

ONTARIO SECURITIES COMMISSION
NOTICE AND REQUEST FOR COMMENT
REGARDING APPLICATION FOR EXEMPTION FROM RECOGNITION AND REGISTRATION AS AN EXCHANGE BY
CHICAGO MERCANTILE EXCHANGE INC., BOARD OF TRADE OF THE CITY OF CHICAGO, INC.,
COMMODITY EXCHANGE, INC., AND NEW YORK MERCANTILE EXCHANGE, INC.

A. INTRODUCTION

Each of Chicago Mercantile Exchange Inc., Board of Trade of the City of Chicago, Inc., Commodity Exchange, Inc., and New York Mercantile Exchange, Inc. (collectively, the CMEG Exchanges) has applied to the Ontario Securities Commission (Commission) for an exemption from the requirement to be registered as an exchange pursuant to section 15 of the *Commodity Futures Act* (Ontario) (CFA) and the requirement to be recognized as an exchange pursuant to section 21 of the *Securities Act* (Ontario) (OSA).

Each of the CMEG Exchanges is regulated as a designated contract market (DCM) by the by the United States Commodity Futures Trading Commission (CFTC), pursuant to the U.S. *Commodity Exchange Act*. As DCMs, the CMEG Exchanges offer both electronic trading and floor trading in a diverse range of exchange-traded futures and options on futures (exchange-traded products). The exchange-traded products relate to underlyings in various asset classes, including short-term interest rates, government bonds, medium and long-term swap rates, narrow-based equity indices, commodity index swaps and a broad range of commodities. In addition, the CMEG Exchanges offer trading in freight futures, forwards and options, iron futures, options and swap futures, fertilizer swaps and electricity swap futures (collectively with all other exchange-traded products offered for trading on the CMEG Exchanges, the CMEG Contracts). The CMEG Exchanges propose to offer direct access in Ontario to their trading systems and facilities, via their electronic trading platform CME Globex, to prospective participants in Ontario (Ontario Participants).

As the CMEG Exchanges will be carrying on business in Ontario, each is required to be recognized as an exchange under the OSA and registered as a commodity futures exchange under the CFA or apply for exemptions from both requirements. Each of the CMEG Exchanges has applied for an exemption from the registration and recognition requirements on the basis that it is already subject to regulatory oversight by the CFTC.

B. RELATED RELIEF

The CMEG Exchanges expect that the potential Ontario Participants will be certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 *Definitions*) and certain other market participants that have a head office or principal place of business in Ontario, such as (i) dealers that are engaged in the business of trading commodity futures in Ontario; (ii) utilities and other commercial enterprises that are exposed to risks attendant upon fluctuations in the price of a commodity; and (iii) institutional investors and proprietary trading firms. In each case, the CMEG Exchanges expect that these Ontario Participants will be (i) dealers that are engaged in the business of trading commodity futures and commodity options in Ontario (Futures Commission Merchants or FCMs), or (ii) Hedgers, as defined in subsection 1(1) of the CFA. The CMEG Exchanges are requesting exemptive relief from the registration requirements under section 22 of the CFA for trades in CMEG Contracts by the Hedgers, in order for Hedgers to be able to access trading on CMEG Exchanges directly and not "through a dealer" as otherwise required under the existing CFA exemption.

C. DRAFT EXEMPTION ORDER

In the application, the CMEG Exchanges have outlined how each meets the criteria for exemption from recognition and from registration. Subject to comments received, staff intend to recommend that the Commission grant an exemption order with terms and conditions based on the draft exemption order attached.

D. COMMENT PROCESS

The Commission is publishing for public comment the CMEG Exchanges' application and the draft exemption order. We are seeking comment on all aspects of the application and draft exemption order.

Please provide your comments in writing, via e-mail, on or before Monday, September 23, 2013, to the attention of:

Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

The confidentiality of submissions cannot be maintained as a summary of written comments received during the comment period will be published.

Questions may be referred to:

Jonathan Sylvestre
Senior Accountant, Market Regulation
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CMEG Exchanges – Application

August 2, 2013

Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON
Canada M5H 3S8
Attention: Tracey Stern, Manager, Market Regulation

Re: Chicago Mercantile Exchange Inc. , Board of Trade of the City of Chicago, Inc., Commodity Exchange, Inc. and New York Mercantile Exchange, Inc. – Application for Relief pursuant to sections 38 and 80 of the Commodity Futures Act (Ontario) and section 147 of the Securities Act (Ontario)

Dear Sir or Madam,

We are Canadian counsel to and are filing this application with the Ontario Securities Commission (“**OSC**”) on behalf of Chicago Mercantile Exchange Inc. (“**CME**”), Board of Trade of the City of Chicago, Inc. (“**CBOT**”), Commodity Exchange, Inc. (“**COMEX**”) and New York Mercantile Exchange, Inc. (“**NYMEX**”) (together, the “**CMEG Exchanges**”) for the following decisions in relation to the CMEG Exchanges’ businesses as commodity futures exchanges with respect to certain exchange-traded futures and options on futures products, as more fully described herein (collectively, the “**Exchange Relief**”):

- (a) a decision under section 147 of the *Securities Act* (Ontario) (“**OSA**”) exempting each of the CMEG Exchanges from the requirement to be recognized as an exchange under subsection 21(1) of the OSA;
- (b) a decision under section 80 of the *Commodity Futures Act* (Ontario) (“**CFA**”) exempting each of the CMEG Exchanges from the requirement to be registered as a commodity futures exchange under subsection 15(1) of the CFA;

and in connection with the Exchange Relief requested above, we are also filing this application on behalf of the CMEG Exchanges for the following additional decision:

- (c) a decision under section 38 of the CFA exempting trades in contracts on the CMEG Exchanges by a “hedger” (as that term is defined in subsection 1(1) of the CFA) (“**Hedger**”) from the registration requirement under section 22 of the CFA (“**Hedger Relief**”).

For convenience, this application is divided into the following Parts I to V, Part III of which describes how the CMEG Exchanges satisfy OSC Staff’s criteria for registration (or exemption from registration) of foreign-based commodity futures exchanges:

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PART I INTRODUCTION

1. CME Services to Ontario Residents

- 1.1 CME Globex is an electronic trading platform and also functions as the central limit order book for each of the CMEG Exchanges. It is maintained and operated by CME, on behalf of each of the CMEG Exchanges in connection with their respective designated contract market (“**DCM**”) registrations.
- 1.2 As an electronic trading platform, CME Globex facilitates trading for users in the United States (“**U.S.**”) and foreign jurisdictions of exchange-traded products that are traded and executed on the CMEG Exchanges. CME Globex also facilitates trading of futures and options on futures on other exchanges, including: BM&FBOVESPA, Bursa Malaysia, the Dubai Mercantile Exchange and the Minneapolis Grain Exchange. CME Globex does not provide access to non-CMEG exchanges to Ontario Participants (as defined in paragraph 1.5 below). To the extent that non-CMEG exchanges wish to provide access to Ontario Participants, CMEG expects them to independently seek appropriate regulatory standing.
- 1.3 CME Globex is also the central order limit book for each of the CMEG Exchanges. However, it is not subject to registration in the U.S. CME Globex is operated by the CMEG Exchanges under their respective DCM registrations.
- 1.4 The CMEG Exchanges do not have any offices or maintain other physical installations in Ontario or any other Canadian province or territory, except for a CME Group Inc. (“**CMEG**”) marketing office in Calgary, Alberta whose activities are limited to marketing and development of energy products.
- 1.5 The CMEG Exchanges propose to offer access in Ontario to their trading systems and facilities, via CME Globex, to prospective participants in Ontario (“**Ontario Participants**”). To obtain direct access to the trading systems and facilities of the CMEG Exchanges, via CME Globex, an Ontario Participant must either be:
- (a) a “Member Firm”, as defined in the rules of the CMEG Exchanges, that is also a “Clearing Member”, as defined in the rules of the CMEG Exchanges (“**CMEG Exchange Clearing Member**”);
 - (b) a “Member” or “Member Firm”, as defined in the rules of the CMEG Exchanges (collectively, “**CMEG Exchange Members**”), that has executed a customer connection agreement with CME through which the CMEG Exchange Member can transmit orders and trades directly into CME Globex with the guarantee of a CMEG Exchange Clearing Member; or
 - (c) a non-CMEG Exchange Member that has executed a customer connection agreement with CME through which the non-CMEG Exchange Member:
 - (i) can transmit orders and trades directly into CME Globex with the guarantee of a CMEG Exchange Clearing Member, and
 - (ii) is required, among other things, to comply with the rules of the CMEG Exchanges to which access is granted, when entering and executing transactions via CME Globex, and to comply with all applicable laws pertaining to the use of CME Globex (all such non-CMEG Exchange Members herein referred to as “**Direct Access Users**”).
- 1.6 Indirect access by Ontario Participants to the trading systems and facilities of the CMEG Exchanges, via CME Globex, may be facilitated via an order-routing arrangement between the Ontario Participant and a CMEG Exchange Clearing Member whereby orders of the Ontario Participant, as client of the CMEG Exchange Clearing Member, are routed through the CMEG Exchange Clearing Member onto a CMEG Exchange (“**Order-Routing Client**”).
- 1.7 The CMEG Exchanges expect that an Ontario Participant seeking direct access in accordance with above paragraph 1.5 (an “**Ontario User**”) will be certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 *Definitions*) and certain other market participants that have a head office or principal place of business in Ontario, such as (i) dealers that are engaged in the business of trading commodity futures in Ontario; (ii) utilities and other commercial enterprises that are exposed to risks attendant upon fluctuations in the price of a commodity; and (iii) institutional investors and proprietary trading firms. In each case, the CMEG Exchanges

expect that Ontario Users will be (i) dealers that are engaged in the business of trading commodity futures and commodity options in Ontario, or (ii) Hedgers.

- 1.8 The CMEG Exchanges do not require relief from the requirement under section 33 of the CFA, which prohibits trading in all contracts (other than by Hedgers) except contracts that are (a) traded on a registered or recognized commodity futures exchange, (b) qualified by prospectus under the OSA or (c) traded on an exchange situated outside of Ontario as a result of an unsolicited order placed by a dealer that does not carry on business in Ontario, as a result of the deemed rule entitled *In the Matter of Trading in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges in the United States of America*.

PART II BACKGROUND TO CMEG EXCHANGES

1. Ownership of the CMEG Exchanges

- 1.1 Each of CME, CBOT and NYMEX is a corporation organized under the laws of the State of Delaware in the U.S. and is a wholly-owned subsidiary of CMEG, a publicly traded for-profit corporation organized under the laws of Delaware and listed for trading on the NASDAQ Global Select Market. COMEX is a corporation organized under the laws of the State of New York in the U.S. and is a wholly-owned subsidiary of CMEG. CMEG is the ultimate parent holding company of each of the CMEG Exchanges.
- 1.2 CMEG is also the ultimate parent holding company of Board of Trade of Kansas City, Missouri, Inc. (“**KCBT**”), a corporation organized under the laws of the State of Missouri in the U.S. and a wholly-owned subsidiary of CMEG. CMEG acquired KCBT pursuant to an acquisition transaction completed on November 30, 2012. Trades executed on KCBT began clearing at CME on April 15, 2013 and KCBT’s open outcry floor-trading operations migrated to CBOT on July 1, 2013. KCBT is not seeking the Exchange Relief and Hedger Relief requested by the CMEG Exchanges and will not provide access to Ontario Participants to its trading systems and facilities. If KCBT wishes to carry on business as an exchange or a commodity futures exchange in Ontario, it will seek similar exemptive relief from the OSC before doing so.
- 1.3 The CMEG Exchanges receive a majority of their revenue from clearing and transaction fees, which include electronic trading fees, surcharges for privately-negotiated transactions and other volume-related charges for contracts executed through the CMEG Exchanges’ trading venues.
- 1.4 CMEG, as the holding company for each of the CMEG Exchanges, has no operations of its own, does not have employees, relies upon the dividends declared and paid by its subsidiaries and has limited contractual arrangements. CME is the primary employer within the CMEG organization, with approximately 2,200 employees out of approximately 2,700 employees. Employees are employed elsewhere in the CMEG organization based upon the nature of the business, such as by CME Clearing Europe Limited, an indirect wholly-owned subsidiary of CMEG and the European clearing house for the CMEG Exchanges, and the particular office location, such as CMEG’s technology-focused Belfast office.

2. Products Traded on the CMEG Exchanges

- 2.1 The CMEG Exchanges provide their customers with trading and execution services for the CMEG Contracts (which are described more fully at paragraph 1.1.3 in Part III of this application).

3. CMEG Exchange Members

- 3.1 The CMEG Exchanges have a wide range of sophisticated customers comprised of both buy- and sell-side investors, including commercial and investment banks, corporations, pension funds, money managers, proprietary trading firms, hedge funds, commodity trading advisers, currency overlay managers, other institutional customers and individuals.

PART III APPLICATION OF APPROVAL CRITERIA TO CMEG EXCHANGES

The following is a discussion of how the CMEG Exchanges meet the relevant criteria for registration (or exemption from registration) under subsection 15(1) of the CFA for foreign-based commodity futures exchanges prescribed by OSC Staff. The criteria are similar to those prescribed in Appendix A to OSC Staff Notice 21-702 – *Regulatory Approach to Foreign-Based Stock Exchanges* in relation to applications for recognition (or exemption from recognition) under subsection 21(1) of the OSA for foreign exchanges.

1. Regulation of the Exchange

1.1 Regulation of the Exchange – The exchange is regulated in an appropriate manner in another jurisdiction by a foreign regulator (Foreign Regulator).

- 1.1.1 Each of CME, CBOT, COMEX and NYMEX is a DCM within the meaning of that term under the U.S. *Commodity Exchange Act* (“**CEA**”). The CMEG Exchanges are subject to regulatory supervision by the U.S. Commodity Futures Trading Commission (“**CFTC**”), a U.S. federal regulatory agency. The CMEG Exchanges are obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces the CMEG Exchanges’ adherence to the CEA and the regulations thereunder on an ongoing basis, including the DCM core principles (“**DCM Core Principles**”) relating to the operation and oversight of the CMEG Exchanges’ markets, including financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection.
- 1.1.2 CME is regulated as a derivatives clearing organization (**DCO**) by the CFTC, which results in CME being subject to extensive regulation by the CFTC under its principles-based approach and requires CME to satisfy the requirements of the DCO core principles (“**DCO Core Principles**”) relating to CME’s activities as a DCO. Additionally, CME is deemed to be registered with the U.S. Securities and Exchange Commission (“**SEC**”) as a securities clearing agency, effective July 16, 2011, in accordance with certain provisions under subsection 763(b) of the *Dodd Frank Wall Street Reform and Consumer Protection Act*, and is therefore also subject to limited regulatory supervision by the SEC in connection with its offering of clearing services for single stock and narrow-based security index products.
- 1.1.3 The CMEG Exchanges together form the largest commodity futures exchanges in the world and provide customers with trading and execution services for a diverse range of exchange-traded futures and options on futures (“**exchange-traded products**”). The exchange-traded products relate to underlyings in various asset classes, including short-term interest rates (Eurodollar, Euribor, U.S. Treasury Bills), government bonds (U.S. Treasury Bonds and Notes), medium and long-term swap rates (U.S. Dollar), narrow-based equity indices (U.S.-related S&P, NASDAQ and DJIA indices and Nikkei indices), commodity index swaps (gold, crude oil, UBS commodity index) and a broad range of commodities (e.g., gold, silver, platinum, palladium, copper, steel and uranium, cocoa, coffee, corn, sugar, wheat, oats, soybeans, live cattle and butter). In addition, the CMEG Exchanges offer trading in freight futures, forwards and options, iron futures, options and swap futures, fertilizer swaps and electricity swap futures (collectively with all other exchange-traded products offered for trading on the CMEG Exchanges, the “**CMEG Contracts**”). A list of the CMEG Contracts traded on each of the CMEG Exchanges is included in Appendix “B” attached hereto. The CMEG Exchanges do not have any plans to offer trading of over-the-counter (“**OTC**”) derivatives on CME Globex.
- 1.1.4 The CMEG Exchanges are obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces the CMEG Exchanges’ adherence to the CEA and the regulations thereunder on an ongoing basis, including the DCM Core Principles relating to financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection. The CFTC’s Division of Market Oversight, Market Compliance Section conducts regular in-depth reviews of each DCM’s ongoing compliance with CFTC regulations in order to enforce its rules, prevent market manipulation and customer and market abuses, and to ensure the recording and safe storage of trade information. The results of these rule enforcement reviews (“**RERs**”) are in most cases summarized in reports by the CFTC which are made available to the public and posted on the CFTC’s website. The most recent RER for NYMEX and COMEX was completed in August of 2011, and the CFTC’s report did not identify any material deficiencies. The most recent RER for CME and CBOT was completed in July of 2013,¹ and the CFTC’s report recommends that the Market Surveillance Group “should ensure that the factors and procedures it uses to identify EFRPs [Exchange for Related Positions] that warrant the opening of case files are adequately targeting problematic EFRPs”, and further, “should establish an adequate and robust program to ensure that parties and clearing firms to EFRP transactions maintain relevant documents pursuant to the Exchanges’ rules and, accordingly, verify the bona fides of a sufficiently large, strategically selected sample of EFRPs.”

¹ To access the RERs and related press releases, go to the CFTC’s website at:
<http://www.cftc.gov/PressRoom/PressReleases/pr6101-11> (NYMEX and COMEX);
<http://www.cftc.gov/PressRoom/PressReleases/pr6658-13> (CME and CBOT).

- 1.2 Authority of the Foreign Regulator – The Foreign Regulator has the appropriate authority and procedures for oversight of the exchange. This includes regular, periodic oversight reviews of the exchange by the Foreign Regulator.**
- 1.2.1 The CFTC carries out the regulation of the futures markets in accordance with the provisions of the CEA and the U.S. *Commodity Futures Modernization Act of 2000* (“**CFMA**”). The CFTC is subject to reauthorization by the U.S. Congress every five years, which most recently occurred in 2008.
- 1.2.2 The CFTC has been charged with administering and enforcing the CEA. Accordingly, the CFTC is the U.S. government agency that has direct regulatory and oversight responsibility over DCMs. To implement the CEA, the CFTC has promulgated regulations and guidelines (“**CFTC Regulations**”) that further interpret the DCM Core Principles (described below) and govern the conduct of U.S. DCMs, such as the CMEG Exchanges. The CFTC monitors trading on the CMEG Exchanges and receives daily transaction and other reports from the CMEG Exchanges. The CFTC also undertakes periodic in-depth audits or “rule reviews” of the CMEG Exchanges’ compliance with certain of the statutory core principles.
- 1.2.3 Each of the CMEG Exchanges was designated as a contract market for each of the particular commodity futures contracts and options contracts it traded, pursuant to the CEA. Prior to the 2000 amendments to the CEA, such designations were made on a contract by contract basis upon receipt of specific approval from the CFTC to list each contract. Today, pursuant to the CFMA, an entity is designated as a DCM under the CEA and may thereafter introduce new contracts without prior CFTC approval by a process of self-certification by the DCM in respect of such new contracts. The contract market designation criteria contained in the CFMA reflect the types of factors that the CFTC formerly took into consideration in deciding whether to approve a particular futures contract for trading upon application by an exchange. These designation criteria are set forth in subsection 5(b) of the CEA as interpreted and implemented by the CFTC in Part 38 (Designated Contract Markets) of the CFTC Regulations. The criteria for designation include demonstrating that the exchange has the capacity to prevent market manipulation; can ensure fair and equitable trading; has the capacity to detect, investigate and discipline any person that violates its rules; can ensure the financial integrity of transactions entered into through its facilities; and has the authority to obtain any necessary information to perform its regulatory functions, including the capacity to carry out international information-sharing agreements.
- 1.2.4 The CMEG Exchanges are required to demonstrate their compliance with the DCM Core Principles applicable to all U.S. DCMs. The statutory core principles are described in section 5 of the CEA and include requirements that the CMEG Exchanges monitor and enforce compliance with its rules; only list contracts that are not readily susceptible to manipulation; monitor trading to prevent manipulations, price distortion and disruptions of the delivery or cash-settlement process; adopt position limitations or position accountability for speculators, where necessary and appropriate; make available to the regulators, market participants and the public certain market information; provide a competitive, open and efficient mechanism for executing transactions; create and maintain necessary records; establish rules to ensure the financial integrity of its contracts and the financial integrity of the brokers and the protection of customer funds; protect market participants from abusive practices; provide dispute resolution as appropriate for market participants and intermediaries; establish and enforce appropriate fitness standards; minimize conflicts of interest in the decision-making process and establish a process for resolving such conflicts; and avoid anti-competitive actions.
- 1.2.5 The CEA, the CFTC Regulations, the CFMA and particularly the DCM Core Principles reflect standards set by the International Organization of Securities Commissions (“**IOSCO**”), such as “Objective and Principles of Securities Regulation” (1998 and 2002) and “Report on Co-operation between Market Authorities and Default Procedures” as well as the “Standards for Regulated Markets” published by the Forum of European Securities Commissions in December 1999.

2. Governance

2.1 Governance – The governance structure and governance arrangements of the exchange ensure:

(a) effective oversight of the Exchange,

- 2.1.1 As corporations, the businesses of the CMEG Exchanges are subject to the oversight of their respective Board of Directors and are implemented on a day-to-day basis by their respective management teams. The Board of Directors of each CMEG Exchange is comprised of the same individuals and also is the same for the Board of Directors of CMEG. The members of the Management Team of CMEG have the same titles at each of the CMEG Exchanges. However, each of CMEG and the CMEG Exchanges are separate corporate entities and each of their respective Boards of Directors owes a duty to act in the best interest of the particular entity and its shareholder(s).
- 2.1.2 As discussed in paragraph 1.4 in Part II above, CMEG, as a holding company, has no operations of its own, does not have employees, relies upon the dividends declared and paid by its subsidiaries and has limited contractual arrangements. CMEG’s primary governance obligations are to set the strategic direction of the overall organization,

approve the annual operating and capital budget for the overall organization, appoint its executive officers and approve their compensation and to approve significant commitments and transactions involving CMEG.

- 2.1.3 With respect to budgeted amounts and projects, these are allocated to each of the CMEG Exchanges. In accordance with applicable CFTC regulations, each of the CMEG Exchanges, including CME, is required to maintain regulatory capital in an amount at least equal to one year of projected operating expenses as well as cash, liquid securities, or a line of credit at least equal to six months of projected operating expenses. Each of the CMEG Exchanges is in compliance with this requirement and such requirement is taken into consideration as part of the budgeting process.
- 2.1.4 The annual operating budget for the CMEG organization is based off of regular ongoing business obligations and initiatives and is updated based on the upcoming annual goals of the CMEG Management Team. An overall budget is presented first to the Finance Committees of CMEG and the CMEG Exchanges, and then to the Boards of Directors of CMEG and the CMEG Exchanges. As disclosed in CMEG's filings with the SEC, CMEG's business is not broken out in segments. The organizational budget is based on projected revenue of the CMEG Exchanges' products lines which are listed across multiple exchanges, market data business and transaction processing services (provided by CME either through clearing services or order processing/routing on CME Globex). Although the budgeting approval process may be presented in an aggregate basis to the CMEG Board of Directors, the individual costs and revenues are allocated to the individual CMEG Exchange. Each of the CMEG Exchanges prepares separate, audited financial statements.
- 2.1.5 When a significant corporate matter is being presented at a Board meeting, such as a credit facility or a strategic partnership/transaction-processing arrangement, separate resolutions are prepared for each of the applicable Boards of CMEG and the CMEG Exchanges. For example, the CME Board separately approves its 364-day credit facility, which relates to its operation of CME Clearing Division ("**CME Clearing**") that is responsible for CME's DCO operations, and the CMEG Board separately approves its revolving credit facility. Additionally, the decision of whether to declare and pay dividends to CMEG is done on an individual Board basis with the specific financial calculations performed at each applicable CMEG Exchange. Under Delaware law, the directors have personal liability in connection with the dividend calculation as it relates to the individual financial condition of the applicable CMEG Exchange.
- 2.1.6 As it relates to CMEG Exchange matters, the applicable Boards of the CMEG Exchanges have delegated authority, which is described in the respective rulebooks of the CMEG Exchanges (collectively, the "**CMEG Exchange Rulebooks**") (see, for example, CME Rule 230j), to the Executive Chairman & President and the Chief Executive Officer, collectively, to approve rule changes, incentive programs and other CMEG Exchange matters on behalf of the applicable Board. Each of these matters is presented on behalf of the particular CMEG Exchange that is impacted.
- 2.1.7 The CMEG Board of Directors sets high standards for CMEG. Implicit in this philosophy is the importance of sound corporate governance. It is the duty of the CMEG Board of Directors to serve as a prudent fiduciary for shareholders and to oversee the management of the business. The CMEG Exchanges' governance structures and processes reflect their commitment to their shareholders and to the institutions and individuals who rely on the CMEG Exchanges to provide fair and efficient markets in some of the most widely used financial instruments in the global marketplace. The CMEG Exchanges' governance approach also supports the CMEG Exchanges' important roles as self-regulatory organizations, subject to oversight by the CFTC.

