

October 19, 2012

VIA E-MAIL

Sauntia S. Warfield
Assistant Secretary
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**Re: Amendments to CME/CBOT/NYMEX Rules 802 and 901; CME Rules 8G04, 8G802, 8H04 and 8H802; CME's Clearing House Manuals of Operation for Interest Rate Swaps (the "IRS Manual"); and CME's Clearing House Manuals of Operation for Credit Default Swaps (the "CDS Manual") to comply with the CFTC Part 22 Regulations
CME/CBOT/NYMEX Submission #12-347**

Dear Ms. Warfield:

Pursuant to Commission Regulation 40.6(a), Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT") and the New York Mercantile Exchange, Inc. ("NYMEX" and together with CME and CBOT, the "CME Entities") hereby notify the Commodity Futures Trading Commission (the "Commission") that they will adopt revisions to CME/CBOT/NYMEX Rules 802 and 901, CME Rules 8G04, 8G802, 8H04 and 8H802, CME's Clearing House Manuals of Operation for Interest Rate Swaps (the "IRS Manual") and CME's Clearing House Manuals of Operation for Credit Default Swaps (the "CDS Manual"). The proposed effective date for these revisions is November 5, 2012.

The proposed rule changes are intended, among other things, to implement the Commission's regulations regarding the protection of cleared swaps customer contracts and collateral which became effective on April 9, 2012 and which must be complied with by November 8, 2012, as contained in Part 22 of the Commission's regulations. The Part 22 regulations implement the new customer protection model for cleared swaps customers - the legal segregation with operational commingling model ("LSOC Model" or "Complete Legal Segregation Model")¹.

The proposed rule changes also set forth new requirements for post-default cleared swaps customer account processing. Under the proposed process, upon the default of a clearing member, the Clearing House would cease netting of settlement variation within the operationally commingled account and calculate obligations to the Clearing House separately for each customer. As further set forth in the rule, each cleared swaps customer would then be required to pay directly to the Clearing House any obligations to the Clearing House associated with its cleared swaps positions. Where appropriate, similar rules have been adopted in the related sections of the default rules of each of our three financial safeguard packages: base products, interest rate swaps ("IRS") and credit default swaps ("CDS").

Summaries of material changes to the rules are as follows:

¹ See Protection of Cleared Swaps Customer Contracts and Collateral; Conforming Amendments to the Commodity Broker Bankruptcy Provisions, 77 FR 6336 (Feb. 7, 2012).

CME/CBOT/NYMEX Rules 802 and 901 (Base Financial safeguards). *See Exhibit A hereto.*

- Rule 802.A harmonizes the definition of a clearing member default with rules 8G802.A and 8H802.A.
- Rule 802.B clarifies the approach the Clearing House may take in liquidating any open contracts of a defaulted clearing member, including book entry that offsets open commodity contracts on the books of the defaulting clearing member; liquidation in the open market; and/or one or more private auctions amongst qualified market participants invited by the Clearing House to submit confidential bids.
- Rule 802.G sets forth new requirements for post-default cleared swaps customer account processing with the Clearing House treating positions and collateral of a defaulting clearing member's cleared swaps customers in accordance with Part 22 of the Commission's regulations. The rule also requires the Clearing House to cease netting of settlement variation in the cleared swaps customer account class upon a clearing member default and discusses the processes that the Clearing House would use to manage such customer accounts.
- New Rule 901.P provides that each Clearing Member would be required to use systems and appropriate procedures to accurately track and provide to the Clearing House the positions and collateral of each of its cleared swaps customers.

CME Rules 8G802, 8G04.5; IRS Manual (Interest Rate Swaps Financial Safeguards) *See Exhibit B hereto.*

- Rule 8G802.A clarifies the rights of the Clearing House for the use of an IRS Clearing Member's and its customer's collateral in the event of a default of an IRS Clearing Member in conformity with the Part 22 regulations. Rule 8G802.A.1(i) would also harmonize the definition of a clearing member default with rules 802.A and 8H802.A.
- Rule 8G802.B sets forth amended procedures for establishing a close out value for IRS contracts to be consistent with Part 22. Section B.3 of the rule would provide for revised netting and offset provisions for the final settlement cycle upon an IRS Termination Event.
- Rule 8G802.G is amended to remove the customer mutualization within the customer account class for IRS to conform to the Part 22 regulations.
- Rule 8G802.I sets forth the new requirements for cleared swaps customer account processing with the Clearing House after the default of an IRS Clearing Member treating positions and collateral of a defaulting clearing member's cleared swaps customers in accordance with Part 22 of the Commission's regulations. The rule also requires the Clearing House to cease netting of settlement variation in the cleared swaps customer account class upon an IRS Clearing Member default and establishes processes for the Clearing House to use to manage such customer accounts.
- New Rule 8G04 provides that each IRS Clearing Member would be required to use systems and appropriate procedures to accurately track and provide to the Clearing House the IRS positions and collateral of each of its cleared swaps customers.
- The IRS Manual is being revised to conform to the Part 22 regulations.

Rules 8H802 and 8H04.12; CDS Manual (Credit Default Swaps Financial Safeguards) See Exhibit C hereto.

- Rule 8H802.A clarifies the rights of the Clearing House for the use of a CDS Clearing Member's and its customer's collateral in the event of a default of a CDS Clearing Member in conformity with the Part 22 regulations.
- Rule 8H802.B sets forth amended procedures for establishing a close out value for CDS contracts to be consistent with Part 22. Section B.3 of the rule would provide for revised netting and offset provisions for the final settlement cycle upon a CDS Termination Event.
- Rule 8H802.G is amended to remove the customer mutualization of the customer account class for CDS to conform to the Part 22 regulations.
- Rule 8H802.I sets forth the new requirements for cleared swaps customer account processing with the Clearing House after the default of a CDS Clearing Member treating positions and collateral of a defaulting clearing member's cleared swaps customers in accordance with Part 22 of the Commission's regulations. The rule also requires the Clearing House to cease netting of settlement variation in the cleared swaps customer account class upon the default of a CDS Clearing Member and establishes processes for the Clearing House to use to manage such customer accounts.
- New Rule 8H04.12 provides that each CDS Clearing Member would be required to use systems and appropriate procedures to accurately track provide to the Clearing House accurately the CDS positions and collateral of each of its cleared swaps customers.
- The CDS Manual is being revised to conform to the Part 22 regulations.

The text of all proposed amendments are attached, with additions underlined and deletions overstruck. The amendments comport with DCO Core Principles E (Settlement Procedures) and G (Default Rules and Procedures) in the establishment of protections of cleared swaps customer contracts and collateral and settlement procedures for non-defaulting cleared swaps customers.

No substantive opposing views regarding these proposed rule revisions were expressed to CME, CBOT or NYMEX. CME, CBOT and NYMEX certify that this submission has been concurrently posted on CME Group's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>. CME, CBOT and NYMEX further certify that these rule amendments comply with the Commodity Exchange Act and regulations promulgated thereunder.

Should you have any questions regarding this submission, please contact Tim Doar, Chief Risk Officer & Managing Director at (312) 930-3162 or via email at Tim.Doar@cmegroup.com; or me at (212) 299-2228 or via e-mail at Jason.Silverstein@cmegroup.com.

Please reference our Submission No. 12-347 in any related correspondence.

Sincerely,

/s/ Jason Silverstein
Executive Director & Associate General Counsel

Attachments

EXHIBIT A

Proposed Revisions to CME/CBOT/NYMEX Rule 802

Rule 802. PROTECTION OF CLEARING HOUSE

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

The Clearing House shall establish a guaranty fund (the “Base Guaranty Fund”) for products other than CDS Products, IRS Products and any positions commingled with IRS Contracts pursuant to Rule 8G831 (such products, the “Base Guaranty Fund Products” and each product, a “Base Guaranty Fund Product Class”). Each clearing member shall contribute to the Base Guaranty Fund in accordance with the requirements of Rule 816. A clearing member’s Base Guaranty Fund contribution may be applied by the Clearing House in accordance with this Rule 802 to mitigate a Loss (as defined below) to the Clearing House attributable to any cleared Base Guaranty Fund Product Class (as defined below) regardless of the Base Guaranty Fund Product Classes a clearing member clears. However, in order to accommodate differences in time frames and processes associated with the liquidation of certain Base Guaranty Fund Product Classes, Losses will be allocated among a set of Base Guaranty Fund tranches established to reflect the relative contributions of different product classes to the total Base Guaranty Fund. Notwithstanding this prioritization of the Clearing House’s recourse, ultimately the entire Base Guaranty Fund will be available if necessary to satisfy all losses regardless of Base Guaranty Fund Product Class.

1. Default by Clearing Member

If a clearing member of CME, CBOT, NYMEX, COMEX, or an OTC Clearing Member, (i) fails promptly to discharge any obligation to the Clearing House, ~~it shall~~ or (ii) becomes subject to any bankruptcy, reorganization, arrangement, insolvency, moratorium, or liquidation proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law, the Clearing House may declare such clearing member to be in default. For purposes of this Rule 802, each default by a clearing member will be considered a separate default event, provided that if a clearing member has been declared in default, subsequent failures to pay by such defaulting clearing member shall not be considered separate default events unless and until the original default has been fully resolved and such clearing member has been restored to good standing.

2. Defaulting Clearing Member’s Collateral

If a clearing member defaults, its Base Guaranty Fund contribution (pursuant to Rule 816), its performance bonds on deposit with the Clearing House relating to the Base Guaranty Fund Product Classes, the proceeds of the sale of any membership assigned to it for clearing qualification, and any of its other assets held by, pledged to or otherwise available to the Clearing House, shall be applied by the Clearing House to discharge the clearing member’s obligation to the Clearing House. The defaulting clearing member shall take no action, including but not limited to, attempting to obtain a court order that would interfere with the ability of the Clearing House to so apply such assets and proceeds.

If the Base Guaranty Fund contribution, performance bond relating to Base Fund Products and other assets of a clearing member available to the Clearing House are insufficient to satisfy all of its obligations to the Clearing House, including all claims against the Clearing House by reason of its substitution for that clearing member pursuant to Rule 804 or Rule 8F05, the Clearing House shall nonetheless pay all such claims, which payments by the Clearing House shall be deemed a loss to it (hereinafter “Loss”) and which shall be a liability of the defaulting clearing member to the Clearing House, which the Clearing House may collect from any other assets of such clearing member or by process of law.

For purposes of this Rule, the positions in the cross-margin account of a Participating Clearing Member or its Cross-Margining Affiliate at a Cross-Margining Clearing Organization, and the performance bond thereon, shall be considered assets of the Participating Clearing Member available to the Clearing House to the extent provided in the Cross-Margining Agreement between the Clearing House and such Cross-Margining Clearing Organization. A clearing member in default shall immediately make up any deficiencies in its Base Guaranty Fund contribution resulting from such default and in any event no later than the close of business on the banking day following demand by the Clearing House.

3. Default by Other Participating Exchanges or Partner Clearinghouses

If a Participating Exchange or Partner Clearinghouse fails to promptly discharge any obligation to the Clearing House arising out of its obligations to the Exchange, such Participating Exchange’s or Partner Clearinghouse’s letters of credit, performance bonds and other assets available to the Clearing House shall be applied by the

Clearing House to discharge the obligation, pursuant to the procedures set forth below in Rule 802.A.5 with respect to a defaulting clearing member. If such resources are insufficient to satisfy the Participating Exchange's or Partner Clearinghouse's obligations to the Clearing House, the deficiency shall be considered a Loss that is subject to satisfaction pursuant to Rule 802.B.

4. Allocation of Base Guaranty Fund into Tranches

The Base Guaranty Fund shall be composed of the required Base Guaranty Fund contributions of clearing members pursuant to Rule 816, or any comparable security deposit contributions from a Participating Exchange or Partner Clearinghouse. The Clearing House shall allocate the Base Guaranty Fund into tranches as follows:

i. Base Tranche. Base Guaranty Fund Product Classes that are not associated with an Alternate Tranche as described below shall comprise the Base Product Class. The first 80% of Base Guaranty Fund amounts contributed with respect to the Base Product Class shall be the "Base Tranche".

ii. [Reserved]

iii. Alternate Product Class Tranches. Any other product class approved by the Clearing House Risk Committee to support a product-specific Base Guaranty Fund tranche hereunder shall comprise an Alternate Product Class. The first 80% of Base Guaranty Fund amounts contributed with respect to each such an Alternate Product Class shall be an "Alternate Tranche".

iv. Commingled Tranche. The remaining 20% of Base Guaranty Fund amounts contributed with respect to all of the foregoing Product Classes shall be the "Commingled Tranche".

As set forth below in 802.B, if the collateral of the defaulting clearing member, as described in Rule 802.A.2, Participating Exchange or Partner Clearinghouse is insufficient to satisfy its obligation to the Clearing House, the Tranche associated with a particular Base Guaranty Fund Product Class will be the Tranche first applied to reimburse the Clearing House for Losses attributable to that Base Guaranty Fund Product Class, as determined in accordance with Rule 802.A.5, (i.e., the Base Tranche will first be applied to Losses attributed to the Base Product Class, and the Alternate Tranche will first be applied to Losses attributed to an Alternate Product Class). The Base Guaranty Fund requirements of clearing members for purposes of allocation of such amounts into the Tranches shall be the required amounts in effect for each clearing member at the time of the default.

