CME Group

CME Clearing Financial Safeguards

CME Clearing ensures the safety and soundness of our markets, and serves the risk management needs of customers around the globe by offering clearing services for the widest range of benchmark products. CME Clearing continues to structure its services, safeguards, and registration status to best serve the evolving markets to which it provides clearing services. This includes business transacted on CBOT, CME, COMEX and NYMEX exchanges, as well as OTC transactions cleared through CME ClearPort. CME Clearing is an operating division of CME Group[1].

CME Clearing is substituted as the counterparty to every matched trade in the clearing process and, therefore, the risk of default with respect to any such transaction is greatly reduced. The financial integrity of CME Clearing is a foremost consideration of CME Group's Board of Directors, the Clearing House Risk Committee, and management. CME Group is vitally aware of its role in international markets and believes that its financial safeguard system, designed for the benefit and protection of both clearing members and their customers, is second to none.

1 On July 12, 2007, CBOT Holdings, Inc. (CBOT Holdings) merged with and into Chicago Mercantile Exchange Holdings Inc. (CME Holdings), which in connection with the merger was renamed CME Group Inc. (CME Group). On August 22, 2008, NYMEX Holdings, Inc. (NYMEX Holdings) merged into CME Group. Each affiliated Designated Contract Market (DCM) entity, the Board of Trade of the City of Chicago, Inc. (CBOT), Chicago Mercantile Exchange Inc. (CME), the Commodity Exchange, Inc. (COMEX) and the New York Mercantile Exchange, Inc. (NYMEX), maintains its Self Regulatory Organization (SRO) status.

Consistent with the enactment of the Commodity Futures Modernization Act of 2000 and the introduction of the Division of Clearing & Intermediary Oversight on July 1, 2002, CME Clearing attained Derivatives Clearing Organization (DCO) status. In June 2007, the United Kingdom's Financial Services Authority granted CME Clearing the status of a Recognised Overseas Clearing House (ROCH). ROCH status enables CME Clearing to offer clearing services for products in the UK jurisdiction.

OVERVIEW OF THE SYSTEM

Risk management and financial surveillance are the two primary functions of CME Clearing's financial safeguard system. The system is designed to provide the highest level of safety and the early detection of unsound financial practices on the part of any clearing member. Its purpose is to protect all clearing members and their customers from the consequences of a default by a participant in the clearing process.

Clearing members may obtain clearing privileges for all or a subset of cleared products. Requirements may vary with clearing privileges obtained but generally include risk based capital requirements.

All clearing members are required to contribute to a single default fund, which promotes diversification of mutualized risk.

CME Clearing's financial safeguard system is constantly being updated to reflect the most advanced risk management and financial surveillance techniques. The financial safeguard system is operated by a risk management team, which is comprised by senior management from the audit, clearing, finance, legal, market regulation, risk management, and executive areas of CME Group.

FINANCIAL INTEGRITY OF CME CLEARING

For every transaction received by or matched through its facilities, CME Clearing is substituted as the counterparty, guaranteeing financial performance on the opposite side. Clearing members assume full financial and performance responsibility for all transactions executed through them and all positions they carry. CME Clearing, dealing exclusively with clearing members, holds each clearing member accountable for every position it carries. Conversely, as the counterparty to every position, CME Clearing is held accountable to the clearing members for the net settlement from all transactions on which it has been substituted.

CME Clearing does not look to individual customers for performance or attempt to evaluate their creditworthiness or market qualifications. CME Clearing looks solely to the clearing member firm carrying and guaranteeing the account to secure all payments and performance bond obligations. CME Clearing monitors clearing member firms for the adequacy of their credit monitoring and risk management of their customers.

Clearing members providing a clearing guarantee to an individual acting as a broker for orders emanating from multiple sources are the guarantor of last resort for all resulting trades.

CME Clearing is committed to providing clearing firms with state-of-the-art tools to manage risk. CME Group provides pre-execution risk controls for transactions submitted through CME Globex and CME ClearPort that enable risk administrators to set credit limits. These risk management tools are designed to protect CME Group customers and clearing firms, as well as CME Clearing.

PRE-EXECUTION RISK CONTROLS

CME Globex

CME Globex is the world's leading electronic trading platform, providing access to the broadest array of futures and options products available on any exchange. Customers trade on CME Globex around the globe and virtually around the clock.

Risk management services on CME Globex include credit controls, drop copy service, and cancel on disconnect functionality designed to protect CME Globex customers and clearing firms.

Globex Credit Controls:

CME Globex credit controls provide pre-execution risk controls that enable administrators to set credit limits through the CME Globex credit controls (GC2) tool. Risk administrators are able to define trading limits and select real-time actions if those limits are exceeded, including e-mail notification, order blocking, and order cancellation.

