

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 24-346 (1 of 5)

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

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

**Filing Date (mm/dd/yy):** 12/13/24 **Filing Description:** Amendments to CME, CBOT, NYMEX/COMEX Rule 802., CME Rules 8F002., and 8F014., and Adoption of New Definitions in CME, CBOT, NYMEX/COMEX Chapter iii and Rule 914. Regarding Mandatory Participation in Default Management Auctions for Base Clearing Members.

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- |                                     |                                     |            |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification                       | § 40.6(a)  |
| <input type="checkbox"/>            | Approval                            | § 40.5(a)  |
| <input type="checkbox"/>            | Notification                        | § 40.6(d)  |
| <input type="checkbox"/>            | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/>            | SIDCO Emergency Rule Change         | § 40.10(h) |

**Rule Numbers:** Definitions, 802, 8F002, 8F014, 914.

**New Product**

Please note only ONE product per Submission.

- |                          |                                       |            |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification                         | § 40.2(a)  |
| <input type="checkbox"/> | Certification Security Futures        | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class              | § 40.2(d)  |
| <input type="checkbox"/> | Approval                              | § 40.3(a)  |
| <input type="checkbox"/> | Approval Security Futures             | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission                       | § 39.5     |

**Official Product Name:**

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

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

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

**Rule Numbers:**

December 13, 2024

**VIA ELECTRONIC PORTAL**

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

**Re: CFTC Regulation 40.6(a) Certification. Amendments to CME, CBOT, NYMEX/COMEX Rule 802., CME Rules 8F002., and 8F014., and Adoption of New Definitions in CME, CBOT, NYMEX/COMEX Chapter iii and Rule 914. Regarding Mandatory Participation in Default Management Auctions for Base Clearing Members. CME Submission No. 24-346 (1 of 5)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”), in its capacities as both a designated contract market (“DCM”) and a derivatives clearing organization (“DCO” or “Clearing House”), and The Board of Trade of the City of Chicago, Inc. (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”) and Commodity Exchange, Inc. (“COMEX”), in their capacities as DCMs, (each an “Exchange” and collectively with CME, the “Exchanges”) are certifying to the Commission amendments to CME, CBOT, NYMEX/COMEX Rule 802. (“Protection of Clearing House”), CME Rules 8F002. (“Definitions”) and 8F014. (“Mitigation of Losses”), and adoption of new definitions in CME, CBOT, NYMEX/COMEX Chapter iii (“Definitions”) and Rule 914. (“Base Clearing Member Default Obligations”), as well as associated amendments to the Base Default Management Guidelines (“Guidelines”) and CME’s Risk Management Framework (collectively, the “Rule Amendments”), effective on December 31, 2024.

**Background**

Base Clearing Member participation in default management auctions for futures and options on futures (collectively, “futures”) is currently voluntary.<sup>1</sup> The Rule Amendments establish a framework for mandatory participation by certain Base Clearing Members in futures default management auctions for covered products. The Rule Amendments are intended to provide assurance that an adequate number of bidders are available in a default and to reduce the Clearing House’s dependence on voluntary bidders. Additional, non-substantive conforming changes are proposed throughout Exchange Rule 802.

One of the primary objectives of the DCO’s default management process is to liquidate a defaulted Clearing Member’s portfolio in a timely and cost-efficient manner. The Exchanges are establishing a rule framework for mandatory participation in the Clearing House’s futures default management auctions, including an associated incentive framework, to enhance the Clearing House’s ability to manage risk and meet this objective.

The Rule Amendments are attached as Exhibit A. The Guidelines and the Risk Management Framework, revised to reflect the Rule Amendments, are attached as Exhibits B and C, respectively. Confidential treatment is requested for both Exhibits B and C. The Guidelines are available to Clearing Members on a confidential basis.

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<sup>1</sup> Base Clearing Members that clear OTC FX are subject to mandatory participation in the Clearing House’s default management processes for such products.

#### A. Establishing Product Categories for Mandatory Participation

The Clearing House maintains a roster of qualified voluntary bidders that may participate in futures default auctions. Upon the effectiveness of the Rule Amendments, voluntary participation will continue to be encouraged in all default auctions. However, the Clearing House will also select Base Clearing Members for mandatory participation in those product categories for which, using risk-based criteria, it determines that additional bidders will enhance the default management process (each a “Base Product Category”).

The Clearing House will determine Base Product Categories based on the availability of voluntary participants and an assessment of whether further participation is needed. Using risk-based metrics to selectively mandate participation for certain Base Product Categories is intended to balance the benefits of robust participation in Clearing House futures default auctions against the participation burden on Base Clearing Members. The set of products within each Base Product Category will be determined by the Clearing House, with a focus on those futures instruments where additional bidders would enhance the default management process.

The Clearing House initially expects to mandate participation only in certain Base Product Categories but may extend its mandate where appropriate. The Clearing House will review its determinations of Base Product Categories on a regular basis. The Clearing House will notify Base Clearing Members via advisory where Based Product Categories are added or removed.

#### B. Selecting Base Clearing Members for Mandatory Participation

Within each Base Product Category, the Clearing House will augment its roster of voluntary bidders with an appropriate number of Base Clearing Members who will be required to participate in futures default management auctions (each, a “Mandated Base Clearing Member”). Establishing a requirement is intended to ensure that enough bidders are available for default auctions in each Base Product Category.

The Clearing House will select firms for mandatory participation based on the number of mandatory bidders required for the Base Product Category, the firms’ trading activity in such products, and the firms’ ability to submit competitive, high-quality bids in a default auction. In assessing the firms’ activity, the Clearing House will look to both the relative amount of performance bond and the relative intraday trading volume in the proprietary account within the relevant Base Product Category. Only those Clearing Members with open interest in the relevant products in their proprietary accounts during the preceding six (6) months may be subject to the participation mandate.

The Clearing House will make an initial determination of Mandated Base Clearing Members for each Base Product Category and review its determinations at least semi-annually. The Clearing House will individually notify Mandated Base Clearing Members of their selection.

A firm selected as a Mandated Base Clearing Member may request an exemption from mandatory participation in the Clearing House’s default management process for a given Base Product Category where the firm (i) does not trade relevant products or product types (e.g., both linear and non-linear) in the relevant Base Product Category; (ii) does not have open interest in the relevant Base Product Category that is proportionate to the size of the defaulter’s portfolio, as determined by the Clearing House in its sole discretion; (iii) does not have an active trading desk for a relevant product(s); or (iv) has other operational reasons preventing it from being able to participate in an auction.

As with its Base Product Category selection process, the Clearing House aims to balance the benefits of participation against the burden on firms by selecting only those firms that have the expertise and capability to produce high-quality bids as Mandated Base Clearing Members.

