D-1(2): Risk Policies Exhibit D-2: Measuring Risk
D		(4) <i>Spread and portfolio margins.</i> (i) A derivatives clearing organization may allow reductions in initial margin requirements for related positions if the price risks with respect to such positions are significantly and reliably correlated. The price risks of different positions will only be considered to be reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation. That theoretical basis may include, but is not limited to, the following: (A) The products on which the positions are based are complements of, or substitutes for, each other; (B) One product is a significant input into the other product(s); (C) The products share a significant common input; or (D) The prices of the products are influenced by common external factors. (ii) A derivatives clearing organization shall regularly review its margin reductions and the correlations on which they are based.	Exhibit D-1(2): Risk Policies Exhibit D-2: Measuring Risk
D		(5) <i>Price data.</i> A derivatives clearing organization shall have a reliable source of timely price data in order to measure the derivatives clearing organization's credit exposure accurately. A derivatives clearing organization shall also have written procedures and sound valuation models for addressing circumstances where pricing data is not readily available or reliable.	Exhibit D-2: Measuring Risk
D		(6) <i>Daily review.</i> On a daily basis, a derivatives clearing organization shall determine the adequacy of its initial margin requirements.	Exhibit A-2: Rule 3.20.2 (Initial Margin; Additional Margin) Exhibit D-1(2): Risk Policies
D		(7) <i>Back tests.</i> A derivatives clearing organization shall conduct back tests, as defined in §39.2 of this part, using an appropriate time period but not less than the previous 30 days, as follows: (i) On a daily basis, a derivatives clearing organization shall conduct back tests with respect to products or swap portfolios that are experiencing significant market volatility, to test the adequacy of its initial margin requirements, as follows: (A) For that product if the derivatives clearing organization uses a product-based margin methodology; (B) For each spread involving that product if there is a defined spread margin rate; (C) For each account held by a clearing member at the derivatives clearing organization that contains a significant position in that product, by house origin and by each customer origin; and (D) For each such swap portfolio, including any portfolio containing futures and/or options and held in a commingled account pursuant to §39.15(b)(2) of this part, by beneficial owner. (ii) On at least a monthly basis, a derivatives clearing organization shall conduct back tests to test the adequacy of its initial margin requirements, as follows: (A) For each product for which the derivatives clearing organization uses a product-based margin methodology; (B) For each spread for which there is a defined spread margin rate;	Exhibit D-1(2): Risk Policies Exhibit D-2: Measuring Risk Exhibit D-2: Appendix A (Backtest Results) Exhibit D-3: Limiting Risk

		<p>(C) For each account held by a clearing member at the derivatives clearing organization, by house origin and by each customer origin; and</p> <p>(D) For each swap portfolio, including any portfolio containing futures and/or options and held in a commingled account pursuant to §39.15(b)(2) of this part, by beneficial owner.</p>	
D		<p>(8) <i>Customer margin.</i> (i) Gross margin. (A) A derivatives clearing organization shall collect initial margin on a gross basis for each clearing member's customer account(s) equal to the sum of the initial margin amounts that would be required by the derivatives clearing organization for each individual customer within that account if each individual customer were a clearing member.</p> <p>(B) For purposes of calculating the gross initial margin requirement for each clearing member's customer account(s), to the extent not inconsistent with other Commission regulations, a derivatives clearing organization may require its clearing members to report the gross positions of each individual customer to the derivatives clearing organization, or it may permit each clearing member to report the sum of the gross positions of its customers to the derivatives clearing organization.</p> <p>(C) For purposes of this paragraph (g)(8), a derivatives clearing organization may rely, and may permit its clearing members to rely, upon the sum of the gross positions reported to the clearing members by each domestic or foreign omnibus account that they carry, without obtaining information identifying the positions of each individual customer underlying such omnibus accounts.</p> <p>(D) A derivatives clearing organization may not, and may not permit its clearing members to, net positions of different customers against one another.</p> <p>(E) A derivatives clearing organization may collect initial margin for its clearing members' house accounts on a net basis.</p>	<p>Exhibit A-2: Rule 3.20 (Initial Margin; Additional Margin)</p> <p>Exhibit D-1(2): Risk Policies</p> <p>Exhibit D-2: Measuring Risk</p> <p>Exhibit D-2: Appendix B (Initial Margin Example)</p>
D		<p>(ii) Customer initial margin requirements. A derivatives clearing organization shall require its clearing members to collect customer initial margin, as defined in §1.3 of this chapter, from their customers, for non-hedge positions, at a level that is greater than 100 percent of the derivatives clearing organization's initial margin requirements with respect to each product and swap portfolio. The derivatives clearing organization shall have reasonable discretion in determining the percentage by which customer initial margins must exceed the derivatives clearing organization's initial margin requirements with respect to particular products or swap portfolios. The Commission may review such percentage levels and require different percentage levels if the Commission deems the levels insufficient to protect the financial integrity of the clearing members or the derivatives clearing organization.</p>	<p>Exhibit A-2: Rule 3.20.1 (Initial Margin; Additional Margin)</p> <p>Exhibit D-1(2): Risk Policies</p> <p>Exhibit D-2: Measuring Risk</p> <p>Exhibit D-2: Appendix B (Initial Margin Example)</p>
D		<p>(iii) Withdrawal of customer initial margin. A derivatives clearing organization shall require its clearing members to ensure that their customers do not withdraw funds from their accounts with such clearing members unless the net liquidating value plus the margin deposits remaining in a customer's account after such withdrawal are sufficient to meet the customer initial margin requirements with respect to all products and swap portfolios held in such customer's account which are cleared by the derivatives clearing organization.</p>	<p>Exhibit A-2: Rule 3.23 (Margin Payments)</p> <p>Exhibit D-1(2): Risk Policies</p>
D		<p>(9) <i>Time deadlines.</i> A derivatives clearing organization shall establish and enforce time deadlines for initial and variation margin payments to the derivatives clearing organization by its clearing members.</p>	<p>Exhibit A-2: Rule 3.23 (Margin Payments)</p> <p>Exhibit D-1(2): Risk Policies</p>
D		<p>(10) <i>Types of assets.</i> A derivatives clearing organization shall limit the assets it accepts as initial margin to</p>	<p>Exhibit A-2: Rule 3.23 (Margin Payments);</p>

		those that have minimal credit, market, and liquidity risks. A derivatives clearing organization may take into account the specific risk-reducing properties that particular assets have in a particular portfolio. A derivatives clearing organization may accept letters of credit as initial margin for futures and options on futures but shall not accept letters of credit as initial margin for swaps.	Rule 3.24 (Deposit of Securities as Initial Margin) Exhibit D-1(2): Risk Policies Exhibit D-3: Limiting Risk Exhibit D-4: Existence of Collateral
D		(11) <i>Valuation</i> . A derivatives clearing organization shall use prudent valuation practices to value assets posted as initial margin on a daily basis.	Exhibit A-2: Rule 3.24.1(b) (Deposit of Securities as Initial Margin)
D		(12) <i>Haircuts</i> . A derivatives clearing organization shall apply appropriate reductions in value to reflect credit, market, and liquidity risks (haircuts), to the assets that it accepts in satisfaction of initial margin obligations, taking into consideration stressed market conditions, and shall evaluate the appropriateness of such haircuts on at least a quarterly basis.	Exhibit D-4: Existence of Collateral
D		(13) <i>Concentration limits or charges</i> . A derivatives clearing organization shall apply appropriate limitations or charges on the concentration of assets posted as initial margin, as necessary, in order to ensure its ability to liquidate such assets quickly with minimal adverse price effects, and shall evaluate the appropriateness of any such concentration limits or charges, on at least a monthly basis.	Exhibit D-4: Existence of Collateral
D		(14) <i>Pledged assets</i> . If a derivatives clearing organization permits its clearing members to pledge assets for initial margin while retaining such assets in accounts in the names of such clearing members, the derivatives clearing organization shall ensure that such assets are unencumbered and that such a pledge has been validly created and validly perfected in the relevant jurisdiction.	Exhibit A-2: Rule 3.24 (Deposit of Securities as Initial Margin) Exhibit D-4: Existence of Collateral

D		<p>(h) <i>Other risk control mechanisms</i>— (1) Risk limits. (i) A derivatives clearing organization shall impose risk limits on each clearing member, by house origin and by each customer origin, in order to prevent a clearing member from carrying positions for which the risk exposure exceeds a specified threshold relative to the clearing member's and/or the derivatives clearing organization's financial resources. The derivatives clearing organization shall have reasonable discretion in determining:</p> <p>(A) The method of computing risk exposure;</p> <p>(B) The applicable threshold(s); and</p> <p>(C) The applicable financial resources under this provision; provided however, that the ratio of exposure to capital must remain the same across all capital levels. The Commission may review such methods, thresholds, and financial resources and require the application of different methods, thresholds, or financial resources, as appropriate.</p> <p>(ii) A derivatives clearing organization may permit a clearing member to exceed the threshold(s) applied pursuant to paragraph (h)(1)(i) of this section provided that the derivatives clearing organization requires the clearing member to post additional initial margin that the derivatives clearing organization deems sufficient to appropriately eliminate excessive risk exposure at the clearing member. The Commission may review the amount of additional initial margin and require a different amount of additional initial margin, as appropriate.</p>	<p>Exhibit A-2: Rule 3.10 (Position Risk); Rule 3.16 (Acceptance for Clearing; Novation)</p> <p>Exhibit D-1(1): Risk Management Framework</p> <p>Exhibit D-1(2): Risk Policies</p> <p>Exhibit D-3: Limiting Risk</p>
D		<p>(2) <i>Large trader reports</i>. A derivatives clearing organization shall obtain from its clearing members or from a relevant designated contract market or swap execution facility, copies of all reports that are required to be filed with the Commission by, or on behalf of, such clearing members pursuant to parts 17 and 20 of this chapter. A derivatives clearing organization shall review such reports on a daily basis to ascertain the risk of the overall portfolio of each large trader, including futures, options, and swaps cleared by the derivatives clearing organization, which are held by all clearing members carrying accounts for each such large trader, and shall take additional actions with respect to such clearing members, when appropriate, as specified in paragraph (h)(6) of this section, in order to address any risks posed by any such large trader.</p>	<p>Exhibit A-2: Rule 7.11 (Large Trader Reports)</p> <p>Exhibit D-3: Limiting Risk</p>
D		<p>(3) <i>Stress tests</i>. A derivatives clearing organization shall conduct stress tests, as defined in §39.2 of this part, as follows:</p> <p>(i) On a daily basis, a derivatives clearing organization shall conduct stress tests with respect to each large trader who poses significant risk to a clearing member or the derivatives clearing organization, including futures, options, and swaps cleared by the derivatives clearing organization, which are held by all clearing members carrying accounts for each such large trader. The derivatives clearing organization shall have reasonable discretion in determining which traders to test and the methodology used to conduct such stress tests. The Commission may review the selection of accounts and the methodology and require changes, as appropriate.</p> <p>(ii) On at least a weekly basis, a derivatives clearing organization shall conduct stress tests with respect to each clearing member account, by house origin and by each customer origin, and each swap portfolio, including any portfolio containing futures and/or options and held in a commingled account pursuant to</p>	<p>Exhibit D-3: Limiting Risk</p>

		§39.15(b)(2) of this part, by beneficial owner, under extreme but plausible market conditions. The derivatives clearing organization shall have reasonable discretion in determining the methodology used to conduct such stress tests. The Commission may review the methodology and require changes, as appropriate.	
D		(4) <i>Spread and portfolio margins.</i> (i) A derivatives clearing organization may allow reductions in initial margin requirements for related positions if the price risks with respect to such positions are significantly and reliably correlated. The price risks of different positions will only be considered to be reliably correlated if there is a theoretical basis for the correlation in addition to an exhibited statistical correlation. That theoretical basis may include, but is not limited to, the following: (A) The products on which the positions are based are complements of, or substitutes for, each other; (B) One product is a significant input into the other product(s); (C) The products share a significant common input; or (D) The prices of the products are influenced by common external factors. (ii) A derivatives clearing organization shall regularly review its margin reductions and the correlations on which they are based.	Exhibit D-2: Measuring Risk
D		(5) <i>Clearing members' risk management policies and procedures.</i> (i) A derivatives clearing organization shall adopt rules that: (A) Require its clearing members to maintain current written risk management policies and procedures, which address the risks that such clearing members may pose to the derivatives clearing organization; (B) Ensure that it has the authority to request and obtain information and documents from its clearing members regarding their risk management policies, procedures, and practices, including, but not limited to, information and documents relating to the liquidity of their financial resources and their settlement procedures; and (C) Require its clearing members to make information and documents regarding their risk management policies, procedures, and practices available to the Commission upon the Commission's request. (ii) A derivatives clearing organization shall review the risk management policies, procedures, and practices of each of its clearing members, which address the risks that such clearing members may pose to the derivatives clearing organization, on a periodic basis and document such reviews.	Exhibit A-2: Rule 3.5(p) (Duties and Responsibilities of Clearing Members) Exhibit A-2: Rule 3.11.1(a) (Financial Reporting Requirements)
D		(6) <i>Additional authority.</i> A derivatives clearing organization shall take additional actions with respect to particular clearing members, when appropriate, based on the application of objective and prudent risk management standards including, but not limited to: (i) Imposing enhanced capital requirements; (ii) Imposing enhanced margin requirements; (iii) Imposing position limits; (iv) Prohibiting an increase in positions; (v) Requiring a reduction of positions; (vi) Liquidating or transferring positions; and (vii) Suspending or revoking clearing membership.	Exhibit A-2: Rule 3.9 (Capital Requirements); Rule 3.10 (Position Risk); Rule 3.20.2 (Initial Margin ; Additional Margin); Rule 3.29 (Defaults); Rule 3.30 (Liquidation on Termination or Suspension of Clearing Member) Exhibit D-1(1): Risk Management Framework Exhibit D-3: Limiting Risk
E	§39.14	Settlement procedures	