Drop Copy:

Drop copy service allows market participants to receive real-time copies of CME Globex execution reports and reject messages as they are sent over iLink sessions. Features include the ability to monitor orders and activity, as well as aggregate execution and reject messages.

Cancel on Disconnect:

Upon an involuntarily dropped CME Globex to iLink user connection, cancel on disconnect (COD) functionality cancels all resting session/day futures and options orders for that user to protect market participants from position changes without the ability to monitor activity.

CME ClearPort®

CME ClearPort is a flexible clearing service open to all OTC market participants to provide significant mitigation of counterparty risk and neutral valuations across asset classes. Through this service, registered users can submit OTC transactions negotiated bilaterally, to be cleared by CME Clearing.

CME ClearPort offers enterprise-wide credit limits, primarily used by clearing member administrators to allow for prudent risk management. Clearing members control the creation of accounts, permission tradable products, set position limits, and establish an overall performance bond limit.

THE SAFEGUARDS

In an effort to provide optimal risk management protections, all activity cleared by CME Group is supported by a single financial safeguards package. As CME Clearing now offers clearing services to OTC markets, as well as our regulated markets, financial safeguards standards have been aligned to best serve the unique attributes of each market. In spite of market differences, CME Clearing employs mark-to-market functionality, margin requirements, and account identification as standard risk management practices for all markets served. The risk management and financial surveillance techniques employed by CME Clearing are comprehensive and specifically designed to:

- Estimate potential market exposures
- Prevent the accumulation of losses
- Ensure that sufficient resources are available to cover future obligations
- Result in the prompt detection of financial and operational weaknesses
- Allow for swift and appropriate action to rectify any financial problems and protect the marketplace, and

These techniques are consistent with risk management recommendations and industry best practice standards such as those promulgated by the CPSS/IOSCO Task Force on Securities Settlement Systems and the Group of Thirty.

Mark-to-Market

CME Clearing facilitates financial stability in large part by removing debt obligations among market participants as they occur. This is accomplished by independently determining a marking price at the close of each settlement cycle daily for each contract and marking all open positions to that price. Debt obligations from options contracts are also immediately removed, since the purchaser of an option must pay the premium (cost of the option) in full at the time of purchase in addition to subsequent mark-to-market. Each business day, CME Clearing performs two full settlement cycles, marking to the market once in the late morning and once in the late afternoon. Actual settlement of the late morning mark-to-market occurs at mid-day and actual settlement of the late afternoon mark-to-market occurs in the early morning hours of the next day.

Two distinct processes occur during a settlement cycle. Initially, at each settlement cycle, all new trades are captured, cleared and marked-to-market. All open positions are also marked-to-market at this time. Cash settlement occurs for the mark-to-market on open futures positions and the option premium associated with new options positions, known as settlement variation. The mark-to-market on open options positions can be satisfied with collateral as part of performance bond requirements.

Simultaneously, forward looking collateral requirements are re-evaluated for all open positions. The combination of these two processes – the cash payments that move between CME Clearing and our clearing members and the resetting of performance bond coverage – ensure that all accumulated debt obligations are removed from the system, and that CME Clearing holds sufficient collateral to protect against anticipated losses clearing members may accumulate prior to the subsequent settlement cycle.

In times of extreme price volatility, CME Clearing has the authority to perform additional mark-to-market calculations on open positions and call for immediate payment of settlement variation. Settlement variation payments through CME Clearing averaged $2.2 billion per day through June 30, 2010 and reached a historical record of $18.5 billion on October 13, 2008.

CME Clearing's mark-to-market settlement system stands in direct contrast to the traditional settlement systems implemented by many other financial markets which are not centrally cleared, including the legacy interbank, Treasury securities, over-the counter foreign exchange and debt, options, and equities markets, where participants regularly assume credit exposure to each other. In those markets, the failure of one participant can have a ripple effect on the solvency of the other participants.

CME Clearing's mark-to-market system does not allow losses to accumulate over time or allow a market participant the opportunity to defer losses associated with market positions. This eliminates the possibility for write-offs or long-term accumulated losses to impact financial statements. Additionally, this eliminates the possibility of a cascading series of mass liquidations which can affect the orderly functions of markets.

Performance Bonds

Performance bond requirements are good faith deposits to guarantee performance on open positions and are often referred to as "margin." CME Clearing establishes minimum initial and maintenance performance bond levels for all products cleared through its facilities. CME Clearing bases these requirements on historical and implied price volatilities, market composition, current and anticipated market conditions, and other relevant information. Performance bond levels vary by product and are adjusted to reflect changes in price volatility and other factors.