5. Apportionment Among Base Guaranty Fund Product Classes; Application of Defaulting Clearing Member's Collateral

Upon a default, the Clearing House shall apply the defaulting clearing member's collateral to the deficiency in accordance with the following procedures:

i. Initial Allocation of Assets to Base Guaranty Fund Product Classes. Subject to the provisions of 802.G, as of the cycle in which the default occurs, the Clearing House shall allocate assets of the defaulting clearing member to the different Base Guaranty Fund Product Classes in which the clearing member has open positions as follows: (a) the defaulting clearing member's Base Guaranty Fund requirement associated with each Base Guaranty Fund Product Class shall be attributed to such Class, (b) the defaulting clearing member's required performance bond amounts for each Base Guaranty Fund Product Class as of the prior clearing cycle shall be allocated to such Class, (c) any CME shares (whether common shares or class B shares) or any cash posted in lieu of such shares, and (d) any of the defaulting clearing member's other assets held by, pledged to or otherwise available to the Clearing House shall be divided among the Base Guaranty Fund Product Classes in proportion to the defaulting clearing member's Base Guaranty Fund requirement.

ii. Management of Obligations for Cycle of Default. As of the cycle in which the default occurs, the Clearing House shall aggregate the following assets: any excess Base Guaranty Funds, any excess performance bond from the prior clearing cycle for Base Guaranty Fund Product Classes, any partial payment by the clearing member for the default cycle, and any other available assets of the clearing member that are not specific to a Base Guaranty Fund Product Class. Such unassigned assets shall be allocated first to any net settlement variation payment obligation of the defaulting clearing member to the Clearing House relating to Base Guaranty Fund Product Classes, pro rata across account classes relative to the net settlement variation payment obligation for each account class. If the unassigned funds so allocated are sufficient to satisfy the clearing member's immediate settlement variation payment obligations for Base Guaranty Fund Product Classes, any remaining unassigned funds shall be divided among the Base Guaranty Fund Product Classes, pro rata in proportion to the size of the performance bond requirements for each Base Guaranty Fund Product Class for the clearing cycle immediately prior to the default. If the unassigned funds are not sufficient to satisfy the clearing member's settlement variation payment obligations for Base Guaranty Fund Product Classes for the default cycle, then (i) the Clearing House shall apply the unassigned funds to such obligations, pro rata relative to the size of such obligations on a per-Base Guaranty Fund Product Class basis, and within each Base Guaranty Fund Product Class, pro rata across account classes, and (ii) the remaining settlement variation payment obligations for such clearing cycle shall be satisfied on a per-Base Guaranty Fund Product Class basis only from the assets allocated to the relevant Base Guaranty Fund Product Class pursuant to 802.A.5.i. If the Clearing House is unable to satisfy a settlement variation payment obligation attributable

to any Base Guaranty Fund Product Class from such assets, the deficiency shall be a Loss that the Clearing House shall satisfy pursuant to the procedures in Rule 802.B. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of the defaulting clearing member's proprietary account.

iii. Payment Obligations as Losses are Finalized. During any subsequent clearing cycles in which the Clearing House is managing and/or liquidating open positions in respect of the defaulting clearing member, the Clearing House shall satisfy any settlement variation payment obligations owed by the defaulting Clearing member to the Clearing House, or other realized losses of or expenses to the Clearing House with respect to the default, on a per-Base Guaranty Fund Product Class basis, only from the assets allocated to the relevant Base Guaranty Fund Product Class pursuant to 802.A.5.i. Any settlement variation gain to the defaulting clearing member in any Base Guaranty Fund Product Class during such subsequent clearing cycles shall be added to collateral allocated to such Product Class pursuant to 802.A.5.i. Any additional assets of the defaulting clearing member obtained by the Clearing House during subsequent clearing cycles (including amounts from CDS Products and IRS Products made available to Base Guaranty Fund Product Classes) shall be divided among the Base Guaranty Fund Product Classes pro rata in proportion to the size of the performance bond requirements for each Base Guaranty Fund Product Class for the clearing cycle immediately prior to the default. The Clearing House shall apply such collateral to such payment obligations for all account classes, giving priority to customer account classes (i.e., customer accounts and proprietary accounts). If the Clearing House is unable to satisfy a settlement variation payment obligation to the Clearing House, or other realized loss or expense to the Clearing House, from the defaulting clearing member's collateral as set forth in this paragraph, the deficiency shall be a Loss that the Clearing House shall satisfy pursuant to the procedures in Rule 802.B. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of the defaulting clearing member's proprietary account.

iv. Final determination of gain or deficiency for each Product Class. When the Clearing House determines the final net deficiency for a Base Guaranty Fund Product Class, it shall apply any remaining collateral of the defaulting clearing member with respect to such Base Guaranty Fund Product Class to satisfy the deficiency. If the Clearing House achieves a final gain, or if any excess collateral remains following satisfaction of a deficiency, the Clearing House shall allocate such excess funds to the defaulting clearing member's collateral for Base Guaranty Fund Product Classes within the same account class as to which a final gain or deficiency is yet to be determined, pro rata in proportion to the size of the performance bond requirements for such Base Guaranty Fund Product Classes for the clearing cycle immediately prior to the default. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting clearing member to satisfy a payment obligation to the Clearing House in respect of the defaulting clearing member's proprietary account. Any gains or excess collateral within a segregated customer account class following final determination of the defaulting clearing member's losses shall remain segregated to the relevant customer account class, where it may be used to satisfy payment obligations arising from such account class in other Product Classes, but shall not be added to the clearing member's collateral generally.

Any remaining unsatisfied obligations of the defaulting clearing member shall become Losses to the Clearing House that shall be satisfied as set forth below.

802.B. Satisfaction of Clearing House Obligations

If the Clearing House is unable, using the defaulting clearing member's collateral as set forth in Rule 802.A, to satisfy all of the clearing member's obligations to the Clearing House then such obligations shall be met and made good promptly by the Clearing House pursuant to this Rule 802.B. Such obligations include, but shall not be limited to, costs associated with the liquidation, transfer and managing of positions, arising out of: 1) its substitution (pursuant to Rule 804 or Rule 8F05) for a defaulting clearing member a defaulting Participating Exchange, or a defaulting Partner Clearinghouse; 2) a shortfall in a cross-margining program; 3) the failure of a depository, exchange or market apart from the Exchange but whose transactions are cleared pursuant to the provisions of Chapters 8B, 8C, 8D, 8E or 8F; or 4) any other cause. All of the foregoing shall be deemed Losses to the Clearing House, which shall be apportioned by the Clearing House to Loss categories associated with the Base Guaranty Fund Product Class producing the Loss. Losses that cannot readily be attributed to a specific Base Guaranty Fund Product Class shall be apportioned by the Clearing House across all Base Guaranty Fund Product Classes in proportion to relative size of the Tranches (excluding the Commingled Tranche). Losses shall be satisfied by the Clearing House in the order of priority hereafter listed. Non-defaulting clearing members shall take no actions, including but not limited to attempting to obtain a court order, that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 802.B. For purposes of this Rule 802.B, a default by a Participating Exchange or a Partner Clearinghouse shall be managed in the same manner as a default by a clearing member.

1. If Losses Are Limited to the Base Product Class:

- i. The corporate contribution of CME, which shall equal \$100,000,000 (the “CME Contribution”).
- ii. The Base Tranche.
- iii. The Commingled Tranche.
- iv. The Alternate Tranche.
- v. The balance of any Losses remaining after the application of the above funds shall be assessed against all clearing members (excluding any insolvent or defaulting clearing members). Each clearing member (excluding any insolvent or defaulting clearing member) shall be subject to an assessment up to an amount that does not exceed (A) a total of 275 per cent of such clearing member’s Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to a single defaulted clearing member and (B) a total of 550 per cent of such clearing member’s Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to all defaulted clearing members during a Base Cooling Off Period. Assessed amounts shall be divided among clearing members pro rata in proportion to the size of the Clearing House’s assessment authority with respect to each clearing member.

2. [Reserved]

3. If Losses Are Limited to an Alternate Product Class:

- i. The CME Contribution.
- ii. The Alternate Tranche.
- iii. The Commingled Tranche.
- iv. The Base Tranche and any other Alternate Tranche, pro rata in accordance with the relative size of such Tranches.
- v. The balance of any Losses remaining after the application of the above funds shall be assessed against all clearing members (excluding any insolvent or defaulting clearing members). Each clearing member (excluding any insolvent or defaulting clearing member) shall be subject to an assessment up to an amount that does not exceed (A) a total of 275 per cent of such clearing member’s Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to a single defaulted clearing member and (B) a total of 550 per cent of such clearing member’s Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to all defaulted clearing members during a Base Cooling Off Period. Assessed amounts shall be divided among clearing members pro rata in proportion to the size of the Clearing House’s assessment authority with respect to each clearing member.

4. If Losses Are Apportioned Among Multiple Product Classes:

Because of differences in the timeframes and processes associated with the liquidation of certain product types, the Clearing House may finalize Loss amounts associated with different Base Guaranty Fund Product Classes at different points in time. Notwithstanding this, the Clearing House will act with all possible speed to satisfy the Losses as they are finalized, in the order of priority and per the schedule set forth below.

- i. The CME Contribution shall be applied. The CME Contribution shall be divided by the Clearing House into separate segments in proportion to the size of each Tranche except for the Commingled Tranche. Each segment of the CME Contribution shall be applied first to Losses associated with the applicable Base Guaranty Fund Product Class for such segment, and only at such time as one or more Losses associated with such Tranche are finalized. Subject to paragraph 802.C if any of the CME Contribution remains after such initial application, such funds shall be reserved to be later applied to Losses associated with other Product Classes as set forth in paragraph 802.B.4.v.
- ii. The Base Tranche shall be applied to Losses associated with the Base Product Class and any Alternate Tranche shall be applied to Losses associated with the applicable Alternate Product Class, in each case when one or more Losses associated with such Tranche are finalized. Subject to paragraph 802.C, if the Tranche is not exhausted, any remaining funds shall be held in such Tranche and may later be applied to other Losses as set forth in paragraph 802.B.4.v.
- iii. The Commingled Tranche funds shall be applied to remaining Losses associated with any Base Guaranty Fund Product Class immediately as such Losses are finally determined by the Clearing House, in the order that the amounts of such Losses are finalized. Consequently, the application of Commingled Tranche funds to Losses associated with one Base Guaranty Fund Product Class may occur prior to the finalization of Losses associated with other Base Guaranty Fund Product Classes (i.e., prior to the completion of the processes set forth in paragraphs 802.B.4.i and 802.B.4.ii with respect to Losses associated with another Base Guaranty Fund Product Class). If Losses associated with more than one Base Guaranty Fund Product Class are to be finalized pursuant to auction processes being conducted concurrently, then any remaining Commingled Tranche funds shall be divided and allocated to such auctions during the auction process, pro rata in proportion to the relative sizes of the mark-to-market losses for such Base Guaranty Fund Product Classes.

iv. Any Losses remaining after the application of the processes set forth above shall be assessed against all clearing members (excluding any insolvent or defaulting clearing members) up to an amount that does not exceed (A) a total of 275 per cent of the aggregate guaranty fund requirements across all clearing members (excluding any insolvent or defaulting clearing members) at the time of the default with respect to the Base Guaranty Fund Product Class with which the Loss is associated with respect to Losses attributed to a single defaulted clearing member and (B) a total of 550 per cent of the aggregate guaranty fund requirements across all clearing members (excluding any insolvent or defaulting clearing members) at the time of the default with respect to the Base Guaranty Fund Product Class with which the Loss is associated and all defaulted clearing members during a Base Cooling Off Period. Such assessments shall occur on a per- Base Guaranty Fund Product Class basis as Losses associated with each Base Guaranty Fund Product Class are finalized by the Clearing House. Consequently, the application of an assessment against clearing members with respect to Losses associated with one Base Guaranty Fund Product Class may occur prior to the finalization of Losses associated with other Base Guaranty Fund Product Classes. Assessed amounts shall be divided among clearing members pro rata in proportion to the size of the Clearing House's assessment authority with respect to each clearing member, without regard to the Base Guaranty Fund Product Classes cleared by such clearing member or the proportion to which such Base Guaranty Fund Product Classes contribute to such clearing member's maximum assessment exposure. (For example, a clearing member that clears only Alternate Tranche products and that is subject to a maximum \$1 billion assessment because of that clearing activity will be subject to assessment of up to \$500 million for a Loss associated with the Base Product Class if 50% of the Clearing House's aggregate assessment powers are generated by Base Guaranty Fund requirements with respect to the Base Product Class.) Any remaining unused assessment authority associated with Base Guaranty Fund Product Classes as to which Losses are fully satisfied shall be reserved and later may be applied to Losses associated with other Product Classes as set forth in paragraph 802.B.4.v below.

v. (a) Collateral of the defaulting clearing member, (b) the CME Contribution, (c) Base Tranche funds or Alternate Tranche funds, and (d) assessment powers shall be applied to remaining Losses as they are finalized with respect to each Base Guaranty Fund Product Class and in such order, provided that if at the time of any such application, Losses associated with another Base Guaranty Fund Product Class remain to be finalized, the Clearing House shall continue to reserve a portion of such remaining funds or assessment powers, pro rata in proportion to the size of the Tranches originally supporting such Base Guaranty Fund Product Classes, until such remaining Losses are finalized. When all Losses have been finalized by the Clearing House, any remaining reserved funds and assessment powers of any kind may be applied to satisfy such Losses, pro rata relative to the size of the remaining losses for the Base Guaranty Fund Product Classes.

5. Fedwire and Satisfaction of Assessment

All amounts assessed by the Clearing House against a clearing member pursuant to this Rule, during the hours in which the Federal Reserve's wire transfer system (Fedwire) is in operation, shall be paid to the Exchange by such clearing member prior to the close of Fedwire on such day; provided, however, that all amounts assessed within one (1) hour prior to the close of Fedwire shall be paid to the Exchange within one (1) hour after Fedwire next opens. Any clearing member that does not satisfy an assessment, made pursuant to this paragraph 802.B.5 or paragraphs 802.B.1.v, 802.B.2.v, 802.B.3.v, 802.B.4.iv or 802.B.4.v above, shall be in default. Any Loss that occurs as a result of such default shall itself be assessed by the Clearing House to non-defaulting clearing members pursuant to the applicable paragraph.

If a clearing member (i) has made payment of all amounts assessed against it pursuant to this Rule 802.B in connection with any single default and any related default by any other clearing member with respect to its own assessment, (ii) has replenished any deficiency in its Base Guaranty Fund contribution in accordance with Rule 802.D, and (iii) within five (5) business days after making such payments, has satisfied the other conditions for withdrawal set forth in Rule 913.A, it may provide written notice of its application to withdraw from clearing membership pursuant to Rule 913. Upon receipt of such notice, provided that the foregoing conditions have been satisfied, the withdrawing clearing member shall not be subject to any residual assessment to cover Losses for defaults occurring after the related Base Cooling Off Period. Further, the Base Guaranty Fund contribution that it has restored shall not be used or applied towards meeting any claim or obligation of the Clearing House pursuant to Rule 802.B that arises with respect to defaults occurring after the related Base Cooling Off Period, and the withdrawing clearing member's Base Guaranty Fund contribution shall be released in accordance with Rule 913. After payment of an assessment pursuant to Rule 802.B, a clearing member shall charge other clearing members for whom it clears contracts or carries positions on its books to recover their proportional share of the assessment. Such other clearing members shall promptly pay the charge.