CMEG

- 2.1.8 CMEG has two classes of common stock: Class A and Class B. The CMEG Class A common stock is the publicly traded security. The CMEG Class B common stock is the security that is associated with memberships on the CME Exchange. The CBOT and NYMEX mergers occurred after CME demutualized and membership rights in those two exchanges were not bundled with Class B common stock. Each series of Class B common stock is associated with a particular class of membership on the CME Exchange, with each CME membership essentially representing one share of Class B common stock. The following summary briefly describes the various rights attaching to the Class A and Class B common stock:
- **Associated Trading Rights:** Members of CME, CBOT, COMEX and NYMEX own or lease trading rights which entitle them to access the trading floors, discounts on trading fees and the right to vote on certain exchange matters as provided for by the rules of the particular exchange and CMEG's or the subsidiaries' organizational documents. Each class of Class B common stock is associated with a membership in a specific division for trading at CME. With respect to the four divisions of individual CME memberships (i) CME (B1) division permits access to any CME-listed contract; (ii) International Money Market ("**IMM**") (B2) division permits access to foreign exchange, interest rate and equity index futures and all Index and Option Market ("**IOM**") and Growth and Emerging Markets ("**GEM**") products; (iii) IOM (B3) division permits access to index futures contracts, random length lumber contracts, all options contracts and all GEM products; and (iv) GEM (B4) division permits various products, including contracts related to emerging market countries and restricted financials.

A CME trading right is a separate asset that is not part of or evidenced by the associated share of Class B common stock of CMEG. The Class B common stock of CMEG is intended only to ensure that the Class B

shareholders of CMEG retain rights with respect to representation on the board of directors and approval rights with respect to the core rights described below.

Trading rights at CBOT are evidenced by Class B memberships in CBOT, at NYMEX by Class A memberships in NYMEX and at COMEX by COMEX Division Memberships in COMEX. Members of the CBOT, NYMEX and COMEX exchanges do not have any rights to elect members of the board of directors and are not entitled to receive dividends or other distributions on their memberships.

- **Core Rights:** Holders of CMEG Class B common shares have the right to approve changes in specified rights relating to the trading privileges at CME associated with those shares. These core rights relate primarily to trading right protections, certain trading fee protections and certain membership benefit protections. Votes on changes to these core rights are weighted by class. Each class of Class B common stock has the following number of votes on matters relating to core rights: Class B-1, six votes per share; Class B-2, two votes per share; Class B-3, one vote per share; and Class B-4, 1/6th of one vote per share. The approval of a majority of the votes cast by the holders of shares of Class B common stock is required in order to approve any changes to core rights. Holders of shares of Class A common stock do not have the right to vote on changes to core rights.
- **Voting Rights:** With the exception of the matters reserved to holders of CMEG Class B common stock, holders of CMEG common stock vote together on all matters for which a vote of common shareholders is required. In these votes, each holder of shares of Class A or Class B common stock of CMEG has one vote per share.
- **Transfer Restrictions:** Each class of CMEG Class B common stock is subject to transfer restrictions contained in the Certificate of Incorporation of CMEG. These transfer restrictions prohibit the sale or transfer of any shares of Class B common stock separate from the sale of the associated trading rights.
- **Election of Directors:** Twenty-four of CMEG's directors are elected by the Class A and Class B shareholders voting together as a single class (referred to as Equity directors). The remaining six directors are elected by the Class B shareholders (referred to as Class B directors): owners of Class B-1 shares are entitled to elect three directors; owners of Class B-2 shares are entitled to elect two directors; and owners of Class B-3 shares are entitled to elect one director.
- **Dividends:** Holders of Class A and Class B common stock of CMEG are entitled to receive proportionately such dividends, if any, as may be declared by the CMEG board of directors.

CME

- 2.1.9 CME's sole stockholder is CMEG and it elects all of CME's directors. As set forth in its charter, the directors of CME are the same directors as those of CMEG; provided, however, that any director that is suspended or expelled from membership of CME shall be automatically removed from the CME's Board of Directors. Also, pursuant to its bylaws, no member of the Board of Directors or any committee established by CME shall be eligible to serve on the Board of Directors or any such committee if the individual has committed a "disciplinary offense" as defined by the CME Rulebook (Rule 300D – Disqualification from Certain Committees and Governing Boards) or would be otherwise ineligible pursuant to such rule.

CBOT

- 2.1.10 CBOT is a non-stock corporation and has two classes of membership (Class A and Class B). There is one Class A membership which is owned by CMEG. The Class A member elects the directors of CBOT. The Class B memberships are associated with membership on CBOT and are owned by the members of CBOT. Pursuant to its charter, the Board of Directors of CBOT shall be composed of the same individuals as those of CMEG.

NYMEX

- 2.1.11 NYMEX is a non-stock corporation and has two classes of membership (Class A and Class B). There is one Class B membership which is owned by CMEG NYMEX Holdings Inc., which is wholly owned by CMEG. The Class B member elects the directors of NYMEX. The Class A memberships are associated with membership on NYMEX and are owned by the members of NYMEX. Currently, the Board of Directors of NYMEX is composed of the same individuals as those who currently serve on the Board of Directors of CMEG.

COMEX

- 2.1.12 COMEX is a not-for-profit, non-stock corporation with two classes of membership (NYMEX Division and COMEX Division). There is one NYMEX Division Membership, which is owned by NYMEX. The NYMEX Division Member elects

the directors of COMEX who pursuant to the COMEX Bylaws are the same individuals who serve on the NYMEX Board of Directors. The COMEX Division memberships are owned by the members of COMEX.

Director Nominations

- 2.1.13 With respect to director nominations, CMEG seeks candidates with a variety of talents and expertise to ensure that the Board of Directors overall as a whole is operating effectively and is focused on creating long-term value for CMEG's shareholders while ensuring the integrity of the markets. CMEG believes that the Board of Directors should be composed of individuals from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity and who exercise their good judgment to provide practical insights and different perspectives. In selecting candidates, the Board of Directors endeavours to find individuals who have a solid record of accomplishment in their chosen fields and who display the independence of mind and strength of character to effectively represent the best interests of the shareholders and the marketplace.

Director Qualifications

- 2.1.14 With respect to director qualifications, CMEG's Nominating Committee recommends candidates for election to the Board of Directors, and submits them to the shareholders for approval. The Nominating Committee believes that it is essential that Board members represent diverse viewpoints. In considering candidates for the Board of Directors, the Nominating Committee considers the entirety of each candidate's credentials. With respect to the nomination of continuing directors for re-election, the individual's contributions to the Board of Directors are also considered. In assessing new candidates for the Board of Directors, CMEG has not adopted a set of firm criteria that an individual must meet to be considered. The Nominating Committee reviews the qualifications and backgrounds of potential directors in light of the needs of the Board of Directors and CMEG at the time and nominates a slate of Equity director nominees to be nominated for election at the annual meeting of shareholders. In evaluating potential director nominees, the Nominating Committee will take into consideration, among other factors, whether the nominee:

- has the highest professional and personal ethics and values;
- is independent of management under CMEG's Categorical Independence Standards;
- has the relevant expertise and experience required to offer advice and guidance to CMEG's CEO;
- helps the Board of Directors reflect the industry diversity of interest composition requirements set forth in section 3.5 of the CME Bylaws;
- has the ability to make independent analytical inquiries;
- can dedicate sufficient time, energy and attention to the diligent performance of his or her duties;
- has the ability to represent the interests of the shareholders of CMEG and to create long-term value;
- has any special business experience and expertise in a relevant area;
- would be considered an audit committee financial expert or financially literate, as such terms are defined in applicable rules, regulations and listing standards; and
- has an understanding of CMEG's business, products, market dynamics and customer base.

The Board's Role in Risk Oversight

- 2.1.15 The Board of Directors has an active role, as a whole and also at the committee level, in overseeing management of CMEG's risks. CMEG has established an enterprise risk management program. The role of the program is to promote and facilitate the process to evolve, align and sustain sound risk management practices at CMEG. CMEG's ultimate objective is to help preserve and protect its enterprise value and to help increase the likelihood of achieving its financial, operational and strategic objectives.
- 2.1.16 The program is led by the Director, Enterprise Risk Management who reports to the head of the Internal Audit Department ("IAD") who reports directly to the Audit Committee. The Audit Committee serves as the primary committee with responsibility for overseeing the risk management process, with the other board-level committees overseeing specific risks that relate to their core responsibilities. Enterprise risk management is a standing agenda item at each of the regular Audit Committee meetings, and specific risks are discussed at the board and board-level committees, as relevant.

- 2.1.17 Enterprise risks are identified, evaluated, prioritized, and updated regularly by management through the cross-functional risk management team; made up of senior managers representing each division of the business, including representation from CME, and led by our Director, Enterprise Risk Management. The Audit Committee and the Board of Directors receive detailed updates on the CMEG's enterprise risks each quarter. Additional review or reporting on the enterprise risks is conducted as needed or as requested by the Board of Directors or one of its committees.

Annual Assessment of Board and Committee Performance

- 2.1.18 As provided in the Corporate Governance Principles, the Board of Directors annually reviews its own performance, structure and processes in order to assess how effectively it is functioning. The assessment is implemented and administered by the Governance Committee through an annual board self-evaluation survey. In addition, the Audit, Compensation, Finance, Governance, Market Regulation Oversight and Nominating Committees each conduct an annual self-assessment.

Board Committees

- 2.1.19 The Board of Directors has eight active committees that are Board-level committees of CMEG and the CMEG Exchanges: Audit; Compensation; Executive; Finance; Governance; Market Regulation Oversight; Nominating and Strategic Steering. Each committee has a written charter that sets forth its responsibilities in more detail. The Audit, Compensation, Governance, Market Regulation Oversight and Nominating Committees consist entirely of independent directors. The Market Regulation Oversight Committee ("**MROC**") consists entirely of public directors as defined by the CFTC.

(a) ***Audit Committee***

The Audit Committee is a Board-level committee of CMEG, CME, CBOT, COMEX, NYMEX and KCBT.² The Audit Committee is a separately-designated standing audit committee established in accordance with subsection 3(a)(58)(A) of the U.S. *Securities Exchange Act of 1934* and assists the Board of Directors of CMEG, the CMEG Exchanges and KCBT in fulfilling their oversight responsibilities with respect to the integrity of CMEG's financial statements, compliance with legal and regulatory requirements, the qualification and independence of CMEG's independent registered public accounting firm, the performance of the internal audit functions and the external auditors and the effectiveness of CMEG's internal controls. The Audit Committee performs this function by monitoring the financial reporting process and internal controls and by assessing the audit efforts of the external auditors and the IAD. The Audit Committee has ultimate authority and responsibility to appoint, retain, compensate, evaluate, and where appropriate, replace the external auditors.

(b) ***Compensation Committee***

The Compensation Committee is a Board-level committee of CMEG, CME, NYMEX and KCBT. The Compensation Committee assists the Board of Directors of CMEG, CME, NYMEX and KCBT in fulfilling their responsibilities in connection with the compensation of Board members and senior management and oversees the compensation programs for employees of the CMEG Exchanges. It performs this function by establishing and overseeing the compensation programs, approving compensation for the senior management group, recommending to the Board of Directors the compensation of Board members who are not officers of CMEG, overseeing the administration of the equity award plans and approving the filing of certain disclosures in CMEG's SEC filings.

(c) ***Executive Committee***

The Executive Committee is a Board-level committee of CMEG, CME, CBOT, COMEX, NYMEX and KCBT. The Executive Committee exercises the authority of the Board of Directors of CMEG, the CMEG Exchanges and KCBT when the Board of Directors is not in session, except in cases where action of the entire Board of Directors is required by the articles of incorporation, bylaws or applicable law. The Executive Committee may also review and provide counsel to management regarding material policies, plans or proposals prior to submission of such items to the Board of Directors. The Executive Committee is also responsible for conducting the annual performance evaluation of the CEO and presenting its conclusions to the Board of Directors during an executive session.

(d) ***Finance Committee***

The Finance Committee is a Board-level committee of CMEG and CME. The Finance Committee assists the Board of Directors of CMEG and CME in fulfilling their oversight responsibilities with respect to CMEG's financial policies, strategies and capital structure.

² The charters of the Audit, Compensation, Executive, Governance, Nominating and Strategic Steering Committees also include Kansas City Board of Trade Clearing Corporation ("**KCBTCC**"). However, the CFTC issued an order on April 9, 2013 vacating KCBTCC's DCO registration and KCBTCC has no operations or regulatory standing to operate as a DCO.

(e) **Governance Committee**

The Governance Committee is a Board-level committee of CMEG, CME, CBOT, COMEX, NYMEX and KCBT. The Governance Committee assists the Board of Directors of CMEG, the CMEG Exchanges and KCBT by making recommendations on corporate governance practices. The Governance Committee reviews and recommends changes to the Corporate Governance Principles and other policies in the area of corporate governance and oversees the compliance & ethics program.

(f) **Market Regulation Oversight Committee**

The MROC is a Board-level committee of CMEG, CME, CBOT, COMEX, NYMEX and KCBT. The MROC reviews the size of the regulatory budget and regulatory staff on an annual basis, in addition to addressing the adequacy of such resources during executive sessions with senior regulatory personnel. The MROC is also apprised of the hiring and termination of key regulatory personnel and reviews the compensation of the Chief Regulatory Officer, the Deputy Chief Regulatory Officer and the Managing Director of the Financial and Regulatory Surveillance Department. The Chief Regulatory Officer and the Managing Director of the Financial and Regulatory Surveillance Department both have a direct dotted line reporting relationship to the MROC. They meet with the MROC in executive sessions on a regular basis and are provided an opportunity to present any issues or concerns. Additionally, the MROC Chairman meets with them periodically via teleconference or in person outside of the context of regularly scheduled meetings. We believe that this enables an appropriate level of independent oversight to allow the MROC to determine that the Chief Regulatory Officer and the Managing Director of the Financial and Regulatory Surveillance Department are able to implement their department's self-regulatory responsibilities free from improper interference or influence. The MROC receives regular reports from CMEG Exchange staff to ensure that it is fulfilling its oversight role including:

- regular status reports of on-going investigations and other regulatory activities, including statistical information on the overall number of investigations and disciplinary actions being taken by the Market Regulation and Financial and Regulatory Surveillance Departments of CME, CBOT, COMEX and NYMEX;
- regular status reports from representatives of the Financial and Regulatory Surveillance Department on recent activities relating to the monitoring of our clearing firms for compliance with financial requirements;
- executive sessions/private meetings with key leaders in the Market Regulation and Financial and Regulatory Surveillance Departments to ensure effective communication of any CMEG Exchange related issue;
- executive sessions/private meetings with the chairmen of the CMEG Exchanges' disciplinary committees;
- reports on the results of the CFTC's RERs of the CMEG Exchanges as well as the outcome of any CFTC's reviews of other exchanges; and
- reports on industry issues that may have an impact on the roles performed by the Market Regulation and Financial and Regulatory Surveillance Departments.

(g) **Nominating Committee**

The Nominating Committee is a Board-level committee of CMEG, CME, CBOT, COMEX, NYMEX and KCBT. The Nominating Committee reviews qualifications of potential candidates for Equity director and recommends to the Board of Directors of CMEG, the CMEG Exchanges and KCBT the slate for election at CMEG's annual meetings.

(h) **Strategic Steering Committee**

The Strategic Steering Committee is a Board-level committee of CMEG, CME, CBOT, COMEX, NYMEX and KCBT. The Strategic Steering Committee assists and provides guidance to management and the Board of Directors of CMEG, the CMEG Exchanges and KCBT in fulfilling their responsibilities to oversee CMEG's long-range direction, corporate strategy and competitive position. The Strategic Steering Committee analyzes market trends, growth patterns and the impact of innovations that may create opportunity or risk for CMEG. The Strategic Steering Committee reviews and recommends goals and objectives for the CEO and CMEG's succession plans.

(b) **that business and regulatory decisions are in keeping with its public interest mandate,**

2.1.20 CMEG and the CMEG Exchanges are committed to ensuring the integrity of the contracts the CMEG Exchanges submit for clearing and the stability of the financial system, in which market infrastructure plays an important role. The CMEG Exchanges must ensure the integrity of contracts on the exchanges and the protection of customer funds under Core Principle 11 – *Financial Integrity* (“**Core Principle 11**”). The CMEG Exchanges fulfill this requirement in part through compliance with other DCM Core Principles, such as Core Principle 3 – *Contracts Not Readily Subject to Manipulation* (“**Core Principle 3**”) and Core Principle 9 – *Execution of Transactions* (“**Core Principle 9**”). Stability of

the market infrastructure is enhanced through compliance with Core Principle 21 – *Financial Resources* (“**Core Principle 21**”). Core Principle 21 requires a DCM to maintain adequate financial resources to discharge its responsibilities and ensure orderly operation of the market. Each of the CMEG Exchanges maintains financial resources sufficient to cover its operating costs for one-year, calculated on a rolling basis. The rules, policies and activities of the CMEG Exchanges are designed and focused on ensuring that they maintain best practices and fulfil this public interest mandate. The CMEG Exchanges operate on a basis consistent with applicable laws and regulations, and best practices of other DCMs.

2.1.21 Additionally, please refer to paragraphs 2.1.31 to 2.1.34 below for further discussion of the governance structure, arrangements and safeguards relating to the management of conflicts of interest that are relevant to the CMEG Exchanges’ public interest mandate.

(c) fair, meaningful and diverse representation on the board of directors (Board) and any committees of the Board, including:

(i) appropriate representation of independent directors, and

(ii) a proper balance among the interests of the different persons or companies using the services and facilities of the exchange,

Director Independence

2.1.22 The experience and diversity of the Board of Directors has been, and continues to be, critical to CMEG’s success. CMEG has adopted Corporate Governance Principles governing the operation of the Board of Directors. The Corporate Governance Principles require that the Board of Directors be composed of at least a majority of independent directors. Additionally, in accordance with applicable listing standards, the members of CMEG’s Audit, Compensation, Governance and Nominating Committees must be independent. For a director to be considered independent, the Board of Directors must affirmatively determine that the director has no direct or indirect material relationship with CMEG. The Board of Directors has adopted the Categorical Independence Standards to assist it in making its determinations regarding independence. These standards conform to and exceed the independence criteria specified in the listing standards of the NASDAQ. They specify the criteria by which the independence of the directors will be determined, including relationships and transactions between each director, any member of his or her immediate family, his or her affiliates, charitable organizations with which he or she is affiliated, and CMEG.

2.1.23 The Board of Directors believes that all of its non-executive directors act independently of, and effectively monitor and oversee the actions of, management. In addition, the chair of CMEG’s Governance Committee acts as a lead outside director, presiding over meetings of the independent and non-executive directors and serving as the contact for shareholder communications with independent directors. Based on the Categorical Independence Standards, at its meeting held in February 2012, the Governance Committee made a preliminary assessment of the independence of the directors and director nominees and based on such assessment made a recommendation to the CMEG Board of Directors regarding their independence. Some of CMEG’s directors are members of the CMEG Exchanges, which provides them with access to the CMEG Exchanges’ open outcry trading floors, lower trading fees, the ability to vote on certain matters relating to the operation of the CMEG Exchanges’ trading floors and, for members of CME, the ability to elect six of CMEG’s directors. Directors who are members of the CMEG Exchanges may make payments directly to the CMEG Exchanges or indirectly to the CMEG Exchanges through CME’s clearing firms in connection with their trading activity on a CMEG Exchange. To ensure that such payments did not exceed the monetary thresholds set forth in the listing standards of the NASDAQ, the Governance Committee reviewed the directors’ and their affiliated clearing firms’ trading activities and relationships with the CMEG Exchanges as part of its independence determination. The Governance Committee and the Board of Directors noted that all payments were made in the ordinary course of CMEG’s business, were on terms consistent with those prevailing at the time for corresponding transactions by similarly situated unrelated third parties and were not in excess of the applicable payment thresholds.

2.1.24 After considering information provided by the directors and director nominees in their annual questionnaires, the payments made to CMEG relating to trading activities of directors and director nominees who are members of a CMEG Exchange as well as additional information gathered by the Office of the Secretary, the Governance Committee recommended and the Board of Directors determined which directors and nominees should be classified as independent. More than 75% of CMEG’s Board of Directors has been classified as independent.

Public Directors

2.1.25 CMEG is also required to ensure that it meets the DCM Core Principles which among other things require that CMEG has processes and procedures to address potential conflicts of interest that may arise in connection with the operation of the CMEG Exchanges. Significant representation of individuals who do not have relationships with the CMEG Exchanges, referred to as “public directors” in the CFTC Regulations, play an important role in CMEG’s processes to address potential conflicts of interest. The Board of Directors has assessed which directors would be considered “public directors” based upon their lack of relationship with the CMEG Exchanges and the industry per the CFTC

Regulations. Currently 30% of CMEG's Board of Directors is comprised of public directors. Additionally, the MROC is composed solely of public directors.

2.1.26 The Governance Committee of the Board of Directors is responsible for evaluating how to maintain the appropriate expertise, industry knowledge and skills to oversee CMEG's complex business. The Board of Directors seeks directors from diverse professional backgrounds and expertise. All candidates for Board membership are nominated by the Nominating Committee of the Board of Directors and are evaluated for their expertise, experience, ethics, independence, commitment to enhancing shareholder value, understanding of CMEG's business, and lack of material conflicts of interest. Shareholders elect nominees at the annual shareholder's meeting. Directors elected to the Board of Directors have open access to senior management and, as appropriate, to CMEG's outside advisors. This access enables directors to gather input from a diverse pool of market participants, employees, and advisors. CMEG believes its leadership structure provides a well-functioning and effective balance between management leadership and appropriate safeguards and oversight by non-employee board members.

(d) the exchange has policies and procedures to appropriately identify and manage conflicts of interest, and

2.1.27 As the parent company of the CMEG Exchanges, CMEG's reputation and the integrity of its markets are its most valuable assets. It is, therefore, in CMEG's best interests to ensure the CMEG Exchanges are operated in a manner that serves the best interests of the market which in turn benefits the shareholders and other stakeholders of CMEG and the CMEG Exchanges.

2.1.28 In order to ensure that the CMEG Exchanges' Boards of Directors effectively avoid or minimize conflicts of interests and quickly resolve any that arise, the Boards of Directors have adopted a code of ethics, a conflicts of interest policy and a related party approval policy.

2.1.29 In accordance with these policies, members of the Board of Directors are required to act in the best interests of the organization, disclose any potential for the director to receive any private benefit in connection with a matter being presented to the Board of Directors, not use their positions for their personal benefit and to preserve the confidentiality of information provided them. Additionally, certain transactions, commonly referred to by the SEC as "related party transactions", in which a director or executive officer would have a material benefit, must be approved by the Audit Committee of CMEG. CMEG believes that the combination of these policies works to appropriately mitigate conflicts of interest and provides a process whereby potential and actual conflicts of interests are addressed. As an example, members of the Board of Directors must recuse themselves from both the deliberations and voting with respect to any "significant action" as defined in each of the CMEG Exchange's Rule 234 – Avoiding Conflicts of Interest in "Significant Actions" if the Board member knowingly has a direct and substantial financial interest in the result of the vote based upon either CMEG Exchange or non-CMEG Exchange positions that could reasonably be expected to be affected by the action or is otherwise conflicted based on existing CMEG Exchange policy.

2.1.30 CMEG also has adopted a Code of Conduct that applies to all employees, including the executive officers of the CMEG Exchanges. The provisions of the Code of Conduct address potential and actual conflicts of interest. On an annual basis, employees are required to certify that they have received and agree to abide by the provisions of the Code of Conduct.

2.1.31 With respect to conflicts between the MROC and the Board of Directors, the Board of Directors can overturn MROC decisions as it retains ultimate decision making authority for all matters. To date, the Board of Directors has never overturned an MROC decision and has generally shown deference to the authority of the MROC.

2.1.32 The MROC provides the Board of Directors with annual reports summarizing its activities and those of the Market Regulation and Financial and Regulatory Surveillance Departments. These annual reports are filed with the Board of Directors' annual CFTC report. The reports provide the CFTC with visibility into the MROC's functioning and decision making. The CFTC also has the authority to request MROC minutes and other materials, and meets independently with the MROC as needed (e.g., in the form of executive sessions). Due to the MROC's status as an independent committee composed of public directors, and its continuing, independently maintained relationship with the CFTC, the CFTC would closely scrutinize any Board of Directors action overturning an MROC decision. To date, the CFTC has not overturned an MROC decision or instituted an action against the MROC for failure to discharge its duties under Core Principle 15 – *Governance Fitness Standards*.

2.1.33 Each of the CMEG Exchanges is currently acting as a designated self-regulatory organization ("DSRO") for at least one of its futures commission merchant ("FCM") Clearing Members. The status of CME, CBOT, COMEX and NYMEX as DSROs and their duties to shareholders of CMEG are complementary and do not create conflicts of interest: both require that the CMEG Exchanges diligently keep their markets fair and open by vigorously regulating all market participants and applicable law mandates an organizational structure that eliminates conflicts of interest. As a publicly-traded company, CMEG has compelling incentives to ensure that the regulatory programs of the CMEG Exchanges operate effectively because market participants will not trade on DCMs that do not comply with the DCM Core Principles, meaning the regulators' and shareholders' interests converge.