E	<p>(1) <i>Settlement</i>. For purposes of this section, “settlement” means:</p> <ul style="list-style-type: none"> (i) Payment and receipt of variation margin for futures, options, and swaps; (ii) Payment and receipt of option premiums; (iii) Deposit and withdrawal of initial margin for futures, options, and swaps; (iv) All payments due in final settlement of futures, options, and swaps on the final settlement date with respect to such positions; and (v) All other cash flows collected from or paid to each clearing member, including but not limited to, payments related to swaps such as coupon amounts. <p>(2) <i>Settlement bank</i>. For purposes of this section, “settlement bank” means a bank that maintains an account either for the derivatives clearing organization or for any of its clearing members, which is used for the purpose of any settlement described in paragraph (a)(1) above.</p>	<p>Exhibit A-2: Rule 3.23 (Margin Payments); Rule 3.25 (Finality of Settlement)</p> <p>Exhibit E-1: Clearing House Settlement Agreement</p>
E	<p>(b) <i>Daily settlements</i>. Except as otherwise provided by Commission order, a derivatives clearing organization shall effect a settlement with each clearing member at least once each business day, and shall have the authority and operational capacity to effect a settlement with each clearing member, on an intraday basis, either routinely, when thresholds specified by the derivatives clearing organization are breached, or in times of extreme market volatility.</p>	<p>Exhibit A-2: Rule 3.23 (Margin Payments)</p> <p>Exhibit E-1: Clearing House Settlement Agreement</p>
E	<p>(c) <i>Settlement banks</i>. A derivatives clearing organization shall employ settlement arrangements that eliminate or strictly limit its exposure to settlement bank risks, including the credit and liquidity risks arising from the use of such bank(s) to effect settlements with its clearing members, as follows:</p> <ul style="list-style-type: none"> (1) A derivatives clearing organization shall have documented criteria that must be met by any settlement bank used by the derivatives clearing organization or its clearing members, including criteria addressing the capitalization, creditworthiness, access to liquidity, operational reliability, and regulation or supervision of such bank(s). (2) A derivatives clearing organization shall monitor each approved settlement bank on an ongoing basis to ensure that such bank continues to meet the criteria established pursuant to paragraph (c)(1) of this section. (3) A derivatives clearing organization shall monitor the full range and concentration of its exposures to its own and its clearing members' settlement bank(s) and assess its own and its clearing members' potential losses and liquidity pressures in the event that the settlement bank with the largest share of settlement activity were to fail. A derivatives clearing organization shall take any one or more of the following actions, to the extent that any such action or actions are reasonably necessary in order to eliminate or strictly limit such exposures: <ul style="list-style-type: none"> (i) Maintain settlement accounts at one or more additional settlement banks; and/or (ii) Approve one or more additional settlement banks that its clearing members could choose to use; and/or (iii) Impose concentration limits with respect to one or more of its own or its clearing members' settlement banks; and/or (iv) Take any other appropriate actions. 	<p>Exhibit A-2: Rule 3.18 (Approved Financial Institutions)</p> <p>Exhibit E-1: Clearing House Settlement Agreement</p>
E	<p>(d) <i>Settlement finality</i>. A derivatives clearing organization shall ensure that settlements are final when effected by ensuring that it has entered into legal agreements that state that settlement fund transfers are irrevocable and unconditional no later than when the derivatives clearing organization's accounts are debited or credited; provided, however, a derivatives clearing organization's legal agreements with its</p>	<p>Exhibit A-2: Rule 3.25 (Finality of Settlement)</p> <p>Exhibit E-1: Clearing House Settlement</p>

		settlement banks may provide for the correction of errors. A derivatives clearing organization's legal agreements with its settlement banks shall state clearly when settlement fund transfers will occur and a derivatives clearing organization shall routinely confirm that its settlement banks are effecting fund transfers as and when required by such legal agreements.	Agreement
E		(e) <i>Recordkeeping</i> . A derivatives clearing organization shall maintain an accurate record of the flow of funds associated with each settlement.	Exhibit A-2: Rule 2.8 (Maintenance of Books and Records by Clearing House) Exhibit E-2: Recordkeeping
E		(f) <i>Netting arrangements</i> . A derivatives clearing organization shall possess the ability to comply with each term and condition of any permitted netting or offset arrangement with any other clearing organization.	Exhibit A-2: Rule 3.38 (Close-Out Netting)
E		(g) <i>Physical delivery</i> . With respect to products that are settled by physical transfers of the underlying instruments or commodities, a derivatives clearing organization shall: (1) Establish rules that clearly state each obligation that the derivatives clearing organization has assumed with respect to physical deliveries, including whether it has an obligation to make or receive delivery of a physical instrument or commodity, or whether it indemnifies clearing members for losses incurred in the delivery process; and (2) Ensure that the risks of each such obligation are identified and managed.	Not applicable
F	§39.15	Treatment of funds	
F		(a) <i>Required standards and procedures</i> . A derivatives clearing organization shall establish standards and procedures that are designed to protect and ensure the safety of funds and assets belonging to clearing members and their customers.	Exhibit D-1(2): Risk Policies Exhibit F-1: Safe Custody
F		(b) <i>Segregation of funds and assets</i> —(1) <i>Segregation</i> . A derivatives clearing organization shall comply with the applicable segregation requirements of section 4d of the Act and Commission regulations thereunder, or any other applicable Commission regulation or order requiring that customer funds and assets be segregated, set aside, or held in a separate account.	Exhibit A-2: Rule 3.27 (Segregation of Customer Funds) Exhibit E-1: Clearing House Settlement Agreement Exhibit F-2: Segregation of Customer and Proprietary Funds
F		(2) <i>Commingling of futures, options, and swaps</i> —(i) <i>Cleared swaps account</i> . In order for a derivatives clearing organization and its clearing members to commingle customer positions in futures, options, and swaps, and any money, securities, or property received to margin, guarantee or secure such positions, in an account subject to the requirements of section 4d(f) of the Act, the derivatives clearing organization shall file rules for Commission approval pursuant to §40.5 of this chapter. Such rule submission shall include, at a minimum, the following: (A) Identification of the futures, options, and swaps that would be commingled, including product specifications or the criteria that would be used to define eligible futures, options, and swaps; (B) Analysis of the risk characteristics of the eligible products; (C) Identification of whether the swaps would be executed bilaterally and/or executed on a designated contract market and/or a swap execution facility;	Not applicable

		<p>(D) Analysis of the liquidity of the respective markets for the futures, options, and swaps that would be commingled, the ability of clearing members and the derivatives clearing organization to offset or mitigate the risk of such futures, options, and swaps in a timely manner, without compromising the financial integrity of the account, and, as appropriate, proposed means for addressing insufficient liquidity;</p> <p>(E) Analysis of the availability of reliable prices for each of the eligible products;</p> <p>(F) A description of the financial, operational, and managerial standards or requirements for clearing members that would be permitted to commingle such futures, options, and swaps;</p> <p>(G) A description of the systems and procedures that would be used by the derivatives clearing organization to oversee such clearing members' risk management of any such commingled positions;</p> <p>(H) A description of the financial resources of the derivatives clearing organization, including the composition and availability of a guaranty fund with respect to the futures, options, and swaps that would be commingled;</p> <p>(I) A description and analysis of the margin methodology that would be applied to the commingled futures, options, and swaps, including any margin reduction applied to correlated positions, and any applicable margin rules with respect to both clearing members and customers;</p> <p>(J) An analysis of the ability of the derivatives clearing organization to manage a potential default with respect to any of the futures, options, or swaps that would be commingled;</p> <p>(K) A discussion of the procedures that the derivatives clearing organization would follow if a clearing member defaulted, and the procedures that a clearing member would follow if a customer defaulted, with respect to any of the commingled futures, options, or swaps in the account; and</p> <p>(L) A description of the arrangements for obtaining daily position data with respect to futures, options, and swaps in the account.</p>	
F		<p>(ii) <i>Futures account.</i> In order for a derivatives clearing organization and its clearing members to commingle customer positions in futures, options, and swaps, and any money, securities, or property received to margin, guarantee or secure such positions, in an account subject to the requirements of section 4d(a) of the Act, the derivatives clearing organization shall file with the Commission a petition for an order pursuant to section 4d(a) of the Act. Such petition shall include, at a minimum, the information required under paragraph (b)(2)(i) of this section.</p> <p>(iii) Commission action. (A) The Commission may request additional information in support of a rule submission filed under paragraph (b)(2)(i) of this section, and may grant approval of such rules in accordance with §40.5 of this chapter.</p> <p>(B) The Commission may request additional information in support of a petition filed under paragraph (b)(2)(ii) of this section, and may issue an order under section 4d of the Act in its discretion.</p>	Not applicable
F		<p>(c) <i>Holding of funds and assets.</i> A derivatives clearing organization shall hold funds and assets belonging to clearing members and their customers in a manner which minimizes the risk of loss or of delay in the access by the derivatives clearing organization to such funds and assets.</p>	<p>Exhibit A-2: Rule 3.20.3 (Initial Margin; Additional Margin)</p> <p>Exhibit F-3: Investment Standards</p>
F		<p>(d) <i>Transfer of customer positions.</i> A derivatives clearing organization shall have rules providing that the derivatives clearing organization will promptly transfer all or a portion of a customer's portfolio of positions and related funds at the same time from the carrying clearing member of the derivatives clearing</p>	Exhibit A-2: Rule 3.17 (Transfers of Open Positions)

		<p>organization to another clearing member of the derivatives clearing organization, without requiring the close-out and re-booking of the positions prior to the requested transfer, subject to the following conditions:</p> <p>(1) The customer has instructed the carrying clearing member to make the transfer;</p> <p>(2) The customer is not currently in default to the carrying clearing member;</p> <p>(3) The transferred positions will have appropriate margin at the receiving clearing member;</p> <p>(4) Any remaining positions will have appropriate margin at the carrying clearing member; and</p> <p>(5) The receiving clearing member has consented to the transfer.</p>	
F		<p>(e) <i>Permitted investments.</i> Funds and assets belonging to clearing members and their customers that are invested by a derivatives clearing organization shall be held in instruments with minimal credit, market, and liquidity risks. Any investment of customer funds or assets by a derivatives clearing organization shall comply with §1.25 of this chapter, as if all such funds and assets comprise customer funds subject to segregation pursuant to section 4d(a) of the Act and Commission regulations thereunder.</p>	<p>Exhibit A-2: Rule 3.20.3 (Initial Margin; Additional Margin)</p> <p>Exhibit F-3: Investment Standards</p>
G	§39.16	<p>Default rules and procedures</p>	
G		<p>(a) <i>General.</i> A derivatives clearing organization shall adopt rules and procedures designed to allow for the efficient, fair, and safe management of events during which clearing members become insolvent or default on the obligations of such clearing members to the derivatives clearing organization.</p>	<p>Exhibit A-2: Rule 3.29 (Defaults); Rule 3.30 (Liquidation on Termination or Suspension of Clearing Member); Rule 3.31 (Method of Closing Out); Rule 3.32 (Amounts Payable to the Clearing House); Rule 3.35 (Monetary Defaults; Use of Guaranty Fund; Assessments)</p> <p>Exhibit G: Default Management</p>
G		<p>(b) <i>Default management plan.</i> A derivatives clearing organization shall maintain a current written default management plan that delineates the roles and responsibilities of its board of directors, its risk management committee, any other committee that a derivatives clearing organization may have that has responsibilities for default management, and the derivatives clearing organization's management, in addressing a default, including any necessary coordination with, or notification of, other entities and regulators. Such plan shall address any differences in procedures with respect to highly liquid products and less liquid products. A derivatives clearing organization shall conduct and document a test of its default management plan at least on an annual basis.</p>	<p>Exhibit G: Default Management</p> <p>Exhibit G-1: Nodal Clear Default Management Plan (“Default Management Plan”)</p>
G		<p>(c) <i>Default procedures.</i> (1) A derivatives clearing organization shall adopt procedures that would permit the derivatives clearing organization to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a default on the obligations of a clearing member to the derivatives clearing organization.</p> <p>(2) A derivatives clearing organization shall adopt rules that set forth its default procedures, including:</p> <p>(i) The derivatives clearing organization's definition of a default;</p> <p>(ii) The actions that the derivatives clearing organization may take upon a default, which shall include the prompt transfer, liquidation, or hedging of the customer or house positions of the defaulting clearing member, as applicable, and which may include, in the discretion of the derivatives clearing organization,</p>	<p>Exhibit A-2: Rule 3.29 (Defaults); Rule 3.30 (Liquidation on Termination or Suspension of Clearing Member); Rule 3.31 (Method of Closing Out); Rule 3.35 (Monetary Defaults; Use of Guaranty Fund; Assessments)</p> <p>Exhibit G: Default Management</p> <p>Exhibit G-1: Default Management Plan</p>