The Clearing House evaluated its approach against CFTC Regulation 39.16(c)(2)(iii)(C), which precludes a DCO from requiring a clearing member to bid for a portion of a defaulting clearing member’s positions that is not proportional to the size of the bidding clearing member’s positions in the same product class at such DCO. Consistent with CFTC Regulation 39.15(c)(2)(iii)(C), the Clearing House will not require Base Clearing

Members to bid in a default management auction where their proprietary positions in the same Base Product Category are not proportional to the size of the defaulter's positions in the Base Product Category.

### C. Incentive Framework

To support these requirements, the Rule Amendments include an incentive framework that is designed to encourage high-quality bids from Base Clearing Members participating in futures default auctions. The incentive framework for futures is modelled on the long-standing incentive framework for the Clearing House's interest rate swap ("IRS") clearing service. All Base Clearing Members participating in futures hedging or liquidation auctions will be subject to this incentive framework.<sup>2</sup>

The Base Guaranty Fund contributions of Base Clearing Members participating in a hedging or liquidation auction will be categorized as follows:

- Seniorized amount – comprising a portion of the Base Guaranty Fund contributions of all participating Clearing Members that submit winning bids in an auction.
- Maintained amount – comprising a portion of the Base Guaranty Fund contributions of (i) participating Clearing Members that submit competitive bids in an auction,<sup>3</sup> and (ii) a participating Clearing Member that are beyond the applicable cap (see discussion below) and therefore not subject to seniorization or subordination. The Guaranty Fund contributions of Base Clearing Members that are not required to participate and do not participate in an auction are categorized as maintained.
- Subordinated amount – comprising a portion of the Base Guaranty Fund contributions of (i) participating Clearing Members that submit non-competitive bids in an auction, and (ii) Mandated Base Clearing Members that fail to meet their auction participation requirement.

The portion of a participating Clearing Member's Guaranty Fund contribution subject to seniorization or subordination is capped at the lower of (i) the participating Clearing Member's Guaranty Fund requirement or (ii) the Defaulted Clearing Member's Guaranty Fund requirement. This approach further aligns incentives by limiting the amount of seniorization or subordination to the defaulter's Guaranty Fund requirement, rather than the size of the bidder's Guaranty Fund requirement.

The Rule Amendments will not impact the size or allocation of the Base Guaranty Fund. The incentive framework only affects the priority in which Base Clearing Members' Guaranty Fund contributions are subject to utilization in the unprecedented event that the Clearing House utilizes mutualized resources to cure a default. To illustrate how the incentive framework operates under the Rule Amendments, where the mutualized layer of the Base Guaranty Fund is utilized, all subordinated amounts would first be applied on a pro rata basis. If the aggregate of all Base Clearing Member subordinated amounts is insufficient to cure the deficit, the maintained amount would then be applied pro rata. If the aggregate of all Base Clearing Member maintained amounts is insufficient to cure the deficit, only then would the seniorized amount be applied.

### **Core Principle Analysis**

The Exchanges reviewed the DCO Core Principles and the DCM Core Principles (collectively, the "Core Principles") as set forth in the Commodity Exchange Act ("CEA" or the "Act") and identified that the Rule Amendments may have some bearing on the following Core Principles.

#### A. DCO Core Principles

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<sup>2</sup> The incentive framework applies to voluntary or mandated participants in default auctions for (i) Base Product Categories and (ii) Base OTC products where Base OTC Clearing Members are subject to mandatory participation (see id.).

<sup>3</sup> A bid is competitive if it is less than half the performance bond requirement for the relevant trade/portfolio away from the winning bid. Bids further away from the winning bid are non-competitive.

- *DCO Core Principle B – Financial Resources:* The Rule Amendments do not impact the calculation or the size of the DCO's financial resources. The incentive framework only impacts the order in which Base Clearing Members' Guaranty Fund contributions would be utilized in a default. The order of utilization depends on the bidding behavior of Base Clearing Members in default auctions.
- *DCO Core Principle C – Participant and Product Eligibility:* The Rule Amendments establish continuing participation requirements for Base Clearing Members. Mandatory participation in the Clearing House's futures default processes will apply only to an appropriate number of select Clearing Members (i.e., Mandated Base Clearing Members) in select product categories based on objective criteria (i.e., Base Product Categories). This targeted requirement is appropriate to minimize risk to the Clearing House and its Base Clearing Members, who face the risk of subordination if their bids are not competitive. Accordingly, the Rule Amendments limit the mandatory participation to the requisite number of firms within a Base Product Category necessary to appropriately enhance default management efficiency and to minimize the participation burden on firms that do not have the expertise or capacity to participate in auctions.
- *DCO Core Principle D – Risk Management:* The Rule Amendments further support the Clearing House's ability to manage the risks associated with discharging its DCO responsibilities. Specifically, the Rule Amendments will enhance the Clearing House's futures default management process by ensuring sufficient participation through mandatory participation by certain firms while offering incentives for continued voluntary participation by other firms.
- *DCO Core Principle G – Default Rules and Procedures:* The Rule Amendments are consistent with the Clearing House's obligations to adopt rules that set forth its default procedures, including obligations that the DCO imposes on its clearing members to participate in default management auctions. Consistent with this Core Principle and the regulations thereunder, the Clearing House will not require Base Clearing Members to bid in a default management auction where their proprietary positions in the same Base Product Category are not proportional to the size of the defaulter's positions in the Base Product Category.
- *DCO Core Principle L – Public Information:* This Core Principle requires the Clearing House to publicly disclose its rules and procedures. The Rule Amendments will be incorporated into the Exchanges' publicly available rulebooks. The Exchanges will release a notice to the marketplace regarding the Rule Amendments in advance of the effective date and will notify the marketplace upon updates to the Base Product Categories for which participation in default management processes may be required.

**B. DCM Core Principles**

- *DCM Core Principle 7 - Availability of General Information:* The Rule Amendments will be incorporated into the Exchanges' publicly available rulebooks.
- *DCM Core Principle 11 – Financial Integrity of Transactions.* By enhancing the Clearing House's ability to efficiently manage risk arising from the default of a Base Clearing Member, the Rule Amendments also reduce the risk to non-defaulting Base Clearing Members and their customers trading on the Exchanges, in furtherance of this Core Principle.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchanges certify that the Rule Amendments comply with the CEA and the regulations thereunder. There were no substantive opposing views to the Rule Amendments.

The Exchanges certify that this submission has been concurrently posted on the Exchanges' website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact the undersigned at (312)466-7478 or via email at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Timothy Elliott  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A – Amendments to CME, CBOT, NYMEX/COMEX Rules iii (“Definitions”), 802 (“Protection of Clearing House”); CME Rules 8F002 (“Definitions”), 8F014 (“Mitigation of Losses”); and Adoption of CME, CBOT, NYMEX/COMEX Rule 914 (“Base Clearing Member Default Obligations”) (blackline format)

Exhibit B.1 – CME Base Default Management Guidelines (attached under separate cover) (confidential treatment requested) (blackline format)

Exhibit B.2 – CME Base Default Management Guidelines (attached under separate cover) (confidential treatment requested) (clean format)

Exhibit C – CME Risk Management Framework (attached under separate cover) (confidential treatment requested) (blackline format)

## Exhibit A

### **Amendments to CME, CBOT, NYMEX/COMEX Rulebooks** (additions are underlined; deletions ~~overstruck~~)

#### **CME/CBOT/NYMEX/COMEX CHAPTER iii DEFINITIONS**

##### **BASE PRODUCT CATEGORY**

Each category and sub-category of Base Contracts as determined by the Clearing House for default management purposes.