Maintenance performance bond levels represent the minimum amount of protection against potential losses at which the clearing house will allow a clearing member to carry a position or portfolio. Initial performance bond reflects the minimum deposit a clearing member must obtain from a customer opening a new position. Should performance bonds on deposit at the customer level fall below the maintenance level, Exchange rules require that the account be re-margined at the required higher initial performance bond level. Initial performance bond enables a customer to absorb some losses before issuance of another performance bond call. Clearing members may impose more stringent performance bond requirements than the minimums set by the clearing houses. At the CME Clearing level, clearing members must post at least the maintenance performance bonds for all positions carried.

In setting performance bond levels, CME Clearing monitors both current and historical price and volatility movements covering short-term, intermediate-term, and longer term data. CME Clearing uses several different methods of statistical parametric and non-parametric analyses, which typically establish performance bond levels covering expected price moves of at least 95% to 99% over varying coverage time-frames. The actual performance bond requirements may exceed this level for some products.

Performance bond requirements for options reflect movements in the underlying futures price, volatility, time to expiration and other risk factors, and adjust automatically each day to reflect the unique and changing risk characteristics of each option series.

CME Clearing calculates performance bonds using a system developed and implemented by CME called Standard Portfolio Analysis of Risk™ (CME SPAN). CME SPAN bases performance bond requirements on the overall risk of the portfolios using parameters as determined by CME Clearing, which provides transparency to end users and allows for replicate ability. CME SPAN simulates the effects of changing market conditions and uses tailored options pricing models to determine a portfolio's overall risk. It treats all products uniformly while recognizing the unique features of options. In standard options pricing models, three factors most strongly affect options values: the underlying price, volatility (variability of the underlying price), and time to expiration. As these factors change, positions may gain or lose value. CME SPAN constructs scenarios of price and volatility changes to simulate what the entire portfolio might reasonably lose over a one day time horizon. The resulting CME SPAN performance bond requirement covers this potential loss. Additionally, options purchased must be paid for in full and, therefore, the value is added to account equity. Conversely, the value of options sold is added to the overall performance bond requirement for the account. CME Clearing mandates stringent minimum performance bonds for short option positions.

CME has licensed CME SPAN to exchanges and clearing organizations around the world and has successfully established CME SPAN as the industry's standard performance bond system. CME Clearing requires "gross" performance bonds for customer segregated positions in CME and NYMEX products[2]. The clearing member must deposit performance bonds for each open position (long or short) held at each clearing cycle, with appropriate allowances for risk offsets. CME Clearing allows for "net" performance bonds for non-segregated or proprietary positions.

If a clearing member does not have sufficient performance bond collateral on deposit with CME Clearing, then the clearing member must meet a call for cash performance bond deposits by the designated time after each settlement cycle, which results in a direct debit to the clearing member's account at one of CME Clearing's settlement banks. Active clearing members may meet performance bond requirements using a wide variety of collateral, including:

- Cash (USD and selected foreign currency)
- U.S. Treasury securities
- Letters of credit
- Stocks selected from the Standard & Poor's 500® Stock Price Index
- Selected sovereign debt
- Selected U.S. government agencies and mortgage backed securities
- Selected money market mutual funds
- Bank sponsored cash management program, through selected banks
- Physical gold (non–segregated accounts)

Securities are revalued every day and are subject to prudent haircuts. Additionally, foreign cash is subject to haircuts in selected circumstances. Various forms of collateral are also subject to concentration and diversification limits. CME Clearing also offers a choice of several different collateral management programs, providing efficient and cost effective solutions for clearing member firm collateral management needs. For a complete list of acceptable collateral, please refer to: http://www.cmegroup.com/clearing/financial-and-collateral-management/collateral-types-accepted.html.

Concentration Performance Bond

CME Clearing also maintains a concentration performance bond program, which allows CME Clearing to charge additional performance bond requirements when clearing firms' potential market exposures become large relative to the financial resources available to support those exposures.

Cross-Margining

In recognition of the linkages among the markets for exchange-traded equity derivative products, as well as the need to promote efficient clearing procedures and to focus on the true inter-market risk exposure of clearing members, CME Clearing, in conjunction with The Options Clearing Corporation (OCC), offers a cross-margining program with respect to market professionals and proprietary accounts. Combining the positions of joint or affiliated clearing members in certain broad-based equity index futures and options into a single portfolio, and utilizing the sophisticated risk-based margining systems of each clearing organization, results in a single performance bond requirement across both markets. The clearing organizations jointly hold a first lien on and security interest in the positions in cross-margined accounts. All performance bond deposits associated with these accounts are jointly held. The cross-margining program significantly enhances both the efficiency and financial integrity of the clearing system by allowing gains accruing to futures or options positions to be immediately available to meet the requirements for funds from losing positions.

2 CME Clearing allows for optimal margining for customer segregated positions in CBOT products as a continuation of the market practices for those products, giving clearing member firms the choice of modified "net" performance bonds which excludes long option value or "gross" performance bonds which includes long option value.