6. Details of Implementation

While adherence to the provisions of this Rule 802.B shall be mandatory, the detailed implementation of the process of finalizing Losses with respect to a default, including the liquidation, auction or sale of positions or assets of the defaulting clearing member, shall be conducted by the Clearing House in consultation with the Clearing House Risk Committee, with the approval of the Board, and/or such other committee as the Board may designate.

In order to ensure that the process for liquidating open commodity contracts results in competitive pricing, to the extent feasible under market conditions at the time of liquidation, liquidation of open commodity contracts held for a house account or customer account of a defaulting clearing member may occur by one or more of the following methods: (a) book entry that offsets open commodity contracts on the books of the defaulting clearing member; (b) liquidation in the open market; and/or (c) one or more private auctions amongst qualified market participants invited by the Clearing House to submit confidential bids. The Clearing House shall have discretion to select the best bid submitted for any portfolio in an auction, based on the totality of the circumstances.

In the event that identical customer commodity contracts are liquidated in the open market on the same date but cannot be liquidated at the same price, unless the Clearing House determines that it would be inappropriate, a weighted average of the liquidation prices for such contracts shall be used in determining the value of the liquidated commodity contracts for each such customer. In the event that open commodity contracts of multiple customers are liquidated in a bulk auction, the net proceeds of such auction shall be allocated on a pro rata basis amongst the affected customers based upon their applicable performance bond requirements for the clearing cycle immediately prior to the default.

802.C. Application of Funds to Avoid Clearing House Insolvency

Notwithstanding any requirements to reserve funds set forth in Rule 802.A or Rule 802.B, if at any point following a default, the Clearing House will be unable to timely fulfill its obligations following application of the funds described above in the priority described above, such that the Clearing House is in imminent danger of defaulting on its obligations or being declared insolvent, then the Clearing House shall be entitled to apply to such obligation any available funds reserved from the defaulting clearing member's collateral, the CME Contribution or any Tranche (other than the Commingled Tranche, which shall have been exhausted pursuant to paragraph 802.B.4.iii), in the foregoing order of priority, if necessary to avoid a default by the Clearing House or a declaration of its insolvency. Such use of reserved funds may only be made (i) if the Clearing House reasonably concludes that there is a reasonable expectation that (A) the use of such funds will satisfy the immediate obligation and avoid a default or insolvency and (B) that the remaining funds in the overall financial safeguards package (including assessment powers) will be sufficient to satisfy the finalized Losses with respect to all Base Guaranty Fund Product Classes, and (ii) the Clearing House reaches such conclusion in consultation with the Clearing House's primary regulator as to the specific facts, circumstances and estimates of Losses supporting such conclusion. In such case, the Clearing House shall restore the funds so employed to the reserved collateral segments, the CME Contribution segments or Tranches from which they were drawn promptly following receipt by the Clearing House of assessment payments or any other amounts that become available to it in respect of obligations arising out of the defaulted clearing member's default.

802.D. Restoration of Funds Following Final Determination of Losses

If after the default of a clearing member is finally resolved, the Clearing House determines that collateral of the defaulting clearing member, the CME Contribution, Tranche funds other than the Commingled Tranche, or assessment powers were employed in a manner different from what would have occurred had all assets been secured and liquidated immediately and all Losses finalized simultaneously, then the Clearing House shall make appropriate (i) distributions to the non-defaulting firms whose Base Guaranty Funds were applied or who were assessed and/or (ii) rebalancing allocations among Base Guaranty Fund tranches.

802.E. Rights of Exchange for Recovery of Loss

Losses caused by the default of a clearing member, Participating Exchange or Partner Clearinghouse are amounts due to the Clearing House from such clearing member, exchange or clearing house and shall remain legal obligations thereof notwithstanding the Clearing House's recourse to the loss-mutualization provisions of this Rule 802, which amounts the Clearing House shall take commercially reasonable steps to recover (including claims submitted in bankruptcy court). If a Loss for which clearing members or their Base Guaranty Fund contributions have been assessed is subsequently recovered by the Exchange in whole or in part, the net amount of such recovery shall be credited to such clearing members (whether or not they are still clearing members at the time of recovery) in proportion to the amount of the assessment.

802.F. Guaranty Fund Contributions to be Restored

In the event it shall become necessary to apply all or part of the Base Guaranty Fund contributions to meet obligations to the Clearing House pursuant to this Rule 802, clearing members shall restore their contribution to the Base Guaranty Fund to previously required level prior to the close of business on the next banking day.

802.G. Default Management Across Account Classes

The procedures set forth in 802.A and 802.B shall be conducted separately by the Clearing House with respect to open positions and associated performance bond contributions for different account classes. Upon a default, the Clearing House may, in accordance with applicable law, act immediately to attempt to transfer to alternate clearing members part or all customer positions and associated collateral with respect to any customer account class in which there is no default on payment obligations or shortfall in required collateral, and in such cases the Clearing House shall not apply segregated customer collateral to any payment obligations or Losses arising from a default in any proprietary account or a different customer account class.

1. If a default occurs in a customer ~~futures~~ account, the Clearing House has the right to liquidate and apply toward the default all open positions and customer performance bond deposits in the ~~associated customer~~~~futures~~ account class ~~of the defaulting clearing member~~. Accordingly, positions and performance bonds deposited by customers not causing the default are at risk if there is a default in the ~~applicable customer~~~~futures~~ account class of their clearing member. If the Clearing House liquidates positions and/or collateral in ~~a customer~~~~the futures~~ account class, any collateral remaining after application to Losses in respect of such account class shall be reserved to ~~such customer~~~~the futures~~ account class in order to satisfy the claims of non-defaulting customers in accordance with applicable law.

2. In order to minimize disruptions and loss to its public customers if a clearing member defaults, each clearing member shall cause its cleared swaps customers to establish arrangements to directly make all required performance bond and settlement variation payments directly to the Clearing House and to keep current and on file with the Clearing House any direction to transfer its open positions and collateral to another clearing member.

3. The Clearing House shall treat positions and collateral of the cleared swaps customers of a clearing member, which has been declared to be in default, in accordance with Part 22 of the CFTC's regulations. Immediately after the default of a clearing Member, the Clearing House shall cease netting settlement variation among the cleared swaps customers of the defaulted clearing member.

4. If the Clearing House ceases to net settlement variation margin of the customers of a defaulted clearing member, the Clearing House will calculate the settlement variation margin obligation owed to each cleared swaps customer ("collects"), and also calculate the settlement variation margin obligation owed to the Clearing House by each cleared swaps customer ("pays"). The Clearing House will establish a holding account for settlement variation margin collects owed to each cleared swaps customer or, subject to necessary approvals, pay such settlement variation margin collects directly to each cleared swaps customer. The Clearing House will collect cleared swaps customer settlement variation margin pays from the following sources:

- (i) Directly from the obligated cleared swaps customer in accordance with the arrangements established pursuant to 802.G.2 or by attaching any excess collateral attributable to that customer;
- (ii) By means of liquidating the collateral supporting the cleared swaps customer's position attributed to a cleared swaps customer that fails to make a required settlement variation payment when due. The proceeds of such liquidation shall be used to meet the cleared swaps customer's settlement variation pay obligation to the clearing house. (If the collateral is liquidated, the positions supported by the collateral shall be promptly liquidated.);

Any unmet cleared swaps customer obligation to the Clearing House will be a "Loss," per 802.A.2, and will be cured in accordance with the provisions of 802.B.

5. The Clearing House shall rely on its own books and records to identify the portfolio of rights and obligations arising from the positions of each cleared swaps customer. To the extent the Clearing House's books and records are not available or the Clearing House determines that its books and records are not accurate, the Clearing House shall rely on the information provided by the defaulted clearing member to identify the portfolio of rights and obligations arising from the positions for each of its cleared swaps customers.

6. Upon liquidating the defaulting clearing member's proprietary account, any remaining collateral may be applied by the Clearing House to Losses remaining in the defaulting clearing member's customer account classes, provided that such collateral shall be divided among the Product Classes as described above. If the defaulting clearing member has more than one customer account class that has been declared to have defaulted, proceeds from the defaulting clearing member's proprietary account for each relevant Product Class shall be divided by the Clearing House pro rata among such customer account classes, based on their applicable performance bond requirements for the clearing cycle immediately prior to the default.

802.H. Base Cooling Off Period and Multiple Defaults

The provisions set forth in Rule 802.A and 802.B shall apply with respect to each default by a clearing member. If more than one clearing member default occurs at a time or in close sequence, including a default that occurs by reason of a clearing member's failure to satisfy an assessment demand, the Clearing House shall manage the defaults separately. Upon any default, non-defaulted clearing members shall be subject to a maximum obligation during the relevant Base Cooling Off Period to contribute to the Base Guaranty Fund and to fund assessments as set forth in Rule 802.B. This maximum shall apply from the date of the original default until the later of (i) the 5th Business Day thereafter and (ii) if another clearing member defaults during the 5 Business Days following the initial or any subsequent default, the 5th Business Day following the last such default (such period, the "Base Cooling Off Period"), regardless of the number of defaults that occur during such Base Cooling Off Period.

The aggregate maximum contribution for the Base Cooling Off Period shall be based upon each clearing member's Base Guaranty Fund requirement and assessment exposure in effect at the commencement of the Base Cooling Off Period. The maximum does not limit clearing members' obligations to restore their Guaranty Fund contributions as set forth in Rule 802.F, except that if the clearing member's required Guaranty Fund contribution would exceed such maximum, the clearing member's Base Guaranty Fund requirement shall be reduced accordingly for the remainder of the Base Cooling Off Period. Following a Base Cooling Off Period, the Clearing House shall notify each clearing member of its Base Guaranty Fund deposit obligation and its assessment exposure

New Rule 901.P

P. Each clearing member shall use systems and appropriate procedures to track accurately, and to provide to the Clearing House accurately, the positions and collateral of each of its cleared swaps customers.

EXHIBIT B

Proposed Amendments to CME Rule 8G802. PROTECTION OF CLEARING HOUSE

(underlining indicates additions; strikeouts indicate deletions)

8G802.A. Default by IRS Clearing Member

The Clearing House shall establish a separate guaranty fund for IRS Contracts (the "IRS Guaranty Fund"). Each IRS Clearing Member shall contribute to the IRS Guaranty Fund in accordance with the requirements of Rule 8G07. A non-defaulted IRS Clearing Member's deposit to the IRS Guaranty Fund may be applied by the Clearing House in accordance with this Rule 8G802 to mitigate any loss to the Clearing House attributable to IRS Contracts and will not be applied to losses in any other product classes.

1. Default by IRS Clearing Member

(i) If an IRS Clearing Member (i) fails to promptly discharge any obligation to the Clearing House, or (ii) becomes subject to any bankruptcy, reorganization, arrangement, insolvency, moratorium, or liquidation proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law, the Clearing House may declare such IRS Clearing Member shall to be in default. If an Affiliate of an IRS Clearing Member fails to discharge any obligation to the Clearing House and the Clearing House determines that the default by such Affiliate is likely to cause a default of the IRS Clearing Member, the Clearing House may declare such IRS Clearing Member to be in default. Upon a default, the Clearing House shall take all actions permitted by this Rulebook in the event of a default. The Clearing House may engage in any commercially reasonable transaction to eliminate or reduce the risk created by the default and all obligations, costs and expenses incurred thereby shall be an obligation of the defaulted IRS Clearing Member to the Clearing House.

(ii) Defaults by different IRS Clearing Members will each be considered a separate default event. After an IRS Clearing Member has been declared in default, subsequent failures by such defaulted IRS Clearing Member to discharge any obligation shall be considered part of the same original default and shall not be considered separate default events, unless and until the original default has been fully resolved and such IRS Clearing Member has been restored to good standing or is no longer an IRS Clearing Member.

(iii) The Clearing House shall act promptly to mitigate any loss caused by a default. It may hedge, liquidate in the ordinary course, or sell all or any portion of the portfolio of the defaulting firm and its customers, if applicable. The defaulted IRS Clearing Member shall not take any action that would interfere with the ability of the Clearing House to mitigate the loss or to apply the assets of the defaulted IRS Clearing Member to offset any loss. The defaulted IRS Clearing Member shall not file any action in any court seeking to stay the actions of the Clearing House with respect to the default.

(iv) A defaulted IRS Clearing Member shall immediately make up any deficiencies in its IRS Guaranty Fund deposit resulting from such default and in any event no later than the close of business on the banking day following demand by the Clearing House.

2. Application of Defaulted IRS Clearing Member's Collateral; Rights and Obligations of Clearing House

Upon the default of an IRS Clearing Member, all assets of such IRS Clearing Member that are available to the Clearing House, including without limitation IRS Guaranty Fund deposits including any excess amounts, IRS Assessments, performance bond amounts for IRS Contracts including any excess amounts, any partial payment amounts or settlement variation gains in respect of IRS Contracts, membership requirements relating to IRS Contracts pursuant to 8F04.7, excess performance bond or guaranty fund deposits of the IRS Clearing Member for non-IRS Products, and any other amounts on deposit with the Clearing House for IRS Contracts but excluding amounts carried in any customer account class (collectively, the "IRS Collateral") shall be applied by the Clearing House to discharge any loss to the Clearing House associated with such default (an "IRS Loss") in accordance with and subject to this Rule 8G802. An IRS Loss shall include, but shall not be limited to, costs associated with the liquidation, transfer and managing of IRS Contracts of the defaulted IRS Clearing Member, hedging costs and other costs incurred by the Clearing House related to managing the risk surrounding the default of the IRS Clearing Member.

An IRS Loss arising in the defaulted IRS Clearing Member's proprietary account class shall be satisfied from the IRS Collateral. An IRS Loss arising in the defaulted Clearing Member's resulting from any cleared swaps customer account class of a defaulted IRS Clearing Member shall be satisfied by application of performance bond, excess performance bond, other collateral and settlement variation gains ("IRS Customer Collateral") held in for the respective cleared swaps customer account class in which the IRS Loss is generated, if such IRS Loss must be

~~satisfied prior to finalization of IRS Losses in the defaulted clearing member's proprietary account and the determination whether any IRS Collateral remains that may be used to satisfy such IRS Loss.~~

~~During the clearing cycle in which the default occurs and any subsequent clearing cycles in which the Clearing House is managing and/or liquidating open positions in respect consistent with Part 22 of the defaulted IRS Clearing Member, the Clearing House shall satisfy any settlement variation payment obligations related to IRS Contracts owed by the defaulted IRS Clearing Member to the Clearing House, or other realized losses of or expenses to the Clearing House with respect to the default only from the IRS Collateral, IRS Customer Collateral or other assets allocated to IRS Contracts, unless and until assets from other product classes become available pursuant to the rules governing default management for such other product classes.~~

CFTC's regulations. After finalizing the IRS Loss of the defaulted IRS Clearing Member's proprietary account, the Clearing House shall reserve any excess IRS Collateral that remains first, to satisfy any IRS Loss arising in the defaulted IRS Clearing Member's customer account class for IRS Contracts, and second, to satisfy any losses to the Clearing House arising in other product classes, including, but not limited to, pursuant to Rule 818; provided however that such excess IRS Collateral shall not be applied to an IRS Loss arising from the IRS Contracts of a defaulted cleared swaps customer ~~account class~~ until after any permitted application of IRS Customer Collateral held in such customer account class.