- 2.1.34 CMEG, through its Code of Conduct and conflicts of interest policies, as well as the CMEG Exchanges through their compliance with CMEG policies and CFTC Regulations, have established a robust set of safeguards designed to ensure these functions operate free from conflicts of interest or inappropriate influence as described above. The CFTC also conducts its own surveillance of the markets and market participants and actively enforces compliance with the CEA and CFTC Regulations, including Core Principle 16 – *Conflicts of interest*. In addition to the CFTC’s oversight of the markets, the CMEG Exchanges separately establish and enforce rules governing the activity of all market participants in their markets. Further, the National Futures Association (“**NFA**”) establishes rules and has regulatory authority with respect to every firm and individual who conducts futures trading business with public customers. The CFTC, in turn, oversees the effectiveness of the CMEG Exchanges, CME (as clearing agency) and the NFA in fulfilling their respective regulatory responsibilities.
- 2.1.35 With respect to managing conflicts between CME and GFX Corporation (“**GFX**”), this is achieved through a combination of safeguards, including CME’s rules, CFTC review and authorization, application of CMEG policy on director conflicts of interest to GFX directors and the Code of Conduct to GFX employees and the physical and logistical separation of GFX’s operations from CME.
- 2.1.36 GFX is an Illinois corporation that is wholly owned by CME. GFX was originally reviewed and authorized by the CFTC in 1996 for the purpose of providing liquidity support for FX contracts in same currency pairs. GFX currently operates under CME Rule 586 – GFX Corporation, which authorizes GFX to make markets in all markets cleared by CME. GFX is not a CMEG Exchange member and utilizes a broker to enter into transactions in the CME-cleared markets.
- 2.1.37 Any conflict that might exist is mitigated as the interests of GFX and the markets in which GFX is a participant are inherently aligned. The liquidity provided by GFX in the markets benefits market participants trading in those products. Additionally, GFX’s systems are such that prices it places into the market will reflect market data, and therefore, there is no potential for market distortion.
- 2.1.38 GFX’s board is made up of four independent CMEG Board members and three executive directors. The directors are obligated to act in accordance with Illinois law and their fiduciary duties to GFX in addition to being subject to the CMEG policy on director conflicts of interests. GFX employees are subject to the Code of Conduct which requires all employees to maintain the highest degree of integrity in the conduct of business and disclose any potential conflicts, and contains processes to address all conflicts of interest.
- 2.1.39 Although GFX is located within CME-leased space, GFX trading offices are physically and logistically separated from CME. GFX employees directly involved in trading do not have access to any CME trading systems or market information not accessible to other market participants. GFX has access to CME markets through the same access methods as all other market participants and is subject to the rules of each of the CMEG Exchanges (“**CMEG Exchange Rules**”).
- 2.1.40 GFX is not a member of any market maker program and has no obligation to provide liquidity. GFX has been approved for Electronic Corporate Membership – Volume Incentive Program member status with CME under which it receives a waiver of NFA fees. GFX is also subject to audit by CME’s internal audit function.
- (e) there are appropriate qualifications, remuneration, limitation of liability and indemnity provisions for directors, officers and employees of the exchange.**
- 2.1.41 See paragraph 2.1.14 for information on the director qualifications. Members of CMEG’s Management Team are recruited for their particular position based upon their skills and expertise. Their individual goals and performance are annually assessed by their direct manager as part of CMEG’s performance management process.
- 2.1.42 The organizational documents for CMEG and the CMEG Exchanges include limitations of liability and indemnity provisions:
- CMEG: Articles Ten and Eleven in its Certificate of Incorporation and Article VIII in its Bylaws.
 - CME: Article Fifth, Section (4) of the Certificate of Incorporation and Article VII in its Bylaws.
 - CBOT: Article VIII of its Certificate of Incorporation and Article VIII of its Bylaws.
 - COMEX: Section 360 of its Bylaws.
 - NYMEX: Article VIII of its Certificate of Incorporation and Article VIII of its Bylaws.
- 2.2 Fitness – The exchange has policies and procedures under which it will take reasonable steps, and has taken such reasonable steps, to ensure that each director and officer is a fit and proper person.**
- 2.2.1. On an annual basis, each director, director nominee and executive officer of CMEG must complete a questionnaire which includes questions relating to potential related party transactions and any criminal history over the past ten years. A copy of the questionnaire is available upon request. The results of these questionnaires are presented to the Governance Committee.

- 2.2.2 With respect to CMEG's policies and procedures to ensure that each director and officer is a fit and proper person, the policies and procedures also apply in the context of all other officers of CMEG (if there are any non-executive officers). CMEG confirms that there are no non-executive officers.
- 2.2.3 With respect to persons or companies that control more than 10% of CMEG or the CMEG Exchanges, Capital World Investors held 10.67% of CMEG Class A shares as of December 31, 2012. As a publicly-traded company, CMEG cannot restrict or limit ownership of its shares by independent third-party investors irrespective of CMEG's governance fitness standards. However, large shareholders such as Capital World Investors are obligated to report their holding(s) to the SEC via Form 13D or 13G filings, in which they disclose the purpose of the large shareholding, the source and amount of funds used to make the purchase(s), and a description of any contracts, arrangements or relationships with respect to the securities. Capital World Investors' SEC Form 13G is available on CMEG's EDGAR page at <http://www.sec.gov/edgar.shtml>.

3. Regulation of Products

- 3.1 Review and Approval of Products – The products traded on the exchange and any changes thereto are reviewed by the Foreign Regulator, and are either approved by the Foreign Regulator or are subject to requirements established by the Foreign Regulator that must be met before implementation of a product or changes to a product.**
- 3.1.1 Pursuant to 7 U.S.C. 1a, 2, 5, 6, 7, 7a, 8 and 12, the CFTC implemented Part 40 (Provisions Common to Registered Entities) ("**Part 40**"), which deals with the process for review of new products traded on CFTC-registered DCMs. Part 40 requires that all new products and changes to products be self-certified with the CFTC under CFTC Regulations 40.2 – Listing products for trading by certification ("**CFTC Regulation 40.2**") and 40.6 – *Self-certification of rules* ("**CFTC Regulation 40.6**"), respectively. CFTC Regulation 40.2 requires that the CFTC receive new product submissions "by the open of business on the business day preceding the product's listing". In addition, CFTC Regulation 40.2 requires that the new product submission contain a "[c]oncise explanation and analysis of the product and its compliance with the applicable provisions of the [CEA], including its core principles, and the [CFTC's] regulations thereunder". The CFTC core principles relevant to products traded on the DCM include: Core Principle 2 – *Compliance with Rules* ("**Core Principle 2**"), Core Principle 3, Core Principle 4 – *Monitoring of Trading* ("**Core Principle 4**"), Core Principle 5 – *Positions Limits or Accountability*, Core Principle 7 – *Availability of General Information* ("**Core Principle 7**"), Core Principle 8 – *Daily Publication of Trading Information* ("**Core Principle 8**"), Core Principle 9, Core Principle 10 – *Trade Information* ("**Core Principle 10**"), Core Principle 11 and Core Principle 12 – *Protection of Market Participants* ("**Core Principle 12**"). In addition to compliance with these DCM Core Principles, the CFTC requires DCMs to demonstrate that new products are not susceptible to manipulation. Explicit instructions to meet this requirement are at Appendix C to Core Principle 3 – *Demonstration of Compliance That a Contract is Not Readily Susceptible to Manipulation* ("**Appendix C**"). Appendix C outlines general product requirements as well as requirements by derivative type (i.e., futures, swaps, and options). Appendix C includes the following general requirements: including certain contract terms and conditions in public-facing materials, reliance on publicly available information when practicable, attestations of reliability in calculating prices for trade and/or settlement, cash market descriptions based on both the national and regional/local markets relevant to the underlying commodity and price derivations that promote price discovery and are not susceptible to manipulation. Appendix C also contains varied and numerous requirements specific to each derivative type and settlement method. These specific requirements seek to foreclose the potential for price manipulation unique to each derivative type and settlement method.
- 3.2 Product Specifications – The terms and conditions of trading the products are in conformity with the usual commercial customs and practices for the trading of such products.**
- 3.2.1 Among other things, the requirement that new products comply with the DCM Core Principles means that they contain an analysis of the underlying cash market and the deliverable supply of the underlying product. In response to a DCM's self-certification of a new product, the CFTC often follows up with questions requesting additional information on the underlying market including, but not limited to: supply and demand characteristics, participant composition, market concentration, deliverable supply estimates, the relation of the contract size to the underlying market, the quality of the product across various delivery facilities and the delivery facilities used for the product. If a DCM is unable to provide satisfactory answers to the CFTC's questions, it may require the DCM to withdraw the product certification for failing to comply with the CEA and the DCM Core Principles.
- 3.3 Risks Associated with Trading Products – The exchange maintains adequate provisions to measure, manage and mitigate the risks associated with trading products on the exchange including, but not limited to, margin requirements, intra-day margin calls, daily trading limits, price limits, position limits, and internal controls.**
- 3.3.1 Section 9.2 of this application covers the way that the CMEG Exchanges measure, manage and mitigate the trading risk associated with products listed on the CMEG Exchanges by imposing pricing bands, price limits, price banding, stop spike logic and other trading parameters. Section 5 of this application covers the CMEG Exchanges' regulatory oversight of their products, including the implementation of positions limits and exemptions pursuant to Rule 559 –

Position Limits and Exemptions and position accountability in Rule 560 – Position Accountability as required by Part 151 of the CFTC Regulations.

4. Access

4.1 Fair Access

- (a) **The exchange has established appropriate written standards for access to its services including requirements to ensure**
 - (i) **participants are appropriately registered as applicable under Ontario securities laws or Ontario commodity futures laws, or exempted from these requirements,**
 - (ii) **the competence, integrity and authority of systems users, and**
 - (iii) **systems users are adequately supervised.**
- (b) **The access standards and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.**
- (c) **The exchange does not unreasonably prohibit, condition or limit access by a person or company to services offered by it.**
- (d) **The exchange does not**
 - (i) **permit unreasonable discrimination among participants, or**
 - (ii) **impose any burden on competition that is not reasonably necessary and appropriate.**

4.1.1 Firms that want access to the trading systems and facilities of the CMEG Exchanges can do so (i) by becoming a Direct Access User; (ii) by becoming an Order-Routing Client; or (iii) through membership in the CMEG Exchanges.

4.1.2 A non-CMEG Exchange Member that wishes to become a Direct Access User must execute a customer connection agreement with CME through which it can (i) transmit orders and trades directly into CME Globex with the guarantee of a CMEG Exchange Clearing Member; and (ii) is required, among other things, to comply with the rules of the CMEG Exchanges to which access is granted, when entering and executing transactions via CME Globex, and to comply with all applicable laws pertaining to the use of CME Globex.

4.1.3 Where such a non-CMEG Exchange Member/Direct Access User violates the trading rules of a CMEG Exchange, the CMEG Exchange has recourse to take action against the offending non-CMEG Exchange Member/Direct Access User. A CMEG Exchange also has the ability to take disciplinary action against the CMEG Exchange Clearing Members that guarantee the trades of offending non-CMEG Exchange Members/Direct Access Users. CMEG Exchange Clearing Members are liable for account deficiencies resulting from trading rule violations by non-CMEG Exchange Members whose trades they guarantee. However, in practice the CMEG Exchanges do not utilize this power.

4.1.4 A non-CMEG Exchange Member that wishes to become an Order-Routing Client must enter into an order-routing arrangement with a CMEG Exchange Clearing Member whereby the non-CMEG Exchange Member's orders are routed through the CMEG Exchange Clearing Member, as a client of that CMEG Exchange Clearing Member, onto a CMEG Exchange.

4.1.5 Where such a non-CMEG Exchange Member/Order Routing Client violates the trading rules of a CMEG Exchange, the CMEG Exchange can approach the offending non-CMEG Exchange Member/Order Routing Client to request its consent to the CMEG Exchange's jurisdiction and disciplinary procedures. If consent is not granted, the CMEG Exchange can instruct the CMEG Exchange Clearing Member guaranteeing the offending non-CMEG Exchange Member's/Order Routing Client's trades to cut off access to the CMEG Exchange. Similar to the case with non-CMEG Exchange Members/Direct Access Users, as described in paragraph 4.1.3 above, a CMEG Exchange also has the ability to take disciplinary action against the CMEG Exchange Clearing Members that guarantee the trades of offending non-CMEG Exchange Members/Order Routing Clients.

4.1.6 With respect to becoming CMEG Exchange Members, memberships in the CMEG Exchanges are separate from one another and offer access to different products at different rates. Below is a summary of the types of memberships offered by the CMEG Exchanges, including the corporate membership requirements of the CMEG Exchanges, which are most applicable to prospective Ontario Participants.

CME

- (a) Individual Membership: An applicant must be an adult and possess good moral character, good reputation and business integrity and have adequate financial resources to assume the responsibilities and privileges of membership.
- (i) CME (B1) division permits access to any CME-listed contract.
 - (ii) IMM (B2) division permits access to foreign exchange, interest rate and equity index futures and all IOM and GEM products.
 - (iii) IOM (B3) division permits access to index futures contracts, random length lumber contracts, all options contracts and all GEM products.
 - (iv) GEM (B4) division permits various products, including contracts related to emerging market countries and restricted financials.
- (b) Corporate Membership: Hedge Funds, commodity pools, banks, FCMs, foreign brokers, broker-dealers, commodity trading advisors, introducing brokers, commercial entities, proprietary trading firms and other corporate entities are eligible for corporate membership, as described below, with respect to their proprietary trading. CME corporate member firms receive reduced exchange fee and performance bond rates on proprietary trading of eligible CME products when the proprietary trading activity is conducted in accordance with CMEG fee policies.
- (i) CME Rule 106.J. Equity Membership requires corporate member firms to own membership and shares. In the case of CME: 2 CME divisions, 2 IMM divisions, 2 IOM divisions, 1 GEM division and 30,000 shares of CMEG.
 - (ii) CME Rule 106.H Trading Membership requires corporate member firms to own 1 or lease 2 memberships (CME, IMM or IOM) in the division in which the firm wants reduced exchange fee and performance bond rates.
- (c) Electronic Corporate Membership: Only CME corporate members that qualify as proprietary trading firms (i.e., firms that trade their own capital only) are eligible to be electronic corporate member firms. Electronic Corporate Membership is a class of membership under CME Rule 106.R. that allows proprietary trading firms to receive discounted fees for their electronic proprietary trades that are done by qualified registered traders in accordance with CME policies.
- (i) CME Rule 106R ECM-Holding Membership (“**CME ECM-H**”) requires proprietary trading firms to own 1 or lease 2 memberships (CME, IMM or IOM) in the division in which CME ECM-H exchange fees are desired.
 - (ii) CME Rule 106R ECM-Volume Incentive Program (“**CME ECM-W**”) has a waiver of the membership holding requirement (expiring December 31, 2013), but must satisfy minimum quarterly volume trading requirements. CME ECM-W members that fail to meet the minimum quarterly volume requirement will no longer qualify for CME ECM-W member status and will receive non-member/customer rates on all futures trades.
- (d) Clearing Membership: Please refer to paragraph 8.4.2 for a discussion of the CME clearing membership requirements.

CBOT

- (a) Individual Membership: An applicant must be an adult and possess good moral character, good reputation and business integrity and have adequate financial resources to assume the responsibilities and privileges of membership.
- (i) (B-1) Full membership permits access to all financial and agricultural futures and options contracts.
 - (ii) (B-2) Associate membership permits access to all financial futures and options and agricultural options only.
 - (iii) (B-3) Government, Instruments Market membership permits access to financial instrument futures only.

- (iv) (B-4) Index, Debt and Energy Market membership permits access to Fed Funds and index futures.
- (v) (B-5) Commodity Options Market membership permits access to options.
- (b) Corporate Membership: CBOT corporate member firms receive reduced exchange fee and performance bond rates on proprietary trading of eligible CBOT products when the proprietary trading activity is conducted in accordance with CMEG fee policies.
 - (i) CBOT Rule 106.J. Equity Membership requires corporate member firms to own or have assigned to them membership and shares. In the case of CBOT: a B-1/Full membership and 30,000 shares of CMEG or a B-2/Associate membership and 8,750 shares of CMEG. Financial institutions, FCMs, foreign brokers, broker-dealers, commodity trading advisors, introducing brokers, commercial entities, proprietary trading firms, market makers, cash grain firms and other corporate entities are eligible for CBOT Rule 106.J. equity member firm status. Hedge funds and commodity pools are not eligible.
 - (ii) CBOT Rule 106.H. Trading Membership requires corporate member firms to own or have assigned to them memberships. In the case of CBOT: a B-1/Full, B-2/Associate, B-4/IDEM or B-5/COM membership. Financial institutions, FCMs, foreign brokers, broker-dealers, commodity trading advisors, introducing brokers, commercial entities, proprietary trading firms, market makers, cash grain firms and other corporate entities are eligible for CBOT Rule 106.J. equity member firm status. Hedge funds and commodity pools are not eligible.
 - (iii) CBOT Rule 106.S. Family of Funds Equity Membership requires corporate member firms to own or have assigned to them membership and shares. In the case of CBOT: 4 B-1/Full memberships, 2 B-2/Associate memberships and 30,000 shares of CMEG. Hedge funds, commodity pools or fund management companies are eligible for CBOT Rule 106.S. family of funds equity member firm status.
 - (iv) CBOT Rule 106.S. Family of Funds Trading Membership requires corporate member firms to own or have assigned to them memberships. In the case of CBOT: 2 B-1/Full memberships and 1 B-2/Associate membership. Hedge funds, commodity pools or fund management companies are eligible for CBOT Rule 106.S. family of funds trading member firm status.
- (c) Electronic Corporate Membership: Financial institutions, FCMs, foreign brokers, broker-dealers, commodity trading advisors, introducing brokers, commercial entities, proprietary trading firms, market makers, cash grain firms and other corporate entities are eligible to be electronic corporate member firms with respect to their proprietary trading activity. Hedge funds and commodity pools are not eligible. Electronic Corporate Membership is a class of membership under CBOT Rule 106.R. that allows member firms to receive reduced exchange fees and performance bond rates for their electronic trading of eligible CBOT products when the proprietary trading activity is conducted in accordance with CMEG fee policies.
 - (i) CBOT Rule 106.R. Electronic Trading Membership requires electronic member firms to lease or have assigned to them either 1 B-1/Full membership or 1 B-2/Associate membership. CBOT Rule 106.R. electronic trading members are eligible for reduced exchange rates on products within the division of membership that is leased or assigned.
- (d) Clearing Membership: Please refer to paragraph 8.4.2 for a discussion of the CBOT clearing membership requirements.

NYMEX/COMEX

- (a) Individual Membership: An applicant must be an adult and possess good moral character, good reputation and business integrity and have adequate financial resources to assume the responsibilities and privileges of membership. There is one level of individual membership for NYMEX and COMEX, which enable an individual member to trade all NYMEX and COMEX products at member rates and to trade directly from the NYMEX trading floor.
- (b) Corporate Membership: NYMEX and COMEX corporate member firms receive reduced exchange fee and performance bond rates on their proprietary trading of NYMEX and COMEX products when the proprietary trading activity is conducted in accordance with CMEG fee policies.
 - (i) NYMEX Rule 106.J. Membership requires corporate member firms to own or have assigned to them membership and shares. In the case of NYMEX: 2 NYMEX memberships and 30,000 shares of CMEG. Hedge funds, commodity pools, banks, FCMs, foreign brokers, broker-dealers, commodity

trading advisors, introducing brokers, commercial entities, proprietary trading firms and other corporate entities are eligible for NYMEX Rule 106.J. member firm status.

(ii) COMEX Rule 106.J. Membership requires corporate member firms to own or have assigned to them memberships. In the case of COMEX: 2 COMEX memberships. Hedge funds, commodity pools, banks, FCMs, foreign brokers, broker-dealers, commodity trading advisors, introducing brokers, commercial entities, proprietary trading firms and other corporate entities are eligible for COMEX Rule 106.J. member firm status.

(c) Clearing Membership: Please refer to paragraph 8.4.2 for a discussion of the NYMEX/COMEX clearing membership requirements.

4.1.7 With respect to the membership requirements of the CMEG Exchanges, they are objective, publicly disclosed and permit fair and open access. Chapter 1 of each of the respective CMEG Exchange Rulebooks sets out the admission and eligibility standards that applicants for membership must satisfy to become a member of the applicable CMEG Exchange (a “**Member**”). Membership in a CMEG Exchange allows for reductions in transaction fees. Membership does not allow a firm to transact customer business. Should a Member elect to handle customer business, it must be a registered as a FCM. FCM registration is handled by the NFA. This designation is separate and distinct from becoming a Member of a CMEG Exchange. If a Member conducts only proprietary or non-customer business, it is not required to be registered as an FCM. Among other requirements, CMEG Exchange Rulebook standards require that the applicants to be a Member must:

- disclose all registrations and have all licenses necessary to become a Member, where applicable. Individual Member applicants must disclose all applicable registrations with government agencies, securities exchanges and the NFA. Corporate Members must be registered with appropriate local entities necessary to conduct their respective businesses. For example, a corporation must be registered with the Secretary of State in the state of incorporation. The commodity pool operator and commodity trading advisor of a hedge fund must be registered with the NFA, or otherwise subject to an applicable exemption from registration. The Application for Corporate Membership/Corporate Information requests disclosure of whether or not “the [applicant] organization is subject to any restrictions which would prohibit it from becoming a corporate member/incentive program participant,” which would include local licensing restrictions or suspensions;
- be financially able. The Application for Membership requests financial information of the applicant and allows for the CMEG Exchange to request additional detail or supporting documentation. In addition, firm applicants are required to submit recent certified financial statements or a recent unaudited financial statement if a certified statement is not available. Applicants must disclose the name of their primary clearing member. There are no specific minimum capital requirements for Members because the clearing member guarantees trades to CME Clearing. Therefore, the clearing member is at risk when its customer defaults. Clearing firms, as guarantors, have incentive to ensure the competence, integrity, and authority of system users through conducting their own due diligence and applying credit controls for each customer. At the clearing house level, clearing house risk examinations review clearing member credit control levels and procedures;
- have a sound reputation. Within the Application for Membership, the following questions are asked:
 - (a) Have you or any firm or organization of which you were or are a principal of, been refused admission to (including the denial, withdrawal, revocation or termination of an application for membership or registration), expelled, suspended, fined, censured or otherwise disciplined through an adverse determination, voluntary settlement or otherwise in an action, arbitration or proceeding brought by or before any regulatory agency, exchange, or association?
 - (b) Are you or any firm with which you are or were a principal of, currently under investigation by a regulatory agency, exchange or association as set forth in (a) above for the violation of its rules or otherwise, or have charges been brought against you, or any firm with which you are associated, by such regulatory agency, exchange, or association for such violation or otherwise?
 - (c) Have you ever been disqualified from trading?
 - (d) Have you ever been requested to relinquish your trading privileges?
 - (e) Have you ever been subject to a disciplinary action or terminated for cause by an employer?
 - (f) Have you been refused admission to (including the denial, withdrawal, revocation or termination of an application for membership or registration), rejected, expelled, suspended, or fined, censured or otherwise disciplined by the Commodity Futures Trading Commission (CFTC), the Securities Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), or the National Futures Association (NFA)?
 - (g) Have you been charged in a criminal action or indicted for a violation of any federal or state law?
 - (h) Have you **ever** been **convicted** of any **misdemeanor** or **felony**?
 - (i) Have you ever had any significant financial/credit difficulties (including, but not limited to, filing for personal or professional bankruptcy, had involuntary bankruptcy proceedings filed against you, collection accounts, civil judgments or tax liens)?

In addition to the above, the regulatory disciplinary history of an applicant or its owners and principals is reviewed for propriety;

- maintain the appropriate memberships in accordance with the various Membership requirements, as applicable (e.g., Equity Member Firms generally maintain memberships and shares in CMEG; Individual Members may own or lease memberships). Trading Member Firms generally maintain or lease memberships as required. Electronic Corporate Memberships vary by CMEG Exchange – some require leased memberships and some maintain minimum volume requirements; and
- comply with the CEA and CFTC rules and regulations. The CFTC promulgated Core Principles 11, 12, and 18 – *Recordkeeping* (“**Core Principle 18**”) to establish market surveillance and regulatory regimes. CMEG Exchange Rules comply with DCM Core Principle requirements to ensure system users are adequately supervised through a combination of physical and electronic surveillance systems, audit procedures, recordkeeping requirements, and investigatory access to market participants’ trading information and data. Such procedures are further detailed at Section 5.1 of this application.