In the event that a clearing organization suspends a cross-margining member, the positions in the cross-margin accounts would be liquidated and all performance bond collateral would be converted to cash and applied toward each clearing organization's costs of liquidating the cross-margin accounts. CME Clearing and the OCC are each entitled to half of any surplus to apply toward other obligations of the clearing member; if one clearing organization did not need its entire share of the surplus, the excess would be made available to the other clearing organization.

Clearing also maintains cross-margin agreements with LCH Clearnet and the Fixed Income Clearing Corporation. These programs involve the cross-margining of selected short-term interest rate and fixed income products. The design of these cross-margin programs differ from the above mentioned OCC program in that performance bond collateral is held separately at each respective clearing organization. In the event that a clearing organization suspends a cross-margining participant, the cross-margined positions would be liquidated and performance bond collateral would be converted to cash at each respective clearing organization. If as a result of the liquidation of cross-margined positions and performance bond there is a resulting cross-margin loss, there will be a cross-margin guarantee payment from one clearing organization to the other to share the loss.

Segregation of Customer Funds

Regulations governing the U.S. futures and options on futures markets require that customer positions and monies be separately accounted for and segregated from the positions and monies of the clearing member. The regulations are designed to protect customers in the event of the insolvency or financial instability of the clearing member through which they conduct business. The requirements of separate accounting and segregation of customer positions and monies 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 by member firms. Violations by a clearing member of its segregation requirements are considered serious infractions and can result in major penalties imposed by the governing entity.

Although OTC markets are unregulated, CME intends to utilize standards established by CFTC Regulation 30.7 to ensure customer protection for these products. These standards will be similar to the protections afforded to customers trading futures and options in offshore markets. However, CME continues to work with applicable regulatory bodies to obtain segregation treatment under Part 4(d) of the Commodity Exchange Act for CME's cleared OTC markets in order to provide protection identical to customers' futures and options positions. Additionally, cleared OTC markets are subject to CME Clearing's standard risk management practices.

Capital Requirements for Clearing Members

CME Clearing Members that are subject to CFTC regulation are required to maintain Adjusted Net Capital (ANC) at prescribed levels. Effective January 1, 2009, all active clearing member are required to maintain the greatest of:

- $5,000,000[3];
- CFTC minimum regulatory capital requirements (see below), or
- SEC minimum regulatory capital requirements

CME Group and the CFTC have adopted a risk-based capital requirement as the regulatory minimum capital requirement. This requirement is computed as 8% of domestic and foreign domiciled customer and 4% of non-customer (excluding proprietary) risk maintenance performance bond requirements for all domestic and foreign futures and options on futures contracts[4] excluding the risk margin associated with naked long option positions.

3 Or such other minimum as may be established for particular products

4 Any risk maintenance performance bond requirements for cleared OTC products must also be included in the calculation.

ANC is computed based on the following formula:

Current Assets
– Adjusted Liabilities
– Capital Charges

Adjusted Net Capital

Current Assets: Cash and other assets that are reasonably expected to be realized as cash, or sold, during the next twelve months. However, certain assets such as prepaid expenses, deferred charges, and unsecured receivables from customers, non-customers, subsidiaries and affiliates, which would be classified as current under generally accepted accounting principles, are deemed non-current. Exchange memberships and assigned shares are also reflected as non-current assets.

Adjusted Liabilities: The clearing member's total liabilities less the liabilities which have been subordinated to the claims of general creditors.

Capital Charges: Regulatory capital charges primarily encompass percentage deductions ("haircuts") on the following:

Speculative proprietary futures and options positions

Proprietary inventories, fixed price commitments and forward contracts

Under-margined customer, noncustomer and omnibus accounts

Marketable securities

Capital requirements are monitored by CME Group's Audit Department. Capital requirements vary to reflect the risk of each clearing member's positions as well as CME Group's assessment of each clearing member's internal controls, risk management policies and back office operations.

Clearing members which are members of all of CME Group's exchanges must have assigned to CME Clearing, two CME memberships, two IMM memberships, two IOM memberships, one GEM membership, two full CBOT memberships, two full NYMEX memberships, and 16,000 CME Group Class A shares. To obtain clearing privileges for only one CME Group exchange, firms need to meet the membership requirements of that exchange and assign 8,000 CME Group Class A shares. To obtain clearing privileges for two CME Group exchanges, firms need to meet the membership requirements of those exchanges and assign 12,000 CME Group Class A shares. COMEX clearing members are required to assign 2 full COMEX membership interests. No CME Group Class A shares are required.

Clearing members that are only able to trade OTC markets are subject to capital and membership requirements based on the products cleared.

Finally, CME Group rules generally require owners of five percent or more of the equity securities of a clearing member to guarantee obligations arising out of house (non-customer and proprietary) accounts of the clearing member to the extent of their ownership interest. Owners of 50% or more must guarantee 100% of the house obligations. This parent guarantee provides a high level of assurance that obligations arising out of trades made and positions held by owners or affiliates of clearing members are promptly discharged.

