

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 13-565ARR

Organization: CME/CBOT/NYMEX

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 10/29/2014 Filing Description: Adoption of New Rules for Liquidity Risk Management

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: Definitions, 822 and 901.Q

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Official Product Name:**

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

**Official Name(s) of Product(s) Affected:**

**Rule Numbers:**



Jason Silverstein  
Executive Director and Associate General Counsel  
Legal Department

October 29, 2014

**VIA E-MAIL**

Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**RE: CFTC Regulation 40.10(a) Advance Notice – CME/CBOT/NYMEX Rules for Liquidity Risk Management.  
CME/CBOT/NYMEX Submission No. 13-565ARR**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME”), the Board of Trade of the City of Chicago, Inc. (“CBOT”), and New York Mercantile Exchange, Inc. (“NYMEX”) (collectively, the “Exchanges”), pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.10(a), submit this advance notice of proposed rules relating to liquidity risk management addressing the Clearing House’s obligations under CFTC Regulations 39.33 and 39.35 (the “Proposed Rules”). The Proposed Rules will become effective on the earliest possible date in accordance with the timing requirements under CFTC Regulation 40.10.

**A. Background and Summary of Revisions in CME/CBOT/NYMEX Submission No. 13-565ARR**

CME/CBOT/NYMEX Submission No. 13-565 was submitted on December 18, 2013. Clerical revisions to the original submission were submitted on the same date via CME/CBOT/NYMEX Submission No. 13-565R. Per request of Commission staff, CME/CBOT/NYMEX Submission Nos. 13-565 and 13-565R were withdrawn on March 27, 2014 and CME/CBOT/NYMEX Submission No. 13-565A was submitted in place of CME/CBOT/NYMEX Submission No. 13-565R on March 31, 2014. CME/CBOT/NYMEX Submission No. 13-565AR was submitted on July 18, 2014 and included revisions to CME/CBOT/NYMEX Rule 822.A.1 to clarify that in connection with a liquidity shortfall occurring with respect to one type of transaction, the Clearing House may only substitute U.S. Treasuries for cash in the guaranty fund(s) associated with the membership status of the clearing member causing the Liquidity Event.

In light of discussions with CFTC staff, questions received to date and further consideration of the Proposed Rules, the Exchanges are submitting CME/CBOT/NYMEX Submission No. 13-565ARR, to revise CME Submission No. 13-565AR as follows: updating Rule 822.A.2. to reflect the planned offset of Clearing House U.S. dollar settlement variation obligations to its clearing members with a U.S. Treasury forced sale; substituting “U.S. Government Securities Broker-Dealer” for “Primary Dealer” in the Definitions section of the Proposed Rules; and removing Proposed Rule 901.R–*Discount Window Access*. This submission has also been revised to more fulsomely address the risk impacts of the Proposed Rules and CME’s mitigation of those risks. Summaries of revisions included in previous filings are being deleted for clarity.

The text of the Proposed Rules is attached as Exhibit 1. Modifications to the text of the Proposed Rules between 13-565AR and 13-565ARR are included as Exhibit 2 in black-line format. We are providing this submission in clean copy due to the extensive revisions; however, for reference we include a copy of CME Submission No. 13-565AR as Exhibit 3.

A brief summary of the material rule revisions and the reasoning behind such revisions proposed in this CME/CBOT/NYMEX Submission No. 13-565ARR are below.

1. *Revision: Proposed New CME/CBOT/NYMEX Rule 822.A.2.*

Proposed Rule 822.A.2. is being revised so that a clearing member's settlement variation obligation is offset via a forced sale mechanism rather than a payment-in-kind process. The rule title is being amended to reflect this revised offset process.

2. *Revision: Proposed New CME/CBOT/NYMEX Rule 822.B.*

Proposed Rule 822.A.2.is being revised to add a requirement that clearing members have notice, prior to participating in an auction, that the Clearing House intends to satisfy payment owed to auction winners in whole or in part by transferring Federal Reserve discount window eligible securities to them at a haircut market value. The rule title is being revised to reflect this advanced notice requirement.

3. *Revision: Definition of "U.S. Government Securities Broker-Dealer"*

The proposed definition of "Primary Dealer" is being replaced with the definition of "U.S. Government Securities Broker-Dealer," which is a broker-dealer that functions in the operation of markets for U.S. Treasuries. The definition is drafted so that it only applies to firms that are expected to have access to liquidity in part through their unique position in the U.S. Treasury market, which enables them to access a broader range of potential buyers for liquidity purposes. References to "Primary Dealers" are replaced throughout the Proposed Rules with references to "U.S. Government Securities Broker-Dealers."

4. *Revisions: Proposed New CME/CBOT/NYMEX Rule 901.R*

The Exchanges determined it was appropriate to remove proposed new CME/CBOT/NYMEX Rule 901.R.—*Discount Window Access* from this Submission No. 13-565ARR.

**B. Description of Expected Effects on Risks and How CME Plans to Manage Identified Risks**

The clearing house division of CME ("CME Clearing" or the "Clearing House") employs a sound risk-management framework for comprehensively managing liquidity risk. The framework serves to effectively measure, monitor, and manage liquidity risk on an ongoing basis. The framework includes assessment and maintenance of sufficient liquid resources to effect same-day settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios. The stress scenarios include the default of the clearing member and its affiliates that would generate the largest aggregate, with consideration of the second largest, by-currency liquidity obligation under extreme but plausible market conditions. CME Clearing manages liquidity risk through utilization of qualifying liquid resources to meet its liquidity obligation as calculated under the framework. In order to augment this framework and to increase CME Clearing's available liquidity resources and flexibility in addressing a liquidity event, the Exchanges are proposing to add certain requirements and/or capabilities into their rules that CME Clearing will employ in its administration of its liquidity risk program. This rules-based approach to liquidity risk management will also rely on and be augmented by CME Clearing's collateral policy determinations, with liquidity risk management serving as a primary consideration in the enumeration of such collateral policies.