##### **BIDDING OTC FIRM**

A non-defaulted Base OTC Clearing Member that is required to participate in the Clearing House's default drill exercises and liquidation auctions for any OTC Derivative Product Category in which it has open interest, as determined by the Clearing House.

##### **MANDATED BASE CLEARING MEMBER**

A Base Clearing Member that is required to participate in the Clearing House's default drill exercises and auctions for a given Base Product Category.

##### **PARTICIPATING BASE OTC CLEARING MEMBER**

A non-defaulted Base OTC Clearing Member that participates or is required to participate in hedging and liquidation auctions for an OTC Derivative Product Category.

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#### **CME/CBOT/NYMEX/COMEX CHAPTER 8 CLEARING HOUSE AND PERFORMANCE BONDS**

##### **802. PROTECTION OF CLEARING HOUSE**

###### **802.A. Default by Base Clearing Member or Other Participating Exchanges**

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

###### **1. Default by Base Clearing Member**

If a clearing member of CME, CBOT, NYMEX, COMEX, or an OTC Clearing Member (i) fails promptly to discharge any obligation to the Clearing House or (ii) becomes subject to any bankruptcy, reorganization, arrangement, insolvency, moratorium, or liquidation proceedings, or other similar proceedings under U.S. federal or state bankruptcy laws, any comparable non-U.S.

laws, or other applicable law, the Clearing House may declare such ~~clearing-Base Clearing member-Member~~ to be in default. The Clearing House will post notice of a default declaration on CME Group Inc.'s public website. For purposes of this Rule 802, each default by a ~~Base eClearing member~~ Member will be considered a separate default event, provided that if a ~~Base eClearing member~~ Member has been declared in default, subsequent failures to pay by such defaulting ~~Base eClearing Mmember~~ Member shall not be considered separate default events unless and until the original default has been fully resolved and such ~~Base eClearing Mmember~~ Member has been restored to good standing.

## 2. Defaulting ~~Base~~ Clearing Member's Collateral

Upon the default of a Base Clearing Member, Base Collateral shall be applied by the Clearing House to discharge any loss to the Clearing House associated with such default (a "Loss"). A Loss shall include, but shall not be limited to, costs associated with the liquidation, transfer and managing of Base Contracts of the defaulted ~~Base eClearing Mmember~~ Member, hedging costs and other costs incurred by the Clearing House related to managing the risk surrounding the default of the ~~Base eClearing Mmember~~ Member. The defaulting ~~Base Clearing Mmember~~ Member shall take no action, including but not limited to, attempting to obtain a court order that would interfere with the ability of the Clearing House to so apply such assets and proceeds.

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

A Loss arising in the defaulted Base Clearing Member's proprietary account class shall be satisfied from the Base Collateral. A Loss resulting from any cleared swaps customer's cleared swap position in a Base Product held in a cleared swaps account shall be satisfied by application of performance bond, excess performance bond, other collateral and settlement variation gains held for the respective cleared swaps customer consistent with Part 22 of the CFTC's regulations (collectively, "Base Swap Customer Collateral"). A Loss resulting from any customer's position in any futures held in a futures segregated account, or any swap position in a Base Product or foreign futures position that is commingled with such futures positions in such segregated account, shall be satisfied by application of performance bond, excess performance bond, other collateral and settlement variation gains held in the Base Clearing Member's customer account in a manner consistent with section 4d(a) of the CEA and CFTC Regulation 1.20 (collectively, "Base Futures Customer Collateral").

A Loss resulting from any customer's position in any foreign futures held in a secured account shall be satisfied by application of performance bond, excess performance bond, other collateral and settlement variation gains held in the Base Clearing Member's customer account in a manner consistent with Commission Regulation 30.7 (collectively, "Base Futures 30.7 Customer Collateral").

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

## 3. Default by Other Participating Exchanges or Partner Clearinghouses

If a Participating Exchange or Partner Clearinghouse fails to promptly discharge any obligation to the Clearing House arising out of its obligations to the Exchange, such Participating Exchange's



or Partner Clearinghouse's letters of credit, performance bonds and other assets available to the Clearing House shall be applied by the Clearing House to discharge the obligation, pursuant to the procedures set forth below in Rule 802.A.5 with respect to a defaulting ~~Base eClearing member~~Member. If such resources are insufficient to satisfy the Participating Exchange's or Partner Clearinghouse's obligations to the Clearing House, the deficiency shall be considered a Loss that is subject to satisfaction pursuant to Rule 802.B.

#### 4. Allocation of Base Guaranty Fund into Tranches

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

- i. Base Tranche. Base Guaranty Fund Product Classes that are not associated with an Alternate Tranche as described below shall comprise the Base Product Class. The first 80% of Base Guaranty Fund amounts contributed with respect to the Base Product Class shall be the "Base Tranche".
- ii. [Reserved]
- iii. Alternate Product Class Tranches. Any other product class approved by the Clearing House Risk Committee to support a product-specific Base Guaranty Fund tranche hereunder shall comprise an Alternate Product Class. The first 80% of Base Guaranty Fund amounts contributed with respect to each such an Alternate Product Class shall be an "Alternate Tranche".
- iv. Commingled Tranche. The remaining 20% of Base Guaranty Fund amounts contributed with respect to all of the foregoing Product Classes shall be the "Commingled Tranche".

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

#### 5. Apportionment Among Base Guaranty Fund Product Classes; Application of Defaulting ~~Base eClearing M~~Member's Collateral

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

- i. Initial Allocation of Assets to Base Guaranty Fund Product Classes. Subject to the provisions of 802.G, as of the cycle in which the default occurs, the Clearing House shall allocate assets of the defaulting ~~Base eClearing M~~member to the different Base Guaranty Fund Product Classes in which the clearing member has open positions as follows: (a) the defaulting ~~Base eClearing M~~member's Base Guaranty Fund requirement associated with each Base Guaranty Fund Product Class shall be attributed to such Class, (b) the defaulting ~~Base eClearing member's~~Member's required performance bond amounts for each Base Guaranty Fund Product Class as of the prior clearing cycle shall be allocated to such Class, (c) any CME shares (whether common shares or class B shares) or any cash posted in lieu of such shares, and (d) any of the defaulting ~~Base eClearing M~~member's other assets held by, pledged to or otherwise available to the Clearing House shall be divided among the Base Guaranty Fund Product Classes in proportion to the defaulting ~~Base eClearing M~~member's Base Guaranty Fund requirement.
- ii. Management of Obligations for Cycle of Default. As of the cycle in which the default occurs, the Clearing House shall aggregate the following assets: any excess Base Guaranty Funds, any excess performance bond from the prior clearing cycle for Base Guaranty Fund Product Classes, any partial payment by the ~~Base eClearing M~~member for the default cycle, and any other available assets of the ~~Base eClearing M~~member that are not specific to a Base Guaranty Fund Product Class. Such unassigned assets shall be allocated first to any net settlement variation payment