		the auctioning or allocation of such positions to other clearing members;	
G		<p>(iii) Any obligations that the derivatives clearing organization imposes on its clearing members to participate in auctions, or to accept allocations, of the customer or house positions of the defaulting clearing member, provided that:</p> <p>(A) The derivatives clearing organization shall permit a clearing member to outsource to a qualified third party, authority to act in the clearing member's place in any auction, subject to appropriate safeguards imposed by the derivatives clearing organization;</p> <p>(B) The derivatives clearing organization shall permit a clearing member to outsource to a qualified third party, authority to act in the clearing member's place in any allocations, subject to appropriate safeguards imposed by the derivatives clearing organization; and</p> <p>(C) Any allocation shall be proportional to the size of the participating or accepting clearing member's positions in the same product class at the derivatives clearing organization;</p>	Not applicable
G		<p>(iv) The sequence in which the funds and assets of the defaulting clearing member and its customers and the financial resources maintained by the derivatives clearing organization would be applied in the event of a default;</p> <p>(v) A provision that the funds and assets of a defaulting clearing member's customers shall not be applied to cover losses with respect to a house default;</p> <p>(vi) A provision that the excess house funds and assets of a defaulting clearing member shall be applied to cover losses with respect to a customer default, if the relevant customer funds and assets are insufficient to cover the shortfall; and</p> <p>(3) A derivatives clearing organization shall make its default rules publicly available as provided in §39.21 of this part.</p>	<p>Exhibit A-2: Rule 3.29 (Defaults); Rule 3.30 (Liquidation on Termination or Suspension of Clearing Member); Rule 3.31 (Method of Closing Out) ; Rule 3.35 (Monetary Defaults; Use of Guaranty Fund; Assessments)</p> <p>Exhibit G: Default Management</p> <p>Exhibit G-1: Default Management Plan</p>
G		<p>(d) <i>Insolvency of a clearing member.</i></p> <p>(1) A derivatives clearing organization shall adopt rules that require a clearing member to provide prompt notice to the derivatives clearing organization if it becomes the subject of a bankruptcy petition, receivership proceeding, or the equivalent;</p> <p>(2) No later than upon receipt of such notice, a derivatives clearing organization shall review the continuing eligibility of the clearing member for clearing membership; and</p> <p>(3) No later than upon receipt of such notice, a derivatives clearing organization shall take any appropriate action, in its discretion, with respect to such clearing member or its house or customer positions, including but not limited to liquidation or transfer of positions, suspension, or revocation of clearing membership.</p>	<p>Exhibit A-2: Rule 3.11.4 (Financial Reporting Requirements); Rule 3.13.2(d) (Notices Required of Clearing Members); Rule 3.29 (Defaults); Rule 3.30 (Liquidation on Termination or Suspension of Clearing Member)</p> <p>Exhibit G: Default Management</p> <p>Exhibit G-1: Default Management Plan</p>
H	§39.17	Rule enforcement	Exhibit H
H		<p>(a) General. Each derivatives clearing organization shall:</p> <p>(1) Maintain adequate arrangements and resources for the effective monitoring and enforcement of compliance with the rules of the derivatives clearing organization and the resolution of disputes;</p>	<p>Exhibit A-2: Rule 2.4.3 (Risk Management Committee); Section V (Discipline and Enforcement; Clearing Member Emergencies)</p> <p>Exhibit A-11: Compliance Manual § V</p>

			(Monitoring Clearing Member Compliance) Exhibit H(a): Surveillance
H		(2) Have the authority and ability to discipline, limit, suspend, or terminate the activities of a clearing member due to a violation by the clearing member of any rule of the derivatives clearing organization; and	Exhibit A-2: Section V (Discipline and Enforcement; Clearing Member Emergencies) Exhibit A-11: Compliance Manual § VI (Enforcement of Regulations, Rules, Policies and Procedures) Exhibit H(b): Enforcement
H		(3) Report to the Commission regarding rule enforcement activities and sanctions imposed against clearing members as provided in paragraph (a) (2) of this section, in accordance with §39.19(c)(4)(xi) of this part.	Exhibit A-2: Rule 5.5 (Notice to the Parties, the CFTC, and the Public) Exhibit A-11: Compliance Manual § 7.2.1 (Specific Reporting Requirements (12.(c)))
H		(b) <i>Authority to enforce rules.</i> The board of directors of the derivatives clearing organization may delegate responsibility for compliance with the requirements of paragraph (a) of this section to the risk management committee, unless the responsibilities are otherwise required to be carried out by the chief compliance officer pursuant to the Act or this part.	Exhibit A-2: Rule 2.4.3 (Risk Management Committee); Section V (Discipline and Enforcement; Clearing Member Emergencies) Exhibit A-11: Compliance Manual § VI (Enforcement of Regulations, Rules, Policies and Procedures)
I	§39.18	System safeguards	Exhibit I
I		(a) <i>Definitions.</i> For purposes of this section: Recovery time objective means the time period within which an entity should be able to achieve recovery and resumption of clearing and settlement of existing and new products, after those capabilities become temporarily inoperable for any reason up to or including a wide-scale disruption. Relevant area means the metropolitan or other geographic area within which a derivatives clearing organization has physical infrastructure or personnel necessary for it to conduct activities necessary to the clearing and settlement of existing and new products. The term “relevant area” also includes communities economically integrated with, adjacent to, or within normal commuting distance of that metropolitan or other geographic area. Wide-scale disruption means an event that causes a severe disruption or destruction of transportation, telecommunications, power, water, or other critical infrastructure components in a relevant area, or an event that results in an evacuation or unavailability of the population in a relevant area.	Exhibit I: System Safeguards
I		(b) <i>General</i> —(1) Program of risk analysis. Each derivatives clearing organization shall establish and maintain a program of risk analysis and oversight with respect to its operations and automated systems to	Exhibit I(A): Risk analysis and oversight

		<p>identify and minimize sources of operational risk through:</p> <p>(i) The development of appropriate controls and procedures; and</p> <p>(ii) The development of automated systems that are reliable, secure, and have adequate scalable capacity.</p> <p>(2) <i>Resources</i>. Each derivatives clearing organization shall establish and maintain resources that allow for the fulfillment of each obligation and responsibility of the derivatives clearing organization in light of the risks identified pursuant to paragraph (b)(1) of this section.</p> <p>(3) <i>Verification of adequacy</i>. Each derivatives clearing organization shall periodically verify that resources described in paragraph (b)(2) of this section are adequate to ensure daily processing, clearing, and settlement.</p>	
I		<p>(c) <i>Elements of program</i>. A derivatives clearing organization's program of risk analysis and oversight with respect to its operations and automated systems, as described in paragraph (b) of this section, shall address each of the following categories of risk analysis and oversight:</p> <p>(1) Information security;</p> <p>(2) Business continuity and disaster recovery planning and resources;</p> <p>(3) Capacity and performance planning;</p> <p>(4) Systems operations;</p> <p>(5) Systems development and quality assurance; and</p> <p>(6) Physical security and environmental controls.</p>	Exhibit I(A): Risk analysis and oversight
I		<p>(d) <i>Standards for program</i>. In addressing the categories of risk analysis and oversight required under paragraph (c) of this section, a derivatives clearing organization shall follow generally accepted standards and industry best practices with respect to the development, operation, reliability, security, and capacity of automated systems.</p>	Exhibit I(A): Risk analysis and oversight
I		<p>(e) <i>Business continuity and disaster recovery</i>—(1) Plan and resources. A derivatives clearing organization shall maintain a business continuity and disaster recovery plan, emergency procedures, and physical, technological, and personnel resources sufficient to enable the timely recovery and resumption of operations and the fulfillment of each obligation and responsibility of the derivatives clearing organization following any disruption of its operations.</p> <p>(2) Responsibilities and obligations. The responsibilities and obligations described in paragraph (e)(1) of this section shall include, without limitation, daily processing, clearing, and settlement of transactions cleared.</p> <p>(3) Recovery time objective. The derivatives clearing organization's business continuity and disaster recovery plan described in paragraph (e)(1) of this section, shall have the objective of, and the physical, technological, and personnel resources described therein shall be sufficient to, enable the derivatives clearing organization to resume daily processing, clearing, and settlement no later than the next business day following the disruption.</p>	<p>Exhibit I(A)(3): Business continuity and disaster recovery</p> <p>Exhibit I: Addenda 4 & 5: Business Continuity Plan and Failover and Disaster Recovery Plan</p>
I		<p>(f) <i>Location of resources; outsourcing</i>. A derivatives clearing organization may maintain the resources required under paragraph (e)(1) of this section either:</p> <p>(1) Using its own employees as personnel, and property that it owns, licenses, or leases (own resources); or</p> <p>(2) Through written contractual arrangements with another derivatives clearing organization or other service provider (outsourcing).</p>	Exhibit I(B)(4): Internal and outsourced responsibilities

		<p>(i) Retention of responsibility. A derivatives clearing organization that enters into such a contractual arrangement shall retain complete liability for any failure to meet the responsibilities specified in paragraph (e) of this section, although it is free to seek indemnification from the service provider. The outsourcing derivatives clearing organization must employ personnel with the expertise necessary to enable it to supervise the service provider's delivery of the services.</p> <p>(ii) Testing. The testing referred to in paragraph (j) of this section shall include all of the derivatives clearing organization's own and outsourced resources, and shall verify that all such resources will work effectively together.</p>	
I		<p>(g) <i>Notice of exceptional events.</i> A derivatives clearing organization shall notify staff of the Division of Clearing and Risk promptly of:</p> <p>(1) Any hardware or software malfunction, cyber security incident, or targeted threat that materially impairs, or creates a significant likelihood of material impairment, of automated system operation, reliability, security, or capacity; or</p> <p>(2) Any activation of the derivatives clearing organization's business continuity and disaster recovery plan.</p>	Exhibit I(F): Exceptional event and planned event reporting to the CFTC
I		<p>(h) <i>Notice of planned changes.</i> A derivatives clearing organization shall give staff of the Division of Clearing and Risk timely advance notice of all:</p> <p>(1) Planned changes to automated systems that are likely to have a significant impact on the reliability, security, or adequate scalable capacity of such systems; and</p> <p>(2) Planned changes to the derivatives clearing organization's program of risk analysis and oversight.</p>	Exhibit I(F): Exceptional event and planned event reporting to the CFTC
I		<p>(i) <i>Recordkeeping.</i> A derivatives clearing organization shall maintain, and provide to Commission staff promptly upon request, pursuant to §1.31 of this chapter, current copies of its business continuity plan and other emergency procedures, its assessments of its operational risks, and records of testing protocols and results, and shall provide any other documents requested by Commission staff for the purpose of maintaining a current profile of the derivatives clearing organization's automated systems.</p>	Exhibit A-2: Rule 2.8 (Maintenance of Books and Records by Clearing House)
I		<p>(j) <i>Testing</i>—(1) Purpose of testing. A derivatives clearing organization shall conduct regular, periodic, and objective testing and review of:</p> <p>(i) Its automated systems to ensure that they are reliable, secure, and have adequate scalable capacity; and</p> <p>(ii) Its business continuity and disaster recovery capabilities, using testing protocols adequate to ensure that the derivatives clearing organization's backup resources are sufficient to meet the requirements of paragraph (e) of this section.</p> <p>(2) Conduct of testing. Testing shall be conducted by qualified, independent professionals. Such qualified, independent professionals may be independent contractors or employees of the derivatives clearing organization, but shall not be persons responsible for development or operation of the systems or capabilities being tested.</p> <p>(3) Reporting and review. Reports setting forth the protocols for, and results of, such tests shall be communicated to, and reviewed by, senior management of the derivatives clearing organization. Protocols of tests which result in few or no exceptions shall be subject to more searching review.</p>	Exhibit I(C)(2): Testing
I		<p>(k) <i>Coordination of business continuity and disaster recovery plans.</i> A derivatives clearing organization shall, to the extent practicable:</p> <p>(1) Coordinate its business continuity and disaster recovery plan with those of its clearing members, in a</p>	Exhibit A-2: Rule 3.5.1(q) (Duties and Responsibilities of Clearing Members)