In satisfaction of their obligations under CFTC Regulations § 40.10(a)(1) and § 39.42, the Exchanges—after discussing the Proposed Rules with clearing members of CME Clearing and staff of the CFTC and the Board of Governors of the Federal Reserve System—identified the Proposed Rules' expected effects on the Clearing House, its clearing members and market participants, and means to manage identified risks, as follows:

- The Proposed Rules enhance the liquidity management tools available to the Clearing House and, therefore, reduce systemic risk in the market by decreasing the likelihood that CME Clearing will fail to meet any of its payment obligations. This in turn decreases risks to clearing members along with other market participants. In addition to the positive impact on risks from a liquidity perspective, the Proposed Rules decrease systemic risk by ensuring CME Clearing's clearing members can continue to utilize a diverse array of collateral with minimal credit, market and liquidity risk to meet obligations at the Clearing House. Increasing liquidity diversification can reduce systemic risk during a liquidity event by avoiding concentration of collateral sales in only one market. In addition, accepting a diverse set of collateral reduces the need for clearing members to provide costly and market-impacting collateral transformation services to their clients. Therefore, the Proposed Rules reduce overall risk to the Clearing House, its clearing members and the financial market.
- Definition of *U.S. Government Securities Broker-Dealer*. "U.S. Government Securities Broker-Dealers" are defined as broker-dealers registered with the Securities and Exchange Commission that function in the operation of markets for U.S. Treasuries, including by acting as a channel for the United States Department of the Treasury and investors in primary market for U.S. Treasuries (for example, by participating in auctions); acting as providers of liquidity in primary and secondary markets for U.S. Treasuries; and acting as providers of asset transformation and market-making services in the market for U.S. Treasuries. In analyzing the impact of the Proposed Rules, the Clearing House determined that liquidity profiles of such entities would enable them to comply with the entire suite of the Proposed Rules with a de minimis impact on their liquidity profile. This is based on the Clearing House's conclusion that entities meeting this definitional profile are best able to utilize their unique position in the U.S. Treasury market to liquidate or hold U.S. Treasury securities received under the Proposed Rules without a detrimental impact to their liquidity profile.
- Proposed Rule 822.A.1(a) provides CME Clearing same-day access to cash by allowing the Clearing House to substitute an equivalent value of U.S. Treasury securities into the account of clearing members who have deposited cash to meet their guaranty fund requirements. The negative risk impact on clearing members as a consequence of this rule is minimal due to the fact that one high quality liquid asset, as defined under relevant banking regulations (U.S. Treasury securities), is being substituted for another high quality liquid asset (cash). The Clearing House further mitigates negative risk impact to clearing members as the amount of substitution under this rule is limited to the size of the clearing member's guaranty fund requirement. Clearing members that are not U.S. Government Securities Broker-Dealers have complete discretion to avoid the requirement to substitute cash for non-cash guaranty fund assets by posting cash guaranty fund deposits. During the consultative process for the Proposed Rules, CME's clearing members voiced a strong preference that Rule 822.A.1. be designed to allow for the certainty and flexibility afforded by the transfer of ownership of the substituted U.S. Treasury securities. The clearing members indicated that settlement finality would allow them to preserve a flexible liquidity position where they could choose to sell or deploy the U.S. Treasury securities as demand, and their liquidity profile, dictated. Conversely, they were concerned that if the substitution were structured as a reverse repurchase agreement, they would not have the flexibility to sell or deploy the U.S. Treasury securities as they saw fit due to their obligation to return the securities to the Clearing House at the time of the unwind. CME Clearing took these comments into account in designing the rule as a substitution rather than a repo or lending transaction.
- Proposed Rule 822.A.1(b) provides the Clearing House with the ability to require clearing members that are (or have an affiliate that is) U.S. Government Securities Broker-Dealers to replace non-cash guaranty fund deposits with cash within 60 minutes. Substitution under this Proposed Rule should have a negligible impact on the affected clearing member's liquidity profile as such substitution would not generally exceed a small percentage of such clearing member's

adjusted net capital and liquidity planning needs. Further, the securities to be substituted for cash are highly liquid U.S. Treasury securities haircut from the prior day's close to account for the potential decline in their value. Due to the flight to quality characteristics of U.S. Treasury securities, the most likely scenario for clearing members receiving such securities is an increase in the value of the securities and, to the extent clearing members choose to liquidate them, they would profit from this substitution. The Clearing House further mitigates the negative risk impact to clearing members by limiting the amount of substitution to the size of the clearing member's guaranty fund requirement. Additionally, the clarity provided by this rule allows clearing members to consider the impact of their cash substitution obligations in their own liquidity planning, which in turn reduces the likelihood that a substitution would have a negative risk impact. Finally, clearing members that are U.S. Government Securities Broker-Dealers have complete discretion to avoid the 60-minute replacement requirement by posting cash guaranty fund deposits.