obligation of the defaulting Base eClearing Mmember to the Clearing House relating to Base Guaranty Fund Product Classes, pro rata across the customer and proprietary classes relative to the net settlement variation payment obligation for each account class. If the unassigned funds so allocated are sufficient to satisfy the Base eClearing mMember's immediate settlement variation payment obligations for Base Guaranty Fund Product Classes, any remaining unassigned funds shall be divided among the Base Guaranty Fund Product Classes, pro rata in proportion to the size of the performance bond requirements for each Base Guaranty Fund Product Class for the clearing cycle immediately prior to the default. If the unassigned funds are not sufficient to satisfy the Base eClearing Mmember's settlement variation payment obligations for Base Guaranty Fund Product Classes for the default cycle, then (i) the Clearing House shall apply the unassigned funds to such obligations, pro rata relative to the size of such obligations on a per-Base Guaranty Fund Product Class basis, and within each Base Guaranty Fund Product Class, pro rata across the customer and proprietary classes, and (ii) the remaining settlement variation payment obligations for such clearing cycle shall be satisfied on a per-Base Guaranty Fund Product Class basis only from the assets allocated to the relevant Base Guaranty Fund Product Class pursuant to 802.A.5.i. If the Clearing House is unable to satisfy a settlement variation payment obligation attributable to any Base Guaranty Fund Product Class from such assets, the deficiency shall be a Loss that the Clearing House shall satisfy pursuant to the procedures in Rule 802.B. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting Base eClearing mMember to satisfy a payment obligation to the Clearing House in respect of the defaulting Base eClearing mMember's proprietary account.

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

iv. Final determination of gain or deficiency for each Product Class. When the Clearing House determines the final net deficiency for a Base Guaranty Fund Product Class, it shall apply any remaining collateral of the defaulting Base eClearing Mmember with respect to such Base Guaranty Fund Product Class to satisfy the deficiency. If the Clearing House achieves a final gain, or if any excess collateral remains following satisfaction of a deficiency, the Clearing House shall allocate such excess funds to the defaulting Base eClearing Mmember's collateral for Base Guaranty Fund Product Classes within the same account class as to which a final gain or

deficiency is yet to be determined, pro rata in proportion to the size of the performance bond requirements for such Base Guaranty Fund Product Classes for the clearing cycle immediately prior to the default. For the avoidance of doubt, as set forth in 802.G, the Clearing House shall not use performance bond amounts or other collateral in any customer account class of the defaulting Base eClearing Mmember to satisfy a payment obligation to the Clearing House in respect of the defaulting Base eClearing Mmember's proprietary account. Any gains or excess collateral within a segregated customer account class following final determination of the defaulting Base eClearing Mmember's losses shall remain segregated to the relevant customer account class, where it may be used to satisfy payment obligations arising from such account class in other Product Classes, but shall not be added to the Base eClearing Mmember's collateral generally.

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

#### **802.B. Satisfaction of Clearing House Obligations**

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

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

i. The corporate contribution of CME, which shall equal \$100,000,000 (the "CME Contribution").

ii. The Guaranty Fund contributions of non-defaulting Base Clearing Members, applied in the following manner:

a. the Base Guaranty Fund contribution of Subordinated Bidders equal to the relevant Aggregate Subordinated Amounts of such Subordinated Bidders applied on a pro rata basis until the entire loss is allocated; then, to the extent not all losses have been allocated after application pursuant to this sub-section (a);

b. the (remaining) Base Guaranty Fund of all other Base Clearing Members (excluding an amount of the Base Guaranty Fund of each Winning Bidder equal to the Final Aggregate Seniorized Amounts for such Winning Bidders) will be applied pro rata until the entire loss is allocated; then, to the extent not all losses have been applied after application pursuant to this subsection (b);

c. the (remaining) Base Guaranty Fund of all Winning Bidders, which is equivalent to the Final Aggregate Seniorized Amount, will be applied pro rata.

As used in this Rule 802.B:

"Aggregate Subordinated Amount" means the sum of all subordinated amounts as determined by the Clearing House in accordance with the Base Default Management Guidelines.

"Final Aggregate Seniorized Amount" means the sum of all seniorized amounts as determined by the Clearing House in accordance with the Base Default Management Guidelines.

"Subordinated Bidder" means in respect of each default management auction, the Mandated Base Clearing Member(s), voluntarily participating Base Clearing Members or Participating Base OTC Clearing Members whose Base Guaranty Fund contribution is subject to subordination as determined by the Clearing House in accordance with the Base Default Management Guidelines. The maximum subordination amount for purposes of this definition shall be the lesser of 100% of: x) the Subordinated Bidder's Base Guaranty Fund contribution, or y) the defaulted Base Clearing Member's Base Guaranty Fund contribution.

"Winning Bidder" means, in respect of each Default Management Auction, the Base Clearing Member(s) designated as such by the Clearing House with respect to such Default Management Auction.

iv. The Alternate Tranche.

iv. The balance of any Losses remaining after the application of the above funds shall be assessed against all ~~clearing-Base Clearing members~~Members (excluding any insolvent or defaulting ~~Base eClearing M~~Members). Each ~~clearing-Base Clearing member~~Member (excluding any insolvent or defaulting ~~clearing-Base Clearing member~~Member) shall be subject to an assessment up to an amount that does not exceed (A) a total of 275 per cent of such ~~Base eClearing m~~Member's Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to a single defaulted ~~Base eClearing M~~Member and (B) a total of 550 per cent of such ~~Base eClearing M~~Member's Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to all defaulted ~~Base eClearing M~~Members during a Base Cooling Off Period. Assessed amounts shall be divided among ~~Base eClearing m~~Members pro rata in proportion to the size of the Clearing House's assessment authority with respect to each ~~Base eClearing M~~Member.