		<p>manner adequate to enable effective resumption of daily processing, clearing, and settlement following a disruption;</p> <p>(2) Initiate and coordinate periodic, synchronized testing of its business continuity and disaster recovery plan and the plans of its clearing members; and</p> <p>(3) Ensure that its business continuity and disaster recovery plan takes into account the plans of its providers of essential services, including telecommunications, power, and water.</p>	<p>Exhibit I(B)(3): BCP and DR</p> <p>Exhibit I: Addenda 4 & 5: Business Continuity Plan and Failover and Disaster Recovery Plan</p>
J	§39.19	Reporting	
J		<p>(a) <i>General.</i> Each derivatives clearing organization shall provide to the Commission the information specified in this section and any other information that the Commission deems necessary to conduct its oversight of a derivatives clearing organization.</p>	<p>Exhibit A-11: Compliance Manual § 7.2 Regulatory Reporting Required by the CFTC</p> <p>Exhibit J: Reporting</p>
J		<p>(b) <i>Submission of reports.</i> (1) Unless otherwise specified by the Commission or its designee, each derivatives clearing organization shall submit the information required by this section to the Commission electronically and in a format and manner specified by the Commission.</p> <p>(2) Time zones. Unless otherwise specified by the Commission or its designee, any stated time in this section is Central time for information concerning derivatives clearing organizations located in that time zone, and Eastern time for information concerning all other derivatives clearing organizations.</p> <p>(3) Unless otherwise specified by the Commission or its designee, business day means the intraday period of time starting at the business hour of 8:15 a.m. and ending at the business hour of 4:45 p.m., on all days except Saturdays, Sundays, and Federal holidays.</p>	<p>Exhibit A-11: Compliance Manual § 7.2 Regulatory Reporting Required by the CFTC</p> <p>Exhibit J: Reporting</p>
J		<p>(c) <i>Reporting requirements.</i> Each registered derivatives clearing organization shall provide to the Commission or other person as may be required or permitted by this paragraph the information specified below:</p> <p>(1) <i>Daily reporting.</i> (i) A report containing the information specified by this paragraph (c)(1), which shall be compiled as of the end of each trading day and shall be submitted to the Commission by 10 a.m. on the following business day:</p> <p>(A) Initial margin requirements and initial margin on deposit for each clearing member, by house origin and by each customer origin;</p> <p>(B) Daily variation margin, separately listing the mark-to-market amount collected from or paid to each clearing member, by house origin and by each customer origin;</p> <p>(C) All other daily cash flows relating to clearing and settlement including, but not limited to, option premiums and payments related to swaps such as coupon amounts, collected from or paid to each clearing member, by house origin and by each customer origin; and</p> <p>(D) End-of-day positions for each clearing member, by house origin and by each customer origin.</p> <p>(ii) The report shall contain the information required by paragraph (c)(1)(i) of this section for:</p> <p>(A) All futures positions, and options positions, as applicable;</p> <p>(B) All swaps positions; and</p> <p>(C) All securities positions that are held in a customer account subject to section 4d of the Act or are subject to a cross-margining agreement.</p>	<p>Exhibit A-11: Compliance Manual § 7.2.1 (1) Daily Reports</p> <p>Exhibit J: Reporting</p>

J		(2) <i>Quarterly reporting</i> . A report of the derivatives clearing organization's financial resources as required by §39.11(f) of this part; provided that, additional reports may be required by paragraph (c)(4)(i) of this section or §39.11(f) of this part.	Exhibit A-11: Compliance Manual § 7.2.1 (2) Quarterly Reports Exhibit J: Reporting (2. Quarterly Reports)
J		(3) <i>Annual reporting</i> —(i) Annual report of chief compliance officer. The annual report of the chief compliance officer required by §39.10 of this part. (ii) Audited financial statements. Audited year-end financial statements of the derivatives clearing organization or, if there are no financial statements available for the derivatives clearing organization itself, the consolidated audited year-end financial statements of the derivatives clearing organization's parent company. (iii) [Reserved] (iv) Time of report. The reports required by this paragraph (c)(3) shall be submitted concurrently to the Commission not more than 90 days after the end of the derivatives clearing organization's fiscal year; provided that, a derivatives clearing organization may request from the Commission an extension of time to submit a report, provided the derivatives clearing organization's failure to submit the report in a timely manner could not be avoided without unreasonable effort or expense. Extensions of the deadline will be granted at the discretion of the Commission.	Exhibit A-11: Compliance Manual § 7.2.1 (3) Annual Reports Exhibit J: Reporting (3. Annual Reports)
J		(4) <i>Event-specific reporting</i> —(i) Decrease in financial resources. If there is a decrease of 25 percent in the total value of the financial resources available to satisfy the requirements under §39.11(a)(1) of this part, either from the last quarterly report submitted under §39.11(f) of this part or from the value as of the close of the previous business day, the derivatives clearing organization shall report such decrease to the Commission no later than one business day following the day the 25 percent threshold was reached. The report shall include: (A) The total value of the financial resources: (1) As of the close of business the day the 25 percent threshold was reached, and (2) If reporting a decrease in value from the previous business day, the total value of the financial resources immediately prior to the 25 percent decline; (B) A breakdown of the value of each financial resource reported in each of paragraphs (c)(4)(i)(A)(1) and (2) of this section, calculated in accordance with the requirements of §39.11(d) of this part, including the value of each individual clearing member's guaranty fund deposit if the derivatives clearing organization reports guaranty fund deposits as a financial resource; and (C) A detailed explanation for the decrease.	Exhibit A-11: Compliance Manual § 7.2.1 (4) Decrease in Financial Resources Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(ii) <i>Decrease in ownership equity</i> . No later than two business days prior to an event which the derivatives clearing organization knows or reasonably should know will cause a decrease of 20 percent or more in ownership equity from the last reported ownership equity balance as reported on a quarterly or audited financial statement required to be submitted by paragraph (c)(2) or (c)(3)(ii), respectively, of this section; but in any event no later than two business days after such decrease in ownership equity for events that caused the decrease about which the derivatives clearing organization did not know and reasonably could not have known prior to the event. The report shall include: (A) Pro forma financial statements reflecting the derivatives clearing organization's estimated future	Exhibit A-11: Compliance Manual § 7.2.1 (5) Equity Interest Transfers Exhibit J: Reporting (Information Provided on a Non-Routine Basis)

		financial condition following the anticipated decrease for reports submitted prior to the anticipated decrease and current financial statements for reports submitted after such a decrease; and (B) Details describing the reason for the anticipated decrease or decrease in the balance.	
J		(iii) <i>Six-month liquid asset requirement.</i> Immediate notice when a derivatives clearing organization knows or reasonably should know of a deficit in the six-month liquid asset requirement of §39.11(e)(2).	Exhibit A-11: Compliance Manual § 7.2.1 (6) Six-Month Liquid Asset Requirement Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(iv) <i>Change in current assets.</i> No later than two business days after current liabilities exceed current assets; the notice shall include a balance sheet that reflects the derivatives clearing organization's current assets and current liabilities and an explanation as to the reason for the negative balance.	Exhibit A-11: Compliance Manual § 7.2.1 (7) Change in Current Assets Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(v) <i>Request to clearing member to reduce its positions.</i> Immediate notice, of a derivatives clearing organization's request to a clearing member to reduce its positions because the derivatives clearing organization has determined that the clearing member has exceeded its exposure limit, has failed to meet an initial or variation margin call, or has failed to fulfill any other financial obligation to the derivatives clearing organization. The notice shall include: (A) The name of the clearing member; (B) The time the clearing member was contacted; (C) The number of positions by which the derivatives clearing organization requested the reduction; (D) All products that are the subject of the request; and (E) The reason for the request.	Exhibit A-11: Compliance Manual § 7.2.1 (10)(a) Request for Clearing Member to Reduce Positions Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(vi) <i>Determination to transfer or liquidate positions.</i> Immediate notice, of a determination that any position a derivatives clearing organization carries for one of its clearing members must be liquidated immediately or transferred immediately, or that the trading of any account of a clearing member shall be only for the purpose of liquidation because that clearing member has failed to meet an initial or variation margin call or has failed to fulfill any other financial obligation to the derivatives clearing organization. The notice shall include: (A) The name of the clearing member; (B) The time the clearing member was contacted; (C) The products that are subject to the determination; (D) The number of positions that are subject to the determination; and (E) The reason for the determination. (vii) <i>Default of a clearing member.</i> Immediate notice, upon the default of a clearing member. An event of default shall be determined in accordance with the rules of the derivatives clearing organization. The notice of default shall include: (A) The name of the clearing member; (B) The products the clearing member defaulted upon; (C) The number of positions the clearing member defaulted upon; and	Exhibit A-11: Compliance Manual § 7.2.1 (10)(b) Determination to Transfer or Liquidate Positions Exhibit J: Reporting (Information Provided on a Non-Routine Basis)

		(D) The amount of the financial obligation.	
J		<p>(viii) <i>Change in ownership or corporate or organizational structure.</i>—(A) Reporting requirement. Any anticipated change in the ownership or corporate or organizational structure of the derivatives clearing organization or its parent(s) that would:</p> <p>(1) Result in at least a 10 percent change of ownership of the derivatives clearing organization,</p> <p>(2) Create a new subsidiary or eliminate a current subsidiary of the derivatives clearing organization, or</p> <p>(3) Result in the transfer of all or substantially all of the assets of the derivatives clearing organization, including its registration as a derivatives clearing organization to another legal entity.</p> <p>(B) Required information. The report shall include: a chart outlining the new ownership or corporate or organizational structure; a brief description of the purpose and impact of the change; and any relevant agreements effecting the change and corporate documents such as articles of incorporation and bylaws. With respect to a corporate change for which a derivatives clearing organization submits a request for approval to transfer its derivatives clearing organization registration and open interest under §39.3(f) of this part, the informational requirements of this paragraph (c)(4)(viii)(B) shall be satisfied by the derivatives clearing organization's compliance with §39.3(f)(3).</p> <p>(C) Time of report. The report shall be submitted to the Commission no later than three months prior to the anticipated change; provided that the derivatives clearing organization may report the anticipated change to the Commission later than three months prior to the anticipated change if the derivatives clearing organization does not know and reasonably could not have known of the anticipated change three months prior to the anticipated change. In such event, the derivatives clearing organization shall immediately report such change to the Commission as soon as it knows of such change.</p> <p>(D) Confirmation of change report. The derivatives clearing organization shall report to the Commission the consummation of the change no later than two business days following the effective date of the change.</p>	<p>Exhibit A-11: Compliance Manual § 7.2.1 (11) Change in Ownership or Corporate or Organization Structure</p> <p>Exhibit J: Reporting (Information Provided on a Non-Routine Basis)</p>
J		(ix) <i>Change in key personnel.</i> No later than two business days following the departure, or addition of persons who are key personnel as defined in §39.1(b), a report that includes, as applicable, the name of the person who will assume the duties of the position on a temporary basis until a permanent replacement fills the position.	<p>Exhibit A-11: Compliance Manual § 7.2.1 (12)(a) Changes in Key Personnel</p> <p>Exhibit J: Reporting (Information Provided on a Non-Routine Basis)</p>
J		(x) <i>Change in credit facility funding arrangement.</i> No later than one business day after a derivatives clearing organization changes an existing credit facility funding arrangement it may have in place, or is notified that such arrangement has changed, including but not limited to a change in lender, change in the size of the facility, change in expiration date, or any other material changes or conditions.	<p>Exhibit A-11: Compliance Manual § 7.2.1 (12)(b) Credit Facility Funding Arrangement Change</p> <p>Exhibit J: Reporting (Information Provided on a Non-Routine Basis)</p>
J		(xi) <i>Sanctions.</i> Notice of action taken, no later than two business days after the derivatives clearing organization imposes sanctions against a clearing member.	<p>Exhibit A-11: Compliance Manual § 7.2.1 (12)(c) Rule Enforcement</p> <p>Exhibit J: Reporting (Information Provided on a Non-Routine Basis)</p>

J		(xii) <i>Financial condition and events</i> . Immediate notice after the derivatives clearing organization knows or reasonably should have known of: (A) The institution of any legal proceedings which may have a material adverse financial impact on the derivatives clearing organization; (B) Any event, circumstance or situation that materially impedes the derivatives clearing organization's ability to comply with this part and is not otherwise required to be reported under this section; or (C) A material adverse change in the financial condition of any clearing member that is not otherwise required to be reported under this section.	Exhibit A-11: Compliance Manual § 7.2.1 (12)(d) Financial Conditions and Events Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(xiii) <i>Financial statements material inadequacies</i> . If a derivatives clearing organization discovers or is notified by an independent public accountant of the existence of any material inadequacy in a financial statement, such derivatives clearing organization shall give notice of such material inadequacy within 24 hours, and within 48 hours after giving such notice file a written report stating what steps have been and are being taken to correct the material inadequacy.	Exhibit A-11: Compliance Manual § 7.2.1 (12)(e) Material Inadequacies Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(xiv)-(xv) [Reserved]	
J		(xvi) <i>System safeguards</i> . A report of: (A) Exceptional events as required by §39.18(g) of this part; or (B) Planned changes as required by §39.18(h) of this part.	Exhibit A-11: Compliance Manual § 7.2.1 (12)(f) System Safeguards Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
J		(5) <i>Requested reporting</i> . (i) Upon request by the Commission, a derivatives clearing organization shall file with the Commission such information related to its business as a clearing organization, including information relating to trade and clearing details, in the format and manner specified, and within the time provided, by the Commission in the request. (ii) Upon request by the Commission, a derivatives clearing organization shall file with the Commission a written demonstration, containing such supporting data, information and documents, that the derivatives clearing organization is in compliance with one or more core principles and relevant provisions of this part, in the format and manner specified, and within the time provided, by the Commission in the request. (iii) Upon request by the Commission, a derivatives clearing organization shall file with the Commission, for each customer origin of each clearing member, the end-of-day gross positions of each beneficial owner, in the format and manner specified, and within the time provided, by the Commission in the request. Nothing in this paragraph shall affect the obligation of a derivatives clearing organization to comply with the daily reporting requirements of paragraph (c)(1) of this section.	Rule 2.9 (Maintenance of Books and Records by Clearing House) Exhibit A-11: Compliance Manual § 7.2 Exhibit J: Reporting (Information Provided on a Non-Routine Basis)
K	§39.20	Recordkeeping	Exhibit K
K		(a) Requirement to maintain information. Each derivatives clearing organization shall maintain records of all activities related to its business as a derivatives clearing organization. Such records shall include, but are not limited to, records of: (1) All cleared transactions, including swaps; (2) All information necessary to record allocation of bunched orders for cleared swaps; (3) All information required to be created, generated, or reported under this part 39, including but not	Exhibit A-2: Rule 2.8 (Maintenance of Books and Records by Clearing House) Exhibit A-11: Compliance Manual § VIII (Recordkeeping and evidence of Compliance)