Financial Surveillance

Recognizing the need to monitor the financial condition of clearing members, the CME Group Audit Department, in conjunction with other self-regulatory organizations, operates a sophisticated financial surveillance program. The program has several important aspects, as outlined below:

Reporting: Clearing members must calculate segregation and secured requirements and ensure compliance with capital requirements on a daily basis. In addition, firms must submit to the Audit Department full financial statements monthly, provide certified financial statements once a year, and submit more frequent reports (daily or weekly) as directed.

Notification: Clearing members are required to report any failure to meet segregation, secured or minimum capital requirements. Clearing member firms must notify CME Clearing prior to any significant business transaction, any significant change in operations, or significant declines in net capital.

Inspection: Generally each clearing member is subject to a financial/operational review every year. The reviews are tailored to focus on the specific risks of the clearing member. All such inspections are performed on an impromptu basis.

Information Sharing: CME Clearing participates in formal agreements with other domestic and foreign regulatory authorities as well as clearing and self-regulatory organizations. As part of these agreements, CME Clearing regularly exchanges financial and operational information about joint clearing members with other participating markets. Recognizing that the financial marketplace spans the globe, CME Clearing was instrumental in developing the International Information Sharing Memorandum of Understanding, which established a framework for 65 exchanges and clearing organizations worldwide to share information relevant to managing global market emergencies. CME Clearing also seeks broader cooperation between clearing organizations through such industry forums as the Unified Clearing Group, CCP 12, the Joint Audit Committee, the Inter-market Financial Surveillance Group and the DCO Risk Committee.

Intra-Day Monitoring

CME Clearing monitors intra-day price movements and trading activity throughout the trading session. To assess the impact of these price changes on clearing members, intra-day mark-to-market calculations are performed on clearing member positions and reviewed by CME Clearing throughout the day and overnight. Additionally, CME Clearing monitors its clearing member firms' settlement variation and performance bond activities at non–CME cleared exchanges and clearing organizations daily. The risk management team may contact the exchanges or clearing organizations to follow up on this activity.

On a daily basis, CME Clearing also conducts stress testing of clearing member portfolios and the individual customer accounts for their large customers. Numerous stress scenarios have been modeled to reflect a diverse set of possible market events. Stress results are evaluated against performance bond on deposit and clearing member adjusted net capital. Results of stress tests may lead CME Clearing to request that the clearing member provide additional information about its customer accounts such as whether there are non–CME Group offsetting positions in other markets. In some cases, stress test results may cause CME Clearing to increase a clearing member's performance bond requirement or request that the clearing member reduce or transfer positions.

Market Regulation

Through CME Group's Market Regulation Department, the risk management team has daily access to specific account position information for clearing members' large individual customer accounts, all of which is maintained on a highly confidential basis. Such critical information allows the identification of concentrated positions as they arise and the aggregation of positions that may be owned by common principals through several different clearing members. Knowledge of concentrated or high-risk positions, coupled with information routinely gathered on the cash and/or related derivative markets, enables CME Clearing to respond rapidly to market situations that might adversely affect the financial integrity of the clearing house and/or the financial stability of a clearing member.

Clearing Member Risk Reviews

CME Clearing periodically visits clearing member firms to review financial, operational, credit, market, and liquidity risk management policies, procedures and capabilities. Senior CME Clearing professionals evaluate how well each firm's risk management program corresponds to its lines of business. Senior professionals from audit, clearing, risk management, and market regulation areas of CME Group follow up with the clearing member's senior management if there are deficiencies found in their risk management procedures and capabilities.

DEFAULT BY A CLEARING MEMBER

CME Clearing maintains a financial safeguards system and general default procedures for both regulated and cleared OTC markets. Additionally, bankruptcy provisions have been reviewed to remain consistent with the application to each type of clearing member. While the risk management and financial surveillance techniques of CME Clearing are specifically designed to prevent a clearing member firm from defaulting on its obligations, CME Clearing, by rule and by operational practice, has prepared contingencies to expeditiously deal with such an unlikely event. The following summarizes the steps that may be taken in the event a clearing member failed to meet its financial obligations to CME Clearing.

Proprietary (House) Account Default

If a clearing member were unable to meet its financial obligations to CME Clearing and a default occurred in its house (proprietary, non-customer, or non-regulated OTC) account, CME Clearing may act immediately to:

- Attempt to transfer all segregated and secured customer positions and monies to another clearing member
- Take control of or liquidate the positions in the house account
- Apply the clearing member's guarantee fund[5] and house performance bond deposits to the obligation shortfalls
- Attach all other assets of the clearing member that are available to the clearing house (e.g., shares and memberships)
- Invoke any applicable parent guarantee

Customer segregated and secured assets (positions and/or monies) on deposit with or in the control of CME Clearing may not be used or impaired by CME Clearing in the case of a clearing member default resulting from house account activity.