2. [Reserved]

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

i. The CME Contribution.

ii. The Guaranty Fund contributions of non-defaulting Base Clearing Members, applied in the following manner:

a. the Base Guaranty Fund contribution of Subordinated Bidders equal to the relevant Aggregate Subordinated Amounts of such Subordinated Bidders applied on a pro rata basis until the entire loss is allocated; then, to the extent not all losses have been allocated after application pursuant to this sub-section (a);

b. the (remaining) Base Guaranty Fund of all other Base Clearing Members (excluding an amount of the Base Guaranty Fund of each Winning Bidder equal to the Final Aggregate Seniorized Amounts for such Winning Bidders) will be applied pro rata until the entire loss is allocated; then, to the extent not all losses have been applied after application pursuant to this subsection (b);

c. the (remaining) Base Guaranty Fund of all Winning Bidders, which is equivalent to the Final Aggregate Seniorized Amount, will be applied pro rata.

iv. The balance of any Losses remaining after the application of the above funds shall be assessed against all ~~Base C~~clearing ~~M~~Members (excluding any insolvent or defaulting ~~eBase C~~clearing ~~M~~Members). Each ~~Base eClearing M~~Member (excluding any insolvent or defaulting ~~Base eClearing M~~Member) shall be subject to an assessment up to an amount that does not exceed (A) a total of 275 per cent of such ~~Base eClearing M~~Member's Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to a single defaulted ~~Base eClearing M~~Member and (B) a total of 550 per cent of such ~~Base C~~clearing ~~m~~Member's Base Guaranty Fund requirements attributable to all Base Guaranty Fund Product Classes at the time of the default with respect to Losses attributed to all defaulted ~~eBase C~~clearing ~~members-M~~Members during a Base Cooling Off Period. Assessed amounts shall be divided among ~~Base eClearing members-M~~Members pro rata in proportion to the size of the Clearing House's assessment authority with respect to each ~~Base C~~clearing ~~m~~Member.

#### 4. If Losses Are Apportioned Among Multiple Product Classes:

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

i. The CME Contribution shall be applied. The CME Contribution shall be divided by the Clearing House into separate segments in proportion to the size of each Tranche except for the Commingled Tranche. Each segment of the CME Contribution shall be applied first to Losses associated with the applicable Base Guaranty Fund Product Class for such segment, and only at such time as one or more Losses associated with such Tranche are finalized. Subject to paragraph 802.C if any of the CME Contribution remains after such initial application, such funds shall be reserved to be later applied to Losses associated with other Product Classes as set forth in paragraph 802.B.4.v.

ii. The Base Tranche shall be applied to Losses associated with the Base Product Class and any Alternate Tranche shall be applied to Losses associated with the applicable Alternate Product Class, in each case when one or more Losses associated with such Tranche are finalized. Subject to paragraph 802.C, if the Tranche is not exhausted, any remaining funds shall be held in such Tranche and may later be applied to other Losses as set forth in paragraph 802.B.4.v.

iii. The Commingled Tranche funds shall be applied to remaining Losses associated with any Base Guaranty Fund Product Class immediately as such Losses are finally determined by the Clearing House, in the order that the amounts of such Losses are finalized. Consequently, the application of Commingled Tranche funds to Losses associated with one Base Guaranty Fund Product Class may occur prior to the finalization of Losses associated with other Base Guaranty Fund Product Classes (i.e., prior to the completion of the processes set forth in paragraphs 802.B.4.i and 802.B.4.ii with respect to Losses associated with another Base Guaranty Fund Product Class). If Losses associated with more than one Base Guaranty Fund Product Class are to be finalized pursuant to auction processes being conducted concurrently, then any remaining Commingled Tranche funds shall be divided and allocated to such auctions during the auction process, pro rata in proportion to the relative sizes of the mark-to-market losses for such Base Guaranty Fund Product Classes.

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

respect to the Base Product Class.) Any remaining unused assessment authority associated with Base Guaranty Fund Product Classes as to which Losses are fully satisfied shall be reserved and later may be applied to Losses associated with other Product Classes as set forth in paragraph 802.B.4.v below.

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

#### 5. Fedwire and Satisfaction of Assessment

All amounts assessed by the Clearing House against a Base eClearing Mmember pursuant to this Rule, during the hours in which the Federal Reserve's wire transfer system (Fedwire) is in operation, shall be paid to the Exchange by such Base eClearing Mmember prior to the close of Fedwire on such day (regardless of any local business hours or local holidays in a jurisdiction where a Base eClearing Mmember is located); provided, however, that all amounts assessed within one (1) hour prior to the close of Fedwire shall be paid to the Exchange within one (1) hour after Fedwire next opens.

Any Base eClearing Mmember that does not satisfy an assessment, made pursuant to this paragraph 802.B.5 or paragraphs 802.B.1.v, 802.B.2.v, 802.B.3.v, 802.B.4.iv or 802.B.4.v above, shall be in default. Any Loss that occurs as a result of such default shall itself be assessed by the Clearing House to non-defaulting Base eClearing Mmembers pursuant to the applicable paragraph.

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

After payment of an assessment pursuant to Rule 802.B, a Base eClearing Mmember shall charge other Base eClearing Mmembers for whom it clears contracts or carries positions on its books to recover their proportional share of the assessment. Such other Base eClearing Mmembers shall promptly pay the charge.

#### 6. Details of Implementation

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

In order to ensure that the process for liquidating open commodity contracts results in competitive pricing, to the extent feasible under market conditions at the time of liquidation, liquidation of open

commodity contracts held for a house account or customer account of a defaulting Base Clearing Member may occur by one or more of the following methods: (a) book entry that offsets open commodity contracts on the books of the defaulting Base Clearing Member; (b) liquidation in the open market; and/or (c) one or more private auctions amongst qualified market participants invited by the Clearing House to submit confidential bids. The Clearing House shall have discretion to select the best bid submitted for any portfolio in an auction, based on the totality of the circumstances. All information received by a Base Clearing Member, its affiliate or customer in connection with the Clearing House's liquidation and default management processes shall be treated as confidential.

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

#### 7. Modifications of Clearing House's Obligations for Base Contracts

(a) If at any time following a default of a Base Clearing Member, the assets available to cover the default under the preceding sections of Rule 802 are insufficient to satisfy the Loss and obligations of the Clearing House to Base Clearing Members as a result of such default, then the Clearing House shall, in a manner that is consistent with the requirements of the Commodity Exchange Act and the regulations adopted thereunder, conduct its next settlement cycle as described in Rule 802.B.7(b).

(b) The Clearing House shall issue a Clearing Advisory Notice and conduct a settlement cycle to determine settlement prices for all Base Contracts and the net portfolio gain or loss for each Base Clearing Member and its customers, in accordance with the following:

(i) The net portfolio gain of a Base Clearing Member (a "collect"), or the net portfolio loss of a Base Clearing Member to the Clearing House (a "pay") shall be determined separately:

(A) For the Base Clearing Member's proprietary positions in Base Contracts (the net portfolio gain or net portfolio loss for such positions, "Proprietary Base Collects" or "Proprietary Base Pays"),

(B) For a Base Clearing Member that is an FCM, for (i) the futures positions of the Base Clearing Member's customers in Base Contracts held in a futures segregated account and (ii) any swap positions or foreign futures positions of such customers that are commingled with such futures positions in such account (the net portfolio gain or net portfolio loss for such positions described in (i) and (ii) collectively, "Customer Futures Collects" or "Customer Futures Pays").