- 4.1.8 To apply for Membership, an applicant must complete a Member Application and an Agreement for Membership and submit them with the required documentation to the applicable CMEG Exchange. Rule 107 – Approval of Applicant in the CMEG Exchange Rulebooks provides that CMEG Exchange staff review and approve applicants based upon impartial admission criteria established by the Membership Committee. An applicant not approved for membership shall be referred to a panel of the committee, which will vote on approval of the applicant. A rejected applicant retains the right of appeal to the full Membership Committee. Multiple layers of review and procedural safeguards in the application process are designed to ensure applicants’ fair and impartial access to CMEG Exchange membership.
- 4.1.9 The Financial and Regulatory Surveillance Department anticipates that the review will take place within eight weeks of receipt of the completed application. The Financial and Regulatory Surveillance Department will notify the applicant in writing of its decision.
- 4.1.10 The Financial and Regulatory Surveillance Department maintains records of its Member applications. Complete records are maintained for each Member.
- 4.1.11 CMEG Exchange Rules, policies and procedures are designed to ensure fair and equal treatment consistent with the requirements contained in numerous DCM Core Principles. All participants have the option to purchase exchange memberships pursuant to a transparent and non-discriminatory approval process. Participants may opt to purchase a membership in order to enjoy reduced transaction fees; however, members who do so are subject to enhanced regulation, including bookkeeping, staffing, and reporting requirements. Rules pertaining to membership criteria or selection must be self-certified under CFTC Regulation 40.6. The CFTC reviews all self-certifications of rules and rule amendments under CFTC Regulation 40.6 for compliance with the DCM Core Principles. Core Principle 12 requires exchanges to establish and enforce rules that protect market participants from fraudulent, noncompetitive or unfair actions committed by any party, and further, to discipline such behavior under Core Principle 2. Membership rules that are unreasonably discriminatory or access and fee rules that unreasonably discriminate among participant classes would not meet DCM Core Principle requirements and would therefore not be certified by the CFTC.
- 4.1.12 DCM Core Principle 19 – *Antitrust Considerations* (“**Core Principle 19**”) from subsection 5(d) of the CEA applies to DCMs and states that “[u]nless necessary or appropriate to achieve the purposes of this Act, the board of trade shall endeavor to avoid—(A) adopting any rules or taking any actions that result in any unreasonable restraints of trade; or (B) imposing any material anticompetitive burden on trading on a contract market”. While the CMEG Exchanges do not have specific rules stating that they will not impose any burden on competition that is not reasonably necessary and appropriate, all rules implemented by the CMEG Exchanges are subject to CFTC review in light of Core Principle 19, along with the other DCM Core Principles. As such, the CMEG Exchanges do not implement rules that would impose any burden on competition that is not reasonably necessary and appropriate because such rules would not meet DCM Core Principle requirements and would therefore not be certified by the CFTC.
- 4.1.13 Core Principle 11 requires DCMs to establish and enforce rules and procedures to ensure the financial integrity of transactions entered into through their facilities and rules to ensure the financial integrity of participating FCMs and introducing brokers. In addition, DCMs must have rules that ensure the protection of customer funds. The clearing model utilized by the CMEG Exchanges assists them in complying with Core Principle 11 by allowing them insight into the financial stability, operational efficiency and technological sophistication of the clearing firms and the ability to take the required actions to ensure financial integrity where necessary. In addition, employing a linked clearing house ensures that the clearing house for the CMEG Exchanges is prepared to support all the obligations of the DCMs and increases the efficiency and cost effectiveness of clearing and settlement of the CMEG Exchanges’ products. The CFTC has implicitly determined that the CMEG Exchanges and CME are not violating Core Principle 19 in its approval of the rules of CME.

5. Regulation of Participants on the Exchange

5.1 Regulation – The exchange has the authority, resources, capabilities, systems and processes to allow it to perform its regulation functions, whether directly or indirectly through a regulation services provider, including setting requirements governing the conduct of its participants, monitoring their conduct, and appropriately disciplining them for violations of exchange requirements.

5.1.1 Protecting and enhancing the integrity of CMEG markets is the overarching mission of CMEG’s Market Regulation Department (“**Market Regulation**”). More broadly, Market Regulation seeks to protect and enhance the integrity of CMEG markets by effectively and efficiently providing quality regulatory services to all constituents and mitigating regulatory risk through proactive and dynamic regulatory programs. In order for Market Regulation to accomplish its mission, CMEG expends considerable human, technological and financial resources that are focused on the maintenance of fair, efficient, competitive and transparent markets, and the protection of all CMEG market participants from fraud, manipulation and other abusive trading practices.

5.1.2 To fulfill its mandate to effectively monitor and enforce the CMEG Exchange Rules, Market Regulation conducts daily and long-term surveillance of trading in CMEG markets, regardless of whether the trading activity takes place on the CME Globex electronic trading platform, on CMEG Exchange trading floors or through allowable privately negotiated transactions. Market Regulation’s efforts are integrated across trading venues and focused on identifying and remediating market anomalies, trading abuses and other actions that have the potential to undermine the fair and orderly operation of CMEG markets. Market Regulation’s daily activities include a broad range of interconnected efforts that include trade practice reviews, position monitoring, data quality assurance audits and enforcement activities. Market Regulation also monitors the delivery process for trading in those of our products that settle by physical delivery, compile and publish fundamental market information reports, develop and maintain surveillance and regulatory systems and administer various dispute resolution forums.

5.1.3 Market Regulation strives to make compliance with the CMEG Exchange Rules as straightforward as possible. For example, Market Regulation has invested considerably to ensure that the overwhelming majority of the rules of each CMEG Exchange have been harmonized³ so they are consistent with one another. Additionally, Market Regulation personnel make themselves available to field questions about the CMEG Exchange Rules. On a given day, Market Regulation handles numerous calls and emails concerning activity in CMEG markets, or requests for guidance on the application of the CMEG Exchange Rules. Market Regulation also maintains a regular presence on its trading floors to provide assistance to those individuals and firms that access CMEG markets through trades occurring via open outcry in exchange trading pits. This presence gives Market Regulation the ability to personally observe, detect and deter rule violations in this trading venue.

5.1.4 Investigating and enforcing rule violations are necessary components of the regulatory safeguards that Market Regulation provides. When Market Regulation determines or suspects that there has been activity in CMEG markets that appears to violate the CMEG Exchange Rules, Market Regulation’s large team of experienced and skilled investigators and analysts work to ensure that the matter is thoroughly investigated. The investigative process includes the analysis of trade data, account statements and other trade related documents, frequently accompanied by a review of trade reconstructions, relevant audio recordings, trading floor video footage and subject and witness interviews. If, after a thorough investigation, Market Regulation has reason to believe that a CMEG Exchange Rule has been violated, the matter is prosecuted by attorneys in Market Regulation’s Enforcement group pursuant to CMEG Exchange disciplinary processes and procedures. Additionally, Market Regulation has been granted the authority to summarily remove individuals from the trading floor or restrict access to any CMEG Exchange trading or clearing platform where it determines that such immediate action is necessary to protect the best interests of the CMEG Exchanges. Section 7.1 of this application provides a discussion regarding the processes for bringing an investigation through the disciplinary process.

5.1.5 Market Regulation is dedicated to safeguarding the integrity of CMEG markets, and ensuring that they are free from manipulation and other abusive practices. These efforts are a necessary component of efficiently working markets, and so it is committed to ensuring that market participants are able to use CMEG markets with the knowledge that they remain open and transparent.

5.1.6 Market participants are required to comply with a significant number of rules governing trading on the CMEG Exchanges pursuant to the CMEG Exchange Rules. The applicable CMEG Exchange Rules are primarily located in Chapter 5 (Trading Qualifications and Practices) of the CMEG Exchange Rulebooks, with other rules being located in Chapters 4 (Enforcement of Rules), 7 (Delivery Facilities and Procedures) 8 (Clearing House and Performance Bonds) and 9 (Clearing Members). While an exhaustive list of the CMEG Exchange Rules would number more than 50 pages, some of the most significant rules governing trading in CMEG Exchanges include:

- Rule 402 – Business Conduct Committee;

³ For significant remaining differences in the CMEG Exchange Rules, see the chart at http://www.cmegroup.com/market-regulation/files/Rule_Differences.pdf.

- Rule 405 – Floor Conduct Committee;
- Rule 406 – Probable Cause Committee;
- Rule 407 – Investigation, Assignment for Hearing and Notice of Charges;
- Rule 408 – Conduct of Hearings;
- Rule 413 – Summary Access Denial Actions;
- Rule 432 – General Offenses;
- Rule 433 – Strict Liability for Acts of Agents;
- Rule 442 – Notification of Significant Events;
- Rule 444 – Sanctions and Restitution Orders;
- Rule 521 – Requirements for Open Outcry Trades;
- Rule 526 – Block Trades;
- Rule 529 – Withholding Orders Prohibited;
- Rule 530 – Priority of Customers’ Orders;
- Rule 531 – Trading Against Customers’ Orders Prohibited;
- Rule 532 – Disclosing Orders Prohibited;
- Rule 534 – Wash Trades Prohibited;
- Rule 538 – Exchange for Related Positions;
- Rule 559 – Position Limits and Exemptions;
- Rule 560 – Position Accountability;
- Rule 561 – Reports of Large Positions;
- Rule 853 – Transfers of Trades and Customer Accounts;
- Rule 903 – Responsibility for Qualified Members;
- Rule 949 – Credit Controls;
- Rule 950 – Supervision.

5.1.7 Market Regulation has a staff of approximately 150 individuals that cover a broad array of varied surveillance and enforcement responsibilities. The Department is organized into the following functional groups:

- Investigations;
- Market Surveillance and Office of the Registrar;
- Enforcement;
- Data Quality Assurance;
- Rules & Regulatory Outreach;

- Employee Learning Initiatives;
 - Regulatory Systems and Technology.
- 5.1.8 Market Regulation investigators regularly review pre-programmed and ad hoc reports to identify specific patterns of trading behavior. Such reports identify potential rule violations including money pass, wash trading, front-running, position limit violations, improper cross-trading, settlement issues, aberrant block trades, and trade correction issues. Further, the markets are manually reviewed by research and market surveillance analysts who search individual products or product groups for unusual or manipulative trading patterns.
- 5.1.9 Outside of investigating potential rule violations, Market Regulation routinely conducts audit trail reviews of documentation used to submit trades to CMEG markets. Trading cards and order tickets are randomly sampled to determine whether members and member firms are complying with audit trail requirements. Market Regulation staff members also review use of Customer Type Indicator codes and “Tag 50” user IDs to ensure that they are used in compliance with CMEG Exchange Rules. Further, Market Regulation staff monitors expiration positions in physically delivered products to ensure that deliveries are problem-free. Particular attention is paid to pre-delivery market composition to make sure that all parties potentially standing for delivery are appropriate and capable of fulfilling delivery obligations.
- 5.1.10 Video monitoring of the trading floors and audio taping of phone lines from the trading floor also assist Market Regulation’s investigative efforts. These recordings are routinely accessed for investigative purposes. When conducting an investigation, Market Regulation staff may request and access all trading records maintained pursuant exchange rules, including account documentation and statements, instant messages and emails pertaining to customer order information, as well as order tickets and trading records. Market Regulation staff has the authority to compel members and employees of members to participate in investigative interviews.
- 5.1.11 In addition to the human resources in Market Regulation, additional areas support various facets of the CMEG Exchanges’ regulatory functions, including Clearing Risk Management, Regulatory Information Technology, the CME Global Command Center (“GCC”) and the Legal Department.
- 5.1.12 Specifically with reference to regulatory technology, the CMEG Exchanges make significant investments in this area, including staff dedicated solely to the support and continuous development of their regulatory technology infrastructure, ensuring that the CMEG Exchanges’ regulatory and market protection capabilities anticipate and evolve with the changing dynamics of the marketplace. CMEG subsidiaries own or have applied for numerous patents related to their regulatory technology and other tools designed to help protect against disruptions in CMEG markets. The CMEG Exchanges have developed an exceptionally granular audit trail of market activity and powerful and flexible data query and analytical tools that allow its regulatory staff to examine real-time and historical order, transaction and position data, maintain profiles of markets and market participants, and to detect trading patterns potentially indicative of market abuses.

6. Rulemaking

6.1 Purpose of Rules

(a) The exchange has rules, policies and other similar instruments (Rules) that are designed to appropriately govern the operations and activities of participants.

6.1.1 Pursuant to their obligations under the CEA and more specifically 7 U.S.C 2, 5, 6, 6c, 7, 7a-2, 12a and Part 38 of the CFTC Regulations, the CMEG Exchanges have implemented rules, policies and other similar instruments that govern the operations and activities of their participants. The CMEG Exchange Rules are covered in Chapters 1 through 7 of their respective CMEG Exchange Rulebooks which include: Chapter 1 (Membership), Chapter 2 (Government), Chapter 3 (Exchange Committees), Chapter 4 (Enforcement of Rules), Chapter 5 (Trading Qualifications and Practices), Chapter 6 (Arbitration) and Chapter 7 (Delivery Facilities and Practices). In addition, CME has rules governing its clearing activities which are contained in Chapters 8 (Clearing House and Performance Bonds) and 9 (Clearing Members).

(b) The Rules are not contrary to the public interest and are designed to

- (i) ensure compliance with applicable legislation,**
- (ii) prevent fraudulent and manipulative acts and practices,**
- (iii) promote just and equitable principles of trade,**

- (iv) foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in the products traded on the exchange,
- (v) provide a framework for disciplinary and enforcement actions, and
- (vi) ensure a fair and orderly market.

- 6.1.2 The CMEG Exchanges are not subject to securities legislation in the U.S. due to the fact that they offer platforms for trading commodity futures and options on commodity futures. However, the CMEG Exchanges are obligated to comply with the CEA, the DCM Core Principles and the CFTC Regulations (collectively, the “**U.S. Futures Regulations**”). The U.S. Futures Regulations require compliance on behalf of the CMEG Exchanges and that the CMEG Exchanges implement rules that require compliance with the U.S. Futures Regulations by their participants.
- 6.1.3 In relation to the prevention of fraudulent and manipulative acts and practices, Rule 534 – Wash Trades Prohibited states that:
- “[n]o person shall place or accept buy and sell orders in the same product and expiration month, and for a put or call option, the same strike price, where the person knows or reasonably should know that the purpose of the orders is to avoid taking a bona fide market position exposed to market risk (transactions commonly known or referred to as wash sales). Buy and sell orders for different accounts with common beneficial ownership that are entered with the intent to negate market risk or price competition shall also be deemed to violate the prohibition on wash trades. Additionally, no person shall knowingly execute or accommodate the execution of such orders by direct or indirect means.”
- 6.1.4 In addition, Rule 432 – General Offences prevents market participants from taking fraudulent and manipulative actions including, but not limited to: operating a bucket shop, engaging in fraud or bad faith, engaging in dishonest conduct, creating or reporting false or fictitious trades, effecting money passes, attempting price manipulation and to engage in dishonorable or uncommercial conduct. Thus, the CMEG Exchange Rules are clearly designed to prevent fraudulent and manipulative acts and practices.
- 6.1.5 The CMEG Exchange Rules promote just and equitable principles of trade. More specifically, please see the responses to question 5.1(b)(ii) above, especially Rule 432 – General Offences which prevents market participants from engaging “in conduct or proceedings inconsistent with just and equitable principles of trade”.
- 6.1.6 Rule 415 – Cooperation with Other Exchanges and Clearing Organizations authorizes the CMEG Exchanges to “provide information to an exchange or clearing organization that is party to an information sharing agreement with the [CMEG] Exchange[s], in accordance with the terms and conditions of such agreement.” Further, Rule 414 – Investigations by Other Self-Regulatory Organizations gives the CMEG Exchanges the power to “direct a [CMEG Exchange] Member to submit to an examination by the requesting self-regulatory organization and to produce information pertinent to that investigation”. Please note that the CMEG Exchanges are not securities exchanges and thus facilitating transactions in securities is not relevant to the activities of the CMEG Exchanges.
- 6.1.7 Chapter 4 (Enforcement of the Rules) of the CMEG Exchange Rules provides a framework for the CMEG Exchanges to take disciplinary and enforcement actions. For more information on the CMEG Exchanges’ powers in this regard please refer to Sections 5 – Regulation of Participants on the Exchange and 7 – Due Process in Part III of this application. These sections provide a detailed overview of the CMEG Exchanges’ surveillance, investigation and disciplinary powers.
- 6.1.8 Chapters 4 (Enforcement of Rules) and 5 (Trading Qualifications and Practices) of the CMEG Exchange Rules are designed to ensure that all trading on the CMEG Exchanges is conducted in a fair and orderly fashion. Among others, Rule 432 – General Offences, Rule 529 – Withholding Orders Prohibited, Rule 530 – Priority of Customer Orders, Rule 534 – Wash Trades Prohibited and the CME Globex Messaging Policy (“**Globex Messaging Policy**”) are designed to promote fair and orderly markets. Rules 432 – General Offences, 529 – Withholding Orders Prohibited, 530 – Priority of Customer’s Orders and 534 – Wash Trades Prohibited are referred to in more detail above in this Section 6 and in Section 5 – Regulation of Participants on the Exchange of this application. The Globex Messaging Policy is designed to support efficient market operations and foster high quality, liquid markets by encouraging responsible and reasonable messaging practices by market participants. The text of the Globex Messaging Policy is provided below:

CME Globex Messaging Policy

Introduction

The Globex Messaging Policy is designed to support efficient market operations and foster high quality, liquid markets by encouraging responsible and reasonable messaging practices by market participants. Generally, the Globex Messaging Policy will be administered at a CMEG clearing firm (“**Clearing Firm**”)

level but, GCC may, in its reasonable discretion, decide to apply the Globex Messaging Policy at a more granular level (i.e., executing firms).

Application and Explanation of Globex Messaging Policy

The Globex Messaging Policy will apply to Clearing Firms during regular trading hours from 7:00 AM to 3:15 PM Central Time for equity product groups and 7:00 AM to 4:00 PM Central Time for all other product groups (“**Regular Trading Hours**” or “**RTH**”) and will consider the ratio of the number of messages submitted by each of the Clearing Firms to the Clearing Firms’ traded volume in a particular product group (“**Volume Ratio**”) on a daily basis during RTH. The Volume Ratio will then be compared to the ratio of the total number of messages in a product group to the volume of executed contracts in that product group during RTH (“**Product Group Benchmark**”) which is recalculated on a quarterly basis. When making the Product Group Benchmark calculation, GCC may also add a product group specific variation factor to accommodate the unique dynamics of each individual market and to support enhanced liquidity. Product Group Benchmarks are included in the CMEG Messaging Efficiency Program Benchmarks document (“**Messaging Efficiency Document**”) which is posted on the CMEG website.

General Exceptions

GCC may except certain market participants from the Volume Ratio standards due to, among other things, low daily messaging volume, extreme market conditions, monthly Volume Ratios below the applicable Product Group Benchmark and market maker or liquidity provider status. The types of exceptions available are included in the Messaging Efficiency Document on the CMEG website.

Reports and Technology Surcharges

Reports on messaging activity and trading volume will generally be provided by GCC on a T+1 (trade date + plus one business day) basis. Clearing Firms with daily Volume Ratios during RTH in excess of the Product Group Benchmarks may be subject to reasonable, daily technology surcharges at a product group level.

GCC has established a process whereby Clearing Firms may request reconsideration of the surcharges. During the reconsideration period, GCC staff will review the cause of the violation and may waive surcharges for any of the following reasons:

- i) The Clearing Firm has exceeded the benchmark by a minimal amount and is actively working with the GCC to fine tune its messaging;
- ii) The messaging that resulted in exceeding the benchmark occurred in less liquid back months where we encourage activity to promote liquidity;
- iii) The Volume Ratios are exceeded by customers who are working with the GCC actively making modifications to technology to accommodate specific characteristics of each product;
- iv) The Volume Ratios are exceeded from message counts that are not significantly higher than the 20,000 message threshold;
- v) Customers are actively working with GCC staff on ways to become more efficient and have taken appropriate corrective actions.

The foregoing reasons to grant a surcharge waiver are applied in a consistent manner across all Clearing Firm firms.

- 6.1.9 The CMEG Exchange Rules are subject to the standards and requirements outlined by the DCM Core Principles. At a high level, the DCM Core Principles and CMEG Exchange Rules both seek to ensure fair and orderly markets accessible to all eligible participants. This aim is accomplished by establishing rules that reflect the DCM Core Principle criteria discussed below:

(a) The Rules are not contrary to the public interest and are designed to

- (i) **ensure compliance with applicable legislation.** DCM Core Principle 1 – *Designation as a Contract Market* requires a board of trade to comply with all applicable CFTC requirements and CEA core principles to be designated a DCM and maintain such designation. The CMEG Exchanges proactively ensure compliance with all applicable laws and regulations, evidenced in part by their continuous dialogue with the CFTC in day-to-day operations and public commenting on proposed

regulations. Core Principle 2 requires DCMs to ensure market participants consent to DCM rules and jurisdiction prior to accessing its markets. Chapter 1 of the CMEG Exchange Rulebooks governs membership requirements and establishes compliance with CMEG Exchange Rules that brings market participants within the jurisdiction of the CFTC and the scope of the DCM Core Principles.

- (ii) **prevent fraudulent and manipulative acts and practices.** Core Principle 2 requires a DCM to collect information, examine members' records, direct supervision of the market, maintain sufficient compliance staff, establish procedures for and conduct audit trail reviews, perform real-time market monitoring and market surveillance and establish an automated trade surveillance system. The CMEG Exchanges have instituted all these controls. The GCC conducts real-time market monitoring; the Market Regulation department conducts market surveillance and automated trade surveillance; the Legal department interprets and advises on the impact of CFTC Regulations; and the IAD considers the CEA and regulations when auditing and reporting upon the regulatory functionality of the GCC and Market Regulation department. Core Principle 3 requires a DCM to ensure the contracts it lists are not readily susceptible to manipulation. The CMEG Exchanges comply with this Core Principle by including narrative descriptions of the product terms and conditions of every contract submitted to the CFTC for approval. These contracts' terms and conditions are supported by commercial research and incorporate publicly available data to ensure common commercial standards and practices are utilized. Core Principle 10 requires a DCM to establish and maintain an audit trail program to prevent customer and market abuses. Core Principle 12 requires a DCM to protect markets and market participants from abusive practices committed by any party. The combined regulatory oversight of Market Regulation and the GCC is designed to prevent market abuse in compliance with Core Principle 12.
- (iii) **promote just and equitable principles of trade.** Core Principle 8 requires a DCM to promote transparency by making daily public disclosures of trading information. The CMEG Exchanges conform to this Core Principle by publishing on the CMEG website daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts. Core Principle 9 requires a DCM to provide a competitive, open, and efficient market that fosters price discovery. The CMEG Exchanges list only contracts not susceptible to manipulation, engage in real-time monitoring of the market, and establish price bands and price limits for contracts to mitigate unnecessary price volatility and encourage accurate valuation. Core Principle 11 requires a DCM to ensure the financial integrity of transactions entered into on its markets. The CMEG Exchanges clear every derivatives trade through CME's clearing house, which acts as the central counterparty for all trades and institutes stringent capital, margin, and guaranty fund controls to ensure the financial integrity of on-exchange transactions. Core Principle 12 requires a DCM to promote fair and equitable trading on the contract market. The CMEG Exchanges' data and order entry feed systems offer simultaneous and equivalent access to all market participants. Core Principle 19 prohibits the imposition of unreasonable restraints or uncompetitive burdens on trade. Throughout their rulebooks and procedures, the CMEG Exchanges have established transparent and objective standards to prevent unreasonable restraints on trade and foster competitive and open market participation.
- (iv) **foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in the products traded on the exchange.** DCM Core Principle 14 – *Dispute Resolution* requires a DCM to establish and provide facilities for alternative dispute resolution as appropriate for market participants. The CMEG Exchanges outline alternative dispute resolution (“ADR”) qualifications and procedures in Chapter 6 of their respective CMEG Exchange Rulebooks. The ADR process allows market participants to expedite resolution of disputes against members and certain non-member employees, claims against the CMEG Exchange, or customer claims against CMEG Exchange Members. DCM Core Principle 17 – *Composition of Governing Boards of Contract Markets* requires DCM governance structures to be designed to permit consideration of the views of market participants. The Board of Directors and Board-level committees are composed of a diverse group of individuals, including market participants and former market participants. Rule 300 – Committees of the CMEG Exchange Rulebooks enables the Chairmen of non-Board level committees to appoint member firms and eligible non-members to their committees. Some committees, such as the Clearing House Risk Committee (“CHRC”) of CME Clearing, mandate appointing a minimum number of market participants. These outside committee members are chosen for their expertise and perspective on the market.
- (v) **promote a framework for disciplinary and enforcement actions.** DCM Core Principle 13 – *Disciplinary Procedures* requires a DCM to establish uniformly applicable disciplinary procedures for violations of the contract market's rules. Chapter 4 (Enforcement of Rules) of the CMEG Exchange Rulebooks establishes in substantial detail the CMEG Exchanges' uniformly applicable disciplinary procedures for rule violations. Core Principle 18 requires a DCM to maintain trading, investigatory, and disciplinary records for a minimum of five years. The CMEG Exchanges maintain electronic or physical copies of all covered materials for the prescribed 5-year timeframe, and often beyond.

- (vi) **ensure a fair and orderly market.** Core Principle 4 requires a DCM to prevent manipulation and price distortion. The CMEG Exchanges comply with this Core Principle by collecting and evaluating both high-level and granular market activity data, by maintaining and auditing its real-time monitoring program, and by auditing historical data to detect trading abuses. Core Principle 7 requires a DCM to make available to the public accurate information concerning contract terms and conditions, exchange rules, and operation of the contract market's trade execution and trade matching facilities. The CMEG Exchanges maintain up-to-date public-facing information regarding its rules, operations, and contract terms and conditions on its website. Core Principle 8 requires daily public disclosures of trade information, all of which are published to the CMEG website daily. DCM Core Principle 20 – *System Safeguards* ("**Core Principle 20**") requires a DCM to establish and maintain risk analysis, emergency procedure, and periodic systems testing programs. The IAD periodically reviews each CMEG Exchange's programs and procedures, including risk analysis, emergency planning, and systems testing. The IAD is the primary overseer for the CMEG Exchanges' risk management process and the auditor for the periodic systems tests conducted within the various CMEG Exchange divisions. The IAD regularly audits systems and technology tests both for technical and regulatory compliance. The IAD also has audit oversight over emergency procedure and business continuity planning conducted by the CMEG Exchanges.