Customer Account Default

If a clearing member were unable to meet its financial obligations to CME Clearing and a default occurred in its customer segregated or customer secured account, CME Clearing may act immediately to:

- Attempt to transfer non-involved customer segregated or customer secured positions and monies to another clearing member
- Take control of or liquidate involved customer segregated or customer secured positions and house positions
- Apply the clearing member's guarantee fund and house performance bond deposits to the failed obligation
- Attach all other assets of the clearing member that are available to the clearing house (e.g., shares and memberships)

5 security deposit (pursuant to Rule 816)

Although CME Clearing separates customer segregated and customer secured performance bond deposits and positions from the clearing member's proprietary performance bond deposits and positions, the customer performance bond deposits and positions for each clearing member are held in aggregate, without identifying specific ownership. If a default occurred in either of the clearing member's customer segregated or customer secured accounts, CME Clearing has the right to apply toward the default all performance bond deposits and positions within the respective account at CME Clearing. Accordingly, positions and performance bonds deposited by customers not causing the default are potentially at risk if there is a default in the respective customer account of their clearing member and may be liquidated.

Unsatisfied Obligation

Should the defaulting clearing member's obligation not be fully satisfied by CME Clearing activity previously discussed, CME Clearing would next apply its surplus funds. Surplus funds are made available to satisfy any remaining default obligation, while retaining a prudential amount of working capital for continuing CME Group operations. The amount is targeted at a minimum of $100 million. CME Clearing stands out among clearing organizations with regard to this utilization of both internal and external financial resources.

Should there still be an unsatisfied obligation, CME Clearing would apply the guarantee funds of the non-defaulting clearing member firms. CME Clearing's rules are designed to maximize the liquidity and safety of the pool of guarantee funds. In general, each clearing member is required to maintain a guarantee fund equal to the greater of $500,000[6] or the results of a formula under which 84% of the total requirement is based on the clearing member's proportionate contribution to aggregate risk performance bond requirements over the preceding three months, 15% is based on the clearing member's contribution to risk-weighted transaction activity over the preceding three months, and 1% is based on settlement requirements. CME Clearing calculates clearing member guarantee fund requirements at the beginning of each quarter. As of June 30, 2010, the aggregate guarantee fund requirement totaled $2.3 billion.

If the default continued to remain unsatisfied after the surplus funds and aggregate guarantee funds were applied, CME Clearing would then invoke its right to assess clearing members for any unsatisfied obligations. The balance of the unsatisfied default would then be allocated among the clearing membership up to an amount equal to 275 percent of the aggregate guarantee fund requirement across all non-defaulting clearing members. The allocation would be based on each clearing member's share of the guarantee fund, regardless of products cleared or type of clearing membership.

Temporary Liquidity Facility

To facilitate immediate liquidity needs, CME Clearing has a fully secured, committed line of credit with a consortium of domestic and international banks. Under the terms of the credit agreement, CME Clearing may use the proceeds of the advances to provide temporary liquidity in the unlikely event of a clearing member default, in the event of a liquidity constraint or default by a depositary, or if there is a temporary problem with the domestic payments system that would delay payments of settlement variation between CME Clearing and clearing members. The line of credit thus provides a high level of assurance that CME Clearing has the capacity to pay settlement variation to all clearing members even if a clearing member may have failed to meet its financial obligations to CME Clearing. As of December 31, 2009, the size of the facility was $1 billion, expandable to $1.5 billion under an accordion feature.

Insolvency Law Protections

In the case of a bankruptcy of an FCM, the U.S. Bankruptcy Code, the CFTC Part 190 Bankruptcy Rules and other laws contain a number of provisions that provide preferential treatment to a clearing member's public customers. Recent history has highlighted the advantage that customers of a regulated entity hold.

6 Firms clearing OTC products must maintain a security deposit minimum of $2.5 million.

In a bankruptcy situation, CME Clearing member firms' customers are afforded the protections of a CFTC-regulated counterparty, while customers of any non-regulated entity are not guaranteed this treatment. These provisions include special priority rules for distribution of property to customers and certain exceptions to the automatic stay and voidability provisions of the bankruptcy code. Set forth below is a general overview of these provisions.

In the event of a clearing member bankruptcy, the bankruptcy code provides a number of protections to CME Clearing, regardless of whether the bankrupt clearing member holds public customer accounts or only clears proprietary trades. For example, a trustee may not void pre-bankruptcy payments of original performance bond or settlement variation made to CME Clearing (except in the event of a fraudulent transfer). In addition, the filing of a bankruptcy petition will not stay a set-off by CME Clearing of claims for original performance bond or settlement variation payments owed by a clearing member against cash, securities or other property of a clearing member that CME Clearing holds. These provisions establish a priority for CME Clearing with respect to performance bond deposits, which protect all clearing members. Further, the Bankruptcy Code provides that neither a clearing member's bankruptcy nor any order of a bankruptcy court can prevent CME Clearing from exercising any contractual right it has to liquidate a commodity contract.