(C) For a Base Clearing Member that is an FCM, for (i) the swap positions in Base Contracts of each customer of the Base Clearing Member held in a cleared swaps customer account for such customer and (ii) any Commingled Futures Positions (as such term is defined in Rule 8G831) for each customer (the net portfolio gain or net portfolio loss for such swap positions and Commingled Futures Positions described in (i) and (ii) collectively, "Individual Customer Swap Collects" or "Individual Customer Swap Pays").

(D) For a Base Clearing Member that is an FCM, for the foreign futures positions of the Base Clearing Member's customers held in a secured account (the net portfolio gain or net portfolio loss for such positions, also the "Customer Futures Collects" or "Customer Futures Pays," provided, however, that the Clearing House will determine the Customer Futures Collects and Customer Futures Pays separately for a Base Clearing Member's futures account class and foreign futures account class.

(ii) The Clearing House Oversight Committee (after considering any recommendation of the Emergency Financial Committee) may determine a maximum amount of position liquidation payments that may be included in the Aggregate Base Collects, based upon then existing facts and circumstances, that it deems appropriate to mitigate further disruptions to the markets.

(iii) The Clearing House shall notify each Base Clearing Member of the amount of its remaining

Base Assessments, Proprietary Base Pays, Customer Futures Pays and Individual Customer Swap Pays and each Base Clearing Member shall pay all such amounts no later than the time required for the relevant settlement cycle. If a Base Clearing Member does not pay all such amounts to the Clearing House, the Clearing House shall determine such Base Clearing Member to be in default and may take any of the actions specified in Rule 802.A. with respect to such Base Clearing Member and its customers.

(iv) If the amount of Aggregate Base Available Funds received by the Clearing House exceeds the Aggregate Base Collects, the Clearing House shall calculate reimbursements of, and distribute, the excess funds, in reverse order of the utilization of Base Priority of Payments.

(v) If the amount of the Aggregate Base Collects exceeds the amount of Aggregate Base Available Funds received:

(A) the Clearing House shall notify Base Clearing Members and provide an opportunity for Base Clearing Members and their customers to make voluntary contributions to the Clearing House.

(B) If the amount of the Aggregate Base Collects continues to exceed the amount of Aggregate Base Available Funds after the Clearing House adds any voluntary contributions from Rule 802.B.7(b)(v)(A) to the Aggregate Base Available Funds, then the Clearing House shall apply Base Gains Haircuts (as defined below) to the Proprietary Base Collects, Customer Futures Collects and Individual Customer Swap Collects for the current settlement cycle and each successor settlement cycle on the current Business Day and, unless a Bankruptcy Event has occurred, each of the next two Business Days, in accordance with the following:

Proprietary Base Collects, Customer Futures Collects and Individual Customer Swap Collects each shall be reduced on a pro rata basis according to the amount of such collects, to equal the amount of Aggregate Base Available Funds received relative to Proprietary Base Collects, Customer Futures Collects, and Individual Customer Swap Collects (such process, a "Base Gains Haircut").

Customer Futures Collects shall be haircut by the Clearing House at the customer account class level of each Base Clearing Member. Each Base Clearing Member shall allocate the haircut of its Customer Futures Collects pro rata among its customer with net portfolio gains for the relevant settlement cycle;

(C) The Clearing House Oversight Committee may instruct the Clearing House to extend or reduce the number of days during which Base Gains Haircuts are applied by one or two Business Days, provided that in no circumstance may the Clearing House conduct settlement cycles in which Base Gains Haircuts are applied for longer than five Business Days. Before providing such instruction, the Clearing House Oversight Committee must consider any recommendation of the Emergency Financial Committee. Any recommendation of the Emergency Financial Committee and the decision of the Clearing House Oversight Committee, each regarding adjusting the duration of settlement cycles with Base Gains Haircuts, must be based upon then existing facts and circumstances, be in furtherance of the integrity of the Clearing House and the stability of the financial system, and take into consideration the legitimate interests of ~~Base clearing-Clearing members~~-Members and market participants;

(D) For each settlement cycle conducted in accordance with this subparagraph (v), absent a Bankruptcy Event, the Clearing House shall pay the haircut Proprietary Base Collects, Customer Futures Collects, and Individual Customer Swap Collects to Base Clearing Members as soon as practicable after receipt of the Aggregate Base Available Funds. Subject to applicable law, the Clearing House will make arrangements to pay the customers of a defaulted Base Clearing Member; and

(E) If a Bankruptcy Event occurs following a default of a Base Clearing Member on a day during which Base Gains Haircuts are applied to settlement cycles, on the day of the Bankruptcy Event, the Clearing House shall conduct a final settlement cycle which shall be subject to a Base Gains Haircut. The price determined in accordance with such settlement cycle shall be used as the price for a Base Contract when netting and closing out pursuant to Rule 818.

#### 8. Base Partial Tear-Ups and Base Full Tear-Ups

(a) The Clearing House may, at any time following a default of a Base Clearing Member, notify Base Clearing Members and provide an opportunity for Base Clearing Members to voluntarily



agree to have their proprietary positions or, with a customer's consent, to agree to have each such customer's positions, extinguished by the Clearing House.

(b) If proprietary or customer positions in Base Contracts of a defaulted Base Clearing Member remain open (the "Remaining Open Base Positions") following the last settlement cycle conducted pursuant to Rule 802.B.7(b)(v), the Clearing House shall extinguish the Remaining Open Base Positions through a partial tear-up process ("Base Partial Tear-Up") or a full tear-up process ("Base Full Tear-Up") of proprietary and customer positions of non-defaulted Base Clearing Members and non-defaulted customers of the defaulted Base Clearing Member in accordance with the following:

(i) The Clearing House Oversight Committee shall determine the appropriate scope of each Base Partial Tear-Up or shall determine that a Base Full Tear-Up is appropriate. Before making such determination, the Clearing House Oversight Committee must consider any recommendation of the Emergency Financial Committee. Any recommendation of the Emergency Financial Committee and each determination of the Clearing House Oversight Committee made for purposes of this Rule 802.B.8 must:

(A) be based upon then existing facts and circumstances;

(B) be in furtherance of the integrity of the Clearing House and the stability of the financial system;

(C) take into consideration the legitimate interests of eBase Clearing Members and market participants; and

(D) aim to extinguish Remaining Open Base Positions and any additional positions in Base Contracts deemed necessary to mitigate further disruptions to the markets affected by the Remaining Open Base Positions.

(ii) A Base Partial Tear-Up may include, but need not be limited to, the following methods:

(A) Line-by-Line Tear-Up Against the Remaining Open Base Positions.

Proportionately extinguish Base Contracts held by non-defaulted Base Clearing Members, their non-defaulted customers and the non-defaulted customers of the defaulted Base Clearing Member that are opposite to the Remaining Open Base Positions and relative to the size of the Remaining Open Base Positions; and

(B) Tear-Up of All Positions in Base Contracts within a Product or Combination of Products. Extinguish all open positions in Base Contracts for a product or combination of products.

(iii) A Base Full Tear-Up would involve the extinguishment of all open positions in Base Contracts.