		<p>limited to the results of and methodology used for all tests, reviews, and calculations in connection with setting and evaluating margin levels, determining the value and adequacy of financial resources, and establishing settlement prices;</p> <p>(4) All rules and procedures required to be submitted pursuant to this part 39 and part 40 of this chapter, including all proposed changes in rules, procedures or operations subject to §40.10 of this chapter; and</p> <p>(5) Any data or documentation required by the Commission or by the derivatives clearing organization to be submitted to the derivatives clearing organization by its clearing members, or by any other person in connection with the derivatives clearing organization's clearing and settlement activities.</p>	<p>Exhibit K</p> <p>Exhibit A-10(2): PatriArch Service Bureau Agreement</p>
K		<p>(b) Form and manner of maintaining information—(1) General. The records required to be maintained by this chapter shall be maintained in accordance with the provisions of §1.31 of this chapter, for a period of not less than 5 years, except as provided in paragraph (b)(2) of this section.</p> <p>(2) Exception for swap data. Each derivatives clearing organization that clears swaps must maintain swap data in accordance with the requirements of part 45 of this chapter.</p>	<p>Exhibit A-2: Rule 2.8 (Maintenance of Books and Records by Clearing House)</p> <p>Exhibit A-11: Compliance Manual § VIII (Recordkeeping and evidence of Compliance)</p> <p>Exhibit K</p> <p>Exhibit A-10(3): Patrina Technical Consultant Representation</p>
L	§39.21	Public information	
L		<p>(a) <i>General</i>. 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. In furtherance of this objective, each derivatives clearing organization shall have clear and comprehensive rules and procedures.</p>	<p>Exhibit A-2: Rule 7.12 (Public Information)</p> <p>Exhibit A-11: Compliance Manual § XI Public Information</p> <p>Exhibit L: Public Information</p>
L		<p>(b) <i>Availability of information</i>. Each derivatives clearing organization shall make information concerning the rules and the operating and default procedures governing the clearing and settlement systems of the derivatives clearing organization available to market participants.</p>	<p>Exhibit A-2: Rule 7.12 (Public Information)</p> <p>Exhibit A-11: Compliance Manual § XI Public Information</p> <p>Exhibit L: Public Information</p>
L		<p>(c) <i>Public disclosure</i>. Each derivatives clearing organization shall disclose publicly and to the Commission information concerning:</p> <p>(1) The terms and conditions of each contract, agreement, and transaction cleared and settled by the derivatives clearing organization;</p> <p>(2) Each clearing and other fee that the derivatives clearing organization charges its clearing members;</p> <p>(3) The margin-setting methodology;</p> <p>(4) The size and composition of the financial resource package available in the event of a clearing member default;</p> <p>(5) Daily settlement prices, volume, and open interest for each contract, agreement, or transaction cleared</p>	<p>Exhibit A-2: Rule 7.12 (Public Information)</p> <p>Exhibit A-11: Compliance Manual § XI Public Information</p> <p>Exhibit L: Public Information</p>

		or settled by the derivatives clearing organization; (6) The derivatives clearing organization's rules and procedures for defaults in accordance with §39.16 of this part; and (7) Any other matter that is relevant to participation in the clearing and settlement activities of the derivatives clearing organization.	
L		(d) <i>Publication of information.</i> The derivatives clearing organization shall make its rulebook, a list of all current clearing members, and the information listed in paragraph (c) of this section readily available to the general public, in a timely manner, by posting such information on the derivatives clearing organization's Web site, unless otherwise permitted by the Commission. The information required in paragraph (c)(5) of this section shall be made available to the public no later than the business day following the day to which the information pertains.	Exhibit A-2: Rule 7.12 (Public Information) Exhibit A-11: Compliance Manual § XI Public Information Exhibit L: Public Information
M	§39.22	Information sharing	
M		Each derivatives clearing organization shall enter into, and abide by the terms of, each appropriate and applicable domestic and international information-sharing agreement, and shall use relevant information obtained from each such agreement in carrying out the risk management program of the derivatives clearing organization	Exhibit A-2: Rule 2.6 (Information-Sharing Arrangements) Exhibit A-11: Compliance Manual § X (Treatment of Regulatory Information, Proprietary Information and Personal Data) Exhibit M: Information Sharing Exhibit M-1 & M-2: The International Information Sharing Memorandum of Understanding and Agreement (“MOU”)
N	§39.23	Antitrust considerations	
N		Unless necessary or appropriate to achieve the purposes of the Act, a derivatives clearing organization shall not adopt any rule or take any action that results in any unreasonable restraint of trade, or impose any material anticompetitive burden.	Exhibit A-2: Rule 4.1.4 (Antitrust) Exhibit N: Antitrust Considerations Exhibit N-2: Nodal Exchange Holdings LLC Antitrust Compliance Policy
	§§39.24-39.26	Reserved	
R	§39.27	Legal risk considerations	Exhibit R
R		(a) <i>Legal authorization.</i> A derivatives clearing organization shall be duly organized, legally authorized to conduct business, and remain in good standing at all times in the relevant jurisdictions. If the derivatives clearing organization provides clearing services outside the United States, it shall be duly organized to conduct business and remain in good standing at all times in the relevant jurisdictions, and be authorized by the appropriate foreign licensing authority.	Certificate of Formation Exhibit A-8: Certificate of Good Standing Exhibit R(I)(A): Legal Framework: Nodal Clear and Its Clearing Functions

R		(b) <i>Legal framework.</i> A derivatives clearing organization shall operate pursuant to a well-founded, transparent, and enforceable legal framework that addresses each aspect of the activities of the derivatives clearing organization. As applicable, the framework shall provide for: (1) The derivatives clearing organization to act as a counterparty, including novation;	Exhibit A-2: Rule 3.16 (Acceptance for Clearing; Novation) Exhibit R(I)(A): Legal Framework: Nodal Clear and Its Clearing Functions Exhibit R(I)(B): Legal Framework: Novation, Netting and Settlement
R		(2) Netting arrangements;	Exhibit A-2: Rule 3.38.4 (Netting and Close-Out) Exhibit R(I)(B): Legal Framework: Novation, Netting and Settlement
R		(3) The derivatives clearing organization's interest in collateral;	Exhibit A-2: Rule 3.20.3 (Initial Margin ; Additional Margin); Rule 3.23.4 (Margin Payments). Exhibit R(II)(B): The Uniform Commercial Code
R		(4) The steps that a derivatives clearing organization would take to address a default of a clearing member, including but not limited to, the unimpeded ability to liquidate collateral and close out or transfer positions in a timely manner;	Exhibit A-2: Rule 3.34 (Guaranty Fund) Exhibit R(II): Applicable Law Exhibit G
R		(5) Finality of settlement and funds transfers that are irrevocable and unconditional when effected (no later than when a derivatives clearing organization's accounts are debited and credited); and	Exhibit E-1(1): Settlement Agreement Exhibit R(II)(E): Finality of Settlement
R		(6) Other significant aspects of the derivatives clearing organization's operations, risk management procedures, and related requirements.	None
R		(c) Conflict of laws. If a derivatives clearing organization provides clearing services outside the United States: (1) The derivatives clearing organization shall identify and address any material conflict of law issues. The derivatives clearing organization's contractual agreements shall specify a choice of law. (2) The derivatives clearing organization shall be able to demonstrate the enforceability of its choice of law in relevant jurisdictions and that its rules, procedures, and contracts are enforceable in all relevant jurisdictions.	Not applicable

Subpart C - Provisions Applicable to Systemically Important DCOs and DCOs that elect to be Subject to the Provisions of this Subpart		
Section	Description	Nodal Documents
	§39.30	Scope
	<p>(a) The provisions of this subpart apply to each of the following: a subpart C derivatives clearing organization, a systemically important derivatives clearing organization, and any derivatives clearing organization, as defined under section 1a(15) of the Act and §1.3(d) of this chapter, seeking to become a subpart C derivatives clearing organization pursuant to §39.31.</p> <p>(b) A systemically important derivatives clearing organization is subject to the provisions of subparts A and B of this part in addition to the provisions of this subpart.</p> <p>(c) A subpart C derivatives clearing organization is subject to the provisions of subparts A and B of this part in addition to the provisions of this subpart except for §§39.41 and 39.42.</p>	Form DCO, Subpart C Election Form, including all Exhibits thereto
	§39.31	Election to become subject to the provisions of this subpart
	<p>(a) <i>Election eligibility.</i> (1) A derivatives clearing organization that is registered with the Commission and that is not a systemically important derivatives clearing organization may elect to become a subpart C derivatives clearing organization subject to the provisions of this subpart, using the procedures set forth in paragraph (b) of this section.</p> <p>(2) An applicant for registration as a derivatives clearing organization pursuant to §39.3 may elect to become a subpart C derivatives clearing organization subject to the provisions of this subpart as part of its application for registration using the procedures set forth in paragraph (c) of this section.</p>	Form DCO, Subpart C Election Form, including all Exhibits thereto
	<p>(b) <i>Election and withdrawal procedures applicable to registered derivatives clearing organizations—</i> A derivatives clearing organization that is registered with the Commission and that is not a systemically important derivatives clearing organization may request that the Commission accept its election to become a subpart C derivatives clearing organization by filing with the Commission a completed Subpart C Election Form. The Subpart C Election Form shall include the election and all certifications, disclosures and exhibits, as provided in appendix B to this part and any amendments or supplements thereto filed with the Commission pursuant to paragraphs (b)(2) and (3) of this section.</p> <p>(2) Submission of supplemental information. The filing of a Subpart C Election Form does not create a presumption that the Subpart C Election Form is materially complete or that supplemental information will not be required. The Commission, at any time prior to the effective date, as provided in paragraph (b)(4) of this section, may request that the derivatives clearing organization submit supplemental information in order for the Commission to process the Subpart C Election Form, and the derivatives clearing organization shall file such supplemental information with the Commission.</p> <p>(3) Amendments. A derivatives clearing organization shall promptly amend its Subpart C Election Form if it discovers a material omission or error in, or if there is a material change in, the information provided to the Commission in the Subpart C Election Form or other information provided in connection with the Subpart C Election Form.</p> <p>(4) Effective date. A derivatives clearing organization's election to become a subpart C derivatives clearing organization shall become effective:</p> <p>(i) Upon the later of the following, provided the Commission has neither stayed nor denied such election</p>	Form DCO, Subpart C Election Form, including all Exhibits thereto

	<p>as set forth in paragraph (b)(5) of this section.</p> <p>(A) The effective date specified by the derivatives clearing organization in its Subpart C Election Form; or</p> <p>(B) Ten business days after the derivatives clearing organization files its Subpart C Election Form with the Commission;</p> <p>(ii) Or upon the effective date set forth in written notification from the Commission that it shall permit the election to take effect after a stay issued pursuant to paragraph (b)(5) of this section.</p> <p>(5) Stay or denial of election. Prior to the effective date set forth in paragraph (b)(4)(i) of this section, the Commission may stay or deny a derivatives clearing organization's election to become a subpart C derivatives clearing organization by issuing a written notification thereof to the derivatives clearing organization.</p> <p>(6) Commission acknowledgement. The Commission may acknowledge, in writing, that it has received a Subpart C Election Form filed by a derivatives clearing organization and that it has permitted the derivatives clearing organization's election to become subject to the provisions of this subpart to take effect, and the effective date of such election.</p> <p>(7) Withdrawal of election. A derivatives clearing organization that has filed a Subpart C Election Form may withdraw an election to become subject to the provisions of this subpart at any time prior to the date that the election is permitted to take effect by filing with the Commission a notice of the withdrawal of election.</p>	
	<p><i>(c) Election and withdrawal procedures applicable to applicants for registration as derivatives clearing organization—</i>(1) <i>Election.</i> An applicant for registration as a derivatives clearing organization that requests an election to become subject to the provisions of this subpart may make that request by attaching a completed Subpart C Election Form to the Form DCO that it files pursuant to §39.3. The Subpart C Election Form shall include the election and all certifications, disclosures and exhibits, as provided in appendix B of this part, and any amendments or supplements thereto filed with the Commission pursuant to paragraphs (c)(3) or (4) of this section.</p> <p>(2) <i>Election review and effective date.</i> The Commission shall review the applicant's Subpart C Election Form as part of the Commission's review of its application for registration pursuant to §39.3(a). The Commission may permit the applicant's election to take effect at the time it approves the applicant's application for registration by providing written notice thereof to the applicant. The Commission shall not approve any application for registration filed pursuant to §39.3(a) for which a Subpart C Election Form is pending, if the Commission determines that the applicant's election to become subject to this subpart should not become effective because the applicant has not demonstrated its ability to comply with the applicable provisions of this subpart.</p> <p>(3) <i>Submission of supplemental information.</i> The filing of a Subpart C Election Form does not create a presumption that the Subpart C Election Form is materially complete or that supplemental information will not be required. At any time during the Commission's review of the Subpart C Election Form, the Commission may request that the applicant submit supplemental information in order for the Commission to process the Subpart C Election Form and the applicant shall file such supplemental information with the Commission.</p> <p>(4) <i>Amendments.</i> An applicant for registration as a derivatives clearing organization shall promptly amend</p>	<p>Form DCO, Subpart C Election Form, including all Exhibits thereto</p>