7. Due Process

7.1 Due Process – For any decision made by the exchange that affects a participant, or an applicant to be a participant, including a decision in relation to access, exemptions, or discipline, the exchange ensures that:

- (a) parties are given an opportunity to be heard or make representations, and**
- (b) it keeps a record of, gives reasons for, and provides for appeals or reviews of its decisions.**

7.1.1 Market Regulation investigates potential or alleged CMEG Exchange Rulebook violations and is authorized to take recorded interviews pursuant to a CMEG Exchange investigation. Parties and witnesses being interviewed shall have the right to representation, at their own cost, by legal counsel or anyone other than a member of any CMEG Exchange disciplinary committee, a member of the Board of Directors, an employee of a CMEG subsidiary or a person related to the investigation. The subject under investigation shall have the right to be present in person or by authorized representative at the oral deposition, with the right of cross-examination. Oral depositions taken in accordance with the CMEG Exchange Rules shall be admissible in evidence at any hearing of the Board of Directors or a committee, reserving to the member under investigation the right to object at the hearing to the relevancy or materiality of the testimony contained therein.

7.1.2 If Market Regulation has reasonable cause to believe that a violation of CMEG Exchange Rules has occurred that could result in disciplinary action, it will draft a report of its findings and refer the matter to the Enforcement group for prosecution. If the Enforcement group determines that a subject has violated CMEG Exchange Rules, the Enforcement group will send the subject ("**Respondent**") a Notice of Enforcement that notifies the Respondent that a disciplinary matter has been referred for prosecution and sets forth the disciplinary process as outlined in CMEG Exchange Rulebook Chapter 4 (Enforcement of Rules).

7.1.3 Once the Respondent has been given notice of the disciplinary matter, the Respondent may either settle the case with Enforcement or contest the alleged violations. If the Respondent contests the alleged violations, Enforcement will seek the issuance of charges against the Respondent by presenting Market Regulation's investigative results to a Probable Cause Committee ("**PCC**") Panel.

PCC – Issuance of Charges

7.1.4 The PCC Panel is comprised of a Hearing Panel Chair, two CMEG Exchange Members or employees of member firms and two non-members. At least one of the CMEG Exchange Members or employees of member firms must be from the contract market where the case originated. The PCC Panel has jurisdiction over all Members and also has the authority to issue charges against non-Members. Rule 400 defines a Member for purposes of jurisdiction. Former Members shall be subject to the continuing jurisdiction of the CMEG Exchange, including, without limitation, the application of Rule 432.L. with respect to any conduct that occurred while a Member.

7.1.5 As set forth in Rule 406, the PCC Panel's primary responsibility is to receive and review investigation reports prepared by Market Regulation and determine whether to issue charges or take some other prescribed action with respect to the Respondent. Market Regulation must present sufficient evidence to support a reasonable basis for issuing the charges requested. Respondents do not have the right to appear before the PCC or make a written submission on their behalf. However, the PCC has the power to compel any Member to appear before it and to produce all books and records relevant to the subject matter under investigation.

- 7.1.6 If the PCC Panel determines that a reasonable basis exists for finding that a violation(s) of CMEG Exchange Rules may have occurred, it may issue some or all of the charges recommended by Market Regulation. In addition, the PCC Panel may include additional charges that it deems appropriate. If the PCC Panel determines that Market Regulation has failed to show that there is a reasonable basis for issuing charges, it may direct that no further action be taken or that a warning letter be issued in lieu of charges.

Summary Access Denial Actions

- 7.1.7 Rule 413 – Summary Access Denial Actions (“**Rule 413**”) enables the Chief Regulatory Officer (“**CRO**”) or his delegate to take summary action where there is a good faith determination that the action is necessary to protect the best interests of the CMEG Exchange. Rule 413 allows the CRO to deny a party access to any or all CMEG markets, trading and clearing platforms and the trading floors. These actions are taken if the CRO determines that there is a threat to the orderly functioning of CMEG’s markets or where CMEG has information that a person is conducting business in violation of the CMEG Exchange Rules or applicable federal rules. The party against whom the action is directed is entitled to notice of the action, the reasons for the action, the effective date, and the duration of the action. Such actions are limited to sixty days, unless the CRO determines further denial is appropriate and provides written notice to the party of continued denial of access not to exceed an additional sixty days. Rule 413.D – Duration of Access Denial enables CMEG Exchange Members who are denied access to request a hearing at any time before a panel of the Business Conduct Committee (“**BCC**”).

BCC – Contested Hearings

- 7.1.8 If a PCC Panel decides to issue charges, Market Regulation sends a Notice of Charges and a Charging Memorandum to the Respondent. Pursuant to Rule 407.B., the Charging Memorandum must be detailed and state the alleged rule violations and factual misconduct that forms the basis of the alleged violations. The Notice of Charges informs the Respondent of his rights and responsibilities with respect to the issuance of charges and the referral of the Charges to a BCC Panel. The BCC Panel is composed of a Hearing Panel Chair, two CMEG Exchange Members or employees of member firms and two non-members. At least one of the CMEG Exchange Members or employees of member firms must be from the contract market where the case originated.
- 7.1.9 The Respondent’s rights include, but are not limited to: 1) the right to submit a written answer to the charges within twenty-one days of the date of the Notice of Charges; 2) the right to a hearing before the BCC on each charge which the Respondent denies, and due notice of the date, time, and place of the hearing; and 3) the right to examine all evidence in Market Regulation’s investigation file relevant to the issued charges, with the exception of protected attorney work product, attorney-client communications or investigative work product, including, but not limited to, the investigation report. The Respondent also has the right to be represented by counsel or any other party other than a member of any exchange disciplinary committee, a member of the Board of Directors, an employee of a CMEG subsidiary or a person related to the investigation at all stages of the proceeding.
- 7.1.10 Pursuant to Rule 402.A., the BCC has jurisdiction over Members and the authority to deny market access to non-Members (e.g., Rule 402.D.). All information, records, materials and documents provided to the BCC Panel and all deliberations, testimony, information, records, materials and documents related thereto must be treated as non-public and confidential and must not be disclosed, except as necessary to further a CMEG Exchange investigation or as required by law.
- 7.1.11 Prior to the hearing, the Respondent is entitled to review all evidence in Market Regulation’s possession that is relevant to the charges. The Respondent is required to provide Market Regulation with all documents and materials that it plans to rely on at the hearing and a witness list fourteen days prior to the hearing. The parties’ obligations to make their documentary evidence available to each other do not include documents or materials that are intended to be used solely for impeachment purposes.
- 7.1.12 Market Regulation must prove each count and each element of its case, by presenting evidence in support of the charged Rule violation(s) through live testimony, documentary evidence or other forms of acceptable evidence. Market Regulation bears the burden of establishing the basis for a finding of guilt on any charge by a preponderance of the evidence. The Respondent(s) can appear personally, testify, produce evidence, call witnesses and cross-examine any Market Regulation witnesses. Formal rules of evidence do not apply. The hearing will be recorded or transcribed by a court reporter. If the Respondent requests a copy of the recording or transcript, it shall be provided at his own expense.
- 7.1.13 Once Enforcement and the Respondent have presented their evidence and the BCC Panel has had an opportunity to ask questions, the BCC Panel will deliberate to make findings and conclusions with respect to each charge, including the specific rules which the Respondent may have violated. Neither Market Regulation nor the Respondent is permitted to be present for the deliberations. The BCC Panel must determine whether Market Regulation established that the Respondent committed all or some of the alleged rule violations by a preponderance of the evidence. A majority vote of the Panel is required for a finding of guilt.

- 7.1.14 If a Respondent is found guilty of a rule violation, the sanctioning phase of the hearing is held immediately following the liability phase unless the Chair finds that there are exceptional circumstances that warrant adjournment for another day. During the sanctioning phase of the BCC hearing, Market Regulation and the Respondent will have an opportunity to present arguments and information with respect to the appropriate penalty. The Panel will then deliberate and impose sanctions.
- 7.1.15 Promptly following a hearing, the Respondent shall be issued a written decision of the Panel's findings, which includes: the notice of charges (or a summary thereof); the answer to the charges, if any (or a summary thereof); a brief summary of the evidence produced at the hearing; a statement of findings and reasoned conclusions with respect to each charge, including the specific Rules which the respondent is found to have violated; a declaration of any penalty imposed and the effective date of such penalty; and the availability, if any, of an appeal of the decision within the CMEG Exchange or to the CFTC. The decision shall become final on the date that it is signed by the Chair. The BCC's decision becomes the final decision of the CMEG Exchange after the appeal period has lapsed.
- 7.1.16 Within ten days after the notice of disciplinary action has been delivered to the Respondent, the Respondent may petition the CFTC to stay the disciplinary action pending consideration by the CFTC of the Notice of Appeal and if granted, the appeal underlying the Notice of Appeal (See 17 CFR §9.24 – Petition for stay pending review). The petition for stay must accompany the Notice of Appeal.

BCC – Supported and Unsupported Settlements

- 7.1.17 The BCC may consider two types of settlements – supported and unsupported settlements. In either case, the Respondent is required to submit a written offer of settlement. Although the Respondent may submit an offer of settlement without admitting or denying the facts, the offer must include a consent to the entry of findings by the BCC Panel regarding the conduct and rule violations and to the penalty to be imposed. If Market Regulation supports the offer of settlement, Market Regulation will submit a Memorandum in Support of the Respondent's written settlement offer.
- 7.1.18 If a Panel accepts an offer of settlement, a written decision setting forth the Panel's findings shall be issued and written notice of the decision will be given to the Respondent. The BCC's decision becomes final on the date that it is signed by the BCC's Chair. A Notice of Disciplinary Action is also published on the NFA website. If the approved offer of settlement involves payment of a fine, the Respondent is required to remit payment of that fine within ten business days of the offer being accepted and becoming final.
- 7.1.19 If Market Regulation opposes the Respondent's offer of settlement, the Respondent may submit a written unsupported offer of settlement for consideration by the BCC Panel no less than twenty-eight days in advance of the originally scheduled contested hearing date. Market Regulation may file an opposition to the unsupported offer of settlement within ten days of receiving the unsupported offer. In considering whether to accept the Respondent's offer, the BCC Panel shall consider both the unsupported offer and Market Regulation's opposition to the offer. If a Panel accepts the Respondent's unsupported offer of settlement, the BCC's decision shall be final after the appeal period has lapsed. If the Respondent's unsupported offer of settlement involves payment of a fine, the Respondent must pay that fine within ten business days of the decision becoming final.
- 7.1.20 If the BCC Panel rejects an offer of settlement, whether supported or unsupported, the Respondent is notified of the rejection and it is deemed withdrawn. If an offer is withdrawn prior to the Settlement hearing or rejected by the Panel, the Respondent shall not be deemed to have made any admissions by reason of the offer and shall not otherwise be prejudiced by having submitted the offer. Any contested hearing following an offer of settlement not accepted by the Panel is heard by a new BCC Panel.
- 7.1.21 In submitting an offer of settlement, the Respondent waives his right to a contested hearing and to appeal the Panel's decision if the offer is accepted. The Respondent also waives any claim of bias or prejudgment on the part of the Panel.

Appeals

- 7.1.22 Pursuant to Rule 411, a Respondent found guilty of an offense and assessed a fine greater than US\$10,000 or imposed a suspension or access denial greater than five business days may request an appeal to an Appellate Panel by filing such a request with the CMEG Exchange Legal Department within ten days after receiving notice of such decision. The filing of this request shall stay the decision appealed unless Market Regulation objects to such stay and the Chairman of the Board of Directors or BCC Hearing Panel Chair from which the appeal is taken specifically directs that the decision is not stayed pending appeal.
- 7.1.23 No member of the Board of Directors may serve on a particular Appellate Panel if he participated on the PCC Panel that issued, or considered issuing, the charges, or on the BCC Panel that issued the decision, or if he has a personal, financial, or other direct interest in the matter under consideration or is a member of the same broker association as the Respondent. The Chairman of the Board of Directors shall appoint a director to serve as the Appellate Panel chairman,

who shall conduct the hearing, and two additional directors to serve on the Appellate Panel. One of these directors shall be a non-member. Any party to the appeal may request the Chairman of the Board of Directors to strike any director for good cause shown. The Chairman of the Board of Directors may then excuse such director and shall then select an alternate director from the Board of Directors. An Appellate Panel shall consist of directors that possess sufficiently diverse interests so as to ensure fairness.

- 7.1.24 The Appellate Panel is required to make a determination as to whether sufficient grounds exist to hold a hearing on the appeal based only on the written Request. Rule 411 states that sufficient grounds exist if there is a reasonable basis to conclude that the appellant might be able to meet one of the three appellate standards that would permit the Appellate Panel to set aside, modify, or amend the appealed decision or refusal to issue charges. The Appellate Panel may set aside, modify, or amend a decision or refusal to issue charges that 1) was arbitrary, capricious, or an abuse of the committee's discretion; 2) was in excess of the committee's authority or jurisdiction; or 3) was based on a clearly erroneous application or interpretation of CMEG Exchange Rules.
- 7.1.25 If the Appellate Panel determines that the appellant has failed to prove that he might be able to meet one of these standards, it will decline to convene an appellate hearing and affirm the decision of the original committee. If, however, the Appellate Panel determines that the appellant might be able to meet one of these standards, then the Appellate Panel will allow the parties to file written briefs in further support of their arguments. The timeframe in which the written briefs must be filed is set by the Legal Department.
- 7.1.26 The parties are limited to the facts in the record. The Appellate Panel will not hear new evidence or new legal theories that were not presented to the PCC or BCC unless the appellant can make a clear showing that the evidence or theories were not available to him at the time.
- 7.1.27 Pursuant to 17 CFR §9.20 – Notice of Appeal, a Respondent in a disciplinary case may appeal to the CFTC. This provision provides that a Respondent may file an appeal within thirty days after receiving notice of the disciplinary action against him.

8. Clearing and Settlement

8.1 Clearing Arrangements – The exchange has appropriate arrangements for the clearing and settlement of transactions through a clearing house.

- 8.1.1 CME is a wholly-owned subsidiary of CMEG, and serves as the central counterparty for all trades executed on the CMEG Exchanges and all OTC trades submitted for clearing. CME provides clearing services to NYMEX and CBOT pursuant to the terms of intercompany agreements between CME and NYMEX, and CME and CBOT, respectively.
- 8.1.2 CMEG's integrated clearing function is designed to ensure the safety and soundness of its markets. CME's clearing services protect the financial integrity of CMEG's markets by serving as the counterparty to every trade, becoming the buyer to each seller and the seller to each buyer, and limiting credit risk. CME is responsible for settling trading accounts, clearing trades, collecting and maintaining performance bond funds, regulating delivery and reporting trading data. CME marks open positions to market at least twice a day, and requires payment from clearing firms whose positions have lost value and makes payments to clearing firms whose positions have gained value. For select product offerings with newer markets, positions are marked-to-market daily, with the capacity to mark-to-market more frequently as market conditions warrant. CME also offers clearing services for the global OTC market.

8.2 Regulation of the Clearing House – The clearing house is subject to acceptable regulation.

- 8.2.1 CME is registered with the CFTC as a DCO pursuant to the CFTC's authority under the CEA and more specifically, 7 U.S.C. 7a. CME is subject to regulatory supervision by the CFTC and is obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces a DCO's adherence to the CEA and the regulations thereunder on an ongoing basis, including but not limited to, the DCO Core Principles relating to compliance with the core principles, financial resources, participant and product eligibility, risk management, settlement procedures, treatment of funds, default rules and procedures, rule enforcement and system safeguards.
- 8.2.2 The DCO Core Principles set out the high level framework that all registered DCOs must comply with, and includes:
- Core Principle A – Compliance;
 - Core Principle B – Financial Resources;
 - Core Principle C – Participant and Product Eligibility;
 - Core Principle D – Risk Management;

- Core Principle E – Settlement Procedures;
- Core Principle F – Treatment of Funds;
- Core Principle G – Default Rules and Procedures;
- Core Principle H – Rule Enforcement;
- Core Principle I – System Safeguards;
- Core Principle J – Reporting;
- Core Principle K – Recordkeeping;
- Core Principle L – Public Information;
- Core Principle M – Information Sharing;
- Core Principle N – Antitrust Considerations;
- Core Principle O – Governance Standards;
- Core Principle P – Conflicts of Interest;
- Core Principle Q – Composition of Governing Boards; and
- Core Principle R – Legal Risk Considerations.

8.2.3 In addition to the regulatory framework provided by the DCO Core Principles, CFTC Part 39 – Derivatives Clearing Organizations was recently supplemented to provide more detailed guidance on the steps that DCOs must take in order to comply with the DCO Core Principles. For example, in order to comply with the Core Principle B – Financial Resources, a DCO must have financial resources enabling it to meet its financial obligations notwithstanding the default of the clearing member to which it has the greatest financial exposure and to cover its operating costs for a period of at least one year, calculated on a rolling basis. In addition to Part 39, DCOs, like other CFTC registered entities, are subject to Part 40 of the CFTC Regulations which, in the case of DCOs, sets out the requirements for making changes to clearing house rules in CFTC Regulations 40.6 and 40.10 – *Special certification procedures for submission of rules by systemically important derivatives clearing organizations.*

8.3 Authority of Regulator – A foreign regulator has the appropriate authority and procedures for oversight of the clearing house. This includes regular, periodic regulatory examinations of the clearing house by the foreign regulator.

8.3.1 Pursuant to its authority as provided in the CEA, the CFTC has access to all information necessary to fulfill its duty as the primary regulator for CME. The CFTC’s Division of Clearing and Risk (“**DCR**”) conducts regular in depth reviews of CME ongoing compliance with the DCO Core Principles and applicable CFTC Regulations. In addition, CME has recently been notified that it will be designated as a “Systemically Important Derivatives Clearing Organization”, which will result in additional oversight of its operations by the Federal Reserve Board. DCR visits CME on a bi-weekly basis to review its margin models and is in the process of reviewing its compliance with seven DCO Core Principles including Financial Resources, Participant and Product Eligibility, Risk Management, Treatment of Funds, Settlement Procedures, Default Rules and Procedures and Recordkeeping.

8.4 Access to the Clearing House

- (a) The clearing house has established appropriate written standards for access to its services.**
- (b) The access standards for clearing members and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.**

8.4.1 CME clearing firms are subject to stringent capital, operational, and risk management standards as a condition of clearing membership. These clearing firm standards are augmented by CME’s risk management and financial surveillance techniques that are designed to:

- Estimate potential market exposures;

- Prevent the accumulation of losses;
- Ensure appropriate integrity and capability of clearing members;
- Ensure that sufficient resources are available to cover future obligations;
- Result in the prompt detection of financial and operational weaknesses;
- Allow for swift and appropriate action to rectify any financial problems and protect market participants.

8.4.2 The membership requirements of the CMEG Exchanges for becoming a CMEG Exchange Clearing Member are objective, publicly disclosed and permit fair and open access. Chapters 8 (OTC) and 9 (commodity futures and options) of the CMEG Exchanges and the CMEG Clearing Membership Handbook, set out the admission and eligibility standards that applicants for clearing membership must satisfy to become CMEG Exchange Clearing Members. Among other requirements, these standards require that the applicants to be a CMEG Exchange Clearing Member must:

- have all necessary licenses to become a CMEG Exchange Clearing Member;
- have all necessary memberships or made required membership deposit of:
 - if CME: 2 CME divisions, 2 IMM divisions, 2 IOM divisions and 1 GEM division;
 - if CBOT: 2 CBOT B-1/Full memberships;
 - if NYMEX: 2 NYMEX memberships;
 - if COMEX: 2 COMEX memberships;
 - if OTC: US\$5 million membership deposit if not already a CMEG Exchange Clearing Member;
- meet minimum capital requirements of the greatest of:
 - US\$5 million if clearing futures/options on futures;
 - US\$20 million if Guaranteeing Locals Trading ClearPort who are not otherwise Eligible Contract Participants;
 - US\$50 million if clearing OTC activity;
 - CFTC or SEC minimum regulatory capital requirements;
- have made a contribution to the Guaranty Fund of:
 - US\$500,000 if clearing futures/options; or
 - US\$2.5 million if clearing OTC (except credit default swaps (“CDS”) or interest rate swaps (“IRS”));
PLUS
 - US\$50 million for IRS clearing membership;
PLUS
 - US\$50 million for CDS clearing membership.
- satisfy the applicable CMEG Exchange(s) as to its fitness and propriety, financial, operational, technical, and risk management capacity and competence; and
- satisfy the applicable CMEG Exchange(s) that it has written anti-money laundering, risk management, disaster recovery, and business continuity policies.

- 8.4.3 All of the CMEG Exchange clearing membership requirements are designed to permit fair and open access while protecting the CMEG Exchanges, CME and its CMEG Exchange Clearing Members. A CMEG Exchange does not intend to deny an applicant membership in the CMEG Exchange if it satisfies all of the CMEG Exchange clearing membership requirements.

Membership Application Process

- 8.4.4 To apply for CMEG Exchange clearing membership, an applicant must complete a CMEG Exchange Clearing Member Application and Agreement for Membership and submit them with the required documentation to CME. CME's Financial and Regulatory Surveillance Department will initially review the submitted application and request additional information from the applicant, if necessary. After the Financial and Regulatory Surveillance Department determines that the application is complete, it will submit the application for review and consideration by the CHRC, the Interest Rate Swap Risk Committee or the Credit Default Swap Risk Committee, as applicable, which will make a determination for the applicable CMEG Exchange(s).
- 8.4.5 CMEG anticipates that the CME Risk Committee review will take place within eight weeks of receipt of the completed application. The CME Risk Committee will notify the applicant in writing of its decision.
- 8.4.6 CMEG maintains records of its CMEG Exchange Clearing Member application reviews and any resulting hearings or appeals. Complete records are maintained for each CMEG Exchange Clearing Member.
- 8.4.7 Any applicant whose request to become a CMEG Exchange Clearing Member is denied will be provided with an explanation and reasons for the decision. However, an applicant whose application is denied may appeal to the Board of Directors only on the basis that the CME Risk Committee's determination was arbitrary, capricious, or an abuse of its discretion.
- 8.5 Sophistication of Technology of Clearing House – The exchange has assured itself that the information technology used by the clearing house has been adequately reviewed and tested and provides at least the same level of safeguards as required of the exchange.**
- 8.5.1 The CMEG Exchanges assure themselves that CME has in place appropriate policies and procedures in part through a combination of internally conducted audits of clearing and technology functionality and independent third-party reviews of CME's systems. Service Organization Control 1 (“**SOC 1**”) reports examine controls related to CME Globex, CME ClearPort and CME Direct Services. Service Organization Control 2 (“**SOC 2**”) reports examine controls related to security availability, processing integrity, confidentiality and privacy. The SOC 1 and SOC 2 reports are generated annually. Results from these audits and others conducted by the IAD related to clearing functions are reported to the Audit Committee and used to facilitate operational and technological planning. In addition, external assurances exist in the form of CFTC oversight and requirements for technological safeguards. The requirements of Core Principle 20 are functionally identical to those of DCO Core Principle 1 – *System Safeguards*. Both Core Principles require the regulated entity to address oversight and risk analysis in the following technology-related categories: information security, business continuity and disaster recovery, capacity and performance planning, systems operations, systems development and quality assurance, and physical security. Therefore, DCOs and DCMs have substantially identical responsibilities to establish, maintain, and review technological safeguards under CFTC Regulations. External compliance with the DCO and DCM Core Principles is monitored by the CFTC's Divisions of Clearing and Risk and Market Oversight, respectively.
- 8.6 Risk Management of Clearing House – The exchange has assured itself that the clearing house has established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls.**
- 8.6.1 CME is dually registered as a DCO and a DCM. As a DCO, CME Clearing must comply with the DCO Core Principles, including CFTC Regulation 39.13 – *Risk management* (“**CFTC Regulation 39.13**”), CFTC Regulation 39.10 – *Compliance with rules* (“**CFTC Regulation 39.10**”), and CFTC Regulation 39.18 – *System safeguards* (“**CFTC Regulation 39.18**”).
- 8.6.2 CFTC Regulation 39.13 mandates the appointment of a CRO whose duties include implementing a Board-approved written risk management framework. CFTC Regulation 39.10 mandates the appointment of a chief compliance officer (“**CCO**”) whose duties include review of the DCO's written policies and procedures and compliance with each DCO Core Principle, including the risk management framework implemented by the CRO under CFTC Regulation 39.13. The CCO's review of the DCO's policies and procedures is included in an annual compliance report submitted to the CFTC.
- 8.6.3 CFTC Regulation 39.18(b) mandates the establishment and maintenance of a program of risk analysis and oversight with respect to the DCO's operations and automated systems. CFTC Regulation 39.18(j) further requires that a DCO's automated systems and business continuity and disaster recovery capabilities be tested by objective, independent and qualified professionals on a periodic basis. Service Organization Control 1 and 2 audits that meet the requirements of CFTC Regulation 39.18(j) are conducted annually.

- 8.6.4 In addition, the IAD periodically reviews CME Clearing's risk management functions, including but not limited to clearing house regulatory compliance, collateral services administration, financial surveillance of clearing members, and internal control infrastructure related to clearing processes. Compliance with these DCO Core Principles and the reviews performed by the IAD are designed to assure the CMEG Exchanges that CME Clearing has established appropriate risk management policies and procedures.