The bankruptcy code and the CFTC Part 190 bankruptcy rules provide a five-day grace period during which time customer accounts may be transferred from a defaulting clearing member to non-defaulting clearing members, either pursuant to arrangements made by the customer or as part of a "bulk transfer" of accounts coordinated with CME Clearing and the CFTC. With respect to distribution of customer property remaining at the defaulting clearing member, the CFTC Part 190 bankruptcy rules classify a clearing member's customers as either "public" or "non-public." Non-public customers include certain account holders that are affiliated with or related to the clearing member such as the clearing member officers, directors, general partners or ten percent or greater owners. All other customers are considered "public," and their property on deposit with the clearing member is subject to CFTC segregation requirements.

The bankruptcy code and CFTC Part 190 rules afford claims of public customers the highest priority, subject only to the payment of claims relating to the administration of customer property. For purposes of claims in an FCM bankruptcy, customers are divided into the following account classes: U.S. futures accounts (governed by Section 4d of the Commodity Exchange Act and related CFTC Regulations), foreign futures accounts (governed by CFTC Regulation 30.7), leverage accounts and delivery accounts. Each account class is a separate pool of funds for claims. The claims of customers whose funds are held in defined account classes will have priority over proprietary claims and the claims of general creditors in a clearing member bankruptcy. All property segregated on behalf of, or otherwise traceable to, a particular account class is allocated to that class and distributed to customers in that class on a pro-rata basis.

For banks that are direct clearing members, the applicability of these and other bankruptcy related provisions will depend on the circumstances of each situation. An insolvency of a domestic bank would be controlled by the Federal Deposit Insurance Corporation (FDIC) or a receiver appointed by the Comptroller of the Currency (Comptroller) depending on the type of banking services provided by the clearing member bank. If the clearing member is a retail depository bank, and therefore insured by the FDIC, its insolvency would be administered under the Federal Deposit Insurance Act (FDIA) with the FDIC as receiver. A non-depository bank would not be subject to the FDIA, and its insolvency would be controlled by the Comptroller as the licensing agency. Such insolvency is governed by the National Banking Act.

CME Clearing's outside counsel has indicated that based on the FDIA and the Federal Deposit Insurance Corporation Act of 1991 (FIDICIA) there is strong legal support for contractual netting among a clearing organization such as CME Clearing and its members, including U.S. banks. FIDICIA generally provides that the covered contractual payment obligations and the covered contract payment entitlements of a member of a clearing organization to and from all other members of a clearing organization shall be netted. In addition, the FDIA has provisions that are similar to the Bankruptcy Code in permitting broad cross-product netting and allowing prompt liquidation of contracts with an insolvent bank.

Foreign banks will fall within one of three relevant categories. If the foreign bank has assets but no subsidiaries or branches in the U.S., it would be subject to the U.S. Bankruptcy Code. Second, a foreign bank could establish a subsidiary bank in the U.S., either as a retail depository bank subject to FDIC regulations or as a non-depository bank that must be licensed by the Comptroller. The subsidiary's insolvency would be processed in the same manner as a U.S. bank. Finally, the foreign bank could set up branches rather than a bank subsidiary in the U.S. Such branches would not be permitted to accept retail deposits, and therefore the Comptroller, which would license the branches, would be the federal regulator rather than the FDIC. A receiver appointed by the Comptroller would administer the insolvency process in the U.S.

CME Clearing's outside counsel has indicated that in no instance of an insolvency of a foreign bank clearing member would CME Clearing be subject to an obstacle preventing immediate termination of all contracts with the defaulting bank, liquidation of all obligations on a broad netting basis and satisfaction of any net obligations to CME Clearing from the bank's guarantee fund. As discussed above, the applicability of these various laws will be fact specific and depend on the entities involved.

SUMMARY OF RESOURCES BACKING CME CLEARING

Under no circumstances will customer segregated or secured performance bond deposits held by CME Clearing for one clearing member be used to cover either a house or customer default of another clearing member. Customers doing business through a clearing member not involved in a default are insulated from losses incurred by the failure of another clearing member.