- Proposed Rule 822.A.2.—*U.S. Treasury Sale to Meet Clearing House Settlement Variation Obligations* allows CME to satisfy a US dollar settlement variation obligation to clearing members that are (or have an affiliate that is) U.S. Government Securities Broker-Dealers by forcing the sale of U.S. Treasury securities and netting the cash proceeds of the sale against the Clearing House's U.S. dollar settlement variation obligation. While the sale of U.S. Treasury securities for cash against the payment of variation margin may impact the liquidity profile of impacted clearing members, the clearing members will receive the U.S. Treasury securities at a haircut value and will most likely see an increase in their value due to flight to quality characteristics of U.S. Treasury securities. The Clearing House further mitigates the potential impact on clearing members by limiting the amount of forced sale to the size of the clearing member's guaranty fund requirement. Additionally, the clarity provided by this rule allows clearing members to consider the impact of the potential forced sale on their own liquidity planning.
- Proposed Rule 822.B.—*Transfer or Disbursement of Collateral as Compensation for Portfolio Auction, Sale or Transfer with Notice in Advance* provides the Clearing House, to the extent permitted by the terms of an auction, sale or transfer of a portfolio, the ability to compensate the buyer with Federal Reserve discount window-eligible securities with a market value equal to the amount of the winning bid. There is no negative impact on risk to the clearing member since they would be aware of the compensation of securities for payment prior to bidding on the portfolio and would be able to price their bid accordingly. As noted above, recipients of such U.S. Treasury securities will most likely see an increase in their value due to flight to quality characteristics of U.S. Treasury securities.
- Proposed Rule 901.Q.—*Requirement to Establish Uncommitted Repo* requires each clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate to enter into a master repurchase agreement ("MRA") with the Clearing House. The execution of the MRA does not negatively impact clearing members as the repos are uncommitted. Requiring such MRAs enhances the reliability of CME Clearing's repo arrangements by ensuring it has a diverse group of repo counterparties available in times of market stress. In order to further enhance the reliability of the master repurchase agreements, CME Clearing plans to routinely test executed MRAs; mitigate counterparty risk through credit risk assessments and monitoring; mitigate systemic risk through utilization of counterparty limits for each MRA based on market and financial data; and mitigate concentration risk by executing MRAs with numerous counterparties.

### **C. Request for Expedited Review**

The 60-day advance notice review period for this CME/CBOT/NYMEX Submission No. 13-565ARR is scheduled to expire on December 28, 2014. The Exchanges request that the Commission expedite review of these rules and authorize their implementation as soon as practicable based on the content of previously provided materials, the Proposed Rules' impact of materially decreasing the risks presented by

CME Clearing, and in consideration of the ongoing dialogue between the CFTC, the Board of Governors of the Federal Reserve System and the Clearing House regarding the Proposed Rules.

#### **D. Analysis of the Proposed Rules under Derivatives Clearing Organization (“DCO”) Core Principles**

The Exchanges reviewed the derivatives clearing organization core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”). During the review, the Exchanges identified the following Core Principles as potentially being impacted:

- **Financial Resources:** The Proposed Rules are designed to comply with the Commission’s subpart C rules for systemically important derivatives clearing organizations (“SIDCOs”), specifically (i) Regulation 39.33 requiring SIDCOs to maintain sufficient liquidity resources to meet its intraday, same-day, and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default by the clearing member creating the largest aggregate liquidity obligation for the [SIDCO]...in extreme but plausible market conditions and (ii) Regulation 39.35 requiring SIDCOs to establish rules and/or procedures to enable the SIDCO to meet its settlement obligations in light of a liquidity shortfall exceeding its financial resources. The Proposed Rules enhance CME Clearing’s existing liquidity framework by providing additional liquidity resources, a framework for establishment of additional highly reliable prearranged funding arrangements and a mechanism for the sale of clearing members’ deposited Federal Reserve eligible securities and netting of variation margin obligations against cash received from such sales in the event the Clearing House’s liquidity resources are insufficient.
- **Risk Management:** The Proposed Rules enhance CME Clearing’s ability to manage the risks associated with discharging its DCO responsibilities through the establishment of rules and processes that enable Clearing House to access additional liquidity resources and highly reliable prearranged funding arrangements during a liquidity shortfall that exceeds CME Clearing’s financial resources. In addition, the collateral accepted by CME Clearing under the Proposed Rules continues to meet the requirement that each DCO accept as initial margin only assets that have minimal credit, market and liquidity risks.
- **Public Information:** The Proposed Rules will be added to the Exchanges’ publicly available rulebooks, permitting clearing members to account for the Proposed Rules’ potential impact in their liquidity planning and reducing the likelihood that any substitutions under the Proposed Rules will have a negative risk impact.

#### **E. Certifications Under Part 40 of the CFTC Regulations**

Notice of this submission has been concurrently posted on CME Group’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

The Exchanges certify these changes comply with the Act and regulations thereunder. Clearing House staff engaged in numerous discussions with clearing members regarding the Proposed Rules and the potential impact(s) thereof and took their views into consideration when drafting and finalizing the Proposed Rules. There were no substantive opposing views to this action.

If you require any additional information regarding this submission, please contact Sean Downey at 312-930-8167 or via e-mail at [Sean.Downey@cmegroup.com](mailto:Sean.Downey@cmegroup.com), or contact me at 212-299-2228 or [Jason.Silverstein@cmegroup.com](mailto:Jason.Silverstein@cmegroup.com). Please reference our CME/CBOT/NYMEX Submission No. 13-565ARR in any related correspondence.

Sincerely,

/s/ Jason Silverstein  
Executive Director & Associate General Counsel

cc: Board of Governors of the Federal Reserve System

Attachments: Exhibit 1 – CME/CBOT/NYMEX Rules for Liquidity Risk Management (clean version)  
Exhibit 2 – Modifications of text of Proposed Rules between 13-565AR and 13-565ARR  
(black-lined)  
Exhibit 3 – CME/CBOT/NYMEX Submission No. 13-565AR

## **EXHIBIT 1**

### **Proposed new CME/CBOT/NYMEX RULE 822. Liquidity Risk Management.**

In order to satisfy CFTC Regulations and prudential liquidity standards, the Clearing House is establishing the following rules:

**A. Liquidity Rules.** In the event the Clearing House needs liquidity for non-cash collateral of a clearing member or its customers for same day settlement, the Clearing House will first attempt to obtain liquidity for such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event the Clearing House is unable to obtain same day settlement through such means, the Clearing House may declare the occurrence of a Liquidity Event and in its sole discretion may take the following actions in the following order to secure same day liquidity for such assets as follows:

#### **1. Substitution of Guaranty Fund Cash.**

a. The Clearing House may substitute any cash deposited by clearing members in a guaranty fund with U.S. Treasuries deposited as performance bond or guaranty fund by a clearing member that is the subject of such Liquidity Event and that participates in such guaranty fund in an amount of assets with haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of cash substituted. Any assets transferred by this rule shall be applied as guaranty fund deposit(s) of any such clearing member whose cash was substituted and will be allocated pro rata among any clearing members with cash deposits. The substitution of U.S. Treasuries for the clearing member's guaranty fund deposit(s) will be limited to the size of the clearing member's guaranty fund deposit(s) at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash in a guaranty fund, the impacted clearing member may, within 24 hours of substitution, request that the Clearing House replace the cash for the substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of substitution. Any clearing member requesting cash replacement will receive the exact value in cash received by the Clearing House upon liquidation of the U.S. Treasuries.

b. In order to ensure the Clearing House can obtain sufficient cash from a guaranty fund pursuant 1.a. above, the Clearing House may notify any clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate to replace its non-cash guaranty fund assets with cash within 60 minutes from the time of notification. To the extent that a clearing member(s) fails to provide cash within 60 minutes or the request occurs after 3 PM Central time, the Clearing House may debit cash from that clearing member's settlement bank account in the amount of the clearing member's non-cash guaranty fund assets.

#### **2. U.S. Treasury Sale to Meet Clearing House Settlement Variation Obligations.**

The Clearing House may offset its US dollar settlement variation obligations to any clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S.



Government Securities Broker-Dealer affiliate, up to the amount of that clearing member's guaranty fund contribution(s), by selling U.S. Treasuries valued based on the prior day's closing prices with prevailing CME haircuts applied in exchange for US dollar cash from the clearing member. The US dollar cash received by CME from the clearing member shall be in the form of the variation margin obligation owed by CME and CME shall deliver the purchased U.S. Treasury securities to the U.S. Government Securities Broker-Dealer.

**B. Transfer or Disbursement of Collateral as Compensation for Portfolio Auction, Sale or Transfer with Notice in Advance.** To the extent permitted by the terms of any auction, sale or transfer of a defaulted or suspended clearing member's or customer portfolio for which a payment is owed by the Clearing House to an auction winner, purchaser or transferee, in lieu of satisfying such payment with cash, the Clearing House may satisfy any payment owed to such persons by transferring Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such obligation.

#### **Proposed new CME/CBOT/NYMEX DEFINITIONS**

**"Liquidity Event"** shall mean the Clearing House requires liquidity (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

**"U.S. Government Securities Broker-Dealer"** shall mean a broker-dealer registered with the Securities and Exchange Commission that functions in the operation of markets for U.S. Treasuries. The functions may include, but are not limited to:

- Acting as a channel for the United States Department of the Treasury and investors in primary market for U.S. Treasuries (for example, by participating in auctions);
- Acting as providers of liquidity in primary and secondary markets for U.S. Treasuries; and
- Acting as providers of asset transformation and market making services in the market for U.S. Treasuries.

#### **Proposed new CME/CBOT/NYMEX Rule 901.Q. Requirement to Establish Uncommitted Repo.**

Each clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House.

## EXHIBIT 2

(proposed additions to CME/CBOT/NYMEX rulebook underlined; revisions made against CME/CBOT/NYMEX Submission No. 13-565AR blacklined, with deletions underlined and deletions ~~overstruck~~)

### Proposed new CME/CBOT/NYMEX RULE 822. Liquidity Risk Management.

In order to satisfy CFTC Regulations and prudential liquidity standards, the Clearing House is establishing the following rules:

A. Liquidity Rules. In the event the Clearing House needs liquidity for non-cash collateral of a clearing member or its customers for same day settlement, the Clearing House will first attempt to obtain liquidity for such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event the Clearing House is unable to obtain same day settlement through such means, the Clearing House may declare the occurrence of a Liquidity Event and in its sole discretion may take the following actions in the following order to secure same day liquidity for such assets as follows:

#### 1. Substitution of Guaranty Fund Cash.

a. The Clearing House may substitute any cash deposited by clearing members in a guaranty fund with U.S. Treasuries deposited as performance bond or guaranty fund by a clearing member that is the subject of such Liquidity Event and that participates in such guaranty fund in an amount of assets with haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of cash substituted. Any assets transferred by this rule shall be applied as guaranty fund deposit(s) of any such clearing member whose cash was substituted and will be allocated pro rata among any clearing members with cash deposits. The substitution of U.S. Treasuries for the clearing member's guaranty fund deposit(s) will be limited to the size of the clearing member's guaranty fund deposit(s) at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash in a guaranty fund, the impacted clearing member may, within 24 hours of substitution, request that the Clearing House replace the cash for the substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of substitution. Any clearing member requesting cash replacement will receive the exact value in cash received by the Clearing House upon liquidation the U.S. Treasuries.

b. In order to ensure the Clearing House can obtain sufficient cash from a guaranty fund pursuant 1.a. above, the Clearing House may notify any clearing member that is a ~~Primary Dealer~~ U.S. Government ~~Securities Broker-Dealer~~ or has a ~~Primary Dealer~~ U.S. Government ~~Securities Broker-Dealer~~ affiliate to replace its non-cash guaranty fund assets with cash within 60 minutes from the time of notification. To the extent that a clearing member(s) fails to provide cash within 60 minutes or the request occurs after 3 PM Central time, the Clearing

House may debit cash from that clearing member's settlement bank account in the amount of the clearing member's non-cash guaranty fund assets.

**2. U.S. Treasury Offset Against Sale to Meet Clearing House Settlement Variation Obligations.** ~~To address a liquidity shortfall, t~~The Clearing House may offset its US dollar settlement variation obligations to any clearing member that is a Primary Dealer U.S. Government Securities Broker-Dealer or has a Primary Dealer U.S. Government Securities Broker-Dealer affiliate, up to the amount of that clearing member's guaranty fund contribution(s), by delivering-selling U.S. Treasuries valued based on the prior day's closing prices with prevailing CME haircuts applied in exchange for US dollar cash from the clearing member. The US dollar cash received by CME from the clearing member shall be in the form of the variation margin obligation owed by CME and CME shall deliver the purchased U.S. Treasury securities to the U.S. Government Securities Broker-Dealer.