9. Systems and Technology

- 9.1 **System and Technology – Each of the exchange's critical systems has appropriate internal controls to ensure completeness, accuracy, integrity and security of information, and, in addition, has sufficient capacity and business continuity plans to enable the exchange to properly carry on its business. Critical systems are those that support the following functions:**

- (a) order entry,
- (b) order routing,
- (c) execution,
- (d) trade reporting,
- (e) trade comparison,
- (f) data feeds,
- (g) market surveillance,
- (h) trade clearing, and
- (i) financial reporting.

- 9.1.1 CMEG strives to provide the most flexible architecture in terms of bringing new technology, innovations and solutions to the market. The CME Globex electronic trading platform is accessible nearly 24 hours a day throughout the trading week.

Trade Management System

- 9.1.2 CME hosts products on its latest generation matching engine platform, known as Falcon. Falcon includes a Match Engine cluster a database cluster and an Administration cluster. The system is designed so that any single Match Engine server or Database server can fail without an interruption to trading activity.
- 9.1.3 The database cluster is used to store orders and trades to support surveillance queries. The Falcon engine on CME Globex currently handles all CMEG Exchange-listed options and futures.
- 9.1.4 The Falcon Admin Server has many functions including maintenance of the Match Engine server configurations, maintenance of the trading calendar, and surveillance on the match engine database. On Trading Engine start-up, all configuration and scheduling information is transferred from the Falcon Admin Server to the Match Engine. To reduce the complexity of the fault tolerance implementation, the Match Engine has been designed to be able to continue to function in the absence of a Falcon Admin Server if it should fail during the trading day. Falcon engines and databases run on x86-based server class machines. For storage, the Falcon engine utilizes CME's Storage Area Network. Falcon currently uses Tibco for messaging and [Weblogic](#) for hosting the Falcon Admin Server.

Price Reporting System

- 9.1.5 CMEG's market data platform uses the FIX/FAST protocol to transmit market data to end clients and market data quote vendors. A successful client establishes a standard network User Datagram Protocol ("UDP") connection over the network using the Internet Group Management Protocol ("IGMP") open protocol. Customers can choose which type of market data to receive based on their channel subscription that is controlled through their application. As long as UDP over IGMP is supported, any operating system, hardware platform, or software platform can be implemented by market data consumers.
- 9.1.6 Message throughput and type are the key factors to scale FIX/FAST in channels. Each channel can be scaled from the product level down to the contract level. A single FIX/FAST channel may be configured to disseminate all futures products, or all options products, or index futures only, or index options only, or a single futures contract only, if necessary. Business requirements are the key driver of the FIX/FAST channel definition. FIX/FAST provides an

enormous bandwidth saving compared to the current market data feeds. To mitigate packet loss, FIX/FAST requires two active-active links to the customer.

- 9.1.7 Book states for CMEG Contracts will be maintained. The book depth dissemination for CMEG Contracts that are futures contracts may be set at 1, 5 or 10 price levels. The book depth dissemination for CMEG Contracts that are options contracts may be set at 1, 3 or 5 price levels. A book will exist for each CMEG Contract that has traded at all during a session (currently defined as a week). This is because statistics for that CMEG Contract exist, even if its book is empty. Messages that do not affect book state are simply converted to FIX/FAST format and published to the market data feed.
- 9.1.8 A FIX sequence is maintained for the incremental feeds to clients, as this must be part of the generated FIX/FAST messages. The sequence is used by customers to determine if messages have been missed and allows them to leverage the snapshot and TCP replay recovery mechanism to resynchronize their book state with the incremental stream.

Audit Trail

- 9.1.9 The Globex Audit Trail (“GAT”) file contains a number of messages and fields that contain message information regarding orders, trades, instruments and other pertinent information. GAT maintains a complete electronic record of all orders entered and transactions executed, including all messages entered into the system, the terms of each order, all order modifications, all matched trades, and the time of each message. This record enables the CMEG Exchange to reconstruct electronic trading efficiently and effectively.
- 9.1.10 At the system level, GAT matches every customer generated (inbound) message with corresponding match engine generated acknowledgement (outbound) message. The matched inbound and outbound messages are then consolidated into one message; the trade message is retained as is. The consolidated messages are then formatted as per customer need. This application runs daily as a batch process after the end of each CME Globex trading day. If there are any orphans (missed messages), the support team tries to recover them from parent systems.

System Capacity

- 9.1.11 Highly scalable and robust, CME Globex is capable of processing more than 9 billion quotes per month based on actual usage, with an average response time of under 5 milliseconds.

Data Dissemination

- 9.1.12 Trading data and other quotes concerning CMEG Contracts including daily settlement and contract settlement data, will be made available directly in the FIX/FAST format from CME Globex. CME customers and information vendors will be able to receive market data directly through the existing CME Globex market data dissemination system on the same basis as CME makes available other CME Globex market data.

System Support

- 9.1.13 Under the Global Support Administration, CME will provide system support to the CMEG Exchange for CME Globex. The primary focus at CME for incidents is rapid service restoration. As a result, an incident may be addressed before an incident ticket is opened in Information Technology Service Management (“ITSM”), the incident management ticketing system. Regardless, critical incidents are required to be documented in ITSM.
- 9.1.14 All issues reported to Technology Operations, whether from a support group or OpenView Operations alert are documented. The incident resolution process at CME follows the following escalation mechanism:
- (a) First-Line Support: As incidents are encountered or reported, they are recorded in ITSM by Technology Operations. The Globex Control Center provides market operations, support and customer service for all electronic trading on CME Globex. That includes handling all CME Globex inquiries and requests for assistance from registered contacts. The Globex Control Center supports the matching engine, order routing and market data interfaces and network connectivity. The Globex Control Center is available from 2:00 p.m. Sunday through 4:45 p.m. Friday Chicago Time. An international phone number is provided for global customers.
 - (b) Second-Line Support: If an incident persists, it is escalated to Technology Support Teams.
 - (c) Third-Line Support: Finally, if necessary, incident may be escalated to development teams and vendors.
 - (d) SWAT: Outside of these defined escalation levels, depending on the problem, Technology Management, and Globex Control Center may request that an incident be escalated to the SWAT Group. The SWAT Group is

composed of staff from the production, development, and operations departments. Weekly capacity meetings occur to review infrastructure performance trends and capacity for forecasting and planning purposes. CME will promptly report system malfunctions that have an impact on trading, market data, surveillance, clearing or settlement to the CMEG Exchange.

System Reliability and Failure Recovery

Facilities

- 9.1.15 CMEG maintains data centers at three facilities in the Chicago area. One data center facility houses the production electronic trading infrastructure and the disaster recovery clearing servers for both front-end and back-end clearing. Another data center facility houses the disaster recovery electronic trading infrastructure and production back-end clearing infrastructure and the production front-end clearing infrastructure.
- 9.1.16 The data centers and the network equipment at CME locations are operated and maintained by a number of departments within the CMEG Exchanges' Information Technology Division ("ITD"). Data center access is restricted to a core group of staff.

Recovery Procedures

- 9.1.17 All critical applications are tested at minimum twice per year.
- (a) Clearing: The recovery time objectives for CME's clearing application are four hours or less.
 - (b) Electronic Trading: The recovery time objectives for CME's electronic trading platform are four hours or less if there is a disruption in the datacenter where CME Globex's production facilities are housed. There will be no recovery time needed if the disruption occurs in the data center where the CME Globex production facilities are not housed. In that case, the CME Globex markets shall remain open.
 - (c) All Other Business Processes: The recovery time objectives for recovering all other business processes shall be determined as part of the Business Impact Analysis (BIA) process and shall be incorporated into the Resumption and Recovery component of the Business Continuity Plan.
- 9.1.18 The CMEG Exchanges currently have extensive monitoring on hardware, applications and software using OVO monitoring software as central repository for anomalies and alert notification to prompt a failover to backup or automatic failover for minimal disruption to business and customers. Alerts are recorded and appropriate escalation and recovery is addressed through the Technology Operations Command Center ("TOCC"), proficient in manual and scripted intervention and escalation. The TOCC team is the central point for crisis management of all technology issues and recordation in addition to follow up for incident reviews (lessons learned) from customer impacting events.
- 9.1.19 The CME Globex platform has various security features in place to protect trade data from disclosure, disruption, spoofing, non-repudiation, and denial of service prevention.
- 9.1.20 The CME Globex platform uses passwords to limit access to systems. To log onto any environment, users are required to enter their ID and the associated password. Passwords must be a minimum length and complexity and expire periodically. User IDs are disabled after a set number of failed log in attempts.
- 9.1.21 To protect against accidental or deliberate disclosure, customer data is isolated to that specific customer using network and application controls.
- 9.1.22 The CME Globex platform isolates customer traffic using a combination of leased private networks and VPN tunnels. Both connection methods utilize router based packet filtering of network traffic as well as application layer authentication to control access to the trading application.
- 9.1.23 Packet filtering provides robust access control up to and including Layer 4 of the OSI model. Packet filtering access lists are applied to each customer site router which offers the advantage of filtering malicious data before it enters the exchange network and stops any attacks closest to their source. Traffic destined for the exchange network is inspected based on IP protocol type, source and destination address, and TCP port. Each of these parameters is limited to the minimum number of values necessary for the proper operation of the application and traffic must pass all of these criteria before it is allowed onto the exchange network. ITD has found that this method of network access control provides the optimum tradeoff between security and latency. The proposed packet filtering strategy provides strict security while introducing only the barest minimum of latency.
- 9.1.24 In addition to the access control implemented at the network and transport layer, the CME Globex platform includes authentication at the application layer using the financial information exchange ("**FIX**") Protocol. The FIX Protocol is a

messaging standard developed specifically for the real-time electronic exchange of securities transactions. All inbound connections to the trading system require the user to authenticate to the FIX Gateway before any data can be exchanged. The authentication includes a standard username and password combination as well as specific configuration information. Access is also restricted to a specific TCP port for each customer.

- 9.1.25 To prevent disruption of service, the trading system API and the trading engine validate all data to ensure it complies with FIX Protocol and CME Globex message format. The host operating systems of all trading system servers are kept up-to-date to prevent openings for viruses and other malware.
- 9.1.26 ITD's Server Services is responsible for managing virus protection and detection on Windows servers and workstations in cooperation with CMEG's PC Services.
- 9.1.27 Working in conjunction with PC Services and the CMEG Exchanges' Information Security, Server Services sends email notifications regarding virus protection when deemed appropriate. Network Associate's McAfee Anti-virus Enterprise Edition virus protection software is used on the Windows servers. It performs a weekly full scan and an on demand scan when a file is written to disk. The anti-virus software regularly monitors the servers to identify known and potential viruses. Should a virus be identified, the information about the virus is logged by the software and a notification message appears on a server in the Server Services domain. The notification message includes information about the virus and the action taken. If the software is able to clean the virus itself, then no further action is necessary. If the software is unable to clean the virus itself, it must be manually cleaned by someone in Server Services.
- 9.1.28 McAfee Anti-virus is also loaded on each desktop to identify, prevent, and clean viruses. If users encounter problems, a PC Services designee identifies this through the monthly review of the virus log. If a potential new virus is identified, Information Security is contacted to investigate. The McAfee server also attempts to obtain fixes for any highly publicized new viruses as soon as they are available. Network Associates sends daily or more frequently, as appropriate, virus updates and fixes which are applied. McAfee Anti-virus procedures exist for reference by technical virus support personnel.

Data Backup

- 9.1.29 Data is retained through a combination of daily or real-time backups through various methods that include tape, optical, mirroring, and storage area networks. Technology Operations uses a tape management library system to back up Tandem, mainframe, UNIX/Linux, and Windows-generated systems. A backup strategy that includes detailed backup schedules is maintained and executed by TOCC. Production systems are backed up using real-time mirroring to the offsite data center. Potential errors in data transferred to the remote data center for short-term backup appear on a variance report and are investigated. Additionally, tape backups are performed nightly and load libraries and configuration information are backed up weekly to help ensure that data is not lost.
- 9.1.30 The CMEG Exchanges use an offsite storage vendor for offsite tape management. Data contained on each tape includes the file name, creation date, expiration date, and the volume serial number of the reel or cartridge on which the data resides. Tapes are taken offsite daily and are stored for a predetermined number of years per the policy.
- 9.1.31 A formal storage media retention policy is in place to determine how long a given media (tape or disk) should be retained. Computer Operations makes an annual visit to the offsite location to review inventory and determine which backups and backup media may be destroyed.
- 9.1.32 Access to the backup schedule is controlled by Netbatch on the Tandem systems, UC4 on the mainframe and Netbackup on the distributed systems. Only authorized system administrators are granted access to the backup scheduler. Changes to the backup schedule are made using the standard CME change control process.

9.2 Information Technology Risk Management Procedures – The exchange has appropriate risk management procedures in place including those that handle trading errors, trading halts and circuit breakers.

- 9.2.1 CME Globex provides extensive market integrity controls to ensure fair and efficient markets. These controls include Options Banding, Futures Banding, Daily Price Trading Limits, Price Banding, Stop Spike Logic, Volume Controls and Messaging Thresholds.

Circuit Breakers

- 9.2.2 Equity index futures and options on futures on CME and CBOT are subject to SEC-determined market-wide circuit breaker levels. GCC coordinates its circuit breakers with market-wide circuit breaker events. The respective CMEG Exchange Rules require a trading halt if internal circuit-breaker levels are hit or if a market-wide circuit breaker is touched. As such, the CMEG Exchanges are expected to hit their equity index product circuit breaker levels almost simultaneously with the market. As a result, trading halts will be instituted at both the exchange and the market level in close proximity to each other.

Options Banding

- 9.2.3 Price Banding for options is enforced in consideration of the following:
- Although a series of options on a particular futures instrument may trade frequently, any single specific strike price option may not trade or even be quoted regularly. The price of the underlying futures instrument may change substantially relative to the option's CME Last Price, causing the market value of a formerly out-of-the-money option to increase substantially while the Price Band Variation Range ("**PBVR**") is locked in place.
 - The CME Last Price on a specific option is an unrepresentative reference price. In addition, options with different strikes require different price band widths. PBVRs for "out-of-the-money" options should be narrower than those for "in-the-money" options to reflect the differences in the extent to which bids and offers departing from their fair market value may be considered erroneous.
- 9.2.4 For these reasons, GCC instituted enhanced options price banding, a dynamic price banding system, for selected options and options strategies traded on the CME Globex platform.
- 9.2.5 Enhanced Options price banding is identical to futures price banding, with the following modifications. Based on market conditions, the reference price is set to either the:
- Last Price of the option or spread
 - Theoretical Options Price based on well-established options pricing algorithms
 - Last Price in combination with the Theoretical Options Price, if practical.
- 9.2.6 The width of the price bands is determined by either a Fixed Price Band Variation ("**PBV**") for the entire option series, identical to the price banding for futures practice or a Dynamic PBV based on the delta of the option, as estimated by the Theoretical Options Price calculation or a Dynamic PBV based on a percentage of the Theoretical Options Price, where the percentage is based on the delta of the option.

Futures Banding

- 9.2.7 With each price change, the PBVR is recalculated and the new range is applied. The CME Globex platform rejects all bids and offers outside the PBVR. Applying the PBV to a reference price determines the PBVR. The reference price used depends on the market state and trading activity:
- The instrument's Settlement Price will serve as the PBVR reference price during the Pre-Open and the Pre-Open/No-Cancel period, until the Theoretical Opening Price is calculated.
 - Once a Theoretical Opening Price is established, the Theoretical Opening Price becomes the PBVR reference price.
 - During the continuous trading, the CME Globex Last Price serves as the reference price for the PBVR.
 - If an instrument has transitioned to continuous trading with no Theoretical Opening Price or CME Globex Last Price being established, then the Settlement Price will continue to serve as the PBVR reference price until a CME Globex Last Price is established.
 - In the event of a market emergency where a market is placed in a non-trading mode after continuous trading has begun, then the Theoretical Opening Price will serve as the PBVR reference price during the non-regular Pre-Open and the Pre-Open/ No-Cancel Period. If no Theoretical Opening Price is available, then the CME Globex Last Price will serve as the PBVR reference price.
- 9.2.8 The PBVR adjusts dynamically as the CME Globex Last Price changes for a given product.

Daily Price Trading Limits

- 9.2.9 Daily price limits for trading in futures and daily price limits (circuit breakers) for trading energy and equities instruments are established by the CMEG Exchanges. The price limits are stated in terms of the previous or prior settlement price plus or minus the specific trading unit limit. Circuit breakers allow for normal limits to be expanded by a specific amount. Circuit breakers are re-assessed quarterly rather than established at fixed levels insofar as fixed limits are not responsive to on-going market fluctuations.

- 9.2.10 Price Limits refer to a high or low price limit assigned to a given instrument. It is a precautionary measure assigned by CME Globex to prevent abnormal market movement. Price limits exist on all futures products except the currencies and are set based on product specifications. Once a futures price has increased by its daily limit, there can be no trading at any higher price until the next day of trading. Conversely, once a futures price has declined by its daily limit, there can be no trading at any lower price until the next day of trading.
- 9.2.11 Therefore, if the daily limit for a particular grain is currently US\$0.10 a bushel and the previous day's settlement price was US\$3.00, there cannot be trading during the current day at any price below US\$2.90 or above US\$3.10. The price is allowed to increase or decrease by the limit amount each day.
- 9.2.12 The CME Globex trading day proceeds through distinct periods, known as market states, during which defined types of activity are allowed to take place to ensure market integrity.
- 9.2.13 Market states are managed by CME Globex administration and disseminated over market data.

Market State	Description
Price Indication	Start of Communication Inquiries. No cancels, modifies, or order entry allowed.
Pre-Open	Earliest phase of Opening market state. Order Entry, modification, and cancel are allowed. No order matching
No Cancel	End of pre-open stage. Order entry is allowed. Modification and cancellation are not allowed.
Ready to trade/Start of Session	Start of continuous trading phase Period where pre-open orders are resolved following Theoretical Opening Price determination. Order matching begins.
Unknown or Invalid	Start of interruption of continuous trading for one or more instruments.
Trading Halt	Interruption of continuous trading and the period during which only order cancellation is allowed and order matching is not allowed
Not available for trading/End of session	End of communication. Order entry, modification, and cancellation are not allowed.
Not available for trading	End of day preparation for the next pre-open.

Price Banding

- 9.2.14 To ensure market integrity, CME Globex has a price banding mechanism which subjects all orders to price validation and rejects orders outside the given band. This mechanism prevents antagonistic or erroneous orders, such as limit bids at prices well above the market or limit offers at prices well below the market, from transacting market-moving trades that require subsequent cancellations.
- 9.2.15 CME Globex uses one mechanism for futures price banding and another mechanism for options price banding. Price banding is applied to each CME Globex product individually. Price banding scans price-based orders, rejecting any buy orders above the "CME Last Price" PLUS a fixed band value or, any sell orders below the CME Last Price MINUS a fixed band value. The Last Price is determined by the last transaction, or the best bid or best offer through the last transaction. Alternatively, the Last Price can be determined by the Settlement Price, if no other prices are available.

Stop Spike Logic

- 9.2.16 In highly volatile markets, the market bid and ask can have significant price changes. These price swings can result from market conditions, but can also be generated as a result of cascading stop price orders. Cascading Stop Orders is a condition triggered by a spike in the market prices that triggers stop orders which in turn causes the market to trigger still other stop orders and inappropriately moving the market.

- 9.2.17 Stop Spike Logic prevents excessive price movements. The stop price logic detects market movement due to the triggering, election, and trading of stop price orders. When this situation causes a secondary condition where the market triggers and trades additional stop price orders at extreme market prices the Stop Spike Logic is engaged. A typical situation would be when initial triggered stops would cause the market to trade outside predefined values (typically the same as the No-Bust Ranges).
- 9.2.18 Stop Spike Logic introduces a momentary pause in matching by transitioning to the Reserved State. This momentary pause allows new orders to be entered and matched against the triggered stops in an algorithm similar to market opening.
- 9.2.19 When a lead month futures instrument is placed in the Reserved State, the following actions occur in the corresponding options markets:
- Options auto-reserve functionality automatically pauses matching in the associated options and options strategies markets.
 - All resting mass quotes are canceled when the auto-reserve functionality is initiated.
- 9.2.20 This Reserved State is maintained for a few seconds after the futures instrument has resumed trading. During the reserved period, customers can submit, modify and cancel orders. Mass quotes are rejected.
- 9.2.21 Allowing the user community this momentary opportunity to enter, modify, or cancel orders in this situation provides the ability to re-establish the proper market prices. The market data Security Status (tag 35-MsgType=f) message is used to communicate the instrument status during the stop price logic process.
- 9.2.22 The following examples describe the stop spike logic process and the use of the Security Status message:

State	Description
Market Is Open	When a stop price order is triggered and enters the market at the limit price, the stop price logic is activated. The execution price generated by the stop price order is compared against the last traded price plus/minus the product no-review range. If the execution price is within the range, normal stop processing occurs and market remains open.
Market Is Reserved	If the execution price is outside the product no-bust range, the instrument is placed in reserved state for a predetermined amount of time. When the market is in reserved state, any external event, such as market close or manual market intervention, will cause the market to transition from the reserved state and proceed with processing of the external event.
Market Reserved Activities	While the market is in a reserved state : <ul style="list-style-type: none"> • A timer is activated that determines the length of time the market will be in reserved state. Time may vary. • A counter is activated that counts the number of times the Theoretical Opening Price verification will be performed. • An expanded price range is determined for verification of the Theoretical Opening Price value. • When time has elapsed, verification is performed on the current Theoretical Opening Price. If the Theoretical Opening Price is inside the new expanded no-review range, the market reopens.
Market Reopens	If the Theoretical Opening Price is outside the new expanded range, the instrument remains in the reserved state for another time interval and the Theoretical Opening Price verification is performed again. This process continues until either the market is adjusted within the Theoretical Opening Price range or the predefined maximum number of iterations has been performed.

	<p>While the options market is in the Pause state, clients can cancel resting orders. No other actions are allowed.</p> <p>During the 'Pause' state CME Globex cancels all options quotes. Once the futures Stop Spike event has been resolved, the options market transitions from 'Pause' to 'Open' with no indicative opening price; price discovery occurs via customer quote submission.</p>
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Volume Controls Overview

Volume Ratio

- 9.2.23 For a given product, the CMEG Exchanges calculate a benchmark Volume Ratio by comparing the total number of messages to executed contracts during RTH hours (i.e., 7:00 a.m. – 4:00 p.m. Central Time), and adding a pre-determined variation. The variation will vary by product to allow for legitimate trading strategies in each product.
- 9.2.24 Product Volume Ratio benchmarks are published quarterly and include the most active roll periods in the calculation.

Administrative Messaging Controls

- 9.2.25 Extraordinary and excessive messaging rates generated by a client system can negatively all market participants. The CME Globex messaging volume controls are designed to address this risk by:
 - Supporting valid trading activity; and
 - Preventing a malfunctioning trading system from impacting the markets.

Messaging Thresholds

- 9.2.26 If an iLink session exceeds one or more of the thresholds, as measured in messages per second (“MPS”) over a pre-defined interval, subsequent messages will be rejected via a Session Level Reject (tag 35-MessageType=3) message until the MPS rate falls below the threshold.
- 9.2.27 As of trade date November 7, 2010, the thresholds for each message are:

All times:

Message	Threshold	Interval
Cancel	1000 MPS	Three second rolling average.
New Order and Order Cancel/Replace	500 MPS	Three second rolling average.
Administrative	100 MPS	Three second rolling average.

with the following exceptions:

Sundays: 15:00 – 17:00 Central time (CT)

Monday – Thursday: 16:30 – 17:00 CT

Message	Threshold	Interval
Cancel	1000 MPS	Three second rolling average.
New Order and Order Cancel/Replace	100 MPS	Three second rolling average.
Administrative	100 MPS	Three second rolling average.

Transaction Limits

9.2.28 The CMEG Exchanges require member firms to limit transaction message rates to CMEG Exchange-defined benchmarks or pay a surcharge for exceeding these limits. The CMEG Exchanges evaluate compliance with these benchmarks daily.

9.2.29 GCC measures the trading activity of each clearing member firm (active or inactive clearing member firms which maintain relationships with CME). The measurement, called the Volume Ratio, evaluates a clearing member firm's message count to traded volume.

10. Financial Viability

10.1 Financial Viability – The exchange has sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

10.1.1 The CMEG Exchanges have adequate financial and staff resources to carry on its activities in full compliance with its regulatory requirements and with best practices.

10.1.2 Pursuant to new CFTC Regulations relating to Core Principle 21, each of the CMEG Exchanges must have adequate financial, operational and managerial resources to discharge each of the CMEG Exchange's responsibilities. The CMEG Exchanges will be considered to maintain adequate financial resources "if the value of the financial resources exceeds the total amount that would enable the [CMEG Exchange] to cover the operating costs of the [CMEG Exchange] for a 1-year period, as calculated on a rolling basis".

10.1.3 The effective date of the new CFTC Regulations relating to financial resources was August 20, 2012, and the official date for compliance was October 17, 2012. The CMEG Exchanges maintain the current minimum capital amounts needed, and will maintain any future minimum capital amounts needed, to meet CFTC requirements.

11. Transparency

11.1 Transparency – The exchange has adequate arrangements to record and publish accurate and timely trade and order information. This information is provided to all participants on an equitable basis.

11.1.1 Core Principle 8 requires a DCM to make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts. CMEG's market data platform transmits market data, including trading data and other quotes concerning CMEG Contracts (e.g., daily settlement and contract settlement data) to end clients and market data quote vendors through the FIX/FAST protocol.