~~Any gains or excess performance bond or other collateral within the defaulted IRS Clearing Member's remaining IRS Customer Collateral of a customer account class of an IRS Clearing Member following final resolution of the defaulted clearing member's any IRS Loss in attributed to such customer account class shall remain in such customer account class, where it may be used to satisfy losses of such customer to the Clearing House arising in such account class with respect to other product classes. Such Any customer assets used by the Clearing House to cure an IRS Loss associated with a customer account shall not be added to the defaulted IRS Clearing Member's collateral generally. For the avoidance of doubt, as set forth in 8G802-G, the The Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulted IRS Clearing Member IRS Customer Collateral to satisfy a payment obligation, realized loss or expense to the Clearing House in respect of the defaulted IRS Clearing Member's proprietary account.~~

Should an IRS Loss continue to exist after application of the amounts above, any remaining deficiency shall be satisfied pursuant to the procedures in Rule 8G802.B. Any such amount shall continue to be a liability of the defaulted IRS Clearing Member to the Clearing House, which the Clearing House may collect from any other assets of such clearing member or by process of law.

8G802.B. Satisfaction of Clearing House Obligations

1. Application of Clearing House and non-defaulting IRS Clearing Member contributions

If the IRS Collateral and the IRS Customer Collateral, as described in Rule 8G802.A, are insufficient to cover the IRS Loss produced by the default, the Clearing House shall cover, or reduce the size of, such IRS Loss by applying the following funds to such losses in the order of priority as follows (the "IRS Priority of Payments"):

(i) *First*, the corporate contribution of CME for IRS Products (the "CME IRS Contribution"), which shall equal \$100,000,000;

(ii) *Second*, the IRS Guaranty Fund (excluding the contribution of the defaulted IRS Clearing Member), which shall be applied in the following manner:

(a) the IRS Guaranty Fund contribution of a Category 1 Bidder (if any) will be applied first up to an amount equal to the Aggregate Subordinated Amount for such Category 1 Bidder and where there is more than one Category 1 Bidder, an amount of the IRS Guaranty Fund of each Category 1 Bidder equal to the relevant Aggregate Subordinated Amount will be applied pro rata until the entire IRS Loss is allocated; then, to the extent not all IRS Losses have been applied after application pursuant to this sub-section (a);

(b) the (remaining) IRS Guaranty Fund of all Clearing Members (excluding an amount of the IRS Guaranty Fund of each Winning Bidder equal to the Aggregate Seniorized Amounts for such Winning Bidders) will be applied pro rata until the entire IRS Loss is allocated; then, to the extent not all IRS Losses have been applied after application pursuant to this sub-section (b); and

(c) the (remaining) IRS Guaranty Fund of all Winning Bidders will be applied pro rata;

(iii) *Third*, IRS Assessments against all IRS Clearing Members (excluding any defaulted IRS Clearing Members), which shall be assessed against each non-defaulted IRS Clearing Member pro rata in proportion to their required contributions to the IRS Guaranty Fund in accordance with Rule 8G07. Assessments against non-defaulted IRS Clearing Members shall be subject to a maximum of the maximum IRS Assessment assigned to such IRS Clearing Member pursuant to Rule 8G07 at the time of the default, and also subject to the limits set forth in Rule 8G802.H in the case of multiple successive defaults. Non-defaulted IRS Clearing Members and their customers shall not take any action that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 8G802.B, including, but not limited to, attempting to obtain a court order. Determinations under this Rule 8G802.B that are based upon an IRS Clearing Member's IRS Guaranty Fund deposit and/or IRS Assessment requirement shall be based upon the requirement in effect at the time of the default.

As used herein.

"Auction Portfolio" has the meaning given to it in the IRS Default Management Guidelines.

"Aggregate Subordinated Amount" has the meaning given to it in the IRS Default Management Guidelines.

"Aggregate Seniorized Amount" has the meaning given to it in the IRS Default Management Guidelines.

"Bid Ratio" has the meaning given to it in the IRS Default Management Guidelines.

"Category 1 Bidder" means an IRS Clearing Member designated by the Clearing House pursuant to the IRS Default Management Guidelines as having (a) not submitted a Valid Bid or (b) submitted a bid with a Bid Ratio equal to or greater than 50% in each case in respect of a Competitive Auction.

"Competitive Auction" has the meaning given to it in the IRS Default Management Guidelines.

"IRS Default Management Guidelines" means the IRS Default Management Guidelines of the Clearing House.

"Valid Bid" has the meaning given to it in the IRS Default Management Guidelines.

"Winning Bidder" means, in respect of each Auction Portfolio, the IRS Clearing Member(s) designated as such by the Clearing House at the end of a Competitive Auction in respect of such Auction Portfolio.

2. *IRS Product Limited Recourse*

If a default occurs, IRS Collateral, IRS Customer Collateral and the IRS Priority of Payments shall be the sole source of payments to cover the IRS Loss until the default is fully and finally resolved. In the event the IRS Collateral, IRS Customer Collateral and the IRS Priority of Payments are insufficient to cover the IRS Loss, IRS Clearing Members and the holders of IRS Contracts shall have no recourse to any other funds or any other entity, including without limitation the guaranty funds that support clearing of other products, CME, CME Group Inc. or any of its affiliates. If at any time following a default: (a) the Clearing House is unable to cover a settlement variation payment obligation when due and has no expectation of accessing funds to permit it to cover such payment obligation (for example through access to credit lines or assessment funds), (b) the Clearing House determines (after consultation with the IRS Risk Committee) that the available IRS Collateral and the IRS Priority of Payments will be insufficient to satisfy auction bid results for the defaulted IRS Clearing Member's portfolio, or (c) the Clearing House otherwise determines (after consultation with the IRS Risk Committee) the IRS Loss will exceed the available IRS Collateral and IRS Priority of Payments (each an "IRS Termination Event"), then all IRS Contracts shall be terminated and the IRS Collateral and IRS Priority of Payments shall be distributed in accordance with Rule 8G802.B.3 below. If the IRS Customer Collateral ~~in any attributable to a cleared swaps~~ customer ~~account class~~ of the defaulted IRS Clearing Member is sufficient to satisfy ~~the any~~ IRS Loss ~~in respect of~~ associated with such ~~account class~~ cleared swaps customer, the IRS Customer Collateral shall be so applied and any remaining IRS Customer Collateral shall remain in such customer account class ~~for application to satisfy other losses arising in such account class. If the IRS Customer Collateral in any customer account class is insufficient to satisfy the IRS Loss to the Clearing House arising in such account class, then such IRS Customer Collateral shall be applied to, in a manner that is consistent with~~ the termination process set forth in Rule 8G802.B.3 below.

~~No IRS Clearing Member and no customer requirements of an IRS Clearing Member shall institute against, or join any other person in instituting against, the Commodity Exchange any bankruptcy, reorganization, arrangement, insolvency, moratorium, liquidation or examinership proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other Act and the regulations adopted thereunder (including, without limitation Part 190 of the Regulations, if applicable law arising out of any claimed default by-) fix a U.S. dollar amount (the "IRS Close-Out Value") to be paid to or received from the Clearing House on an IRS Contract as a result in respect of the termination of such IRS Contract and related payments in accordance with these Rules.~~

~~3.all IRS Contracts to be terminated by conducting a special settlement cycle to determine a final settlement price for all open IRS Contracts, as further detailed in the IRS Manual.~~

3. Termination of IRS Contracts; Netting and Offset

If an IRS Termination Event occurs as described in Rule 8G802.B.2, all IRS Contracts shall be closed promptly and the Clearing House shall determine the amount to be paid to or collected from each non-defaulted IRS Clearing Member as follows:

(i) The net obligation of the Clearing House to a non-defaulted IRS Clearing Member (a "collect"), or the net obligation of a non-defaulted IRS Clearing Member to the Clearing House (a "pay"), shall be determined separately for (a) its proprietary positions in IRS Contracts (an "Proprietary IRS Collect" or an "Proprietary IRS Pay") and (b) the positions of each of its customers in IRS Contracts (each, an "Individual Customer IRS Collect" or an "Individual Customer IRS Pay") using the IRS Close-Out Value ~~(as defined in Rule 8G802.B.4 below)~~ for such IRS Contracts. ~~The sum of all of the Clearing House's obligations to House shall also determine an Individual Customer IRS Collect or an Individual Customer IRS Pay for each non-defaulted cleared swaps customer of a defaulted IRS Clearing Members so determined Member. The sum of all Proprietary IRS Collects and Individual Customer IRS Collects shall be the "Aggregate Collects".~~

The sum of all Proprietary IRS Pays and Individual Customer IRS Pays shall be the "Aggregate Pays"

(ii) The Clearing House shall determine the amount of each non-defaulted IRS Clearing Member's remaining payment obligations, if any, in respect of IRS Assessments (which, together with the CME IRS Corporate Contribution and any remaining IRS Guaranty Fund amounts and any IRS Assessments previously funded, constitute the ~~remaining IRS Priority of Payments~~). ~~The sum of any such remaining IRS Assessments plus any pays owed to the Clearing House from IRS Clearing Members under paragraph (i) above shall be the "Aggregate Pays".~~

"Remaining IRS Priority of Payments". (iii) The Clearing House shall add any remaining IRS Collateral, IRS Customer Collateral (if applicable as described in Rule 802.B.2. above) and Remaining IRS Priority of Payments to the Aggregate Pays, and deduct the amount of any uncovered IRS Loss. ~~The Clearing House shall allocate (the resulting sum among each IRS Clearing Member for the net collect owed on its aggregate proprietary positions, if any, and net collects owed on the aggregate positions of each customer of such IRS Clearing Member, if any, with the allocation being pro-rated relative to the size of the net collects owed, but not in excess of the amount of the net collects. Such calculated payment amounts (the "Allocated Collects") shall reflect a pro rata haircut if the available resources are less than the, the "Aggregate Collects. IRS Available Funds").~~

(iv) ~~In the event that the available resources exceed the sum-~~ The Clearing House shall then notify each IRS Clearing Member of the amount of its remaining IRS Assessments, Proprietary IRS Pay and Individual Customer IRS Pays and each IRS Clearing Member shall pay all such amounts no later than the time specified by the Clearing House in such notice. If an IRS Clearing Member does not make such payment, the Clearing House shall determine such IRS Clearing Member to be in default and may take any of the actions specified in 8G802.A with respect to such IRS Clearing Member and its customer.

(v) If the amount of Aggregate IRS Available Funds received by the Clearing House exceeds the Aggregate Collects, the Clearingclearing House shall calculate reimbursements of the excess funds, in reverse order of the IRS Prioritypriority of Paymentspayments.

~~(v) The Clearing House shall net payments as follows:~~

~~(a) The sum of the Allocated Collects for each customer account class of each~~

~~(vi) If the Aggregate Collects exceed the amount of Aggregate IRS Available Funds received, the Clearing House shall haircut the amount of each Proprietary IRS Collect (such haircut amount, the "Allocated Proprietary IRS Collect") and Individual Customer IRS Collect (such haircut amount, the "Allocated Individual Customer IRS Collect") on a pro rata basis based on the amount of Aggregate IRS Available Funds received relative to the of the Initial Proprietary IRS Collect and Initial Individual Customer IRS Collect.~~

~~(vii) For non-defaulted IRS Clearing Member plus any initial margin funds held in such account class shall be netted against the sum of the pays owed to the Members, the Clearing House in respect of positions in such customer account class, producing a "Customer Account Collect" shall pay the Proprietary IRS Collect or a "Customer Account Pay".~~

~~(b) The sum of the Allocated Allocated Proprietary IRS Collect, as applicable, and Individual Customer IRS Collect or Allocated Individual Customer IRS Collects for the proprietary account class, as applicable, as soon as practicable after receipt of the Aggregate IRS Available Funds. For non-defaulted customers of each a defaulted-IRS Clearing Member plus any initial margin funds held in, the Clearing House will make arrangements to pay directly to such account class shall be netted against the sum of the pays in respect of positions for such proprietary account class plus any amounts owed by such non-defaulted IRS Clearing Member pursuant to paragraph (ii), producing a "Proprietary Account Collect" or a "Proprietary Account Pay".~~

~~(c) Customer and Proprietary Account Collects and Pays shall be netted to produce a "Final Collect" or "Final Pay" in respect of terminated IRS Contracts for each non-defaulted IRS Clearing Member customers.~~

~~(d) The Clearing House shall make payment to each non-defaulted IRS Clearing Member with a Final Collect, and each non-defaulted IRS Clearing Member with a Final Pay shall pay such amount to the Clearing House. The Clearing House may require Final Pays to be funded immediately prior to making payment on Final Collects, such that the Clearing House may adjust payments as necessary to account for the default of any non-defaulted IRS Clearing Member in failing to pay a Final Pay.~~

~~(viii) Upon the completion of payments, all IRS Contracts shall be extinguished, and the Clearing House shall have no further access to funds or collateral in respect of IRS Contracts or IRS clearing activity of a non-defaulting IRS Clearing Member. IRS Clearing Members, their Affiliates and their customers shall have no claim against any other guaranty fund established by the Exchange, CME Group Inc. or any of its affiliates with respect to losses suffered as a result of the application of this Rule 8G802.B, nor shall any beneficial holder of an IRS Contract have any claim against its non-defaulting IRS Clearing Member as a result of the application of this Rule 8G802.B.~~

4. Non-Petition

No IRS Clearing Member and no customer of an IRS Clearing Member shall institute against, or join any other person in instituting against, the Exchange any bankruptcy, reorganization, arrangement, insolvency, moratorium, liquidation or examinership proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law arising out of any claimed default by the Clearing House on an IRS Contract as a result of the termination of such IRS Contract and related payments in accordance with these Rules.