**B. Payment of Collateral for Clearing House Portfolio Auction, Sale or Transfer Obligations Transfer or Disbursement of Collateral as Compensation for Portfolio Auction, Sale or Transfer with Notice in Advance.** ~~In accordance with~~To the extent permitted by the terms of any auction, sale or transfer of a defaulted or suspended clearing member's or customer portfolio for which a payment is owed by the Clearing House to an auction winner, purchaser or transferee, in lieu of satisfying such payment with cash, the Clearing House may satisfy any payment owed to such persons by transferring Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such obligation.

### **Proposed new CME/CBOT/NYMEX DEFINITIONS**

**"Liquidity Event"** shall mean the Clearing House requires liquidity (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

~~"Primary Dealer" shall mean an entity designated as a "Primary Dealer" by the Federal Reserve Bank of New York from time to time.~~ **"U.S. Government Securities Broker-Dealer"** shall mean a broker-dealer registered with the Securities and Exchange Commission that functions in the operation of markets for U.S. Treasuries. The functions may include, but are not limited to:

- Acting as a channel for the United States Department of the Treasury and investors in primary market for U.S. Treasuries (for example, by participating in auctions);
- Acting as providers of liquidity in primary and secondary markets for U.S. Treasuries;  
and
- Acting as providers of asset transformation and market making services in the market for U.S. Treasuries.

**Proposed new CME/CBOT/NYMEX Rule 901.Q. Requirement to Establish Uncommitted Repo.**

Each clearing member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House.

**~~Proposed new CME/CBOT/NYMEX Rule 901.R. Discount Window Access.~~**

~~Each Clearing Member will inform the Clearing House whether it or one of its Affiliates has access to the Federal Reserve discount window and will notify the Clearing House if such access has been suspended, revoked, removed, terminated or otherwise limited in any way.~~

## **EXHIBIT 3**

CME/CBOT/NYMEX Submission No. 13-565AR attached below

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 13-565AR

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/18/2014 Filing Description: Adoption of New Rules for Liquidity Risk Management

**SPECIFY FILING TYPE**

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**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: 822

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Official Product Name:**

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

**Official Name(s) of Product(s) Affected:**

**Rule Numbers:**

July 18, 2014

**VIA E-MAIL**

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

**RE: CFTC Regulation 40.10(a) Advance Notice – CME/CBOT/NYMEX Rules for Liquidity Risk Management.  
CME/CBOT/NYMEX Submission No. 13-565AR**

Dear Ms. Jurgens:

Chicago Mercantile Exchange Inc. (“CME”), the Board of Trade of the City of Chicago, Inc. (“CBOT”), and New York Mercantile Exchange, Inc. (“NYMEX”) (collectively, the “Exchanges”), pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.10(a), submit this advance notice of proposed rules relating to liquidity risk management to comply with recently finalized Regulations 39.33 and 39.35. The new rules will be effective on the earliest possible date in accordance with the lapsing of the timing requirements under Regulation 40.10.

CME/CBOT/NYMEX Submission No. 13-565 was submitted on December 18, 2013. Clerical revisions to the original submission were submitted on the same date via CME/CBOT/NYMEX Submission No. 13-565R. Per request of Commission staff, CME/CBOT/NYMEX Submission Nos. 13-565 and 13-565R were withdrawn on March 27, 2014 and CME/CBOT/NYMEX Submission No. 13-565A was submitted in its place on March 31, 2014. Submission No. 13-565A included revisions to CME/CBOT/NYMEX Rule 822.A.1 and 2, added a defined term for “Primary Dealer,” and made a minor correction to the definition of “Liquidity Event” under the CME/CBOT/NYMEX rules.

This Submission No. 13-565AR includes revisions to CME/CBOT/NYMEX Rule 822.A.1 to clarify that in connection with a liquidity shortfall occurring with respect to one type of transaction, the Exchanges may only substitute U.S. Treasuries for cash in the guaranty fund(s) associated with the membership status of the clearing member causing the Liquidity Event. These changes were made by the Exchanges after further consideration of certain aspects of the rules and in response to the request for additional information the Exchanges received from the CFTC in relation to CME/CBOT/NYMEX Submission Nos. 13-565R and 13-565A.

The text of the proposed rules is attached as Exhibit 1. Modifications between 13-565R, 13-565A, and 13-565AR are included as Exhibit 2 in black-line format. Modifications between 13-565R and 13-565A are marked in red. Modifications between 13-565A and 13-565AR are marked in red and highlighted.

A brief summary of the material rule revisions and the reasoning behind such revisions proposed in this CME/CBOT/NYMEX Submission No. 13-565AR has been inserted below.

**Revision: Rule 822.A.1. Substitution of Cash Guaranty Fund Deposits**

The Exchanges determined it appropriate to amend this rule to specify a timing limitation for clearing members to request replacement of their cash guaranty fund deposit(s) in exchange for the substituted U.S. Treasuries on deposit. This revision is being made to ensure that the Clearing House has

appropriate advance notice of those clearing members seeking cash replacement and to avoid any unintended market timing consequences of a 29-day decision-making period.

Revision: Rule 822.A.2. Payment in Kind of U.S. Treasuries for Settlement Variation Obligations

The Exchanges determined it was appropriate to amend this rule to eliminate the ability of impacted clearing members to request a cash payment equal to the original value of the Clearing House's variation margin obligation on the next business day. This determination was made after careful internal analysis on the ability of primary dealers to liquidate U.S. Treasuries for cash on a same day and/or T+1 basis. Based on this analysis, the Exchanges decided that this mechanism would provide only negligible benefits, if any, to the clearing members based on the standard settlement cycle for U.S. Treasuries.