(c) In connection with any settlement cycle with Base Gains Haircuts, the Clearing House Oversight Committee may instruct the Clearing House to extinguish a portion of the Remaining Open Base Positions through a Base Partial Tear-Up of proprietary and customer positions of non-defaulted Base Clearing Members and non-defaulted customers of the defaulted Base Clearing Member. The Clearing House Oversight Committee would determine the appropriate scope of each such Base Partial Tear-Up in accordance with the procedures set forth in Rule 802.B.8(b)(i) and (ii), except that each reference to "Remaining Open Base Positions" shall mean the relevant portion of Remaining Open Base Positions.

#### 9. Limited Recourse for Base Guaranty Fund Products

If a default occurs, Base Collateral, Base Customer Collateral and the Base Priority of Payments shall be the sole source of payments to cover the Loss until the default is fully and finally resolved, as applicable. In the event the Base Collateral, Base Customer Collateral and the Base Priority of Payments are insufficient to cover the Loss, regardless of whether the CME is able to require a Base Clearing Member to cure a deficiency in the Base Guaranty Fund because of the occurrence of a Bankruptcy Event (as such term is defined in Rule 818.A.), Base Clearing Members and the holders of Base Contracts shall have no recourse to any other funds or any other entity, including without limitation the guaranty funds that support clearing of other products, CME, CME Group Inc. or any of its affiliates, other than any amounts recovered as described in Rule 802.E.

#### 10. No Claims Against the Exchange or Clearing House

(a) Base Clearing Members, their affiliates and their customers shall have no claim against the Exchange, CME Group Inc. or any affiliates of the Exchange or CME Group Inc., or any directors, officers or employees of any of the foregoing, including but not limited to claims against any other

guaranty fund established by the Exchange, CME Group Inc. or any of its affiliates with respect to losses suffered as a result of the application of any provision in this Rule 802.B. No beneficial holder of a Base Contract shall have any claim against its non-defaulted Base Clearing Member as a result of the application of this Rule 802.B. other than any amounts recovered as described in Rule 802.E.

(b) Notwithstanding anything in subparagraph (a), Base Clearing Members, for both their proprietary positions in Base Contracts and their customers' positions in Base Contracts, and non-defaulted customers of defaulted Base Clearing Members will have a claim on any recovery from the defaulted Base Clearing Member or the estate of the defaulted Base Clearing Member in the amount of the Base Gains Haircuts, in the aggregate, applied to such positions (such amount with respect to all non-defaulted Base Clearing Members and their customers and the non-defaulted customers of the defaulted Base Clearing Member, "Aggregate Base Gains Haircuts"), as set forth more fully in Rule 802.E. If the recovery from the defaulted Base Clearing Member is less than the Aggregate Base Gains Haircuts, non-defaulted Base Clearing Members and their customers and the non-defaulted customers of defaulted Base Clearing Members will share pro rate in the recovery.

#### 11. Non-Petition

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

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

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

#### **802.D. Utilization of Remaining Base Collateral of Defaulted Base Clearing Member; Restoration of Funds Following Final Determination of Losses**

1. After the default of a Base Clearing Member is finally resolved, excess Base Collateral of the Base eClearing Mmember may be used by the Clearing House for losses to the Clearing House of such clearing member for IRS Products on a pro rata basis based on the amount of any unresolved losses for such product classes.

2. If after the default of a Base eClearing Mmember is finally resolved, the Clearing House determines that collateral of the defaulting Base eClearing Mmember, the CME Contribution, Tranche funds other than the Commingled Tranche, or assessment powers were employed in a manner different from what would have occurred had all assets been secured and liquidated

immediately and all Losses finalized simultaneously, then the Clearing House shall make appropriate (i) distributions to the non-defaulting Base Clearing Members whose Base Guaranty Funds were applied or who were assessed and/or (ii) rebalancing allocations among Base Guaranty Fund tranches.

**802.E. Rights of Exchange for Recovery of Loss**

Losses caused by the default of a Base Clearing Member, Participating Exchange or Partner Clearinghouse are amounts due to the Clearing House from such Base Clearing Member, Participating Exchange or Partner Clearinghouse and shall remain legal obligations thereof notwithstanding the Clearing House's recourse to the loss-mutualization provisions of this Rule 802, and the Clearing House shall take commercially reasonable steps to recover (including claims submitted in an insolvency or resolution proceeding) such amounts. If any portion of these amounts is subsequently recovered by the Exchange, the net amount of such recovery shall be credited to non-defaulted Base Clearing Members (whether or not they are still clearing members at the time of recovery) in the following order on a pro rata basis based on (1) the amount of their (and their customers', if applicable) voluntary contributions with respect to such default, (2) the amount of their (and their customers', if applicable) Aggregate Base Gains Haircuts with respect to such default, (3) the amount of their Base Assessments utilized by the Clearing House with respect to such default, and (4) the amount of their guaranty fund contribution utilized by the Clearing House with respect to such default, each in the order listed, and then to the Exchange for the amount of the CME Contribution utilized by the Clearing House with respect to such default.

**802.F. Guaranty Fund Contributions to be Restored**

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

**802.G. Default Management Across Account Classes**

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

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

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

3. The Clearing House shall treat positions and collateral of the cleared swaps customers of a Base eClearing Member, which has been declared to be in default, in accordance with Part 22

of the CFTC's regulations. Immediately after the default of a Base eClearing Member, the Clearing House shall cease netting settlement variation among the cleared swaps customers of the defaulted Base eClearing Member.

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

(i) Directly from the obligated cleared swaps customer in accordance with the arrangements established pursuant to 802.G.2 or by attaching any excess collateral attributable to that customer;

(ii) By means of liquidating the collateral supporting the cleared swaps customer's position attributed to a cleared swaps customer that fails to make a required settlement variation payment when due. The proceeds of such liquidation shall be used to meet the cleared swaps customer's settlement variation pay obligation to the clearing house. (If the collateral is liquidated, the positions supported by the collateral shall be promptly liquidated.);

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

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

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

#### **802.H. Base Cooling Off Period and Multiple Defaults**

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

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

The CME Contribution to the Base Guaranty Fund shall be limited to an aggregate maximum of \$100,000,000 during the Base Cooling Off Period. The Board may, at its discretion, authorize additional funds be added to the CME Contribution during the Base Cooling Off Period.

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## **CME/CBOT/NYMEX/COMEX CHAPTER 9 CLEARING MEMBERS**

### **914. BASE CLEARING MEMBER DEFAULT OBLIGATIONS**

The Clearing House will establish Base Product Categories in order to establish a minimum number of capable bidders for such product category during a default. The Clearing House shall determine, in accordance with the Base Default Management Guidelines, the Base Product Categories for which Base Clearing Members are deemed to be Mandated Base Clearing Members, and publish such Base Product Categories.