5. Fedwire and Satisfaction of IRS Assessments

~~4. Valuation of IRS Contracts~~

~~As promptly as reasonably practicable, the Clearing House shall, in a manner that is consistent with the requirements of the Commodity Exchange Act and the regulations adopted thereunder (including, without limitation) Part 190 of the Regulations, if applicable, fix a U.S. dollar amount (the "Close-out Value") to be paid to or received from the Clearing~~

~~House in respect of all IRS Contracts to be terminated by conducting a special settlement cycle to determine a final settlement price for all open IRS Contracts, as further detailed in the IRS Manual.~~

~~5. Fedwire and Satisfaction of IRS Assessments~~

All amounts assessed by the Clearing House against an IRS Clearing Member pursuant to this Chapter and any advance assessments pursuant to Rule 8G802.C where notice of such assessment is delivered to an IRS Clearing Member during the hours in which the Federal Reserve's wire transfer system (Fedwire) is in operation shall be paid to the Clearing House by such IRS Clearing Member prior to the close of the Fedwire on such day; provided, however, that where notice of such assessment is delivered to an IRS Clearing Member within one (1) hour prior to the close of Fedwire or after the close of Fedwire shall be paid to the Clearing House within one (1) hour after Fedwire next opens.

Any IRS Clearing Member that does not satisfy an assessment shall be in default. Any loss that occurs as a result of such default shall itself be assessed by the Clearing House to non-defaulted IRS Clearing Members pursuant to Rule 8G802.A and 8G802.B.

After payment of an IRS Assessment pursuant to Rule 8G802.B, an IRS Clearing Member shall charge other clearing members for whom it clears contracts or carries positions on its books to recover their proportional share of the assessment. Such other clearing members shall promptly pay the charge.

6. Details of Implementation

While adherence to the provisions of this Rule 8G802.B shall be mandatory, the detailed implementation of the process of finalizing an IRS Loss with respect to a default, including the liquidation, auction or sale of positions or assets of the defaulted IRS Clearing Member, shall be conducted by the Clearing House in consultation with the IRS Risk Committee.

8G802.C. Limited Advance Assessment Authority

If a default occurs and the collateral for IRS Contracts of the defaulted IRS Clearing Member [for its proprietary and customer accounts](#) (including any IRS Contracts entered into by the Clearing House to hedge such defaulted Clearing Members' IRS Contracts) held by the Clearing House (after taking into account settlement variation payment obligations) is less than 50 percent of the performance bond requirement for IRS Contracts calculated using the performance bond methodology at the time of default, the Clearing House may issue an advance assessment demand to non-defaulted IRS Clearing Members to contribute capital up to a maximum of the amount that would be necessary to bring the collateral of the defaulted IRS Clearing Member to 100% of the relevant requirement. Any such assessment shall be subject to any cap on assessments pursuant to Rule 8G802.B and shall be made pro rata among IRS Clearing Members on the same basis as assessments under Rule 8G802.B.

8G802.D. Restoration of Funds Following Final Determination of Losses

If, after the default of an IRS Clearing Member is finally resolved, the Clearing House determines that collateral of the defaulted IRS Clearing Member, surplus funds, IRS Guaranty Funds, IRS Assessments, other guaranty fund contributions, or assessment powers were employed in a manner different from what would have occurred had all assets been secured and liquidated immediately and the IRS Loss finalized simultaneously, then the Clearing House shall make distributions or rebalancing allocations to non-defaulted IRS Clearing Members and/or the guaranty funds, as appropriate.

8G802.E. Rights of Clearing House for Recovery of Loss

Losses caused by the default of an IRS Clearing Member are amounts due to the Clearing House from such IRS Clearing Member and shall remain legal obligations thereof notwithstanding the Clearing House's recourse to the loss-mutualization provisions of this Rule 8G802 and Rule 802, which amounts the Clearing House shall take commercially reasonable steps to recover (including claims submitted in bankruptcy court). If a loss for which IRS Clearing Members IRS Guaranty Fund deposits and any IRS Assessments is subsequently recovered by the Clearing House in whole or in part, the net amount of such recovery shall be credited to such IRS Clearing Members (whether or not they are still IRS Clearing Members at the time of recovery) in reverse order of the IRS Priority of

Payments and in proportion to the IRS Clearing Member's IRS Guaranty Fund deposit and IRS Assessments.

If an IRS Clearing Member clears contracts or carries positions for other clearing members and such other clearing members were required to pay an assessment pursuant to Rule 8G802.B, such IRS Clearing Member shall return to such other clearing members, a pro rata share of any recoveries received by such IRS Clearing Member, which shall be calculated on the basis of the assessed amount paid by the other clearing member relative to the total assessment paid by the IRS Clearing Member.

8G802.F. IRS Guaranty Fund Contributions to be Restored

In the event it shall become necessary to apply all or part of the IRS Guaranty Fund to meet obligations to the Clearing House pursuant to this Rule 8G802, IRS Clearing Members shall restore their deposits to the IRS Guaranty Fund to previously required level prior to the close of business on the next banking day after notice that such amount is due from the Clearing House, subject to the maximum obligations to contribute to the IRS Guaranty Fund and to fund IRS Assessments set forth in 8G802.H.

8G802.G. Default Management Across Account Classes

The procedures set forth in 8G802.A and 8G802.B shall be conducted separately by the Clearing House with respect to open positions and associated performance bond deposits for different product classes and account classes. Upon a default, the Clearing House may, in accordance with applicable law, act immediately to attempt to transfer to alternate IRS Clearing Members part or all customer positions and associated performance bond collateral with respect to any cleared swaps customer ~~account class in which there is no default~~ that has not defaulted on payment obligations ~~in accordance with applicable law. The Clearing House shall not apply IRS Customer Collateral to any payment obligations or realized loss or expense of the defaulted IRS Clearing Member arising from a default in any proprietary account or any other customer account class. If a default occurs in the IRS Clearing Member's customer account class, the Clearing House has the right to liquidate and apply toward the default all open positions and customer performance bond deposits in such customer account class of the defaulted Clearing Member. Accordingly, positions and performance bonds deposited by customers not causing the default are at risk if there is a default in the applicable customer account class of their Clearing Member. If the Clearing House liquidates positions and/or collateral in a customer account class, funds associated with the liquidation of positions in or collateral supporting IRS Contracts shall be applied first to satisfy the IRS Loss attributable to the applicable customer account class. After IRS Loss attributable to the applicable customer account class are fully resolved, any remaining funds may be applied to satisfy losses to the Clearing House associated with positions in other product classes that are held in the same customer account class. Any collateral remaining after all losses to the Clearing House in respect of such account class have been satisfied shall be reserved to such customer account class in order to satisfy the claims of non-defaulted customers in accordance with applicable law.~~

8G802.H. Multiple Defaults

The provisions set forth in Rule 8G802.A and 8G802.B shall apply with respect to each default by an IRS Clearing Member. If more than one IRS Clearing Member default occurs at a time or in close sequence, including a default that occurs by reason of an IRS Clearing Member's failure to satisfy an assessment demand, the Clearing House shall manage the defaults separately. Upon a default, non-defaulted IRS Clearing Members shall be subject to a maximum obligation to contribute to the IRS Guaranty Fund and to fund IRS Assessments equal to the aggregate amounts set forth in Rules 8G07 and 8G802. This maximum shall apply from the date of the original default until the later of (i) the 25th Business Day thereafter and (ii) if another clearing member is in default during the 25 Business Days following the initial or any subsequent default, the 25th Business Day following the last default (the "IRS Cooling Off Period"), regardless of the number of defaults that occur during such IRS Cooling Off Period.

The maximum does not limit IRS Clearing Members' obligations to restore their IRS Guaranty Fund contributions as set forth in Rule 8G802.F, except that if the IRS Clearing Member's required IRS Guaranty Fund contribution would exceed the maximum, the IRS Clearing Member's IRS Guaranty Fund requirement shall be reduced accordingly for the remainder of the IRS Cooling Off Period. Following an IRS Cooling Off Period, the Clearing house shall notify each IRS Clearing Member of its IRS Guaranty Fund deposit obligation and its IRS Assessments exposure.

The aggregate maximum contribution for the IRS Cooling Off Period shall be based upon each IRS Clearing Member's IRS Guaranty Fund requirement and IRS Assessments in effect at the time of the original default, provided that if an IRS Clearing Member's IRS Guaranty Fund requirement and IRS Assessments is increased during the IRS Cooling Off Period due to material changes in its own business creating a material shortfall as to the requirement (as described in Rule 8G07) then the maximum shall be based on the revised requirement.

The CME IRS Contribution shall be limited to an aggregate maximum of \$100,000,000 during the Cooling Off Period, regardless of the number of defaults that occur during such Cooling Off Period.

8G802.I. Post-Default Cleared Swaps Customer Account Processing

1. In order to minimize disruptions and loss to its public customers if an IRS Clearing Member defaults, each IRS Clearing Member shall cause its cleared swaps customers to establish arrangements to directly make all required performance bond and settlement variation payments directly to the Clearing House and to keep current and on file with the Clearing House any direction to transfer its open positions and collateral to another IRS Clearing Member.

2. The Clearing House shall treat positions and collateral of the cleared swaps customers of an IRS Clearing Member, which has been declared to be in default, in accordance with Part 22 of the CFTC's regulations. Immediately after the default of an IRS Clearing Member, the Clearing House shall cease netting settlement variation among the cleared swaps customers of the defaulted Clearing Member.

3. If the Clearing House ceases to net settlement variation margin of the customers of a defaulted IRS Clearing Member, the Clearing House will calculate the settlement variation margin obligation owed to each customer ("collects"), and also calculate the settlement variation margin obligation owed to the Clearing House by each customer ("pays"). The Clearing House will establish a holding account for settlement variation margin collects owed to each customer or, subject to necessary approvals, pay such settlement variation margin collects directly to each customer. The Clearing House will collect customer settlement variation margin pays from the following sources:

- (i) Directly from the obligated customer in accordance with the arrangements established pursuant to 8G802.I.1 or by attaching any excess collateral attributable to that customer;
- (ii) By means of liquidating the IRS collateral supporting the customer's position attributed to a customer that fails to make a required settlement variation payment when due. The proceeds of such liquidation shall be used to meet the customer's variation pay obligation to the clearing house. (If the collateral is liquidated, the positions supported by the collateral shall be promptly liquidated.);

Any unmet customer obligation to the Clearing House will be an "IRS Loss," per 8G802.A.2, and will be cured in accordance with the provisions of 8G802.B.

4. The Clearing House shall rely on its own books and records to identify the portfolio of rights and obligations arising from the IRS Contracts of each cleared swaps customer. To the extent the Clearing House's books and records are not available or the Clearing House determines that its books and records are not accurate, the Clearing House shall rely on the information provided by the defaulted IRS Clearing Member to identify the portfolio of rights and obligations arising from the IRS Contracts for each of its cleared swaps customers.

Proposed Amendment to CME Rule 8G04

8G04. IRS CLEARING MEMBER OBLIGATIONS AND QUALIFICATIONS

5. Each IRS Clearing Member shall use systems and appropriate procedures to track accurately, and to provide to the Clearing House accurately, the IRS positions and collateral of each of its cleared swaps customers.

Proposed Changes to the Manual of Operations for CME Cleared Interest Rate Swaps to implement Legal Segregation with Operational Commingling Requirements (LSOC)

Additions underscored; deletions struck

Chapter 1 – IRS Clearing Membership

Sequestration of Customer Funds for IRS

The Commodity Exchange Act and Part 22 of the CFTC ~~Laws, r~~ Regulations ~~and rules~~ governing “eCleared Swaps Customer Accounts” ~~OTC derivatives~~ (including but not limited to IRS) ~~cleared by CME Clearing~~ require, among other things, that ~~customer~~ positions and collateral of Cleared Swaps Customers ~~monies~~ be separately accounted for and reported ~~sequestered~~ from the positions and monies of other customer origins and of the IRS Clearing Member. ~~These Act and the CFTC Regulations~~ ~~laws, regulations and rules~~ are designed to protect customers in the event of the insolvency or financial instability of the IRS Clearing Member through which they conduct business. The requirements of separate accounting and segregation ~~sequestration of~~ Cleared Swaps Customer ~~customer~~ positions and ~~monies~~ collateral extend to CME Clearing. CME Group’s Audit Department routinely inspects the books and records of IRS Clearing Members to ensure, among other things, their compliance with ~~sequestration~~ these requirements. The integrity of segregation ~~sequestration~~ relies on the accuracy and timeliness of the information provided to CME Clearing and the CFTC by member firms. Violations by an IRS Clearing Member of its Cleared Swaps Customer segregation ~~sequestration~~ requirements would be considered serious infractions that may result in major fines and penalties.

~~For IRS, CME Clearing and IRS Clearing Members will hold customer IRS positions and related collateral in “cleared OTC derivatives sequestered accounts” pursuant to CME Rules and CFTC Part 190 Regulations. In accordance with CME Rules, customer IRS positions and related collateral must be sequestered from the positions and monies of the IRS Clearing Member.~~

CME Rules also mandate the use of forms of acceptable collateral to support margining of positions of Cleared Swaps Customers. Please see Chapter 6 of this Manual for further information regarding acceptable collateral and haircuts.

Chapter 9 – Financial Safeguards

Separate IRS Guaranty Fund

CME Clearing has ~~shall establish~~ an additional IRS Guaranty Fund as described in Rule 8G07 and each IRS Clearing Member’s required contribution to the IRS Guaranty Fund is specified in such Rule.

Guaranty Fund Calculation

CME Clearing performs a comprehensive and thorough analysis of stress-testing scenarios, models, underlying parameters and assumptions used at least on a monthly basis to ensure the Clearing House financial safeguards are appropriate given the prevailing market conditions and risk forecasts.

Each IRS Clearing Member’s funded contribution to the IRS Guarantee Fund is calculated using two components: one that is tied to overall risk of the portfolio and the other tied to the size of the portfolio.

Each IRS Clearing Member’s Guaranty Fund contribution to the Financial Safeguards Package will be calculated as a factor of two weighted components based on trailing 90-day averages:

- (1) Portfolio residual loss calculation – stress test minus margin (90% weight);
- (2) IRS Clearing Member IRS gross notional as a proportion of total IRS gross notional at the CME (10% weight).