Definition of Liquidity Event

Subject to the CFTC's question on the definition of Liquidity Event, the Exchanges have corrected the definition to clarify that any of the following, rather than all of the following, constitute a Liquidity Event:

Where the Clearing House requires liquidity: (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

On December 2, 2013, the Commission adopted final regulations to establish additional standards for compliance with the derivatives clearing organization ("DCO") core principles set forth in the Commodity Exchange Act ("CEA") for systemically important DCOs ("SIDCOs") and DCOs that elect to opt-in to the SIDCO regulatory requirements ("SIDCO Rules")<sup>1</sup>. Regulation 39.33(c) established enhanced liquidity standards for SIDCOs. Regulation 39.33(c)(1)(i) requires SIDCOs to maintain eligible liquidity resources that, "at a minimum, will enable it to meet its intraday, same-day, and multiday obligations to perform settlements, as defined in § 39.14(a)(1), with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default by the clearing member creating the largest aggregate liquidity obligation for the [SIDCO]...in extreme but plausible market conditions." 39.33(c)(3) establishes qualifying liquidity resources as follows:

- "(3) *Qualifying liquidity resources.* (i) Only the following liquidity resources are eligible for the purpose of meeting the requirement of paragraph (c)(1) of this section:
- (A) Cash in the currency of the requisite obligations, held either at the central bank of issue or at a creditworthy commercial bank;
  - (B) Committed lines of credit;
  - (C) Committed foreign exchange swaps;
  - (D) Committed repurchase agreements; or
  - (E) (1) Highly marketable collateral, including high quality, liquid, general obligations of a sovereign nation.  
(2) The assets described in paragraph (c)(3)(i)(E)(1) of this section must be readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions."<sup>2</sup>

Additionally, the Commission finalized Regulation 39.35 in the SIDCO Rules requiring, among other things, rules to address liquidity shortfalls as follows:

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<sup>1</sup> Additionally, the Commission noted in Regulation 39.40 that these standards are consistent with the Principles for Financial Market Infrastructures ("PFMIs") published by the Committee on Payment and Settlement Systems and the Board of the International Organization of Securities Commissions ("CPSS-IOSCO").

<sup>2</sup> 78 FR 72518



“(b) *Allocation of uncovered liquidity shortfalls.* (1) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall establish rules and/or procedures that enable it promptly to meet all of its settlement obligations, on a same day and, as appropriate, intraday and multiday basis, in the context of the occurrence of either or both of the following scenarios:

- (i) An individual or combined default involving one or more clearing members’ obligations to the systemically important derivatives clearing organization or subpart C derivatives clearing organization; or
  - (ii) A liquidity shortfall exceeding the financial resources of the systemically important derivatives clearing organization or subpart C derivatives clearing organization.
- (2) The rules and procedures described in paragraph (b)(1) of this section shall:
- (i) Enable the systemically important derivatives clearing organization or subpart C derivatives clearing organization promptly to meet its payment obligations in all relevant currencies;
  - (ii) Be designed to enable the systemically important derivatives clearing organization or subpart C derivatives clearing organization to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations; and
  - (iii) Address the systemically important derivatives clearing organization’s or subpart C derivatives clearing organization’s process to replenish any liquidity resources it may employ during a stress event so that it can continue to operate in a safe and sound manner.”<sup>3</sup>

CME Clearing employs a sound risk-management framework for comprehensively managing liquidity risk. The framework serves to effectively measure, monitor, and manage liquidity risk on an ongoing basis. The framework includes assessment and maintenance of sufficient liquid resources to effect same-day settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios. The stress scenarios include the default of the clearing member and its affiliates that would generate the largest aggregate, with consideration of the second largest, and by currency liquidity obligation under extreme but plausible market conditions. CME Clearing manages liquidity risk through utilization of qualifying liquid resources to meet the liquidity obligation calculated under the framework. In order to augment this framework and comply with CFTC Regulations, the Exchanges are proposing to add certain requirements and/or capabilities that CME Clearing will employ in its administration of its liquidity risk program. This rules-based approach to liquidity risk management will also rely on and be augmented by CME Clearing’s collateral policy determinations, with liquidity risk management serving as a primary consideration in the enumeration of such collateral policies.

#### Rule 822.A.1. Substitution of Cash Guaranty Fund Deposits

Rule 822.A will establish a liquidity “waterfall” where in the event CME Clearing needs to obtain liquidity for non-cash collateral for same day settlement it will first attempt to obtain liquidity for such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event CME Clearing requires further liquidity or such means were unsuccessful, CME Clearing may then declare a “Liquidity Event” and substitute any cash deposited by clearing members in satisfaction of their guaranty fund requirements up to the amount of U.S. Treasuries deposited by a clearing member subject of such Liquidity Event. The amount of U.S. Treasuries substituted will be sized using the haircutted market value from the prior day’s close of business utilizing a recognized third party pricing source and CME’s then prevailing haircut schedule. To the extent requested by the impacted clearing member within 24 hours of substitution, CME Clearing will replace the cash for such substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of original substitution. Additionally, to ensure sufficient cash exists in a guaranty fund for the above mentioned substitution, CME Clearing may require any clearing member that is (or has an affiliate that is)

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<sup>3</sup> 78 FR 72519

a primary dealer with the Federal Reserve Bank of New York (a "Primary Dealer") to replace its non-cash guaranty fund deposits with cash upon 60 minutes notice.

Rule 822.A.2. Payment in Kind of U.S. Treasuries for Settlement Variation Obligations

Further, pursuant to proposed Rule 822.A.2 in the event a liquidity shortfall remains after the substitution provided by Rule 822.A.1, CME Clearing may satisfy a settlement variation obligation to a clearing member that is (or has an affiliate that is) a Primary Dealer with U.S. Treasuries using a valuation based on the prior day's closing prices with prevailing CME haircuts applied. The amount of settlement variation that can be satisfied in this manner will be subject to a limit equal to the receiving clearing member's guaranty fund requirement at such time.