	<p>its Subpart C Election Form if it discovers a material omission or error in, or if there is a material change in, the information provided to the Commission in the Subpart C Election Form or other information provided in connection with the Subpart C Election Form.</p> <p>(5) <i>Withdrawal of election.</i> An applicant for registration as a derivatives clearing organization may withdraw an election to become subject to the provisions of this subpart by filing with the Commission a notice of the withdrawal of its Subpart C Election Form at any time prior to the date that the Commission approves its application for registration as a derivatives clearing organization. The applicant may withdraw its Subpart C Election Form without withdrawing its Form DCO.</p>	
	<p>(d) <i>Public information.</i> The following portions of the Subpart C Election Form will be public: The Elections and Certifications and Disclosures in the Subpart C Election Form, the rules of the derivatives clearing organization, the regulatory compliance chart, and any other portion of the Subpart C Election Form not covered by a request for confidential treatment complying with the requirements of §145.9 of this chapter.</p>	<p>Form DCO, Subpart C Election Form Rule 7.12 (Public Information)</p>
	<p>(e) <i>Rescission of election.</i> (1) <i>Notice of intent to rescind.</i> A subpart C derivatives clearing organization may rescind its election to be subject to the provisions of this subpart and terminate its status as a subpart C derivatives clearing organization by filing with the Commission a notice of its intent to rescind such election. The notice of intent to rescind the election shall include:</p> <p>(i) The effective date of the rescission; and</p> <p>(ii) A certification signed by the relevant duly authorized representative of the subpart C derivatives clearing organization, as specified in paragraph three of the General Instructions to the Subpart C Election Form, stating that the subpart C derivatives clearing organization:</p> <p>(A) Has provided the notice to its clearing members required by paragraph (e)(3)(i)(A) of this section;</p> <p>(B) Will provide the notice to its clearing members required by paragraph (e)(3)(i)(B) of this section;</p> <p>(C) Has provided the notice to the general public required by paragraph (e)(3)(ii)(A) of this section;</p> <p>(D) Will provide notice to the general public required by paragraph (e)(3)(ii)(B) of this section; and</p> <p>(E) Has removed all references to the organization as a subpart C derivatives clearing organization and a qualifying central counterparty on its Web site and in all other material that it provides to its clearing members and customers, other market participants or members of the public, as required by paragraph (e)(3)(ii)(C) of this section.</p> <p>(2) <i>Effective date.</i> The rescission of the election to be subject to the provisions of this subpart shall become effective on the date set forth in the notice of intent to rescind the election filed by the subpart C derivatives clearing organization pursuant to paragraph (e)(1) of this section, provided that the rescission may become effective no earlier than 180 days after the notice of intent to rescind the election is filed with the Commission. The subpart C derivatives clearing organization shall continue to comply with all of the provisions of this subpart until such effective date.</p> <p>(3) <i>Additional notice requirements.</i> (i) A subpart C derivatives clearing organization shall provide the following notices, at the following times, to each of its clearing members and shall have rules in place requiring each of its clearing members to provide the following notices to each of the clearing member's customers:</p> <p>(A) No later than the filing of a notice of its intent to rescind its election to be subject to the provisions of</p>	<p>Not applicable</p>

		<p>this subpart, written notice that it intends to file such notice with the Commission and the effective date thereof; and</p> <p>(B) On the effective date of the rescission of its election to be subject to the provisions of this subpart, written notice that the rescission has become effective.</p> <p>(ii) A subpart C derivatives clearing organization shall:</p> <p>(A) No later than the filing of a notice of its intent to rescind its election to be subject to the provisions of this subpart, provide notice to the general public, displayed prominently on its Web site, of its intent to rescind its election to be subject to the provisions of this subpart;</p> <p>(B) On and after the effective date of the rescission of its election to be subject to the provisions of this subpart, provide notice to the general public, displayed prominently on its Web site, that the rescission has become effective; and</p> <p>(C) Prior to the filing of a notice of its intent to rescind its election to become subject to the provisions of this subpart, remove all references to the derivatives clearing organization's status as a subpart C derivatives clearing organization and a qualifying central counterparty on its Web site and in all other materials that it provides to its clearing members and customers, other market participants, or the general public.</p> <p>(iii) The employees and representatives of a derivatives clearing organization that has filed a notice of its intent to rescind its election to be subject to the provisions of this subpart shall refrain from referring to the organization as a subpart C derivatives clearing organization and a qualifying central counterparty on and after the date that the notice of intent to rescind the election is filed.</p> <p>(4) <i>Effect of rescission.</i> The rescission of a subpart C derivatives clearing organization's election to be subject to the provisions of this subpart shall not affect the authority of the Commission concerning any activities or events occurring during the time that the derivatives clearing organization maintained its status as a subpart C derivatives clearing organization.</p>	
		<p>(f) <i>Loss of designation as a systemically important derivatives clearing organization.</i> A systemically important derivatives clearing organization whose designation of systemic importance is rescinded by the Financial Stability Oversight Council, shall immediately be deemed to be a subpart C derivatives clearing organization and shall continue to comply with the provisions of this subpart unless such derivatives clearing organization elects to rescind its status as a subpart C derivatives clearing organization in accordance with the requirements of paragraph (e) of this section.</p>	Not applicable
		<p>(g) All forms and notices required by this section shall be filed electronically with the Secretary of the Commission in the format and manner specified by the Commission.</p>	Application process
L	§39.32	Governance for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
L		<p>(a) General rules. (1) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall have governance arrangements that:</p> <p>(i) Are written;</p> <p>(ii) Are clear and transparent;</p> <p>(iii) Place a high priority on the safety and efficiency of the systemically important derivatives clearing organization or subpart C derivatives clearing organization; and</p>	<p>Exhibit A-2: Section II: Governance</p> <p>Subpart C: Exhibit B(a): General Rule</p> <p>Exhibit A-8(1,2,3 and 6)</p> <p>Exhibit D-1(1 and 2)</p>

		(iv) Explicitly support the stability of the broader financial system and other relevant public interest considerations of clearing members, customers of clearing members, and other relevant stakeholders.	Subpart C: Exhibit 1 Exhibit O: Governance Fitness Standards
L		(2) The board of directors shall make certain that the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's design, rules, overall strategy, and major decisions appropriately reflect the legitimate interests of clearing members, customers of clearing members, and other relevant stakeholders. (3) To an extent consistent with other statutory and regulatory requirements on confidentiality and disclosure: (i) Major decisions of the board of directors should be clearly disclosed to clearing members, other relevant stakeholders, and to the Commission; and (ii) Major decisions of the board of directors having a broad market impact should be clearly disclosed to the public	Exhibit A-2: Rule 2.1.8 (Composition of the Board; Board Powers); Rule 7.12 (Public Information) Exhibit L: Public Information Subpart C: Exhibit B(a): General Rule Exhibit O: Governance Fitness Standards
L		(b) <i>Governance arrangements</i> . Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall have governance arrangements that: (1) Are clear and documented;	Exhibit A-2: Section II: Governance Subpart C: Exhibit B(b): Governance Arrangements Exhibit A-8: (1) Limited Liability Company Agreement of Nodal Clear, LLC; (2) Nominating Committee Charter; (3) Risk Management Committee Charter; and (6) Limited Liability Company Agreement of Nodal Exchange, LLC. Exhibit D-1(1 and 2) Exhibit L: Public Information Exhibit O: Governance Fitness Standards Exhibit P: Conflicts of Interest
L		(2) To an extent consistent with other statutory and regulatory requirements on confidentiality and disclosure, are disclosed, as appropriate, to the Commission and to other relevant authorities, to clearing members and to customers of clearing members, to the owners of the systemically important derivatives clearing organization or subpart C derivatives clearing organization, and to the public;	Rule 7.12 (Public Information)
L		(3) Describe the structure pursuant to which the board of directors, committees, and management operate;	Exhibit A-2: Rule 2.1 Composition of the Board; Board Powers Exhibit A-8(1,2,3 and 6)
L		(4) Include clear and direct lines of responsibility and accountability;	Exhibit A-2: Rule 2.1 Composition of the Board; Board Powers

			Exhibit A-8(1,2,3 and 6) Exhibit B-4(1): Organization Chart
L		(5) Clearly specify the roles and responsibilities of the board of directors and its committees, including the establishment of a clear and documented risk management framework;	Exhibit A-2: Section II: Governance Subpart C: Exhibit B(b): Governance Arrangements Exhibit D-1(1): Risk Management Framework
L		(6) Clearly specify the roles and responsibilities of management;	Exhibit A-2: Rule 2.2: Officers Exhibit A-8(1,2,3 and 6)
L		(7) Describe procedures for identifying, addressing, and managing conflicts of interest involving members of the board of directors;	Exhibit A-2: Rule 2.7: Conflicts of Interest Exhibit P
L		(8) Describe procedures pursuant to which the board of directors oversees the chief risk officer, risk management committee, and material risk decisions;	Exhibit A-2: Section II. Governance Exhibit A-8(1,2,3 and 6)
L		(9) Assign responsibility and accountability for risk decisions, including in crises and emergencies; and	Exhibit G: Default Management Exhibit G-1: Default Management Plan Subpart C: Exhibit G: Recovery and Wind-Down Plan
L		(10) Assign responsibility for implementing the: (i) Default rules and procedures required by §§39.16 and 39.35; (ii) System safeguard rules and procedures required by §§39.18 and 39.34; and (iii) Recovery and wind-down plans required by §39.39.	
L		(c) Fitness standards for board of directors and management. Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall maintain policies to make certain that: (1) The board of directors consists of suitable individuals having appropriate skills and incentives; (2) The board of directors includes individuals who are not executives, officers or employees of the systemically important derivatives clearing organization or subpart C derivatives clearing organization or an affiliate thereof;	Rule 2.1.4 (Composition of the Board; Board Powers); Rule 2.1.6 (Composition of the Board; Board Powers); Rule 2.3.3 (Eligibility/Fitness) Subpart C: Exhibit B(c): Fitness standards for board of directors and management Exhibit O: Governance Fitness Standards
L		(3) The performance of the board of directors and the performance of individual directors are reviewed on a regular basis;	Subpart C: Exhibit B(c): Fitness standards for board of directors and management Exhibit P: Conflicts of Interest Exhibit O: Governance Fitness Standards
L		(4) Managers have the appropriate experience, skills, and integrity necessary to discharge operational and	Rule 2.2.1 (Officers)

		risk management responsibilities; and (5) Risk management and internal control personnel have sufficient independence, authority, resources, and access to the board of directors so that the operations of the systemically important derivatives clearing organization or subpart C derivatives clearing organization are consistent with the risk management framework established by the board of directors.	Subpart C: Exhibit B(c): Fitness standards for board of directors and management Exhibit O: Governance Fitness Standards
B	§39.33	Financial resources requirements for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
B		(a) <i>General rule.</i> (1) Notwithstanding the requirements of §39.11(a)(1), each systemically important derivatives clearing organization and subpart C derivatives clearing organization that, in either case, is systemically important in multiple jurisdictions or is involved in activities with a more complex risk profile shall maintain financial resources sufficient to enable it to meet its financial obligations to its clearing members notwithstanding a default by the two clearing members creating the largest combined loss to the derivatives clearing organization in extreme but plausible market conditions.	Subpart C: Exhibit C(a): General Rule Exhibit B-1: General Financial Resources Exhibit B-2: Default Resources
B		(2) The Commission shall, if it deems appropriate, determine whether a systemically important derivatives clearing organization or subpart C derivatives clearing organization is systemically important in multiple jurisdictions. In determining whether a systemically important derivatives clearing organization or subpart C derivatives clearing organization is systemically important in multiple jurisdictions, the Commission shall consider whether the derivatives clearing organization: (i) Is a systemically important derivatives clearing organization, as defined by §39.2; or (ii) Has been determined to be systemically important by one or more jurisdictions other than the United States pursuant to a designation process that considers whether the foreseeable effects of a failure or disruption of the derivatives clearing organization could threaten the stability of each relevant jurisdiction's financial system.	Not applicable
B		(3) The Commission shall, if it deems appropriate, determine whether any of the activities of a systemically important derivatives clearing organization or a subpart C derivatives clearing organization, in addition to clearing credit default swaps, credit default futures, and any derivatives that reference either credit default swaps or credit default futures, has a more complex risk profile. In determining whether an activity has a more complex risk profile, the Commission will consider characteristics such as discrete jump-to-default price changes or high correlations with potential participant defaults as factors supporting (though not necessary for) a finding of a more complex risk profile.	Not applicable
B		(4) For purposes of this section, if a clearing member controls another clearing member or is under common control with another clearing member, such affiliated clearing members shall be deemed to be a single clearing member.	
B		(b) <i>Valuation of financial resources.</i> Notwithstanding the provisions of §39.11(d)(2), assessments for additional guaranty fund contributions (i.e., guaranty fund contributions that are not pre-funded) shall not be included in calculating the financial resources available to meet a systemically important derivatives clearing organization's or subpart C derivatives clearing organization's obligations under paragraph (a) of this section or §39.11(a)(1).	Subpart C: Exhibit C(b): Valuation of Financial Resources Exhibit B-1: General Financial Resources
B		(c) <i>Liquidity resources.</i> (1) <i>Minimum amount of liquidity resources.</i> (i) Notwithstanding the provisions of §39.11(e)(1)(ii), each systemically important derivatives clearing organization and subpart C derivatives	Subpart C: Exhibit C(c): Liquidity