This calculated contribution will then be compared to two minimum values, such that each IRS Clearing Member’s funded portion of the IRS guaranty fund will be the maximum of the follow values:

- (I) The IRS Clearing Member’s calculated contribution (as described above);
- (II) \$50M;

The Guaranty Fund calculation is calculated as per the example below:

CHAPTER 5 – OPERATIONS TIMELINE AND REPORTS

CME CLEARED OTC IRS OPERATIONAL TIMELINE & REPORT LIST

Real time Trade Submission from Affirmation Platform

CME will accept trades for clearing from 6:00pm ET Sunday to 6:59pm ET Friday. Trades will not be accepted for clearing during a nightly 15 minute maintenance period cycle from 1:00 am to 1:15 am ET.	
Firms may enter alleged and match trades from platform or upload.	All clearing cycle times except during maintenance periods
DCMs may affirm/reject matched trades for clearing through FEC.	All clearing cycle times except during maintenance periods
Firms will receive real time FpML confirms.	All clearing cycle times except during maintenance periods
Trade Submission deadline for current day.	6:59pm ET
Clearing Systems run end of day processing.	7:00pm ET
Trades affirmed and submitted to CME Clearing will be assigned current date as clearing business date once accepted in clearing by the clearing firm	7:00pm (previous day) to 6:59pm ET (current day)

EXHIBIT C

Proposed Amendments to CME Rule 8H802. PROTECTION OF CLEARING HOUSE

(underlining indicates additions; strikeouts indicate deletions)

8H802.A. Default by CDS Clearing Member

The Clearing House shall establish the CDS Guaranty Fund as a separate guaranty fund for CDS Contracts. Each CDS Clearing Member shall contribute to the CDS Guaranty Fund in accordance with the requirements of Rule 8H07. A non-defaulted CDS Clearing Member's deposit to the CDS Guaranty Fund may be applied by the Clearing House in accordance with this Rule 8H802 to mitigate any loss to the Clearing House attributable to CDS Contracts and will not be applied to losses in any other product classes.

1. Default by CDS Clearing Member

a. If a CDS Clearing Member or its parent guarantor (i) fails to promptly discharge any obligation to the Clearing House or (ii) becomes subject to any bankruptcy, reorganization, arrangement, insolvency, moratorium, or liquidation proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law, the Clearing House may declare such CDS Clearing Member to be in default. Upon a default, the Clearing House may, in consultation with the CDS Default Management Committee and the CDS Risk Committee, take any or all actions permitted by these Rules. The Clearing House may engage in any commercially reasonable transaction to eliminate or reduce the risk created by the default and all obligations, costs and expenses incurred thereby shall be an obligation of the defaulted CDS Clearing Member to the Clearing House.

b. Defaults by different CDS Clearing Members will each be considered a separate default event. After a CDS Clearing Member has been declared in default, subsequent failures by such defaulted CDS Clearing Member to discharge any obligation shall be considered part of the same default and shall not be considered separate default events, unless and until the original default has been fully resolved and such CDS Clearing Member has been restored to good standing.

c. The Clearing House in consultation with the CDS Default Management Committee shall act promptly to mitigate any loss caused by a default. The Clearing House may (i) hedge, liquidate in the ordinary course, or sell all or any portion of the portfolio of the defaulting CDS Clearing Member and its customers, if applicable and (ii) to the extent permitted by applicable law, transfer open customer positions in CDS Contracts and associated performance bond collateral with respect to any customer account class in which there is no default on payment obligations to one or more other non-defaulted CDS Clearing Members that agree to such transfer. The Clearing House may mitigate or eliminate the risks incurred by it as a result of offsetting or terminating such open CDS Contracts by any one or more of the following means: 1) replace all or a portion of the CDS Contracts of the defaulting clearing member by entering into a transaction with a solvent clearing member(s); 2) replace all or a portion of the CDS Contracts of the defaulting CDS Clearing Member by entering into CDS Contracts for its own account in the open market; and/or 3) enter into CDS Contracts (or exchange-traded contracts) to hedge the economic risks imposed on it as a result of offsetting or terminating such CDS Contracts by any commercially reasonable means. The Clearing House may also replace any CDS Contracts it enters into to replace or hedge economic risks from any terminated transaction by substituting a transaction with a solvent clearing member(s) that offsets the original terminated transaction.

Any amount incurred by the Clearing House in liquidating, transferring and establishing, adjusting and/or replacing positions resulting from the defaulted CDS Clearing Member's default will be deducted from the defaulting CDS Clearing Member's collateral held by CME. In the event the collateral of the defaulting CDS Clearing Member is not sufficient to satisfy such amounts, the unsatisfied costs will be a claim by the Clearing House against the defaulting CDS Clearing Member.

The defaulted CDS Clearing Member shall not take any action that would interfere with the ability of the Clearing House to mitigate the loss or to apply the assets of the defaulted CDS Clearing Member to offset any loss. The defaulted CDS Clearing Member shall not file any action in any court seeking to stay the actions of the Clearing House with respect to the default.

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d. Following the default of a CDS Clearing Member, the Clearing House has the right to (i) liquidate any or all open CDS Contracts and collateral of cleared swaps customers of the defaulting CDS Clearing Member, and (ii) apply all proceeds of the liquidation of a cleared swaps customer's positions in CDS Contracts and collateral to any CDS Loss in the customer cleared swaps account attributable to such customer. The Clearing House may combine CDS Contracts from multiple cleared swaps customers in an auction or liquidation in any manner it determines and allocate any costs or losses associated with such auction or liquidation on a pro rata basis as determined by the Clearing House.

e. A defaulted CDS Clearing Member shall immediately make up any deficiencies in its CDS Guaranty Fund deposit resulting from such default and in any event no later than the close of business on the Business Day following demand by the Clearing House.

2. Application of Defaulted CDS Clearing Member's Collateral and CDS Customer Collateral; Rights and Obligations of Clearing House

Upon the default of a CDS Clearing Member, all assets of such defaulting CDS Clearing Member that are available to the Clearing House, including without limitation CDS Guaranty Fund deposits including any excess amounts, performance bond amounts for CDS Contracts including any excess amounts, any partial payment amounts or settlement variation gains in respect of CDS Contracts, membership requirements relating to CDS Contracts pursuant to 8H04.5, excess performance bond or guaranty fund deposits of the CDS Clearing Member for non-CDS Products, and any other amounts on deposit with the Clearing House for CDS Contracts but excluding amounts carried in any customer account class (collectively, the "CDS Collateral") shall be available to the Clearing House to discharge any loss to the Clearing House associated with such default (a "CDS Loss") in accordance with and subject to this Rule 8H802. A CDS Loss shall include, but shall not be limited to, costs associated with the liquidation, transfer and managing of CDS Contracts of the defaulted CDS Clearing Member, hedging costs and other costs incurred by the Clearing House related to managing the risk surrounding the default of the CDS Clearing Member.

A CDS Loss arising in the defaulted CDS Clearing Member's proprietary account class shall be satisfied from the CDS Collateral. A CDS Loss ~~arising in the defaulted~~ resulting from any cleared swaps customer of a CDS Clearing Member's customer account class Member shall be satisfied by application of performance bond, excess performance bond, other collateral and settlement variation gains (collectively, the "CDS Customer Collateral") held ~~in~~ for the respective cleared swaps customer account class in which the CDS Loss is generated consistent with Part 22 of the CFTC's regulations and by any excess CDS Collateral remaining after finalizing the CDS Loss of the defaulted CDS Clearing Member's proprietary account as set forth below.

~~During the clearing cycle in which the default occurs and any subsequent clearing cycles in which the Clearing House is managing and/or liquidating open positions in respect of the defaulted CDS Clearing Member, the Clearing House shall satisfy any settlement variation payment obligations related to CDS Contracts owed by the defaulted CDS Clearing Member to the Clearing House, or other realized losses of or expenses to the Clearing House with respect to the default, only from the CDS Collateral, CDS Customer Collateral (with respect to customer positions only) or other assets allocated to CDS Contracts unless and until assets from other product classes become available pursuant to the Rules governing default management for such other product classes.~~

After finalizing the CDS Loss of the defaulted CDS Clearing Member's proprietary account and application of the CDS Collateral to satisfy such CDS Loss, the Clearing House shall reserve any excess CDS Collateral that remains first, to satisfy any CDS Loss arising in the defaulted CDS Clearing Member's customer account class for CDS Contracts, and second, to satisfy any losses to the Clearing House from such CDS Clearing Member with respect to other product classes, including, but not limited to, pursuant to Rule 818; provided, however, that such excess CDS Collateral shall not be applied to a CDS Loss arising ~~in~~ from the CDS Contracts of a defaulted CDS Clearing Member's cleared swaps customer account class until after any permitted application of CDS Customer Collateral held in such customer account class.

~~Any gains or excess performance bond amounts or other collateral within the defaulted~~ remaining CDS Clearing Member's Customer Collateral of a customer account class of a CDS Clearing Member following final resolution of ~~the defaulted CDS Clearing Member's~~ any CDS Loss ~~in~~ attributed to such customer ~~account class~~ shall remain in such customer account class, where it may be used to satisfy losses of such customer to the Clearing House arising in such customer account class with respect to other product classes, including, but not limited to, pursuant to Rule 818. ~~Such assets-~~ Any customer collateral used by the Clearing House to cure an CDS Loss associated with a customer account shall not be added to the defaulted CDS Clearing Member's CDS Collateral generally. ~~For the avoidance of doubt, as set forth in 8H802-G, the~~ The Clearing House shall not use ~~performance bond amounts or other collateral in any customer account class of the defaulted CDS Clearing Member~~ CDS Customer Collateral to satisfy a payment obligation, realized loss or expense to the Clearing House in respect of the defaulted CDS Clearing Member's proprietary account.

Should a CDS Loss continue to exist after application of the amounts set forth above, any remaining deficiency shall be satisfied pursuant to the procedures in Rule 8H802.B. Any such amount shall continue to be a liability of the defaulted CDS Clearing Member to the Clearing House, which the Clearing House may collect from any other assets of such clearing member or by process of law.

8H802.B. Satisfaction of Clearing House Obligations

1. Application of Clearing House and non-defaulting CDS Clearing Member contributions

If the CDS Collateral, the CDS Customer Collateral, and any excess assets from other product classes made available to cover CDS Losses, as described in Rule 8H802.A, ~~is~~**are** insufficient to cover the CDS Loss produced by the default, the Clearing House shall cover, or reduce the size of, such CDS Loss by applying the following funds to such losses in the order of priority as follows (the “CDS Priority of Payments”):

First, the corporate contribution of CME for CDS Products (the “CME CDS Contribution”), which shall be equal to the greater of (x) \$50 million and (y) 5% of the CDS Guaranty Fund, up to a maximum of \$100 million;

Second, the CDS Guaranty Fund (excluding the contribution of the defaulted CDS Clearing Member), which shall be applied pro rata to each non-defaulted CDS Clearing Member’s deposit to the CDS Guaranty Fund in accordance with Rule 8H07; and

Third, CDS Assessments against all CDS Clearing Members (excluding any previously defaulted CDS Clearing Members), which shall be assessed against each CDS Clearing Member pro rata in proportion to their required deposit to the CDS Guaranty Fund in accordance with Rule 8H07, including any calculation adjustment as provided in Rule 8H07.3. Assessments against a CDS Clearing Member shall be subject to the maximum CDS Assessment assigned to such CDS Clearing Member pursuant to Rule 8H07 at the time of the default, and also subject to the limits set forth in Rule 8H802.H in the case of multiple successive defaults.

In addition, during a CDS Cooling Off Period and to the extent permitted by applicable law, the Clearing House shall additionally assess each CDS Clearing Member that has previously defaulted during such CDS Cooling Off Period (and each such CDS Clearing Member shall pay to the Clearing House) an amount equal to such previously defaulted CDS Clearing Member pro rata share of CDS Assessments determined as if such CDS Clearing Member had not defaulted. Any amounts received from such previously defaulted CDS Clearing Member shall be distributed to CDS Clearing Member that paid CDS Assessments during the related CDS Cooling Off Period on a pro rata basis in proportion to the CDS Assessments paid by CDS Clearing Members during such period.

Non-defaulted CDS Clearing Members and their customers shall not take any action that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 8H802.B, including, but not limited to, attempting to obtain a court order. Determinations under this Rule 8H802.B that are based upon a CDS Clearing Member’s CDS Guaranty Fund deposit and/or CDS Assessment requirement shall be based upon the requirement in effect at the commencement of the related CDS Cooling Off Period; provided that, if a CDS Clearing Member’s CDS Guaranty Fund requirement and maximum CDS Assessment exposure is increased during a CDS Cooling Off Period due to a material change in such CDS Clearing Member’s business (as described in Rule 8H07.3), then (i) such determinations shall factor in such CDS Clearing Member’s revised maximum CDS Assessment and (ii) such determinations shall factor in such CDS Clearing Member’s revised CDS Guaranty Fund deposit (x) for all purposes, if such CDS Clearing Member does not elect to satisfy such increase in its CDS Guaranty Fund requirement by depositing funds as performance bond pursuant to Rule 8H07.3 or (y) solely for purposes of adjusting such CDS Clearing Member’s proportionate share of any CDS Assessment, as provided in Rule 8H07.3, if such CDS Clearing Member elects to satisfy such increase in its CDS Guaranty Fund requirement by depositing funds as performance bond pursuant to Rule 8H07.3.

The CDS Guaranty Fund and CDS Assessments of non-defaulted CDS Clearing Members shall not be available to satisfy losses in product classes other than CDS.

2. CDS Product Limited Recourse

If a default occurs, CDS Collateral, excess defaulted CDS Clearing Member assets from other product classes made available to cover CDS losses (“Non-CDS Proprietary Collateral”), CDS Customer Collateral and the CDS Priority of Payments shall be the sole source of payments to cover the CDS Loss until the default is fully and finally resolved, as applicable. In the event the CDS Collateral, Non-CDS Proprietary Collateral, CDS Customer Collateral and the CDS Priority of Payments are insufficient to cover the CDS Loss, regardless of whether the CME is able to require a

CDS Clearing Member to cure a deficiency in the CDS Guaranty Fund because of the occurrence of a Bankruptcy Event (as such term is defined in Rule 818.A.), CDS Clearing Members and the holders of CDS Contracts shall have no recourse to any other funds or any other entity, including without limitation the guaranty funds that support clearing of other products, CME, CME Group Inc. or any of its affiliates, other than any amounts recovered as described in Rule 8H802.E.