11.1.2 As noted in Section 9.1.12 of this application, CME customers and information vendors will be able to receive market data directly through the existing CME Globex market data dissemination system on the same basis as CME makes available other CME Globex market data.

11.1.3 CME's market data distribution platform has over 300 market data vendors, of which approximately 50 receive real-time, direct data feeds from CME (e.g., trading firms, brokers, independent software vendors), and over 500 market data users (e.g., trading firms, independent software vendors, brokers).

12. Record Keeping

12.1 Record Keeping – The exchange has and maintains adequate systems in place for the keeping of books and records, including, but not limited to, those concerning the operations of the exchange, audit trail information on all trades, and compliance with, and/or violations of exchange requirements.

12.1.1 The CMEG Exchanges collect a tremendous amount of data on a daily basis related to their regulated activity in compliance with Core Principle 18. The CMEG Exchanges are required to maintain records of all activities relating to their business as DCMs, including data related to order messaging, order execution, pricing and large trader positions. Data is collected across all the execution and clearing platforms of the exchange, independent of whether the transaction was privately negotiated, competitively executed electronically on CME Globex or in one of our trading pits, or submitted solely to CME for clearing. The CME Exchanges maintain a precise and complete data history, referred to as the audit trail, for every order entered and transaction executed across the CMEG Exchanges. Audit trail information for each transaction includes the order instructions, entry time, modification time, execution time, price, quantity, account identifier and parties to the transaction. Detailed information on all order and trade activity on CME Globex is timed precisely to the thousandth of a second. For trading activity taking place in our open outcry markets on the trading floors, Market Regulation maintains a computerized trade reconstruction system that employs a highly sophisticated algorithm to impute an execution time to the nearest second for each transaction. In addition, on a daily basis, files of

all electronic order and cleared trade information are archived to non-rewritable media, and copies are stored at multiple locations to ensure redundancy and critical safeguarding of the data.

- 12.1.2 In order to assess and ensure the accuracy and completeness of the audit trail, Market Regulation performs reviews of electronic and pit-traded data and regular electronic audits of exchange clearing member firms. Clearing member firms must be able to account for the state of every electronic communication from the moment an electronic system first receives such communication until it is communicated to CME Globex, as well as any related communications returned from CME Globex. This includes any automated system that is under the legal or practical control of the clearing firm or its system provider. The CMEG Exchanges require that firms maintain and have the ability to produce reports that display audit trail data and execution information in a pre-approved format, using terminology and field names that are consistent with the CMEG Exchanges' and industry standards. Furthermore, as a safeguard, the CFTC and the CMEG Exchanges require firms to maintain all audit trail data for a minimum of 5 years.

13. Outsourcing

13.1 Outsourcing – Where the exchange has outsourced any of its key services or systems to a service provider, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations and that are in accordance with industry best practices.

- 13.1.1 The CMEG Exchanges do not outsource any of their key regulated or clearing functions. With respect to non-key functions, the CMEG Exchanges may enter into outsourcing arrangements and have appropriate and formal arrangements and processes in place with respect to outsourcing of non-key functions.

- 13.1.2 CME has entered into outsourcing arrangements with CBOT, NYMEX and COMEX with respect to CME Globex. CME Globex represents a broad suite of technology solutions that support CME's central limit order book electronic trading marketplace. This includes CME's matching engine technology, order entry messaging interface (iLink), market data messaging interface (Market Data Platform) and other related components. CME provides trade matching services to NYMEX/COMEX under an intercompany agreement. CME currently has in place an oral agreement with CBOT to provide trade matching services, and is in the process of drafting an intercompany agreement with CBOT for the provision of trade matching services.

- 13.1.3 CME also provides clearing and regulatory services to CBOT, NYMEX and COMEX under an intercompany agreement.

14. Fees

14.1 Fees –

- (a) All fees imposed by the exchange are reasonable and equitably allocated and do not have the effect of creating an unreasonable condition or limit on access by participants to the services offered by the exchange.**

- 14.1.1 At a high level, the CMEG Exchanges' fees are differentiated between CMEG Exchange Members and non-CMEG Exchange Members. Membership allows any firm or participant who wishes to access CMEG's markets to pay reduced fees if they meet the eligibility criteria that can be found on the CMEG website (www.cmegroup.com), which includes ownership rights to a set number of seats and/or shares. All participants within a given membership level are subject to the same base fee schedule. The allocation of fee discounts for members is consistent with practices throughout the financial world. For further information regarding member/non-member and member-type fee differences, please refer to paragraph 4.1.11 in Part III of this application.

- 14.1.2 For the majority of products, clearing fees are charged for the service of clearing and guaranteeing trades and execution fees for transactions executed through the CME Globex trading system or through open outcry. Certain other activities related to trading, such as back office position transfers, give-up transfers, and options exercise and assignments also incur a fee which are all listed in the fee schedule established by each CMEG Exchange.

- 14.1.3 In certain circumstances, the CMEG Exchanges will create market making or other incentive programs to enhance market liquidity. Such programs may include a variety of fee incentives in return for liquidity providing services. These programs are considered to be rules under the CEA and are all reviewed by the CFTC prior to implementation. Uniformly included in all of the CMEG Exchanges' program self-certification filings to the CFTC is the CMEG Exchange's analysis of how participants are selected, and how the eligibility criteria complies the DCM Core Principles. Any questions that the CFTC has prior to implementation of a program, including selection criteria, must be answered by CMEG Exchange staff prior to implementation.

(b) The process for setting fees is fair and appropriate, and the fee model is transparent.

- 14.1.4 Product fee determinations occur through collaboration between research teams and product line management teams at the CMEG Exchanges. Fees are differentiated at the product level by a number of different factors, including historical prices of similar products launched by the CMEG Exchange and the expected demand for the product. All fees for all products across all of the CMEG Exchanges are publicly available on the CMEG's website. Furthermore, all incentive programs produced by the CMEG Exchange are publicly filed with the appropriate regulatory oversight bodies.
- 14.1.5 Prior to implementing any CMEG Exchange fees or incentive programs, the CMEG Exchange requires various levels of internal approval. The CMEG Exchanges have established an internal fee policy team which conducts regular meetings to discuss fee and incentive program proposals from the various business units. Any potential issues are generally vetted at the fee policy team level before the proposal is sent in memorandum form to the respective approving authority (i.e., CMEG upper level management). Once internally approved, the CMEG legal department and applicable business units discuss and document how the incentive program or fee change complies with the DCM Core Principles before self-certifying the incentive program or fee change.

15. Information Sharing and Oversight Arrangements

15.1 Information Sharing and Regulatory Cooperation – The exchange has mechanisms in place to enable it to share information and otherwise cooperate with the Commission, self-regulatory organizations, other exchanges, clearing agencies, investor protection funds, and other appropriate regulatory bodies.

- 15.1.1 As noted in Section 6.1.6 of this application, Rule 415 – Cooperation with Other Exchanges and Clearing Organizations authorizes the CMEG Exchanges to “provide information to an exchange or clearing organization that is party to an information sharing agreement with the [CMEG] Exchange[s], in accordance with the terms and conditions of such agreement”. Further, Rule 414 – Investigations by Other Self-Regulatory Organizations gives the CMEG Exchanges the power to “direct a Member to submit to an examination by the requesting self-regulatory organization and to produce information pertinent to that investigation”. The CMEG Exchanges often rely on Rules 415 and 414 in cooperating with the NFA in the investigations of market participants.
- 15.1.2 Pursuant to their DCM registrations, each of the CMEG Exchanges is subject to CFTC Designation Criterion 8 (Ability to Obtain Information), which requires that a DCM “shall establish and enforce rules that will allow the [DCM] to obtain any necessary information to perform any of the functions described in this subsection [5(b) of the CEA], including the capacity to carry out such international information-sharing agreements as the [CFTC] may require”. The CMEG Exchanges also participate in formal agreements with other domestic and foreign regulatory authorities and clearing and self-regulatory authorities.
- 15.1.3 CME has also been instrumental in developing the International Information Sharing Memorandum of Understanding, which established a framework for participating exchanges and clearing organizations worldwide to share information relevant to managing global market emergencies. CME also seeks broader cooperation between clearing organizations through such industry forums as the Unified Clearing Group, CCP 12, the Joint Audit Committee, the Intermarket Financial Surveillance Group and the DCO Risk Committee.

15.2 Oversight Arrangements – Satisfactory information sharing and oversight agreements exist between the Ontario Securities Commission and the Foreign Regulator.

- 15.2.1 The CFTC has required that the CMEG Exchanges sign on to the Declaration on Co-operation and Supervision of International Futures Exchanges and Clearing Organizations as amended, March 1998 (commonly known as the “Boca Declaration”) and the OSC is a signatory to the Boca Declaration.
- 15.2.2 The CFTC has entered into memorandum of understanding (“MOU”) arrangements for co-operative enforcements with foreign regulatory authorities in numerous jurisdictions. The MOUs typically provide for access to non-public documents and information already in the possession of the regulatory authorities, and often include undertakings to obtain documents and to take testimony of, or statements from, witnesses on behalf of a requesting regulatory authority. The CFTC and the OSC are parties to an MOU that was entered into by the parties on July 7, 1992.

16. IOSCO Principles

16.1 IOSCO Principles – To the extent it is consistent with the laws of the foreign jurisdiction, the exchange adheres to the standards of the International Organisation of Securities Commissions (IOSCO) including those set out in the “Principles for the Regulation and Supervision of Commodity Derivatives Markets” (2011).

- 16.1.1 The CMEG Exchanges adhere to the standards of IOSCO by virtue of the fact that they must comply with the CEA and CFTC Regulations, which reflect the IOSCO standards. The CMEG Exchanges are regularly examined by the CFTC and during these examinations the IOSCO standards to which they are subject are taken into account.

- 16.1.2 In 2010, the CFTC conducted a review of the CMEG Exchanges, which included an analysis of CME Globex, for compliance with the DCM Core Principles related to alternative trading systems, including Core Principle 9. During this review, the CFTC considered certain of the standards of IOSCO and concluded that the CMEG Exchanges' controls in relation to Core Principle 9, and the other DCM Core Principles examined, were adequate. The CMEG Exchanges believe that the 2010 review conducted by the CFTC, in addition to their ongoing obligations in relation to their registrations as DCMs, adequately demonstrate their compliance with the standards of IOSCO.

PART IV SUBMISSIONS BY THE CMEG EXCHANGES

1. Submissions Concerning the Exchange Relief

- 1.1 All of the CMEG Contracts fall under the definitions of "commodity futures contract" or "commodity futures option" set out in subsection 1(1) of the CFA. Each of the CMEG Exchanges is therefore considered a "commodity futures exchange" as defined in subsection 1(1) of the CFA and is prohibited from carrying on business in Ontario unless it is registered or exempt from registration under section 15 of the CFA. The CMEG Exchanges seek to provide Ontario market participants with direct access to trading in CMEG Contracts and may therefore be considered to be "carrying on business as commodity futures exchanges" in Ontario.
- 1.2 None of the CMEG Exchanges is registered with or recognized by the OSC as a commodity futures exchange under the CFA and no CMEG Contracts have been accepted by the Director (as defined in the OSA) under the CFA. Therefore, the CMEG Contracts are considered "securities" under paragraph (p) of the definition of "security" set out in subsection 1(1) of the OSA and each of the CMEG Exchanges is considered an "exchange" under the OSA and is prohibited from carrying on business in Ontario unless it is recognized or exempt from recognition under section 21 of the OSA. The CMEG Exchanges seek to provide Ontario market participants with direct access to trading in CMEG Contracts and may therefore be considered to be "carrying on business as exchanges" in Ontario.
- 1.3 The CMEG Exchanges satisfy all the criteria for registration or exemption from registration as a commodity futures exchange and recognition or exemption from recognition as an exchange set out by OSC Staff, as described under Part III of this application. Ontario market participants that trade in commodity futures would benefit from the ability to trade on the CMEG Exchanges, as they would have access to a range of exchange-traded futures and options on futures products that are not currently available in Ontario. CME Globex offers a transparent, efficient and liquid market for Ontario market participants to trade in CMEG futures and options on futures. Stringent CFTC oversight of the CMEG Exchanges as well as the sophisticated information systems, regulations and compliance functions that have been adopted by the CMEG Exchanges will ensure that Ontario users of CME Globex are adequately protected in accordance with international standards set by IOSCO. We therefore submit that it would be in the public interest to grant the Exchange Relief.
- 1.4 Provided that the OSC exempts the CMEG Exchanges from registration as commodity futures exchanges under the CFA, each of the CMEG Exchanges will be an "exempt exchange" as defined in OSC Rule 91-503 *Trades in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges Situate Outside of Ontario* ("**OSC Rule 91-503**") and the CMEG Contracts will be "exempt exchange contracts" under OSC Rule 91-503. Therefore, all trades in CMEG Contracts will be exempt from the registration requirement in section 25 of the OSA and the prospectus requirement in section 53 of the OSA pursuant to Part II of OSC Rule 91-503 and no registration or prospectus relief will be required under the OSA for trades in CMEG Contracts in Ontario.
- 1.5 Additionally, pursuant to the deemed rule entitled *In the Matter of Trading in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges in the United States of America*, trades by any persons or companies in commodity futures contracts and commodity futures options entered into on commodity futures exchanges designated by the CFTC as DCMs under the CEA are not subject to the registration requirement in section 25 of the OSA and the prospectus requirement in section 53 of the OSA. Therefore, no registration or prospectus relief will be required under the OSA for trades in CMEG Contracts in Ontario.

2. Submissions Concerning the Hedger Relief

- 2.1 The CMEG Exchanges seek to provide direct access to trading in CMEG Contracts to Ontario Participants. The CMEG Exchanges expect that many of their potential members in Ontario will be engaged in the business of trading commodity futures in Ontario and will, therefore, be registered as FCMs under section 22 of the CFA. However, the CMEG Exchanges also seek to provide access to Hedgers (as defined in subsection 1(1) of the CFA), which may not be registered as FCMs. Subsection 32(a) of the CFA provides an exemption from registration for trades "by a hedger through a dealer". This exemption will be available for trades in CMEG Contracts by Ontario resident hedgers that are Order-Routing Clients of CMEG Exchange Clearing Members that are dealers. However, this exemption will not be available for trades in CMEG Contracts by Ontario resident hedgers that become Ontario Users since they will have direct access to a CMEG Exchange but will not be considered to be executing "through a dealer".
- 2.2 Ontario-resident Hedgers that wish to become CMEG Exchange Members must execute a customer connection agreement with CME and obtain a guarantee from a CMEG Exchange Clearing Member. Ontario-resident Hedgers that

wish to become Direct Access Users must execute a customer connection agreement with CME, obtain a guarantee from a CMEG Exchange Clearing Member and comply with the rules of the CMEG Exchanges to which access is granted.

- 2.3 In addition, the relevant CMEG Exchange Clearing Member, with which an Ontario-resident Hedger seeks to open an account for the purpose of trading on the CMEG Exchanges, will complete credit, know-your-client and anti-money laundering checks, suitability analyses and other account supervision procedures prior to entering into clearing agreements with all clients and on an ongoing basis in accordance with CFTC, SEC and CME requirements. Furthermore, because CMEG Exchange Clearing Members are ultimately responsible for the trading activity of any Ontario Participants that they agree to guarantee, they can be expected to ensure that such Ontario Participants will have the requisite sophistication and proficiency in the trading of CMEG Contracts to satisfy investor protection concerns associated with having direct access to the CMEG Exchanges.
- 2.4 The CMEG Exchanges intend to confirm that Ontario Participants that seek to rely on the Hedger Relief are Hedgers (as defined in subsection 1(1) of the CFA) by obtaining a representation to that effect from such participants as a part of the application documentation. The documentation will specify that this representation is deemed to be repeated by the Ontario Participant each time it enters an order for a CMEG Contract and that the Ontario Participant must be a Hedger for the purposes of each trade resulting from such an order.
- 2.5 The requested Hedger Relief is needed to allow sophisticated Ontario Participants who meet the definition of Hedger to become Ontario Users and gain the benefits of direct access to the trading systems and facilities of the CMEG Exchanges. Given the sophistication of such Ontario Participants and the fact that the financial responsibility for their trading activity ultimately lies with the CMEG Exchange Clearing Member that guarantees their trades, or the Ontario Participant itself if it is a CMEG Exchange Clearing Member, it is not necessary for the protection of other investors or the integrity of the market to require such Ontario Participants to send their orders through a dealer rather than accessing the CMEG Exchanges directly via CME Globex.

PART V OTHER MATTERS

1. Enclosures

1.1 In support of this application, we are enclosing the following:

- (a) a verification statement from the CMEG Exchanges confirming our authority to prepare and file this application and confirming the truth of the facts contained herein at Appendix "A";
- (b) a list of the CMEG Contracts traded on the CMEG Exchanges at Appendix "B";
- (c) a cheque in the amount of the fees payable to the OSC; and
- (d) a draft form of order.

2. Consent to Publication

2.1 The CMEG Exchanges consent to the publication of this application for public comment in the OSC Bulletin.

If you have any questions or require anything further, please do not hesitate to contact us.

Yours very truly,

"Terence Doherty"

Terence W. Doherty

TWD/mm

cc: *Christopher Bowen, CME Group Inc.*
Sean Downey, CME Group Inc.
Kenneth Ottenbreit, Stikeman Elliott

Appendix "A"
Verification Certificate

To: Ontario Securities Commission

Dear Sirs/Mesdames:

Re: Application by Chicago Mercantile Exchange Inc., Board of Trade of the City of Chicago, Inc., Commodities Exchange, Inc. and New York Mercantile Exchange, Inc. (together, the "CMEG Exchanges")

The CMEG Exchanges hereby authorize the making and filing of the attached application by Stikeman Elliott LLP and confirm the truth of the facts contained therein as they relate to the CMEG Exchanges.

DATED August 2, 2013.

Chicago Mercantile Exchange Inc.

By: "Timothy Elliott"
Name: Timothy Elliott
Title: Executive Director, Associate General Counsel

Board of Trade of the City of Chicago, Inc.

By: "Timothy Elliott"
Name: Timothy Elliott
Title: Executive Director, Associate General Counsel

Commodity Exchange, Inc.

By: "Timothy Elliott"
Name: Timothy Elliott
Title: Executive Director, Associate General Counsel

New York Mercantile Exchange, Inc.

By: "Timothy Elliott"
Name: Timothy Elliott
Title: Executive Director, Associate General Counsel

**Appendix “B”
List of CMEG Contracts**

The list of CMEG Contracts is available for download as a PDF [here](#).

CMEG Exchanges – Draft Exemption Order

**IN THE MATTER OF
THE SECURITIES ACT, R.S.O. 1990, CHAPTER S. 5, AS AMENDED (THE OSA)**

AND

**IN THE MATTER OF
THE COMMODITY FUTURES ACT, R.S.O. 1990, CHAPTER C.20, AS AMENDED (THE CFA)**

AND

**IN THE MATTER OF
CHICAGO MERCANTILE EXCHANGE INC.,
BOARD OF TRADE OF THE CITY OF CHICAGO, INC.,
COMMODITY EXCHANGE, INC.,
AND
NEW YORK MERCANTILE EXCHANGE, INC.**

**ORDER
(Section 147 of the OSA and sections 38 and 80 of the CFA)**

WHEREAS Chicago Mercantile Exchange Inc. (**CME**), Board of Trade of the City of Chicago, Inc. (**CBOT**), Commodity Exchange, Inc. (**COMEX**) and New York Mercantile Exchange, Inc. (**NYMEX**) (together, the **CMEG Exchanges**, and each individually, a **CMEG Exchange**) have filed an application dated August 2, 2013 (**Application**) with the Ontario Securities Commission (**Commission**) requesting:

- (a) an order pursuant to section 147 of the OSA exempting each of the CMEG Exchanges from the requirement to be recognized as an exchange under subsection 21(1) of the OSA;
- (b) an order pursuant to section 80 of the CFA exempting each of the CMEG Exchanges from the requirement to be registered as a commodity futures exchange under subsection 15(1) of the CFA (together with the requested order above, **Exchange Relief**); and
- (c) an order pursuant to section 38 of the CFA exempting trades in contracts on the CMEG Exchanges by a “hedger”, as defined in subsection 1(1) of the CFA (**Hedger**), from the registration requirement under section 22 of the CFA (**Hedger Relief**);

AND WHEREAS OSC Rule 91-503 *Trades in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges Situate Outside of Ontario (Rule 91-503)* exempts trades of commodity futures contracts or commodity futures options made on commodity futures exchanges not registered with or recognized by the Commission under the CFA from sections 25 and 53 of the OSA;

AND WHEREAS the deemed rule titled *In the Matter of Trading in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges in the United States of America* provides that section 33 of the CFA does not apply to trades entered into a commodity futures exchanges designated by the United States (**U.S.**) Commodity Futures Trading Commission (**CFTC**) under the U.S. Commodity Exchange Act (**CEA**);

AND WHEREAS the CMEG Exchanges have represented to the Commission that:

- 1.1 Each of CME, CBOT and NYMEX is a corporation organized under the laws of the State of Delaware in the U.S. and is a wholly-owned subsidiary of CME Group Inc. (**CMEG**), a publicly traded for-profit corporation organized under the laws of Delaware and listed for trading on the NASDAQ National Market. COMEX is a corporation organized under the laws of the State of New York in the U.S. and is a wholly-owned subsidiary of CMEG. CMEG is the ultimate parent company of each of the CMEG Exchanges;
- 1.2 CMEG is also the ultimate parent holding company of Board of Trade of Kansas City, Missouri, Inc. (**KCBT**), a corporation organized under the laws of the State of Missouri in the U.S. and a wholly owned subsidiary of CMEG. CMEG acquired KCBT pursuant to an acquisition transaction completed on November 30, 2012. Trades executed on KCBT began clearing at CME Clearing on April 15, 2013 and KCBT’s open outcry floor-trading operations migrated to CBOT on July 1, 2013. KCBT is not seeking the Exchange Relief and Hedger Relief requested by the CMEG Exchanges and will not provide access to Ontario Participants to its trading systems and facilities. If KCBT wishes to carry on business as an exchange or a commodity futures exchange in Ontario, it will seek similar exemptive relief from the Commission before doing so;

- 1.3 The CMEG Exchanges receive a majority of their revenue from clearing and transaction fees, which include electronic trading fees, surcharges for privately-negotiated transactions and other volume-related charges for contracts executed through the CMEG Exchanges' trading venues;
- 1.4 CMEG, as the holding company for each of the CMEG Exchanges, has no operations of its own, does not have employees, relies upon the dividends declared and paid by its subsidiaries and has limited contractual arrangements. CME is the primary employer within the CMEG organization, with approximately 2,200 employees out of approximately 2,700 employees. Employees are employed elsewhere in the CMEG organization based upon the nature of the business, such as by CME Clearing Europe Limited, an indirect wholly-owned subsidiary of CMEG and the European clearing house for the CMEG Exchanges, and the particular office location, such as CMEG's technology-focused Belfast office;
- 1.5 Each of CME, CBOT, COMEX and NYMEX is a designated contract market (**DCM**) within the meaning of that term under the CEA. The CMEG Exchanges are subject to regulatory supervision by the CFTC, a U.S. federal regulatory agency. The CMEG Exchanges are obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces the CMEG Exchanges' adherence to the CEA and the regulations thereunder on an ongoing basis, including the DCM core principles (**DCM Core Principles**) relating to the operation and oversight of the CMEG Exchanges' markets, including financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection;
- 1.6 CME is also regulated as a derivatives clearing organization (**DCO**) by the CFTC, which results in CME being subject to extensive regulation by the CFTC under its principles-based approach and requires CME to satisfy the requirements of the DCO core principles relating to CME's activities as a DCO. Additionally, CME is deemed to be registered with the U.S. Securities and Exchange Commission (**SEC**) as a securities clearing agency, effective July 16, 2011, in accordance with certain provisions under subsection 763(b) of the *Dodd Frank Wall Street Reform and Consumer Protection Act*, and is therefore also subject to limited regulatory supervision by the SEC in connection with its offering of clearing services for single stock and narrow-based security index products;
- 1.7 The CFTC's Division of Market Oversight, Market Compliance Section conducts regular in-depth reviews of each DCM's ongoing compliance with CFTC regulations in order to enforce its rules, prevent market manipulation and customer and market abuses, and to ensure the recording and safe storage of trade information. The results of these rule enforcement reviews (**RERs**) are in most cases summarized in reports by the CFTC which are made available to the public and posted on the CFTC's website. The most recent RER for CME and CBOT was completed in September of 2010 and the most recent RER for NYMEX and COMEX was completed in August of 2011, and the CFTC's reports of such RERs did not identify any material deficiencies;
- 1.8 The CMEG Exchanges together form the largest commodity futures exchanges in the world and provide customers with trading and execution services for a diverse range of exchange-traded futures and options on futures (**exchange-traded products**). The exchange-traded products relate to underlyings in various asset classes, including short-term interest rates (Eurodollar, Euribor, U.S. Treasury Bills), government bonds (U.S. Treasury Bonds and Notes), medium and long-term swap rates (U.S. Dollar), narrow-based equity indices (U.S.-related S&P, NASDAQ and DJIA indices and Nikkei indices), commodity index swaps (gold, crude oil, UBS commodity index) and a broad range of commodities (e.g., gold, silver, platinum, palladium, copper, steel and uranium, cocoa, coffee, corn, sugar, wheat, oats, soybeans, live cattle and butter). In addition, the CMEG Exchanges offer trading in freight futures, forwards and options, iron futures, options and swap futures, fertilizer swaps and electricity swap futures (collectively with all other exchange-traded products offered for trading on the CMEG Exchanges, the **CMEG Contracts**);
- 1.9 The CMEG Exchanges have a wide range of sophisticated customers comprised of both buy- and sell-side investors, including commercial and investment banks, corporations, pension funds, money managers, proprietary trading firms, hedge funds, commodity trading advisers, currency overlay managers, other institutional customers and individuals;
- 1.10 The CMEG Exchanges do not have any offices or maintain other physical installations in Ontario or any other Canadian province or territory, except for a CMEG marketing office in Calgary, Alberta whose activities are limited to marketing and development of energy products;
- 1.11 CME Globex is an electronic trading platform and also functions as the electronic central limit order book for each of the CMEG Exchanges. It is maintained and operated by CME on behalf of each of the CMEG Exchanges in connection with their respective DCM registrations;
- 1.12 As an electronic trading platform, CME Globex facilitates trading for users in the U.S. and foreign jurisdictions of exchange-traded products that are traded and executed on the CMEG Exchanges. CME Globex also

facilitates trading of futures and options on futures on other exchanges, including: BM&FBOVESPA, Bursa Malaysia, the Dubai Mercantile Exchange and the Minneapolis Grain Exchange;