In the event of a default, as of June 30, 2010, CME Group may draw on all or a portion of the following resources to satisfy the outstanding obligation:

Aggregate Performance Bond Deposits	$81,931,000,000
Market Value of CME Pledged Shares/Trading Rights (as of December 31, 2009)	$783,000,000
Surplus Funds	$100,000,000
Guarantee Fund	$2,250,000,000
Assessment Power	$6,189,000,000
Total	**$91,253,000,000**

CUSTOMER PROTECTION

Customers face credit risk in doing business through any particular clearing member. Consequently, the selection process for a suitable clearing member is important. While the policies applicable to segregation of customer monies for products traded in regulated markets are specifically designed to protect customers from the consequences of a clearing member's failure, they do not always provide complete protection should the default be caused by another customer at that firm. Protection against a customer-caused default rests primarily with the management of the clearing member and the importance placed on its internal risk management controls.

Generally, a clearing organization's role in the customer protection process is to monitor risk management requirements and oversight, require all customers to post adequate performance bonds, administer financial surveillance programs designed to monitor the financial viability of clearing members and, when necessary, to impose specific remedies in an effort to avert the consequences of financial deterioration.

DISASTER RECOVERY AND BUSINESS CONTINUITY

CME Clearing maintains and routinely tests a comprehensive Disaster Recovery & Business Continuity Plan designed to provide protection against a broad spectrum of physical disaster types and to guarantee the survivability of core trading and clearing functions. Key components of the plan include:

- Multiple-redundant systems components, maintained at separate, geographically-dispersed facilities
- Multiple-redundant network connectivity between clearing firms and CME Clearing, into those separate, geographically-dispersed facilities
- Real-time mirroring of data storage between separate facilities
- Physical dispersion of operations oriented staff
- Multiple electricity feeds as well as back-up generator capability
- Redundant voice telecommunications lines with automatic switching to backup facilities

The plan provides survivability even in the event of complete destruction of CME Group's primary facilities in downtown Chicago. Routinely-tested scenarios include both the completion of the daily clearing cycle on the day of such a physical disaster, and the resumption of normal clearing processing on the following business day.

SUMMARY

CME Clearing's financial safeguard system is comprised of critical risk management and financial surveillance techniques designed for the protection of the clearing membership and its customers. The keystones of the system are CME Clearing's ability to detect unsound practices and the financial backing of its clearing members. This combination provides unparalleled safeguards for the protection and benefit of all participants in markets cleared by CME Clearing. In more than a century of operations, there has never been a failure by a clearing member to pay settlement variation to CME Clearing; there has never been a failure by a clearing member to meet a performance bond call; there has never been a failure by a clearing member to deliver resulting from the exercise or assignment of an option contract; there has never been a failure by a clearing member to meet its delivery obligations; and, there has never been a failure of a clearing member resulting in a loss of customer funds. This system has been remarkably successful in periods of tremendous volatility in the financial markets. Nonetheless, CME Clearing continuously strives to improve and strengthen its financial safeguard system.

CME GROUP CLEARING MEMBER FIRMS (AS OF 6/30/2010)

ADM Investor Services, Inc.
Advantage Futures, LLC
AIG Clearing Corporation
Barclays Capital Inc.
BNP Paribas Commodity Futures Inc.
BNP Paribas Securities Corp.
BNY Mellon Clearing, LLC
BP Corporation North America, Inc.
Bunge Chicago, Inc.
Cantor Fitzgerald & Co.
CIBC World Markets Corp.
Citadel Securities LLC
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Crossland, LLC
Cunningham Commodities, Inc.
Daiwa Capital Markets Inc.
Deutsche Bank Securities Inc.
Dorman Trading, L.L.C.
Eagle Market Makers, Inc.
Enskilda Futures Limited
FC Stone, L.L.C.
Fortis Clearing Americas LLC
Gelber Group, LLC
George E. Warren Corporation
GETCO, LLC
Goldman, Sachs & Co.
Goldman Sachs Execution & Clearing, L.P.
HSBC Securities (USA) Inc.
J.P. Morgan Futures, Inc.
Jump Trading, LLC
Keep Clearing Corp, LLC
Longwood Trading
Macquarie Futures USA Inc.
Marquette Partners, L.P.
MBF Clearing Corp.
Merrill Lynch, Pierce, Fenner & Smith Inc.
MF Global Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Newedge USA, LLC
Nomura Securities International, Inc.
Penson GHCO
Phibro LLC
Proxima Clearing, LLC
Prudential Bache Commodities, LLC
Rand Financial Serviecs Inc.
RB Trading
RBC Capital Markets Corporation
RBS Securities Inc.
RDG Trading
R.J. O'Brien & Associates, LLC
Ronin Capital, LLC
Rosenthal Collins Group, L.L.C.
SMW Trading Company, Inc.
State Street Global Markets, LLC
Sterling Commodities Corporation
Swank Trading Co.
TENCO, Inc.
Term Commodities Inc.
The Bank of Nova Scotia
Timber Hill LLC
TradeLink L.L.C.
Triland USA Inc.
UBS Securities LLC
Vision Financial Markets LLC

Note: Firms listed with ## are not actively clearing.

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