If at any time following a default: (a) the Clearing House is unable to cover a settlement variation payment obligation when due and has no expectation of accessing funds to permit it to cover such payment obligation (for example through access to credit lines or assessment funds), (b) the Clearing House determines (after consultation with the CDS Risk Committee) that the available CDS Collateral, Non-CDS Proprietary Collateral, CDS Customer Collateral and the CDS Priority of Payments will be insufficient to satisfy auction bid results received for the defaulted CDS Clearing Member's portfolio, (c) the Clearing House otherwise determines (after consultation with the CDS Risk Committee and with the approval of the CDS Risk Committee if such determination occurs prior to conducting an auction) that the CDS Loss will exceed the available CDS Collateral, ~~Non-CDS Proprietary Collateral~~ and CDS Priority of Payments or (d) a Bankruptcy Event of the Exchange (each a "CDS Termination Event"), then all CDS Contracts shall be terminated and the CDS Collateral and CDS Priority of Payments shall be distributed in accordance with Rule 8H802.B.3. below.

If the CDS Customer Collateral ~~in the~~ attributable to a cleared swaps customer ~~account class~~ of the defaulted CDS Clearing Member is sufficient to satisfy ~~the any~~ CDS Loss ~~in respect of~~ associated with such ~~account class~~ cleared swaps customer, the CDS Customer Collateral shall be so applied and any remaining CDS Customer Collateral shall remain in such customer account class ~~for application to satisfy other losses arising in such account class, including, but not limited to, pursuant to Rule 818.~~ Following application of such remaining CDS Customer Collateral to satisfy any other ~~such losses~~ losses of the respective cleared swaps customer, any excess remaining CDS Customer Collateral shall be returned to the defaulted CDS Clearing Member, who shall return such CDS Customer Collateral to its customers in accordance with applicable law. ~~If the CDS Customer Collateral in any customer account class of a defaulting CDS Clearing Member is insufficient to satisfy the CDS Loss to the Clearing House arising in such account class and a CDS Termination Event occurs, then such CDS Customer Collateral shall be applied to the termination process set forth in Rule 8H802.B.3 below.~~

~~No CDS Clearing Member and no customer of a CDS Clearing Member shall institute against, or join any other person in instituting against~~

As promptly as reasonably practicable, the ~~Exchange any bankruptcy, reorganization, arrangement, insolvency, moratorium, liquidation or examinership proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law arising out of any claimed default by the~~ Clearing House ~~on a CDS Contract as a result~~ shall, in a manner that is consistent with the requirements of the ~~termination of such~~ Commodity Exchange Act and the regulations adopted thereunder (including, without limitation Part 190 of the Regulations, if applicable) fix a U.S. dollar amount (the "CDS Close-Out Value") to be paid to or received from the Clearing House in respect of all CDS Contracts to be terminated by conducting a special settlement cycle to determine a final settlement price for all open CDS Contracts, as further detailed in the CDS ~~Contract and related payments in accordance with these Rules. Manual.~~

3. Termination of CDS Contracts; Netting and Offset

If a CDS Termination Event occurs as described in Rule 8H802.B.2, all CDS Contracts shall be closed promptly and the Clearing House shall determine the amount to be paid to or collected from each non-defaulted CDS Clearing Member as follows:

(i) The net obligation of the Clearing House to a non-defaulted CDS Clearing Member (a "collect"), or the net obligation of a non-defaulted CDS Clearing Member to the Clearing House (a "pay"), shall be determined separately for (a) its proprietary positions in CDS Contracts ~~on a net basis, across all proprietary positions~~ (an "Proprietary CDS Collect" or an "Proprietary CDS Pay") and (b) the positions of each of its customers in CDS Contracts, ~~calculated separately for~~ (each customer on a net basis, an "Individual Customer CDS Collect" or an "Individual Customer CDS Pay") using the CDS Close-Out Value ~~(as defined in Rule 8H802.B.4 below) for such~~ for CDS Contracts. The Clearing House shall also determine an Individual Customer CDS Collect or an Individual Customer CDS Pay for each non-defaulted cleared swaps customer of a defaulted CDS Clearing Member. The sum of all ~~of the Clearing House's obligations to CDS Clearing Members so determined~~ Proprietary CDS Collects and Individual Customer CDS

Collects shall be the "Aggregate CDS Collects". The sum of all Proprietary CDS Pays and Individual Customer CDS Pays shall be the "Aggregate Collects".

CDS Pays."

(ii) The Clearing House shall determine the amount of each non-defaulted CDS Clearing Member's remaining payment obligations, if any, in respect of CDS Assessments. ~~The sum of any such remaining CDS Assessments plus any pays owed to (which, together with the Clearing House from CDS Clearing Members under paragraph (i) above shall be the "Aggregate Pays". The sum of any remaining CME CDS Corporate Contribution, and any remaining CDS Guaranty Fund amounts and any remaining CDS Assessments previously funded CDS Assessments, shall constitute the "Remaining CDS Financial Safeguards")~~

Priority of Payments").

(iii) ~~In the event (x) the sum of the Aggregate Pays, The Clearing House shall add any remaining CDS Collateral of defaulted CDS Clearing Members, CDS Customer Collateral (if applicable as described in Rule 802.B.2. above) and Remaining CDS Financial Safeguards (collectively, the "Remaining CDS Funds") equals or exceeds (y) 8H802.B.2. above) and Remaining CDS Priority of Payments to the Aggregate CDS Pays, and deduct the amount of any uncovered CDS Loss (the sum of such amount, the "Aggregate CDS Available Funds").~~

(iv) ~~The Clearing House shall then notify each CDS Clearing Member of the amount of its remaining CDS Assessments, Proprietary CDS Pay and Individual Customer CDS Pays and each CDS Clearing Member shall pay all such amounts no later than the sum of the Aggregate Collects and any remaining time specified by the Clearing House liabilities associated with in such notice. If a CDS, then after satisfaction in full of all liabilities and obligations to Clearing Member does not make such payment, the Clearing House associated shall determine such CDS Clearing Member to be in default and may take any of the actions specified in 8H802.A with respect to such CDS Contracts, the Clearing House shall pay all Member and its customer.~~

(v) ~~If the amount of Aggregate Collects from the Remaining CDS Funds, reimburse any CDS Available Funds received by the Clearing House exceeds the Aggregate CDS Collects, the Clearing House shall calculate reimbursements of the excess funds, in reverse order of the CDS Priority of Payments and return all performance bond funds to each non-defaulting CDS Clearing Member; provided that the Clearing House may require payments from CDS Clearing Members to be funded immediately prior to making payments. If any CDS Clearing Member fails to make a payment pursuant to the immediately prior sentence, the Clearing House may declare such CDS Clearing Member to be in default and the Clearing House shall process the defaults in accordance with Rule 8H802 and may adjust payments as necessary to account for such defaults.~~

~~(iv) In the event (x) the Remaining CDS,~~

(vi) ~~If the Aggregate CDS Collects exceed the amount of Aggregate CDS Available Funds is less than (y) the sum of the Aggregate Collects and any remaining Clearing House liabilities associated with CDS, then received, the Clearing House shall haircut the Aggregate Collects for the proprietary account of each CDS Clearing Member and each customer amount of each Proprietary CDS Collect (such haircut amount, the "Allocated Proprietary CDS Collect") and Individual Customer CDS Collect (such haircut amount, the "Allocated Individual Customer CDS Collect") on a pro rata basis based on the Remaining CDS Funds. The amount of such collect (after haircut) for each proprietary account or customer as Aggregate CDS Available Funds received relative to the case may be shall be of the "Allocated Initial Proprietary CDS Collect" for such proprietary account or customer, and Initial Individual Customer CDS Collect.~~

~~The Clearing House shall then determine a Final CDS Customer Account Collect or Final CDS Customer Account Pay for each customer account and a Final CDS Proprietary Account Collect or Final CDS Proprietary Account Pay for each proprietary account and make payments from the Remaining CDS Funds and receive payments in accordance with the normal operations of the Clearing House; provided that the Clearing House may require payments from CDS Clearing Members to be funded immediately prior to making payments. If any CDS Clearing Member fails to make a payment pursuant to the immediately prior sentence, the Clearing House may declare such CDS Clearing Member to be in default and the Clearing House shall process the defaults in accordance with Rule 8H802 and may adjust payments as necessary to account for such defaults. CDS Clearing Members shall calculate the net obligation owed to or payable from each of its customers using the calculations determined by the Clearing House for such net customer positions pursuant to 8H802.B.3(i) above, as adjusted by the haircut described in the immediately preceding paragraph.~~

~~"Final CDS Customer Account Collect" shall mean the amount payable by the Clearing House to the customer account class of a non-defaulted CDS Clearing Member equal to the excess, if any, of (x) the aggregate Allocated CDS Collects for such customer account class and any performance bond funds held for such customer account~~

~~class for CDS positions over (y) the aggregate pays owed to the Clearing House in respect of CDS positions in such customer account class.~~

~~“Final CDS Customer Account Pay” shall mean the amount payable by the customer account class of a non-defaulted CDS Clearing Member to the Clearing House equal to the excess, if any, of (x) the aggregate pays owed to the Clearing House in respect of CDS positions in such customer account class over (y) the aggregate Allocated CDS Collects for such customer account class and any performance bond funds held for such customer account class for CDS positions.~~

~~“Final CDS Proprietary Account Collect” shall mean the amount payable by the Clearing House to the proprietary account of a non-defaulted CDS Clearing Member equal to the excess, if any, of (x) the aggregate Allocated CDS Collects for such proprietary account and any performance bond funds held for such proprietary account for CDS positions over (y) the aggregate pays owed to the Clearing House in respect of CDS positions in such proprietary account.~~

~~“Final CDS Proprietary Account Pay” shall mean the amount payable by the proprietary account of a non-defaulted CDS Clearing Member to the Clearing House equal to the excess, if any, of (x) the aggregate pays owed to the Clearing House in respect of CDS positions in such proprietary account over (y) the aggregate Allocated CDS Collects for such proprietary account and any performance bond funds held for such proprietary account for CDS positions.~~

~~(vii) For non-defaulted CDS Clearing Members, the Clearing House shall pay the Proprietary CDS Collect or Allocated Proprietary CDS Collect, as applicable, and Individual Customer CDS Collect or Allocated Individual Customer CDS Collects, as applicable, as soon as practicable after receipt of the Aggregate CDS Available Funds. For non-defaulted customers of a defaulted- CDS Clearing Member, the Clearing House will make arrangements to pay directly to such non-defaulted customers.~~

~~(viii) Upon the completion of payments, all CDS Contracts shall be extinguished, and the Clearing House shall have no further access to funds or collateral in respect of CDS Contracts or CDS clearing activity of a non-defaulting CDS Clearing Member. CDS Clearing Members, their Affiliates and their customers shall have no claim against any other guaranty fund established by the Exchange, CME Group Inc. or any of its affiliates with respect to losses suffered as a result of the application of this Rule 8H802.B, nor shall any beneficial holder of [aan](#) CDS Contract have any claim against its non-defaulting CDS Clearing Member as a result of the application of this Rule 8H802.B.~~

4. ~~Valuation of~~Non-Petition

~~No CDS Contracts Clearing Member and no customer of a CDS Clearing Member shall institute against, or join any other person in instituting against, the Exchange any bankruptcy, reorganization, arrangement, insolvency, moratorium, liquidation or examinership proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws or other applicable law arising out of any claimed default by the Clearing House on a CDS Contract as a result of the termination of such CDS Contract and related payments in accordance with these Rules~~

~~As promptly as reasonably practicable, the Clearing House shall, in a manner that is consistent with the requirements of the Commodity Exchange Act and the regulations adopted thereunder (including, without limitation) Part 190 of the Regulations, if applicable, fix a U.S. dollar amount (the “Close-out Value”) to be paid to or received from the Clearing House in respect of all CDS Contracts to be terminated by conducting a special settlement cycle to determine a final settlement price for all open CDS Contracts, as further detailed in the CDS Manual.~~

5. ~~Fedwire and Satisfaction of~~ CDS Assessments

All amounts assessed by the Clearing House against a CDS Clearing Member pursuant to this Chapter where notice of such assessment is delivered to a CDS Clearing Member during the hours in which the Fedwire is in operation shall be paid to the Clearing House by such CDS Clearing Member prior to the close of the Fedwire on such day; provided, however, that where notice of such assessment is delivered to a CDS Clearing Member within one (1) hour prior to the close of Fedwire or after the close of Fedwire shall be paid to the Clearing House within one (1) hour after Fedwire next opens; provided, further, that the time for payment of amounts due by a CDS Clearing Member may be tolled by the Clearing House should the Fedwire not be available and the Clearing House and CDS Clearing Member are unable, following good faith efforts, to make alternate arrangements satisfactory to the Clearing House for the relevant payment.

Any CDS Clearing Member that does not satisfy an assessment shall be subject to the default provisions described in Rule 8H802.A.1.a. Any loss that occurs as a result of any such default shall itself be assessed by the Clearing House to non-defaulted CDS Clearing Members pursuant to Rule 8H802.A and 8H802.B and subject to the maximums set forth in 8H802.H.

After payment of a CDS Assessment pursuant to Rule 8H802.B, a CDS Clearing Member shall charge other CDS Clearing Members for whom it clears CDS Contracts or carries CDS positions on its books to recover their proportional share of the assessment. Such other CDS Clearing Members shall promptly pay the charge.

6. Details of Implementation

While adherence to the provisions of this Rule 8H802.B shall be mandatory, the detailed implementation of the process of finalizing a CDS Loss with respect to a default, including the liquidation, auction or sale of positions or assets of the defaulted CDS Clearing Member, shall be conducted by the Clearing House in consultation with the CDS Default Management Committee.

8H802.C. Limited Advance Assessment Authority

If a default occurs and the collateral for outstanding CDS Contracts of the defaulted CDS Clearing Member [for its proprietary and customer accounts](#) (including any CDS Contracts entered into by the Clearing House to hedge such defaulted Clearing Members' CDS Contracts pursuant to Rule 8H802.A.1.c ("CDS Hedge Contracts")) held by the Clearing House (after taking into account settlement variation payment obligations) together with any remaining CME CDS Contribution and any remaining CDS Guaranty Fund is less than 50 percent of the performance bond requirement for such CDS Contracts at the time of default plus the then-current performance bond requirement for any outstanding CDS Hedge Contracts, the Clearing House, after consultation with the CDS Risk Committee, may issue an advance assessment demand to non-defaulted CDS Clearing Members up to an aggregate maximum of the amount that would be necessary to bring the collateral of the defaulted CDS Clearing Member to 100% of the relevant requirement. Any such assessment shall be (w) paid no later than the close of the Fedwire on the Business Day following the date of the demand, (x) subject to any cap on assessments pursuant to Rule 8H802.B and 8H802.H, (y) made pro rata among CDS Clearing Members on the same basis as assessments under Rule 8H802.B and (z) subject to tolling due to the unavailability of the Fedwire as described in Rule 8H802.B.5. After satisfaction of all losses to the Clearing House resulting from the defaulted CDS Clearing Member, the Clearing House shall return any advance assessments not used to satisfy such default as soon as practicable but, in any event, no later than the close of the Fedwire on the Business Day following the date all losses relating to such default have been determined, subject to tolling due to the unavailability of the Fedwire as described in Rule 8H802.B.5. Any such return shall be made on a pro rata basis relative to the amount of advance assessment paid.