Rule 822.B Payment in Kind For Portfolio Auction, Sale or Transfer

As part of its default management practices, CME Clearing will conduct an auction, sale or transfer of defaulted member positions and will compensate or receive payment from the winner/transferee of such positions based on bids received during the terms of the related default management action. Traditionally the compensation is denominated in cash. The Exchanges are proposing Rule 822.B to provide CME Clearing the option to include as part of the terms of an auction, sale or transfer the ability to satisfy any payment owed to a winner of an auction, sale or transfer with Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such payment obligation. Any such option would be included as part of the terms of the auction, sale or transfer in advance of bidding so that bidding firms can provide pricing information taking the payment in kind possibility into account.

Rule 901.Q. Requirement to Establish Uncommitted Repo; Rule 901.R. Discount Window Access

Finally, the Exchanges are proposing two new rules to assist with its liquidity risk management. Proposed Rule 901.Q will require each clearing member that is a primary dealer or has a primary dealer affiliate to enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House. Consistent with CFTC Regulation 39.33(c)(3) CME Clearing accepts certain highly marketable collateral to satisfy performance bond and guaranty fund obligations. CME Clearing currently utilizes prearranged master repurchase agreements that are highly reliable as required by paragraph 39.33(c)(3)(i)(E)(1) of the CFTC regulations. In order to ensure a diverse group of repo counterparties available to CME Clearing in times of market stress, the Exchanges are requiring that any clearing member that is a primary dealer or has a primary dealer affiliate to enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House. Rule 901.R will require clearing members to inform the Clearing House whether it or one of its Affiliates has access to the Federal Reserve discount window and will notify the Clearing House if such access has been suspended, revoked, removed, terminated or otherwise limited in any way.

The Exchanges request that the Commission expedite review of these rules as these proposed rules are required to satisfy Commission regulations and would materially decrease the risks presented by the SIDCO as described by the Commission in the SIDCO Rules. The Exchanges request that the Commission authorize implementation of these new rules pursuant to Regulation 40.10(g) on December 31, 2013 or as soon as practicable thereafter to assist with its compliance with the effective date of the rules and of the implementation date of international capital regulations.

The Exchanges reviewed the derivatives clearing organization core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”). During the review, the Exchanges identified the following Core Principles as potentially being impacted:

- **Financial Resources:** The proposed rules are designed to comply with the Commissions recently finalized SIDCO Rules, specifically (i) Regulation 39.33 requiring SIDCOs to maintain sufficient liquidity resources to meet its intraday, same-day, and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default by the clearing member creating the largest aggregate liquidity obligation for the [SIDCO]...in extreme but plausible market conditions and (ii) Regulation 39.35 requiring SIDCOs to establish rules and/or procedures to enable the SIDCO to meet its settlement obligations in light of a liquidity shortfall exceeding its financial resources. The proposed rules enhance CME Clearing’s existing liquidity framework by providing additional liquidity resources, a framework for establishment of additional highly reliable prearranged funding arrangements and payment in kind of Federal Reserve eligible securities in the event the liquidity resources are insufficient
- **Default Rules and Procedures:** The proposed rules, specifically Rules 822.A.2 and 822.B, in addition to providing additional are designed to address liquidity shortfall scenarios as required under recently finalized CFTC Regulation 39.35.

Notice of this submission has been concurrently posted on CME Group’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

The Exchanges certify these changes comply with the Act and regulations thereunder. There were no substantive opposing views to this action.

If you require any additional information regarding this submission, please contact Sean Downey at 312-930-8167 or via e-mail at [Sean.Downey@cmegroup.com](mailto:Sean.Downey@cmegroup.com), or contact me at 212-299-2228 or [Jason.Silverstein@cmegroup.com](mailto:Jason.Silverstein@cmegroup.com). Please reference our CME/CBOT/NYMEX Submission No. 13-565AR in any related correspondence.

Sincerely,

/s/ Jason Silverstein  
Executive Director & Associate General Counsel

cc: Board of Governors of the Federal Reserve System

Attachments: Exhibit 1 – CME/CBOT/NYMEX Rules for Liquidity Risk Management (clean version)  
Exhibit 2 – Modifications between 13-565R, 13-565A, and 13-565AR (black-lined)

# EXHIBIT 1

## Proposed new CME/CBOT/NYMEX RULE 822. Liquidity Risk Management.

In order to satisfy CFTC Regulations and prudential liquidity standards, the Clearing House is establishing the following rules:

**A. Liquidity Rules.** In the event the Clearing House needs liquidity for non-cash collateral of a clearing member or its customers for same day settlement, the Clearing House will first attempt to obtain liquidity for such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event the Clearing House is unable to obtain same day settlement through such means, the Clearing House may declare the occurrence of a Liquidity Event and in its sole discretion may take the following actions in the following order to secure same day liquidity for such assets as follows:

### **1. Substitution of Guaranty Fund Cash.**

a. The Clearing House may substitute any cash deposited by clearing members in a guaranty fund with U.S. Treasuries deposited as performance bond or guaranty fund by a clearing member that is the subject of such Liquidity Event and that participates in such guaranty fund in an amount of assets with haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of cash substituted. Any assets transferred by this rule shall be applied as guaranty fund deposit(s) of any such clearing member whose cash was substituted and will be allocated pro rata among any clearing members with cash deposits. The substitution of U.S. Treasuries for the clearing member's guaranty fund deposit(s) will be limited to the size of the clearing member's guaranty fund deposit(s) at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash in a guaranty fund, the impacted clearing member may, within 24 hours of substitution, request that the Clearing House replace the cash for the substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of substitution. Any clearing member requesting cash replacement will receive the exact value in cash received by the Clearing House upon liquidation of the U.S. Treasuries.

b. In order to ensure the Clearing House can obtain sufficient cash from a guaranty fund pursuant 1.a. above, the Clearing House may notify any clearing member that is a Primary Dealer or has a Primary Dealer affiliate to replace its non-cash guaranty fund assets with cash within 60 minutes from the time of notification. To the extent that a clearing member(s) fails to provide cash within 60 minutes or the request occurs after 3 PM Central time, the Clearing House may debit cash from that clearing member's settlement bank account in the amount of the clearing member's non-cash guaranty fund assets.