	<p>clearing organization shall maintain eligible liquidity resources that, at a minimum, will enable it to meet its intraday, same-day, and multiday obligations to perform settlements, as defined in §39.14(a)(1), with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default by the clearing member creating the largest aggregate liquidity obligation for the systemically important derivatives clearing organization or subpart C derivatives clearing organization in extreme but plausible market conditions.</p> <p>(ii) A systemically important derivatives clearing organization and subpart C derivatives clearing organization that is subject to §39.33(a)(1) shall consider maintaining eligible liquidity resources that, at a minimum, will enable it to meet its intraday, same-day, and multiday obligations to perform settlements, as defined in §39.14(a)(1), with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default of the two clearing members creating the largest aggregate liquidity obligation for the systemically important derivatives clearing organization or subpart C derivatives clearing organization in extreme but plausible market conditions.</p> <p>(2) <i>Satisfaction of settlement in all relevant currencies.</i> Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall maintain liquidity resources that are sufficient to satisfy the obligations required by paragraph (c)(1) of this section in all relevant currencies for which the systemically important derivatives clearing organization or subpart C derivatives clearing organization has obligations to perform settlements, as defined in §39.14(a)(1), to its clearing members.</p> <p>(3) <i>Qualifying liquidity resources.</i> (i) Only the following liquidity resources are eligible for the purpose of meeting the requirement of paragraph (c)(1) of this section:</p> <ul style="list-style-type: none"> (A) Cash in the currency of the requisite obligations, held either at the central bank of issue or at a creditworthy commercial bank; (B) Committed lines of credit; (C) Committed foreign exchange swaps; (D) Committed repurchase agreements; or (E) (1) Highly marketable collateral, including high quality, liquid, general obligations of a sovereign nation. (2) The assets described in paragraph (c)(3)(i)(E)(1) of this section must be readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. <p>(ii) With respect to the arrangements described in paragraph (c)(3)(i) of this section, the systemically important derivatives clearing organization or subpart C derivatives clearing organization must take appropriate steps to verify that such arrangements do not include material adverse change conditions and are enforceable, and will be highly reliable, in extreme but plausible market conditions.</p> <p>(4) <i>Additional liquidity resources.</i> If a systemically important derivatives clearing organization or subpart C derivatives clearing organization maintains financial resources in addition to those required to satisfy paragraph (c)(1) of this section, then those resources should be in the form of assets that are likely to be saleable with proceeds available promptly or acceptable as collateral for lines of credit, swaps, or repurchase agreements on an ad hoc basis. A systemically important derivatives clearing organization or subpart C derivatives clearing organization should consider maintaining collateral with low credit,</p>	<p>Resources</p> <p>Exhibit B-2: Default Resources</p> <p>Exhibit A-2: Rule 3.36: (Liquidity Event); Rule 3.34 (Guaranty Fund)</p>
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		liquidity, and market risks that is typically accepted by a central bank of issue for any currency in which it may have settlement obligations, but shall not assume the availability of emergency central bank credit as a part of its liquidity plan.	
B		<p>(d) <i>Liquidity providers.</i> (1) For the purposes of this paragraph, a liquidity provider means:</p> <p>(i) A depository institution, a U.S. branch or agency of a foreign banking organization, a trust company, or a syndicate of depository institutions, U.S. branches or agencies of foreign banking organizations, or trust companies providing a line of credit, foreign exchange swap facility or repurchase facility to a systemically important derivatives clearing organization or subpart C derivatives clearing organization;</p> <p>(ii) Any other counterparty relied upon by a systemically important derivatives clearing organization or subpart C derivatives clearing organization to meet its minimum liquidity resources requirement under paragraph (c) of this section.</p> <p>(2) In fulfilling its obligations under paragraph (c) of this section, each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall undertake due diligence to confirm that each of its liquidity providers, whether or not such liquidity provider is a clearing member, has:</p> <p>(i) Sufficient information to understand and manage the liquidity provider's liquidity risks; and</p> <p>(ii) The capacity to perform as required under its commitments to provide liquidity to the systemically important derivatives clearing organization or subpart C derivatives clearing organization.</p> <p>(3) Where relevant to a liquidity provider's ability reliably to perform its commitments with respect to a particular currency, the systemically important derivatives clearing organization or subpart C derivatives clearing organization may take into account the liquidity provider's access to the central bank of issue of that currency.</p> <p>(4) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall regularly test its procedures for accessing its liquidity resources under paragraph (c)(3)(i) of this section, including testing its arrangements under paragraph (c)(3)(ii) and its relevant liquidity provider(s) under paragraph (d)(1) of this section.</p>	<p>Subpart C: Exhibit C(d): Liquidity Providers</p> <p>Exhibit A-2: Rule 3.18 (Approved Financial Institutions)</p> <p>Exhibit D-1(2): Risk Policies</p>
B		<p>(e) Documentation of financial resources and liquidity resources. Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall document its supporting rationale for, and have appropriate governance arrangements relating to, the amount of total financial resources it maintains pursuant to paragraph (a) of this section and the amount of total liquidity resources it maintains pursuant to paragraph (c) of this section.</p>	<p>Subpart C: Exhibit C(e): Documentation of Financial Resources and Liquidity Resources</p> <p>Exhibit B-1: General Financial Resources</p> <p>Exhibit A-8(1,3 and 6)</p> <p>Exhibit D-1(2): Risk Policies</p>
I	§39.34	System safeguards for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
I		<p>(a) Notwithstanding §39.18(e)(3), the business continuity and disaster recovery plan described in §39.18(e)(1) for each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall have the objective of enabling, and the physical, technological, and personnel</p>	Exhibit I(B)(3): Business Continuity Plan and Disaster Recovery Plan

		resources described in §39.18(e)(1) shall be sufficient to enable, the systemically important derivatives clearing organization or subpart C derivatives clearing organization to recover its operations and resume daily processing, clearing, and settlement no later than two hours following the disruption, for any disruption including a wide-scale disruption.	Exhibit I: Addenda 4 and 5
I		(b) To facilitate its ability to achieve the recovery time objective specified in paragraph (a) of this section in the event of a wide-scale disruption, each systemically important derivatives clearing organization and subpart C derivatives clearing organization must maintain a degree of geographic dispersal of physical, technological and personnel resources consistent with the following for each activity necessary for the daily processing, clearing, and settlement of existing and new contracts:	Exhibit I(B)(3): Business Continuity Plan and Disaster Recovery Plan Exhibit I: Addenda 4 and 5
I		(1) Physical and technological resources (including a secondary site), sufficient to enable the entity to meet the recovery time objective after interruption of normal clearing by a wide-scale disruption, must be located outside the relevant area of the physical and technological resources the systemically important derivatives clearing organization or subpart C derivatives clearing organization normally relies upon to conduct that activity, and must not rely on the same critical transportation, telecommunications, power, water, or other critical infrastructure components the entity normally relies upon for such activities;	Exhibit I(B)(3): Business Continuity Plan and Disaster Recovery Plan Exhibit I(C)(2)(b): Testing of business continuity and disaster recovery capabilities Exhibit I: Addenda 4 and 5
I		(2) Personnel, who live and work outside that relevant area, sufficient to enable the entity to meet the recovery time objective after interruption of normal clearing by a wide-scale disruption affecting the relevant area in which the personnel the entity normally relies upon to engage in such activities are located;	Exhibit I(B)(3): Business Continuity Plan and Disaster Recovery Plan Exhibit I: Addenda 4 and 5
I		(3) The provisions of §39.18(f) shall apply to these resource requirements.	
I		(c) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization must conduct regular, periodic tests of its business continuity and disaster recovery plans and resources and its capacity to achieve the required recovery time objective in the event of a wide-scale disruption. The provisions of §39.18(j) apply to such testing.	Exhibit I(C)(2): Testing Exhibit I: Addenda 4 and 5
I		(d) The Commission may, upon request, grant an entity, which has been designated as a systemically important derivatives clearing organization or that has elected to become subject to subpart C, up to one year to comply with any provision of this section.	
G	§39.35	Default rules and procedures for uncovered credit losses or liquidity shortfalls (recovery) for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
G		(a) <i>Allocation of uncovered credit losses.</i> Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall adopt explicit rules and procedures that address fully any loss arising from any individual or combined default relating to any clearing members' obligations to the systemically important derivatives clearing organization or subpart C derivatives clearing organization. Such rules and procedures shall address how the systemically important derivatives clearing organization or subpart C derivatives clearing organization would: (1) Allocate losses exceeding the financial resources available to the systemically important derivatives clearing organization or subpart C derivatives clearing organization; (2) Repay any funds it may borrow; and (3) Replenish any financial resources it may employ during such a stress event, so that the systemically	Exhibit A-2: Rule 3.34 (Guaranty Fund); Rule 3.35 (Monetary Defaults; Use of Guaranty Fund; Assessments) Subpart C: Exhibit E(a): Allocation of uncovered credit losses

		important derivatives clearing organization or subpart C derivatives clearing organization can continue to operate in a safe and sound manner.	
G		<p>(b) Allocation of uncovered liquidity shortfalls. (1) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall establish rules and/or procedures that enable it promptly to meet all of its settlement obligations, on a same day and, as appropriate, intraday and multiday basis, in the context of the occurrence of either or both of the following scenarios:</p> <p>(i) An individual or combined default involving one or more clearing members' obligations to the systemically important derivatives clearing organization or subpart C derivatives clearing organization;</p> <p>(ii) A liquidity shortfall exceeding the financial resources of the systemically important derivatives clearing organization or subpart C derivatives clearing organization.</p> <p>(2) The rules and procedures described in paragraph (b)(1) of this section shall:</p> <p>(i) Enable the systemically important derivatives clearing organization or subpart C derivatives clearing organization promptly to meet its payment obligations in all relevant currencies;</p> <p>(ii) Be designed to enable the systemically important derivatives clearing organization or subpart C derivatives clearing organization to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations; and</p> <p>(iii) Address the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's process to replenish any liquidity resources it may employ during a stress event so that it can continue to operate in a safe and sound manner.</p>	<p>Exhibit A-2: Rule 3.36 (Liquidity Event); Rule 3.34 (Guaranty Fund); Rule 3.35 (Monetary Defaults; Use of Guaranty Fund; Assessments)</p> <p>Subpart C: Exhibit E(b): Allocation of uncovered liquidity shortfalls</p>
D	§39.36	Risk management for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
D		<p>(a) <i>Stress tests of financial resources.</i> In addition to conducting stress tests pursuant to §39.13(h)(3), each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall conduct stress tests of its financial resources in accordance with the following standards and practices:</p> <p>(1) Perform, on a daily basis, stress testing of its financial resources using predetermined parameters and assumptions;</p> <p>(2) Perform comprehensive analyses of stress testing scenarios and underlying parameters to ascertain their appropriateness for determining the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's required level of financial resources in current and evolving market conditions;</p> <p>(3) Perform the analyses required by paragraph (a)(2) of this section at least monthly and when products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by clearing members increases significantly, or as otherwise appropriate, evaluate the stress testing scenarios, models, and underlying parameters more frequently than once a month;</p> <p>(4) For the analyses required by paragraphs (a)(1) and (2) of this section, include a range of relevant stress scenarios, in terms of both defaulting clearing members' positions and possible price changes in liquidation periods. The scenarios considered shall include, but are not limited to, the following:</p> <p>(i) Relevant peak historic price volatilities;</p> <p>(ii) Shifts in other market factors including, as appropriate, price determinants and yield curves;</p>	<p>Subpart C: Exhibit F(a) Perform stress tests of financial resources</p> <p>Exhibit B-2: Default Resources</p> <p>Exhibit D-1(2): Risk Policies</p>

	<p>(iii) Multiple defaults over various time horizons;</p> <p>(iv) Simultaneous pressures in funding and asset markets; and</p> <p>(v) A range of forward-looking stress scenarios in a variety of extreme but plausible market conditions.</p> <p>(5) Establish procedures for:</p> <p>(i) Reporting stress test results to its risk management committee or board of directors, as applicable; and</p> <p>(ii) Using the results to assess the adequacy of, and to adjust, its total amount of financial resources; and</p> <p>(6) Use the results of stress tests to support compliance with the minimum financial resources requirement set forth in §39.33(a).</p>	
D	<p>(b) <i>Sensitivity analysis of margin model.</i> (1) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall, at least monthly and more frequently as appropriate, conduct a sensitivity analysis of its margin models to analyze and monitor model performance and overall margin coverage. Sensitivity analysis shall be conducted on both actual and hypothetical positions.</p> <p>(2) For the purposes of this paragraph (b), a sensitivity analysis of a margin model includes:</p> <p>(i) Reviewing a wide range of parameter settings and assumptions that reflect possible market conditions in order to understand how the level of margin coverage might be affected by highly stressed market conditions. The range of parameters and assumptions should capture a variety of historical and hypothetical conditions, including the most volatile periods that have been experienced by the markets served by the systemically important derivatives clearing organization or subpart C derivatives clearing organization and extreme changes in the correlations between prices. The parameters and assumptions should be appropriate in light of the specific characteristics, considered on a current basis, of particular products and portfolios cleared.</p> <p>(ii) Testing of the ability of the models or model components to produce accurate results using actual or hypothetical datasets and assessing the impact of different model parameter settings.</p> <p>(iii) Evaluating potential losses in clearing members' proprietary positions and, where appropriate, customer positions.</p> <p>(3) A systemically important derivatives clearing organization or subpart C derivatives clearing organization involved in activities with a more complex risk profile shall take into consideration parameter settings that reflect the potential impact of the simultaneous default of clearing members and, where applicable, the underlying credit instruments.</p>	<p>Subpart C: Exhibit F(b): Sensitivity analysis of margin model</p> <p>Exhibit D-1(2): Risk Policies</p>
D	<p>(c) <i>Stress tests of liquidity resources.</i> Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall conduct stress tests of its liquidity resources in accordance with the following standards and practices:</p> <p>(1) Perform, on a daily basis, stress testing of its liquidity resources using predetermined parameters and assumptions;</p> <p>(2) Perform comprehensive analyses of stress testing scenarios and underlying parameters to ascertain their appropriateness for determining the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's required level of liquidity resources in current and evolving market conditions;</p> <p>(3) Perform the analyses required by paragraph (c)(2) of this section at least monthly and when products cleared or markets served display high volatility or become less liquid, when the size or concentration of</p>	<p>Subpart C: Exhibit F(c): Stress tests of liquidity resources</p> <p>Exhibit D-1(2): Risk Policies</p>