8H802.D. Restoration of Funds Following Final Determination of Losses

If, after the default of a CDS Clearing Member is finally resolved, the Clearing House determines that CDS Collateral, CDS Customer Collateral, the CME CDS Contribution, CDS Guaranty Funds, CDS Assessments, or any other assets were employed in a manner different from what would have occurred had all assets been secured and liquidated immediately and the CDS Loss finalized simultaneously, then the Clearing House shall make distributions or rebalancing allocations to non-defaulted CDS Clearing Members, the CDS Guaranty Fund, CME (with respect to the CME CDS Contribution) or the customer account class of the defaulted CDS Clearing Member, as appropriate, to reflect the manner in which such assets would otherwise have been employed.

8H802.E. Rights of Clearing House for Recovery of Loss

Losses caused by the default of a CDS Clearing Member are amounts due to the Clearing House from such CDS Clearing Member and shall remain legal obligations thereof notwithstanding the Clearing House's recourse to the loss-mutualization provisions of this Rule 8H802 and Rule 802. The Clearing House shall take commercially reasonable steps to recover such loss amounts (including [claims](#) submitted in bankruptcy court). If a loss amount to which the CDS Guaranty Fund or CDS Assessments have been applied is subsequently recovered by the Clearing House in whole or in part, the amount of such recovery (net of any related expenses incurred by the Clearing House) shall be credited to the non-defaulting CDS Clearing Members (whether or not they are still CDS Clearing Members at the time of recovery) in reverse order of the CDS Priority of Payments and in proportion to the CDS Clearing Member's CDS Guaranty Fund deposit and CDS Assessments as such CDS Guaranty Fund and CDS Assessments were in effect when such loss-mutualization provisions were applied. If a CDS Clearing Member clears contracts or carries positions for other CDS Clearing Members and such other CDS Clearing Members were subject to a CDS Assessment pursuant to Rule 8H802.B.5, the receiving CDS Clearing Member shall return to such other CDS Clearing Members a pro rata share of any recoveries received by such CDS Clearing Member, which shall be calculated on the basis of the CDS Assessment amount paid by the other CDS Clearing Member.

8H802.F. CDS Guaranty Fund Contributions to be Restored

In the event it shall become necessary to apply all or part of the CDS Guaranty Fund to meet obligations to the Clearing House pursuant to this Rule 8H802, CDS Clearing Members shall restore their deposits to the CDS Guaranty Fund to previously required level prior to the close of the Fedwire on the next Business Day after notice that such amount is due from the Clearing House, subject to the maximum obligations to contribute to the CDS Guaranty Fund and to fund CDS Assessments set forth in Rule 8H802.H and tolling due to unavailability of the Fedwire as described in Rule 8H802.B.5.

8H802.G. Default Management Across Account Classes

The procedures set forth in 8H802.A and 8H802.B shall be conducted separately by the Clearing House with respect to open positions and associated performance bond deposits for different account classes and shall be conducted separately from any other product class cleared by the Clearing House. Upon a default, the Clearing House may, in accordance with applicable law, act immediately to attempt to transfer part or all customer positions and associated performance bond collateral with respect to any cleared swaps customer ~~account class in which there is no default that has not defaulted~~ on payment obligations, ~~in accordance with applicable law to one or more other non-defaulted CDS Clearing Members that agree to such transfer. The Clearing House shall not apply CDS Customer Collateral to any payment obligations or realized loss or expense of a defaulted CDS Clearing Member arising from a default in any proprietary account or any other customer account class. If a default occurs in the defaulted CDS Clearing Member's customer account class, the Clearing House has the right to liquidate and apply toward the default all open positions and customer performance bond deposits in such customer account class of the defaulted Clearing Member. Accordingly, positions and performance bonds deposited by customers not causing the default are at risk if there is a default in the applicable customer account class of their Clearing Member. If the Clearing House liquidates positions and/or collateral in a customer account class, funds associated with the liquidation of positions in or collateral supporting CDS Contracts in the customer account class shall be applied first to satisfy the CDS Loss attributable to the applicable customer account class. After CDS Loss attributable to the applicable customer account class are fully resolved, any remaining funds may be applied to satisfy losses to the Clearing House associated with positions in other product classes that are held in the same customer account class. Any collateral remaining after all losses to the Clearing House in respect of such customer account class have been satisfied shall be reserved to such customer account class in order to satisfy the claims of non-defaulted customers in accordance with applicable law. For the avoidance of doubt, if a CDS Clearing Member is not in default with the Clearing House, performance bond of such non-defaulting CDS Clearing Member (both proprietary and customer) will not be used to satisfy a CDS Loss.~~

8H802.H. CDS Cooling Off Period and Multiple Defaults

The provisions set forth in Rule 8H802.A and 8H802.B shall apply with respect to each default by a CDS Clearing Member. If more than one CDS Clearing Member default occurs at a time or in close sequence, including a default that occurs by reason of a CDS Clearing Member's failure to satisfy an assessment demand, the Clearing House shall manage the defaults separately. Upon any default, non-defaulted CDS Clearing Members shall be subject to a maximum obligation during the relevant CDS Cooling Off Period to contribute to the CDS Guaranty Fund and to fund CDS Assessments, included advanced assessments, equal to the aggregate amounts set forth in Rule 8H07. This maximum shall apply from the date of the original default until the later of (i) the 25th Business Day thereafter and (ii) if another CDS Clearing Member defaults during the 25 Business Days following the initial or any subsequent default, the 25th Business Day following the last such default (such period, the "CDS Cooling Off Period"), regardless of the number of defaults that occur during such CDS Cooling Off Period.

The maximum does not limit CDS Clearing Members' obligations to restore their CDS Guaranty Fund contributions as set forth in Rule 8H802.F, except that if the CDS Clearing Member's required CDS Guaranty Fund contribution would exceed such maximum, the CDS Clearing Member's CDS Guaranty Fund requirement shall be reduced accordingly for the remainder of the CDS Cooling Off Period. Following a CDS Cooling Off Period, the Clearing House shall notify each CDS Clearing Member of its CDS Guaranty Fund deposit obligation and its CDS Assessment exposure.

The aggregate maximum contribution for the CDS Cooling Off Period shall be based upon each CDS Clearing Member's CDS Guaranty Fund requirement and CDS Assessment exposure in effect at the commencement of the CDS Cooling Off Period; provided that, if a CDS Clearing Member's CDS Guaranty Fund requirement and maximum CDS Assessment exposure is increased during a CDS Cooling Off Period due to a material change in such CDS Clearing Member's business (as described in Rule 8H07.3), then (i) the maximum contribution of such CDS Clearing Member for the CDS Cooling Off Period shall be based on such revised maximum CDS Assessment and (ii) if such CDS Clearing Member does not elect to satisfy such increase by depositing funds as performance bond pursuant to Rule 8H07.3, the maximum contribution of such CDS Clearing Member for the CDS Cooling Off Period shall be based on such revised CDS Guaranty Fund requirement.

The CME CDS Contribution shall be limited to an aggregate maximum as set forth in Rule 8H802.B.1 during the CDS Cooling Off Period (including any amounts applied to the original default pursuant to Rule 8H802.B),

regardless of the number of defaults that occur during such CDS Cooling Off Period.

8H802.I. Post-Default Cleared Swaps Customer Account Processing

1. In order to minimize disruptions and loss to its public customers if an CDS Clearing Member defaults, each CDS Clearing Member shall cause its cleared swaps customers to establish arrangements to directly make all required performance bond and settlement variation payments directly to the Clearing House and to keep current and on file with the Clearing House any direction to transfer its open positions and collateral to another CDS Clearing Member.

2. The Clearing House shall treat positions and collateral of the cleared swaps customers of a CDS Clearing Member, which has been declared to be in default, in accordance with Part 22 of the CFTC's regulations. Immediately after the default of a CDS Clearing Member, the Clearing House shall cease netting settlement variation among the cleared swaps customers of the defaulted Clearing Member.

3. If the Clearing House ceases to net settlement variation of the customers of a defaulted CDS Clearing Member, the Clearing House will calculate the settlement variation obligation owed to each customer ("collects"), and also calculate the settlement variation obligation owed to the Clearing House by each customer ("pays"). The Clearing House will establish a holding account for settlement variation collects owed to each customer or, subject to necessary approvals, pay such settlement variation collects directly to each customer. The Clearing House will collect customer settlement variation pays from the following sources:

- i. Directly from the obligated customer in accordance with the arrangements established pursuant to 8H802.I.1 or by attaching any excess collateral attributable to that customer; and
- ii. By means of liquidating the CDS collateral supporting the customer's position attributed to a customer that fails to make a required settlement variation payment when due. The proceeds of such liquidation shall be used to meet the customer's settlement variation pay obligation to the clearing house. (If the collateral is liquidated, the positions supported by the collateral shall be promptly liquidated.);

Any unmet customer obligation to the Clearing House will be a "CDS Loss," per 8H802.A.2, and will be cured in accordance with the provisions of 8H802.B.

4. The Clearing House shall rely on its own books and records to identify the portfolio of rights and obligations arising from the CDS Contracts of each cleared swaps customer. To the extent the Clearing House's books and records are not available or the Clearing House determines that its books and records are not accurate, the Clearing House shall rely on the information provided by the defaulted CDS Clearing Member to identify the portfolio of rights and obligations arising from the CDS Contracts for each of its cleared swaps customers.

Proposed Amendments to CME Rule 8H04. CDS CLEARING MEMBER OBLIGATIONS AND QUALIFICATIONS
(underlining indicates additions; strikeouts indicate deletions)

12. Each CDS Clearing Member shall use systems and appropriate procedures to track accurately, and to provide to the Clearing House accurately, the CDS positions and collateral of each of its cleared swaps customers.

Proposed Changes to the Manual of Operations for CME Cleared Credit Default Swaps for LSOC

Additions underscored; deletions struck

Chapter 1 – CDS Clearing Membership

~~Segregation of~~ Customer Funds for CDS

~~The Commodity Exchange Act and Part 22 of the CFTC Laws, r~~ Regulations ~~and rules governing cleared derivatives governing “Cleared Swaps Customer Accounts”~~ require, among other things, that ~~customer~~ positions and ~~monies collateral of Cleared Swaps Customers~~ be separately accounted for and ~~segregated reported~~ from the positions and monies of other customer origins and of the CDS Clearing Member. ~~These Act and CFTC laws, r~~ Regulations ~~and rules~~ are designed to protect customers in the event of the insolvency or financial instability of the CDS Clearing Member through which they conduct business. The requirements of separate accounting and segregation of Cleared Swaps ~~Customer positions and monies collateral~~ extend to CME Clearing. CME Group’s Audit Department routinely inspects the books and records of Clearing Members to ensure, among other things, their compliance with segregation requirements. The integrity of segregation relies on the accuracy and timeliness of the information provided to CME Clearing and the CFTC by member firms. Violations by a CDS Clearing Member of its segregation requirements ~~are~~ would be considered serious infractions and can result in major fines and penalties.

~~For CDS, CME Clearing and CDS Clearing Members will hold customer CDS index positions and related collateral in “cleared OTC derivatives sequestered accounts” pursuant to CME Rules (see Chapter 8F) and CFTC Part 190 Regulations. In accordance with CME Rules, customer CDS positions and related collateral must be sequestered from the positions and monies of the CDS Clearing Member. The segregation treatment for customer positions in single name CDS products is subject to ruling by the relevant regulatory authorities.~~

CME Rules ~~also~~ mandate the use of acceptable collateral to support margining of positions of Cleared Swaps Customers. Please see Chapter 6 of this CDS Manual for further information regarding acceptable collateral and haircuts.

Chapter 10 – CDS Guaranty Fund Calculation

Separate CDS Guaranty Fund

CME Clearing shall establish an additional CDS Guaranty Fund as described in Rule 8H07 and each CDS Clearing Member’s required contribution to the CDS Guaranty Fund is specified in such Rule.

Guaranty Fund Calculation

CME Clearing performs a comprehensive and thorough analysis of stress-testing scenarios, models, underlying parameters and assumptions used at least on a monthly basis to ensure that the CME Clearing Financial Safeguards Package is appropriate given the prevailing market conditions and risk forecasts.

Once the overall financial safeguards pool size has been determined using stress testing, the CDS Clearing Member’s guaranty fund contribution is calculated as per the example 1 below:

CHAPTER 5 – OPERATIONS TIMELINE AND REPORTS

CME-cleared OTC CDS Operational Timeline & Report List

Production Environment

Real-time Trade Submission from Platform

Firms may begin to enter alleged and match trades	Sunday 7:15pm ET
DCMs may begin to affirm/reject matched trades for clearing through FEC	Sunday 7:15pm ET
Firms can receive real-time FIXML confirms	Sunday 7:15pm ET
Trade Submission deadline for current day	6:44:59pm ET
Cut off for clearing firms acceptance for settlement on the same Clearing Business Day	6:59:59pm ET
Clearing Systems end of day processing and maintenance	<u>Until 8:03</u> 0pm ET
Trades submitted to CME Clearing and accepted by both CDS Clearing Members prior to 7pm on the following Clearing Business Day will be assigned a Clearing Effective Date on the second following Clearing Business Day	8:030pm - 11:59:59pm ET
All trades affirmed and submitted to CME Clearing before 7:00pm can remain pending in the CME Clearing System only until 6:59:59pm the next day.	
Trades not accepted by both Clearing Members by 6:59:59pm the next Clearing Business Day will be removed from the CME Clearing System.	
(Note: Trades submitted before 6:44:59pm to CME Clearing but not accepted by both Clearing Members until after 8:030pm on the date of submission and accepted before 6:59:59pm the next business day will be settled the second Clearing Business Day)	
Latest time during a week to enter alleged and match trades	Friday 11:59:59pm