**2. Payment in Kind for Settlement Variation Obligations.** The Clearing House may satisfy settlement variation obligations to any clearing member that is a Primary Dealer or has a primary dealer affiliate, up to the amount of that clearing member's guaranty

fund contribution(s), with U.S. Treasuries valued based on the prior day's closing prices with prevailing CME haircuts applied.

**B. Payment in Kind For Portfolio Auction, Sale or Transfer.** In accordance with the terms of any auction, sale or transfer of a defaulted or suspended clearing member's or customer portfolio for which a payment is owed by the Clearing House to an auction winner, purchaser or transferee, in lieu of satisfying such payment with cash, the Clearing House may satisfy any payment owed to such persons by transferring Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such obligation.

#### **Proposed new CME/CBOT/NYMEX DEFINITION**

**"Liquidity Event"** shall mean the Clearing House requires liquidity (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

**"Primary Dealer"** shall mean an entity designated as a "Primary Dealer" by the Federal Reserve Bank of New York from time to time.

#### **Proposed new CME/CBOT/NYMEX Rule 901.Q. Requirement to Establish Uncommitted Repo.**

Each clearing member that is a primary dealer or has a primary dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House.

#### **Proposed new CME/CBOT/NYMEX Rule 901.R. Discount Window Access.**

Each Clearing Member will inform the Clearing House whether it or one of its Affiliates has access to the Federal Reserve discount window and will notify the Clearing House if such access has been suspended, revoked, removed, terminated or otherwise limited in any way.

## EXHIBIT 2

### Proposed new CME/CBOT/NYMEX RULE 822. Liquidity Risk Management

(Additions underlined and deletions ~~overstruck~~)

In order to satisfy CFTC Regulations and prudential liquidity standards, the Clearing House is establishing the following rules:

**A. Liquidity Rules.** In the event the Clearing House needs liquidity for non-cash collateral of a clearing member or its customers for same day settlement, the Clearing House will first attempt to obtain liquidity for such collateral through asset sale, any uncommitted funding arrangements, its committed lines of credit and any committed repurchase agreements. In the event the Clearing House is unable to obtain same day settlement through such means, the Clearing House may declare the occurrence of a Liquidity Event and in its sole discretion may take the following actions in the following order to secure same day liquidity for such assets as follows:

#### 1. Substitution of Guaranty Fund Cash.

a. The Clearing House may substitute any cash deposited by a clearing member~~s~~ in a guaranty fund with U.S Treasuries deposited as performance bond or guaranty fund by a clearing member that is the subject of such Liquidity Event ~~and that participates in such guaranty fund~~ in an amount of assets with haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of cash substituted. Any assets transferred by this rule shall be applied as guaranty fund deposit(s) of any such clearing member whose cash was substituted and will be allocated pro rata among any clearing members with cash deposits. ~~The substitution of U.S. Treasuries for the clearing member's guaranty fund deposit(s) will be limited to the size of the clearing member's guaranty fund deposit(s) at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash in the-a guaranty fund, the Clearing House will replace the cash within 29 days of the date of the substitution-impacted clearing member may, within 24 hours of substitution, request that the Clearing House replace the cash for the substituted U.S. Treasuries, to the extent still on deposit, within 29 days of the date of substitution. Any clearing member requesting cash replacement will receive the exact value in cash received by the Clearing House upon liquidation the U.S. Treasuries.~~

b. In order to ensure the Clearing House can obtain sufficient cash from the-a guaranty fund pursuant 1.a. above, the Clearing House may notify any clearing member that is a pPrimary dDealer or has a pPrimary dDealer affiliate to replace its non-cash guaranty fund assets with cash within 60 minutes from the time of notification. To the extent that a clearing member(s) fails to provide cash within 60 minutes or the request occurs after 3 PM Central time, the Clearing House may debit cash from that clearing member's settlement bank account in the amount of the clearing member's non-cash guaranty fund assets.

**2. Payment in Kind for Settlement Variation Obligations.** The Clearing House may satisfy settlement variation obligations to any clearing member that is a Primary Dealer or has a primary dealer affiliate, up to the amount of that clearing member's guaranty fund contribution(s), with U.S. Treasuries valued based on the prior day's closing prices with prevailing CME haircuts applied. To the extent that the Clearing House pays its settlement variation obligations in U.S. Treasuries, if the receiving clearing firm notifies the Clearing House on a same day basis that it will return the securities to the Clearing House on the next business day, then the Clearing House will pay cash equal to the original value of the Clearing House's settlement variation obligation on the next business day.

**B. Payment in Kind For Portfolio Auction, Sale or Transfer.** In accordance with the terms of any auction, sale or transfer of a defaulted or suspended clearing member's or customer portfolio for which a payment is owed by the Clearing House to an auction winner, purchaser or transferee, in lieu of satisfying such payment with cash, the Clearing House may satisfy any payment owed to such persons by transferring Federal Reserve discount window eligible securities with a market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party pricing source) equal to the amount of such obligation.

#### **Proposed new CME/CBOT/NYMEX DEFINITION**

**"Liquidity Event"** shall mean the Clearing House requires liquidity (1) to satisfy obligations of a defaulted or suspended Clearing Member, (2) to satisfy obligations associated with the transfer of account(s) of a defaulted or suspended Clearing Member and or (3) as a result of a liquidity constraint or default by a depository or settlement bank.

**"Primary Dealer"** shall mean an entity designated as a "Primary Dealer" by the Federal Reserve Bank of New York from time to time.

#### **Proposed new CME/CBOT/NYMEX Rule 901.Q. Requirement to Establish Uncommitted Repo.**

Each clearing member that is a primary dealer or has a primary dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with CME on terms substantially similar to those set out by the Clearing House.

#### **Proposed new CME/CBOT/NYMEX Rule 901.R. Discount Window Access.**

Each Clearing Member will inform the Clearing House whether it or one of its Affiliates has access to the Federal Reserve discount window and will notify the Clearing House if such access has been suspended, revoked, removed, terminated or otherwise limited in any way.