	<p>positions held by clearing members increases significantly, or as otherwise appropriate, evaluate its stress testing scenarios, models, and underlying parameters more frequently than once a month;</p> <p>(4) For the analyses required by paragraphs (c)(1) and (2) of this section, include a range of relevant stress scenarios, in terms of both defaulting clearing members' positions and possible price changes in liquidation periods. The scenarios considered shall include, but are not limited to, the following:</p> <p>(i) Relevant peak historic price volatilities;</p> <p>(ii) Shifts in other market factors including, as appropriate, price determinants and yield curves;</p> <p>(iii) Multiple defaults over various time horizons;</p> <p>(iv) Simultaneous pressures in funding and asset markets; and</p> <p>(v) A range of forward-looking stress scenarios in a variety of extreme but plausible market conditions.</p> <p>(5) For the scenarios enumerated in paragraph (c)(4) of this section, consider the following:</p> <p>(i) All entities that might pose material liquidity risks to the systemically important derivatives clearing organization or subpart C derivatives clearing organization, including settlement banks, permitted depositories, liquidity providers, and other entities,</p> <p>(ii) Multiday scenarios as appropriate,</p> <p>(iii) Inter-linkages between its clearing members and the multiple roles that they may play in the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's risk management; and</p> <p>(iv) The probability of multiple failures and contagion effect among clearing members.</p> <p>(6) Establish procedures for:</p> <p>(i) Reporting stress test results to its risk management committee or board of directors, as applicable; and</p> <p>(ii) Using the results to assess the adequacy of, and to adjust its total amount of liquidity resources.</p> <p>(7) Use the results of stress tests to support compliance with the liquidity resources requirement set forth in §39.33(c).</p>	
D	<p>(d) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears.</p>	<p>Subpart C: Exhibit F(d): Regular assessment of margin model</p> <p>Exhibit D-1(2): Risk Policies</p>
D	<p>(e) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall perform, on an annual basis, a full validation of its financial risk management model and its liquidity risk management model.</p>	<p>Subpart C: Exhibit F(e): Annual validation of financial risk and liquidity risk management model</p> <p>Exhibit D-1(2): Risk Policies</p>
D	<p>(f) <i>Custody and investment risk.</i> Custody and investment arrangements of a systemically important derivatives clearing organization's and subpart C derivatives clearing organization's own funds and assets shall be subject to the same requirements as those specified in §39.15 for the funds and assets of clearing members, and shall apply to the derivatives clearing organization's own funds and assets to the same extent as if such funds and assets belonged to clearing members.</p>	<p>Subpart C: Exhibit F(f): Custody and investment risk</p> <p>Exhibit D-1(2): Risk Policies</p>

D		(g) Settlement banks. Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall: (1) Monitor, manage, and limit its credit and liquidity risks arising from its settlement banks; (2) Establish, and monitor adherence to, strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalization, access to liquidity, and operational reliability; and (3) Monitor and manage the concentration of credit and liquidity exposures to its settlement banks.	Exhibit A-2: Rule 3.18 (Approved Financial Institution) Subpart C: Exhibit F(g): Settlement Banks Exhibit D-1(2): Risk Policies Exhibit E: Settlement Procedures
L	§39.37	Additional disclosure for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
L		In addition to the requirements of §39.21, each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall: (a) Complete and publicly disclose its responses to the Disclosure Framework for Financial Market Infrastructures published by the Committee on Payment and Settlement Systems and the Board of the International Organization of Securities Commissions;	Subpart C Exhibit I: Disclosure Framework for Financial Market Infrastructures Exhibit L: Public Information
L		(b) Review and update its responses disclosed as required by paragraph (a) of this section at least every two years and following material changes to the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's system or the environment in which it operates. A material change to the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's system or the environment in which it operates is a change that would significantly change the accuracy and usefulness of the existing responses;	
L		(c) Disclose, publicly and to the Commission, relevant basic data on transaction volume and values; and	Rule 7.12 (Public Information) Exhibit L: Public Information
L		(d) Disclose, publicly and to the Commission, rules, policies, and procedures concerning segregation and portability of customers' positions and funds, including whether each of: (1) Futures customer funds, as defined in §1.3(jjjj) of this chapter; (2) Cleared Swaps Customer Collateral, as defined in §22.1 of this chapter; or (3) Foreign futures or foreign options secured amount, as defined in §1.3(rr) of this chapter is: (i) Protected on an individual or omnibus basis or (ii) Subject to any constraints, including any legal or operational constraints that may impair the ability of the systemically important derivatives clearing organization or subpart C derivatives clearing organization to segregate or transfer the positions and related collateral of a clearing member's customers.	Rule 3.26 (Segregation of Customer Funds) Rule 7.12 (Public Information) Exhibit L: Public Information
E	§39.38	Efficiency for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations	
E		(a) <i>General rule.</i> In order to meet the needs of clearing members and markets, each systemically important derivatives clearing organization and subpart C derivatives clearing organization should efficiently and effectively design its: (1) Clearing and settlement arrangements; (2) Operating structure and procedures;	Exhibit A-11: Compliance Manual § IV: Monitoring Organizational Compliance Exhibit E: Settlement Procedures

		(3) Scope of products cleared; and (4) Use of technology.	Exhibit E-1(1): Settlement Agreement Exhibit C-2: Product Eligibility Exhibit I: System Safeguards
E		(b) <i>Review of efficiency.</i> Each systemically important derivatives clearing organization and subpart C derivatives clearing organization should establish a mechanism to review, on a regular basis, its compliance with paragraph (a) of this section.	Exhibit A-11: Compliance Manual § 2.6: Annual Report; § 3.2.1 Risk Management Committee: § IV: Monitoring Organizational Compliance
E		(c) <i>Clear goals and objectives.</i> Each systemically important derivatives clearing organization and subpart C derivatives clearing organization should have clearly defined goals and objectives that are measurable and achievable, including in the areas of minimum service levels, risk management expectations, and business priorities.	Exhibit A-11: Compliance Manual § IV: Monitoring Organizational Compliance Exhibit D-1(1): Risk Management Framework Exhibit D-1(2): Risk Policies
E		(d) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall facilitate efficient payment, clearing and settlement by accommodating internationally accepted communication procedures and standards.	Exhibit A-11: Compliance Manual § IV: Monitoring Organizational Compliance Exhibit E: Settlement Procedures Exhibit E-1: Clearing House Settlement Agreement
G	§39.39	Recovery and wind-down for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations.	
G		(a) <i>Definitions.</i> For purposes of this section: (1) <i>General business risk</i> means any potential impairment of a systemically important derivatives clearing organization's or subpart C derivatives clearing organization's financial position, as a business concern, as a consequence of a decline in its revenues or an increase in its expenses, such that expenses exceed revenues and result in a loss that the derivatives clearing organization must charge against capital. (2) <i>Wind-down</i> means the actions of a systemically important derivatives clearing organization or subpart C derivatives clearing organization to effect the permanent cessation or sale or transfer or one or more services. (3) <i>Recovery</i> means the actions of a systemically important derivatives clearing organization or subpart C derivatives clearing organization, consistent with its rules, procedures, and other ex-ante contractual arrangements, to address any uncovered credit loss, liquidity shortfall, capital inadequacy, or business, operational or other structural weakness, including the replenishment of any depleted pre-funded financial resources and liquidity arrangements, as necessary to maintain the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's viability as a going concern. (4) <i>Operational risk</i> means the risk that deficiencies in information systems or internal processes, human	Definitions included in this Exhibit A-1 for informational purposes only

		<p>errors, management failures or disruptions from external events will result in the reduction, deterioration, or breakdown of services provided by a systemically important derivatives clearing organization or subpart C derivatives clearing organization.</p> <p>(5) Unencumbered liquid financial assets include cash and highly liquid securities.</p>	
G		<p>(b) Recovery and wind-down plan. Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall maintain viable plans for:</p> <p>(1) Recovery or orderly wind-down, necessitated by uncovered credit losses or liquidity shortfalls; and, separately,</p> <p>(2) Recovery or orderly wind-down necessitated by general business risk, operational risk, or any other risk that threatens the derivatives clearing organization's viability as a going concern.</p> <p>(c)(1) In developing the plans specified in paragraph (b) of this section, the systemically important derivatives clearing organization or subpart C derivatives clearing organization shall identify scenarios that may potentially prevent it from being able to meet its obligations, provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. The plans shall include procedures for informing the Commission, as soon as practicable, when the recovery plan is initiated or wind-down is pending.</p> <p>(2) A systemically important derivatives clearing organization or subpart C derivatives clearing organization shall have procedures for providing the Commission and the Federal Deposit Insurance Corporation with information needed for purposes of resolution planning.</p>	<p>Subpart C: Exhibit G: Executive Summary; Critical Services; Stress Scenarios; Triggers; Recovery Tools</p> <p>Subpart C: Exhibit G: General Wind-Down Plan Procedures (2. Virtual Data Room)</p>
G		<p>(d) <i>Financial resources to support the recovery and wind-down plan.</i></p> <p>(1) In evaluating the resources available to cover an uncovered credit loss or liquidity shortfall as part of its recovery plans pursuant to paragraph (b)(1) of this section, a systemically important derivatives clearing organization or subpart C derivatives clearing organization may consider, among other things, assessments of additional resources provided for under its rules that it reasonably expects to collect from non-defaulting clearing members.</p> <p>(2) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall maintain sufficient unencumbered liquid financial assets, funded by the equity of its owners, to implement its recovery or wind-down plans pursuant to paragraph (b)(2) of this section. In general, the financial resources required by §39.11(a)(2) may be sufficient, but the systemically important derivatives clearing organization or subpart C derivatives clearing organization shall analyze its particular circumstances and risks and maintain any additional resources that may be necessary to implement the plans. In allocating sufficient financial resources to implement the plans, the systemically important derivatives clearing organization or subpart C derivatives clearing organization shall comply with §39.11(e)(2). The plan shall include evidence and analysis to support the conclusion that the amount considered necessary is, in fact, sufficient to implement the plans.</p> <p>(3) Resources counted in meeting the requirements of §§39.11(a)(1) and 39.33 may not be allocated, in whole or in part, to the recovery plans required by paragraph (b)(2) of this section. Other resources may be allocated, in whole or in part, to the recovery plans required by either paragraphs (b)(1) or (2) of this section, but not both paragraphs, and only to the extent the use of such resources is not otherwise limited by the Act, Commission regulations, the systemically important derivatives clearing organization's or</p>	<p>Subpart C: Exhibit G: Executive Summary</p> <p>Subpart C: Exhibit G: Recovery Plan Tools</p>

		subpart C derivatives clearing organization's rules, or any contractual arrangements to which the systemically important derivatives clearing organization or subpart C derivatives clearing organization is a party.	
G		(e) <i>Plan for raising additional financial resources.</i> All systemically important derivatives clearing organizations and subpart C derivatives clearing organizations shall maintain viable plans for raising additional financial resources, including, where appropriate, capital, in a scenario in which the systemically important derivatives clearing organization or subpart C derivatives clearing organization is unable, or virtually unable, to comply with any financial resources requirements set forth in this part. This plan shall be approved by the board of directors and be updated regularly. (f) The Commission may, upon request, grant an entity, which has been designated as a systemically important derivatives clearing organization or that has elected to become subject to subpart C, up to one year to comply with any provision of this section or of §39.35.	Subpart C: Exhibit G: Recovery Plan Tools: Capital Infusion from Nodal Clear's parent
	§39.40	Consistency with the Principles for Financial Market Infrastructures	
		This subpart C is intended to establish standards which, together with subparts A and B of this part, are consistent with section 5b(c) of the Act and the Principles for Financial Market Infrastructures published by the Committee on Payment and Settlement Systems and the Board of the International Organization of Securities Commissions and should be interpreted in that context.	Form DCO and Form DCO Subpart C, including all Exhibits thereto
	§39.41	Special enforcement authority for systemically important derivatives clearing organizations	
		For purposes of enforcing the provisions of Title VIII of the Dodd-Frank Act, a systemically important derivatives clearing organization shall be subject to, and the Commission has authority under the provisions of subsections (b) through (n) of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818) in the same manner and to the same extent as if the systemically important derivatives clearing organization were an insured depository institution and the Commission were the appropriate Federal banking agency for such insured depository institution.	Not applicable
	§39.42	Advance notice of material risk-related rule changes by systemically important derivatives clearing organizations	
		A systemically important derivatives clearing organization shall provide notice to the Commission in advance of any proposed change to its rules, procedures, or operations that could materially affect the nature or level of risks presented by the systemically important derivatives clearing organization, in accordance with the requirements of §40.10 of this chapter.	Not applicable