A Base Clearing Member with open interest in its proprietary account for a Base Product Category, as determined by the Clearing House in accordance with the Base Default Management Guidelines, may be selected for mandatory participation in default drill exercises and default auctions based on the Clearing House's assessment of the following factors:

- A. Relative amount of performance bond in the proprietary account for the relevant Base Product Category.
- B. Relative intraday trading volume in the proprietary account for the relevant Base Product Category.
- C. An assessment of the firm's capabilities for participating in default drill exercises or default auctions.

The Clearing House may, in its sole discretion, exempt a Mandated Base Clearing Member from mandatory participation in Base default drill exercises and default auctions based on any of the factors above, including the significance of the firm's open interest. No Mandated Base Clearing Member or Bidding OTC Firm will be required to participate in a default auction where the Clearing House determines that such firm's open interest in a Base Product Category or OTC Derivatives Product Category, as applicable, is not proportional to the size of the defaulted Base Clearing Member's positions in the same products.

Each Mandated Base Clearing Member must satisfy the requirements set forth below:

1. Comply with all Clearing House default management requirements and associated responsibilities and obligations. A Mandated Base Clearing Member may contract with a third party (including an affiliate) to fulfill certain default management requirements; provided that, the Mandated Base Clearing Member first notifies the Clearing House, which reserves the right to review and approve such arrangements prior to them taking effect. Notwithstanding the existence of a third-party arrangement, each Mandated Base Clearing Member shall be liable for any failure to comply with a Clearing House requirement for default drill exercises or default auctions.

2. Participate in each hedging or liquidation auction conducted by the Clearing House for a defaulted Base Clearing Member's Base Contracts (each, a "Base Default Management Auction"), as required by the Clearing House, in every Base Product Category for which it is a Mandated

Base Clearing Member and has open interest in the relevant Base Product Category in its proprietary account. Each Mandated Base Participant shall participate in Base default drill exercises as prescribed by the Clearing House. Each Mandated Base Clearing Member shall have the ability to provide quotations to the Clearing House for hedging and liquidation transactions for each Base Product Category for which it is a Mandated Base Clearing Member. The Base Guaranty Fund contribution of a Base Clearing Member that participates in a Base Default Management Auction or fails to meet its participation requirement for such auction shall be allocated in accordance with CME Group Exchange Rule 802.B.

3. Notify the Clearing House of any change to its trading capabilities that may impact its ability to participate in default drill exercises or default auctions in any Base Product Category for which it is a Mandated Base Clearing Member.

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## **CME CHAPTER 8-F OVER-THE-COUNTER DERIVATIVE CLEARING**

### **8F002. DEFINITIONS**

#### **BASE OTC CLEARING MEMBER**

A Base OTC Clearing Member is an entity that has been approved by CME to clear OTC Derivatives that are Base Guaranty Fund Products.

#### **OTC FX CLEARING MEMBER**

An OTC FX Clearing Member is a Clearing Member that has been approved by CME to clear OTC FX Products, as defined in CME Rule 60002. Unless an OTC FX Clearing Member is also approved to clear other Base Guaranty Fund Products, such entity is not required to own, hold or lease any Exchange membership solely as a precondition to OTC FX Clearing Membership. Notwithstanding the foregoing, an OTC FX Clearing Member that does not hold or lease one or more Exchange memberships shall continue to be responsible for violations of Exchange Rules as a Base OTC Clearing Member and agrees to have any disputes that relate to or arise out of any transaction cleared by the Exchange during the time in which the entity is approved as a Base OTC Clearing Member resolved in accordance with Exchange Rules, including but not limited to the arbitration provisions of Chapter 6. For avoidance of doubt, each OTC FX Clearing Member is a 'member' as defined at Rule 601.A.4, a Base OTC Clearing Member and an OTC Clearing Member.

#### **OTC CLEARING MEMBER**

An OTC Clearing Member is an entity that has been approved by CME to clear OTC Derivatives. An OTC Clearing Member that is not also a CME, CBOT, NYMEX or COMEX Clearing Member may not clear CME, CBOT, NYMEX or COMEX transactions, as applicable, other than OTC Derivatives.

Subject to approval by CME Clearing or the Clearing House Risk Committee, CME, CBOT, NYMEX and COMEX Clearing Members may be afforded full rights and privileges to trade and clear OTC Derivatives that are listed for clearing by CME, CBOT, NYMEX or COMEX, as applicable. Such CME, CBOT, NYMEX and COMEX Clearing Members shall then be considered "OTC Clearing Members," as applicable, for purposes of the Rules. This chapter shall be applicable to entities that are approved as "OTC Clearing Members" and CME, CBOT, NYMEX and COMEX Clearing Members approved to clear OTC Derivatives.

#### **OTC DERIVATIVES**

Agreements, contracts or transactions that the Clearing House clears as 'swaps', as that term is defined under the Commodity Exchange Act. For purposes of this Chapter 8-F, the term 'OTC Derivatives' does not include interest rate swaps cleared by the Clearing House.

#### **OTC DERIVATIVE PRODUCT CATEGORY**

Each category and sub-category of OTC Derivatives as determined by the Clearing House for

mandatory Base OTC Clearing Member participation in default management purposes processes.

#### **CLOSE-OUT AMOUNT**

The amount of losses and costs of the CME that are or would be incurred by the CME, net of any gains incurred in replacing, or in providing the CME the economic equivalent of the material terms of the terminated OTC Derivatives, net of any gains incurred (if such net amount is positive), including (a) the payments and deliveries that would, absent termination, have been required after the termination date, (b) any option rights in respect of the terminated transactions, (c) all unpaid amounts due to the CME under the terminated transaction with the relevant Clearing Member less all unpaid amounts due to such Clearing Member under the terminated transactions and (d) all related fees, costs and expenses incurred by the CME.

#### **8F014. MITIGATION OF LOSSES**

In the event of a default of a Base OTC Clearing Member, all Base OTC Clearing Members shall work cooperatively with their customers, other Base OTC Clearing Members and the Clearing House to mitigate any losses that may occur as a result of such default and shall ensure that human resources required to be provided by Base OTC Clearing Members to any Active Base OTC Default Management Committee are promptly made available.

~~Base OTC Clearing Members~~ Bidding OTC Firms shall, ~~upon request from the Clearing House:~~ 1) provide commercially reasonable bids in all auctions of the defaulted Base OTC Clearing Member's portfolio containing OTC Derivative Product Category cleared by the Base OTC Clearing Member and on the auction terms prescribed by the Clearing House; and 2) take any other action as reasonably requested by the Emergency Financial Committee or Clearing House Risk Committee.

The Base Guaranty Fund contribution of each Participating Base OTC Clearing Member shall be applied in accordance with CME Group Exchange Rule 802.B.

**Exhibit B.1 and Exhibit B.2**

**CME Base Default Management Guidelines**

**(CONFIDENTIAL TREATMENT REQUESTED)**

**(ATTACHED UNDER SEPARATE COVER)**



**Exhibit C**

**CME Risk Management Framework**

**(CONFIDENTIAL TREATMENT REQUESTED)**

**(ATTACHED UNDER SEPARATE COVER)**