- 1.13 The CMEG Exchanges propose to offer access in Ontario to their trading systems and facilities, via CME Globex, to prospective participants in Ontario (**Ontario Participants**). To obtain direct access to the trading systems and facilities of the CMEG Exchanges, via CME Globex, an Ontario Participant must either be:
- (a) a “Member Firm”, as defined in the rules of the CMEG Exchanges, that is also a “Clearing Member”, as defined in the rules of the CMEG Exchanges (**CMEG Exchange Clearing Member**);
 - (b) a “Member” or “Member Firm”, as defined in the rules of the CMEG Exchanges (collectively, **CMEG Exchange Members**), that has executed a customer connection agreement with CME through which the CMEG Exchange Member can transmit orders and trades directly into CME Globex with the guarantee of a CMEG Exchange Clearing Member; or
 - (c) a non-CMEG Exchange Member that has executed a customer connection agreement with CME through which the non-CMEG Exchange Member:
 - (i) can transmit orders and trades directly into CME Globex with the guarantee of a CMEG Exchange Clearing Member, and
 - (ii) is required, among other things, to comply with the rules of the CMEG Exchanges to which access is granted, when entering and executing transactions via CME Globex, and to comply with all applicable laws pertaining to the use of CME Globex (all such non-CMEG Exchange Members herein referred to as **Direct Access Users**);
- 1.14 Indirect access by Ontario Participants to the trading systems and facilities of the CMEG Exchanges, via CME Globex, may be facilitated via an order-routing arrangement between the Ontario Participant and a CMEG Exchange Clearing Member whereby orders of the Ontario Participant, as client of the CMEG Exchange Clearing Member, are routed through the CMEG Exchange Clearing Member onto a CMEG Exchange (**Order-Routing Client**);
- 1.15 The CMEG Exchanges expect that an Ontario Participant seeking direct access in accordance with above paragraph 1.13 (**Ontario User**) will be certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 *Definitions*) and certain other market participants that have a head office or principal place of business in Ontario, such as (i) dealers that are engaged in the business of trading commodity futures in Ontario; (ii) utilities and other commercial enterprises that are exposed to risks attendant upon fluctuations in the price of a commodity; and (iii) institutional investors and proprietary trading firms. In each case, the CMEG Exchanges expect that Ontario Users will be (i) dealers that are engaged in the business of trading commodity futures and commodity options in Ontario, or (ii) Hedgers;
- 1.16 The CMEG Contracts fall within the definitions of “commodity futures contract” or “commodity futures option” as defined in section 1 of the CFA. As a result, each of the CMEG Exchanges is considered a “commodity futures exchange” as defined in section 1 of the CFA. Therefore the CMEG Exchanges are prohibited from carrying on business in Ontario unless they are registered or exempt from registration as a commodity futures exchange under subsection 15(1) of the CFA;
- 1.17 As the CMEG Exchanges intend to provide Ontario Participants with access in Ontario to their trading systems and facilities to trade the CMEG Contracts via CME Globex, the CMEG Exchanges are considered to be “carrying on business as commodity futures exchanges in Ontario”;
- 1.18 None of the CMEG Exchanges is registered with or recognized by the Commission as a commodity futures exchange under the CFA and no CMEG Contracts have been accepted by the Director (as defined in the OSA) under the CFA. As a result, CMEG Contracts are also considered “securities” under paragraph (p) of the definition of “security” in section 1 of the OSA and each of the CMEG Exchanges is considered to be an “exchange” under the OSA. Therefore, the CMEG Exchanges are prohibited from carrying on business in Ontario unless they are recognized or exempt from recognition under subsection 21(1) of the OSA;
- 1.19 Further, while the CMEG Contracts are also considered “securities” under paragraph (p) of the definition of “security” in section 1 of the OSA for the reasons outlined in the preceding paragraph, the CMEG Contracts would not be considered “securities” under any other paragraph contained in that definition;
- 1.20 Similar to paragraph 1.17 above, since the CMEG Exchanges seek to provide Ontario Participants with access in Ontario to trade the CMEG Contracts via CME Globex, they are considered to be “carrying on business as exchanges in Ontario”;

- 1.21 Additionally, the exemption from registration in subsection 32(a) of the CFA applies for trades “by a hedger through a dealer”. This exemption will be available for trades in CMEG Contracts by Ontario-resident Hedgers that are Order-Routing Clients of CMEG Exchange Clearing Members that are dealers. However, this exemption will not be available for trades in CMEG Contracts by Ontario-resident Hedgers that become Ontario Users, since they will have direct access to a CMEG Exchange but will not be considered to be executing “through a dealer”. For this reason, the CMEG Exchanges are seeking Commission approval for the Hedger Relief;
- 1.22 The CMEG Exchanges ensure that all applicants for membership must satisfy certain criteria before their applications are considered by their membership committees, including, among other things: age of majority, good moral character, good reputation, business integrity and adequate financial resources to assume the responsibilities and privileges of membership;
- 1.23 All CMEG Exchange Clearing Members that guarantee a CMEG Exchange Member or Direct Access User in connection with the provision of direct access under above paragraph 1.13 or that provide order routing access to an Order-Routing Client under above paragraph 1.14 will be registered futures commission merchants with the CFTC. Such CMEG Exchange Clearing Members are subject to the compliance requirements of the CEA, the CFTC and the National Futures Association as they relate to customer accounts, including various know-your-client, suitability, risk disclosure, anti-money laundering and anti-fraud requirements. These requirements, in conjunction with the margin requirements of the CMEG Exchanges applicable to CMEG Exchange Clearing Members, and subsequently to their clients whose trades they guarantee, ensure that Ontario Participants seeking to become Direct Access Users or Order-Routing Clients that are not also CMEG Exchange Members are subjected to appropriate due diligence procedures and fitness criteria. In addition, Direct Access Users are responsible for, among other things, compliance with the rules of the CMEG Exchanges to which access is granted, as those rules relate to the entering and executing of transactions via CME Globex, and to comply with all applicable laws pertaining to the use of CME Globex;
- 1.24 Based on the facts set out in the Application, each of the CMEG Exchanges satisfies the criteria for exemption set out in Appendix 1 of Schedule “A” to this order;

AND WHEREAS the Commission will monitor developments in international and domestic capital markets and the CMEG Exchange’s activities on an ongoing basis to determine whether it is appropriate for the Commission to continue to grant the Exchange Relief or Hedger Relief and, if so, whether it is appropriate for the Exchange Relief and Hedger Relief to continue to be granted subject to the terms and conditions set out in Schedule “A” to this order;

AND WHEREAS the CMEG Exchanges have acknowledged to the Commission that the scope of the Exchange Relief or Hedger Relief and the terms and conditions imposed by the Commission set out in Schedule “A” to this order may change as a result of its monitoring of developments in international and domestic capital markets or the CMEG Exchange’s activities, or as a result of any changes to the laws in Ontario affecting trading in derivatives, commodity futures contracts or securities;

AND WHEREAS based on the Application, together with the representations made by and acknowledgements of the CMEG Exchanges to the Commission, the Commission has determined that:

- (a) the CMEG Exchanges satisfy the criteria for exemption set out in Appendix 1 of Schedule “A”;
- (b) the granting of the Exchange Relief would not be prejudicial to the public interest; and
- (c) the granting of the Hedger Relief would not be prejudicial to the public interest;

IT IS HEREBY ORDERED by the Commission that:

- (a) pursuant to section 147 of the OSA, each of the CMEG Exchanges is exempt from recognition as an exchange under subsection 21(1) of the OSA,
- (b) pursuant to section 80 of the CFA, each of the CMEG Exchanges is exempt from registration as a commodity futures exchange under subsection 15(1) of the CFA, and
- (c) pursuant to section 38 of the CFA, trades in CMEG Contracts by Hedgers who are Ontario Users are exempt from the registration requirement under section 22 of the CFA;

PROVIDED THAT the CMEG Exchanges comply with the terms and conditions attached hereto as Schedule “A”.

DATED ●, 2013.

SCHEDULE "A"
TERMS AND CONDITIONS

Meeting Criteria for Exemption

1. Each CMEG Exchange will continue to meet the criteria for exemption included in Appendix 1 to this schedule.

Regulation and Oversight of the CMEG Exchanges

2. Each CMEG Exchange will maintain its registration as a DCM with the CFTC and will continue to be subject to the regulatory oversight of the CFTC.
3. Each CMEG Exchange will continue to comply with the ongoing requirements applicable to it as a DCM registered with the CFTC.
4. Each CMEG Exchange must do everything within its control, which would include cooperating with the Commission as needed, to carry out its activities as an exchange exempted from recognition under subsection 21(1) of the OSA, as a commodity futures exchange exempted from registration under subsection 15(1) of the CFA, and in compliance with Ontario securities law and Ontario commodity futures law.

Access

5. A CMEG Exchange will not provide direct access to an Ontario User unless the Ontario User is appropriately registered to trade in CMEG Contracts or is a Hedger; in making this determination, a CMEG Exchange may reasonably rely on a written representation from the Ontario User that specifies either that it is appropriately registered to trade in CMEG Contracts or that it is a Hedger, and the CMEG Exchange will notify such Ontario User that this representation is deemed to be repeated each time it enters an order for a CMEG Contract.
6. Each Ontario User that intends to rely on the Hedger Relief will be required to, as part of its application documentation or continued access to trading in CMEG Contracts:
 - (a) represent that it is a Hedger;
 - (b) acknowledge that the CMEG Exchanges deem the Hedger representation to be repeated by the Ontario User each time it enters an order for a CMEG Contract and that the Ontario User must be a Hedger for the purposes of each trade resulting from such an order;
 - (c) agree to notify the CMEG Exchanges if it ceases to be a Hedger;
 - (d) represent that it will only enter orders for its own account;
 - (e) acknowledge that it is a market participant under the CFA and is subject to applicable requirements; and
 - (f) acknowledge that its ability to continue to rely on the Hedger Relief in accessing trading on the CMEG Exchanges will be dependent on the Commission continuing to grant the relief and may be affected by changes to the terms and conditions imposed in connection with the Hedger Relief or by changes to Ontario securities laws or Ontario commodity futures laws pertaining to derivatives, commodity futures contracts or securities.
7. Each CMEG Exchange will require Ontario Users to notify the CMEG Exchange if their registration has been revoked, suspended or amended by the Commission or if they have ceased to be a Hedger and, following notice from the Ontario User or the Commission and subject to applicable laws, the CMEG Exchange will promptly restrict the Ontario User's access to the CMEG Exchange if the Ontario User is no longer appropriately registered with the Commission, or is no longer a Hedger.
8. Each CMEG Exchange must provide guidance to all CMEG Exchange Clearing Members that provide access to trading for Order-Routing Clients that are Ontario Participants that indicates that the CMEG Exchange Clearing Member is permitted to grant such access provided that (i) the Order-Routing Client is a registered futures commission merchant (**FCM**) under the CFA; (ii) the CMEG Exchange Clearing Member is a registered FCM under the CFA or (iii) the CMEG Exchange Clearing Member is regulated as a "dealer" (as that term is defined in subsection 1(1) of the CFA) in its home jurisdiction and the Order-Routing Client is a Hedger or is able to rely on another exemption from registration under the CFA.

9. Each CMEG Exchange must make available to Ontario Users appropriate training for each person who has access to trade in CMEG Contracts on CME Globex.

Trading by Ontario Users

10. A CMEG Exchange will not provide access to an Ontario User to trading in the exchange-traded products of an exchange other than those of the CMEG Exchange, unless such other exchange has sought and received appropriate regulatory standing in Ontario.
11. A CMEG Exchange will not provide access to an Ontario User to trading in CMEG Contracts other than those that meet the definition of “commodity futures contract” or “commodity futures option” as defined in subsection 1(1) of the CFA, and which also fall under paragraph (p) of the definition of “security” in subsection 1(1) of the OSA, without prior Commission approval.

Submission to Jurisdiction and Agent for Service

12. With respect to a proceeding brought by the Commission arising out of, related to, concerning or in any other manner connected with the Commission’s regulation and oversight of the activities of a CMEG Exchange in Ontario, the CMEG Exchange will submit to the non-exclusive jurisdiction of (i) the courts and administrative tribunals of Ontario and (ii) an administrative proceeding in Ontario.
13. Each CMEG Exchange will file with the Commission a valid and binding appointment of an agent for service in Ontario upon whom the Commission may serve a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal, penal or other proceeding arising out of or relating to or concerning the Commission’s regulation and oversight of a CMEG Exchange’s activities in Ontario.

Disclosure

14. Each CMEG Exchange will provide to its Ontario Users, and also require Ontario Users that are registered FCMs under the CFA to distribute to Ontario clients, prior to the first trade by each client that is executed through the facilities of the CMEG Exchange, disclosure that states that:
 - (a) rights and remedies against the CMEG Exchange may only be governed by the laws of the U.S., rather than the laws of Ontario and may be required to be pursued in the U.S. rather than in Ontario;
 - (b) the rules applicable to trading on the CMEG Exchange may be governed by the laws of the U.S., rather than the laws of Ontario; and
 - (c) the CMEG Exchange is regulated by the CFTC, rather than the Commission.

Filings with the CFTC

15. Each CMEG Exchange will promptly provide staff of the Commission copies of all material rules of the CMEG Exchange, and material amendments to those rules, that it files with the CFTC under the regulations pertaining to self-certification and/or approval.
16. Each CMEG Exchange will promptly provide staff of the Commission copies of all material contract specifications and material amended contract specifications that it files with the CFTC under the regulations pertaining to self-certification and/or approval.
17. A CMEG Exchange will promptly provide staff of the Commission the following information to the extent it is required to file such information with the CFTC:
 - (a) the annual Board of Directors’ report regarding the activities of the board and its committees;
 - (b) the annual financial statements of the CMEG Exchange;
 - (c) details of any material legal proceeding instituted against the CMEG Exchange;
 - (d) notification that the CMEG Exchange has instituted a petition for a judgment of bankruptcy or insolvency or similar relief, or to wind up or liquidate the CMEG Exchange or has a proceeding for any such petition instituted against it; and

- (e) the appointment of a receiver or the making of any voluntary arrangement with creditors.

Prompt Notice or Filing

- 18. Each CMEG Exchange will promptly notify staff of the Commission of any of the following:
 - (a) any material change to its business or operations or the information provided in the Application, including, but not limited to:
 - (i) changes to the regulatory oversight by the CFTC;
 - (ii) the corporate governance structure of that CMEG Exchange;
 - (iii) the access model, including eligibility criteria, for Ontario Participants;
 - (iv) systems and technology; and
 - (v) the clearing and settlement arrangements for that CMEG Exchange;
 - (b) any change in that CMEG Exchange's regulations or the laws, rules and regulations in the U.S. relevant to futures and options where such change may materially affect its ability to meet the criteria set out in Appendix 1 to this schedule;
 - (c) any condition or change in circumstances whereby that CMEG Exchange is unable or anticipates it will not be able to continue to meet the DCM Core Principles or any applicable requirements of the CEA or CFTC regulations;
 - (d) any known investigations of, or disciplinary action against, that CMEG Exchange by the CFTC or any other regulatory authority to which it is subject;
 - (e) any matter known to that CMEG Exchange that may affect its financial or operational viability, including, but not limited to, any significant system failure or interruption; and
 - (f) any default, insolvency, or bankruptcy of any CME Exchange Member known to that CMEG Exchange or its representatives that may have a material, adverse impact upon the CMEG Exchange, the CME clearing system or any Ontario Participant.
- 19. Each CMEG Exchange will promptly file with staff of the Commission copies of any Rule Enforcement Review report regarding the CMEG Exchange once issued as final by the CFTC.

Quarterly Reporting

- 20. The CMEG Exchanges will maintain the following updated information and submit such information in a manner and form acceptable to the Commission on a quarterly basis (within 30 days of the end of each calendar quarter), and at any time promptly upon the request of staff of the Commission:
 - (a) a current list of all Ontario Users, specifically identifying for each Ontario User:
 - (i) its status as CMEG Exchange Clearing Member, CMEG Exchange Member or Direct Access User for each CMEG Exchange, and
 - (ii) the basis upon which it represented to a CMEG Exchange that it could be provided with direct access (i.e., that it is appropriately registered to trade in CMEG Contracts or is a Hedger);
 - (b) a list of all Ontario Users against whom disciplinary action has been taken in the last quarter by a CMEG Exchange or, to the best of the CMEG Exchanges' knowledge, by the CFTC with respect to such Ontario Users' activities on a CMEG Exchange;
 - (c) a list of all referrals to the CMEG Market Regulation Enforcement group by a CMEG Exchange concerning Ontario Users;
 - (d) a list of all Ontario applicants for status as an Ontario User who were denied such status or access to a CMEG Exchange during the quarter;
 - (e) a list of all new by-laws, rules, and contract specifications, and changes to by-laws, rules and contract specifications, not already reported under sections 15 and 16 of this schedule;
 - (f) a list of all CMEG Contracts available for trading during the quarter, identifying any additions, deletions or changes since the prior quarter;

- (g) for each CMEG Contract,
 - (i) the total trading volume and value originating from Ontario Users, presented on a per Ontario User basis, and
 - (ii) the proportion of worldwide trading volume and value on the CMEG Exchanges conducted by Ontario Users, presented in the aggregate for such Ontario Users; and
- (h) a list outlining each incident of a significant system outage that occurred at any time during the quarter for any system impacting Ontario Users' trading activity, including trading, routing or data, specifically identifying the date, duration and reason for the outage, and noting any corrective action taken.

Annual Reporting

- 21. The CMEG Exchanges will arrange to have the annual report and annual audited financial statements of CMEG filed with the Commission promptly after their issuance.
- 22. The CMEG Exchanges will arrange to have the annual "Service Organization Controls 1" report prepared for CMEG filed with the Commission promptly after the report is issued as final by its independent auditor.

Information Sharing

- 23. The CMEG Exchanges will provide information (including additional periodic reporting) as may be requested from time to time by, and otherwise cooperate with, the Commission or its staff, subject to any applicable privacy or other laws (including solicitor-client privilege) governing the sharing of information and the protection of personal information.

APPENDIX 1

CRITERIA FOR EXEMPTION

PART 1 REGULATION OF THE EXCHANGE

1.1 Regulation of the Exchange

The exchange is regulated in an appropriate manner in another jurisdiction by a foreign regulator (Foreign Regulator).

1.2 Authority of the Foreign Regulator

The Foreign Regulator has the appropriate authority and procedures for oversight of the exchange. This includes regular, periodic oversight reviews of the exchange by the Foreign Regulator.

PART 2 GOVERNANCE

2.1 Governance

The governance structure and governance arrangements of the exchange ensure:

- (a) effective oversight of the exchange,
- (b) that business and regulatory decisions are in keeping with its public interest mandate,
- (c) fair, meaningful and diverse representation on the board of directors (Board) and any committees of the Board, including:
 - (i) appropriate representation of independent directors, and
 - (ii) a proper balance among the interests of the different persons or companies using the services and facilities of the exchange,
- (d) the exchange has policies and procedures to appropriately identify and manage conflicts of interest, and
- (e) there are appropriate qualifications, remuneration, limitation of liability and indemnity provisions for directors, officers and employees of the exchange.

2.2 Fitness

The exchange has policies and procedures under which it will take reasonable steps, and has taken such reasonable steps, to ensure that each director and officer is a fit and proper person.

PART 3 REGULATION OF PRODUCTS

3.1 Review and Approval of Products

The products traded on the exchange and any changes thereto are reviewed by the Foreign Regulator, and are either approved by the Foreign Regulator or are subject to requirements established by the Foreign Regulator that must be met before implementation of a product or changes to a product.

3.2 Product Specifications

The terms and conditions of trading the products are in conformity with the usual commercial customs and practices for the trading of such products.

3.3 Risks Associated with Trading Products

The exchange maintains adequate provisions to measure, manage and mitigate the risks associated with trading products on the exchange including, but not limited to, margin requirements, intra-day margin calls, daily trading limits, price limits, position limits, and internal controls.

PART 4 ACCESS

4.1 Fair Access

- (a) The exchange has established appropriate written standards for access to its services including requirements to ensure
 - (i) participants are appropriately registered as applicable under Ontario securities laws or Ontario commodity futures laws, or exempted from these requirements,
 - (ii) the competence, integrity and authority of systems users, and
 - (iii) systems users are adequately supervised.
- (b) The access standards and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.
- (c) The exchange does not unreasonably prohibit, condition or limit access by a person or company to services offered by it.
- (d) The exchange does not
 - (i) permit unreasonable discrimination among participants, or
 - (ii) impose any burden on competition that is not reasonably necessary and appropriate.

PART 5 REGULATION OF PARTICIPANTS ON THE EXCHANGE

5.1 Regulation

The exchange has the authority, resources, capabilities, systems and processes to allow it to perform its regulation functions, whether directly or indirectly through a regulation services provider, including setting requirements governing the conduct of its participants, monitoring their conduct, and appropriately disciplining them for violations of exchange requirements.

PART 6 RULEMAKING

6.1 Purpose of Rules

- (a) The exchange has rules, policies and other similar instruments (Rules) that are designed to appropriately govern the operations and activities of participants.
- (b) The Rules are not contrary to the public interest and are designed to
 - (i) ensure compliance with applicable legislation,
 - (ii) prevent fraudulent and manipulative acts and practices,
 - (iii) promote just and equitable principles of trade,
 - (iv) foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in the products traded on the exchange,
 - (v) provide a framework for disciplinary and enforcement actions, and
 - (vi) ensure a fair and orderly market.

PART 7 DUE PROCESS

7.1 Due Process

For any decision made by the exchange that affects a participant, or an applicant to be a participant, including a decision in relation to access, exemptions, or discipline, the exchange ensures that:

- (a) parties are given an opportunity to be heard or make representations, and
- (b) it keeps a record of, gives reasons for, and provides for appeals or reviews of its decisions.

PART 8 CLEARING AND SETTLEMENT

8.1 Clearing Arrangements

The exchange has appropriate arrangements for the clearing and settlement of transactions through a clearing house.⁴

8.2 Regulation of the Clearing House

The clearing house is subject to acceptable regulation.

8.3 Authority of Regulator

A foreign regulator has the appropriate authority and procedures for oversight of the clearing house. This includes regular, periodic regulatory examinations of the clearing house by the foreign regulator.

8.4 Access to the Clearing House

- (a) The clearing house has established appropriate written standards for access to its services.
- (b) The access standards for clearing members and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.

8.5 Sophistication of Technology of Clearing House

The exchange has assured itself that the information technology used by the clearing house has been adequately reviewed and tested and provides at least the same level of safeguards as required of the exchange.

8.6 Risk Management of Clearing House

The exchange has assured itself that the clearing house has established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls.

PART 9 SYSTEMS AND TECHNOLOGY

9.1 Systems and Technology

Each of the exchange's critical systems has appropriate internal controls to ensure completeness, accuracy, integrity and security of information, and, in addition, has sufficient capacity and business continuity plans to enable the exchange to properly carry on its business. Critical systems are those that support the following functions:

- (a) order entry,
- (b) order routing,
- (c) execution,
- (d) trade reporting,
- (e) trade comparison,
- (f) data feeds,
- (g) market surveillance,
- (h) trade clearing, and
- (i) financial reporting.

⁴ For the purposes of these criteria, "clearing house" also means a "clearing agency".

9.2 Information Technology Risk Management Procedures

The exchange has appropriate risk management procedures in place including those that handle trading errors, trading halts and circuit breakers.

PART 10 FINANCIAL VIABILITY

10.1 Financial Viability

The exchange has sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

PART 11 TRANSPARENCY

11.1 Transparency

The exchange has adequate arrangements to record and publish accurate and timely trade and order information. This information is provided to all participants on an equitable basis.

PART 12 RECORD KEEPING

12.1 Record Keeping

The exchange has and maintains adequate systems in place for the keeping of books and records, including, but not limited to, those concerning the operations of the exchange, audit trail information on all trades, and compliance with, and/or violations of exchange requirements.

PART 13 OUTSOURCING

13.1 Outsourcing

Where the exchange has outsourced any of its key services or systems to a service provider, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations and that are in accordance with industry best practices.

PART 14 FEES

14.1 Fees

- (a) All fees imposed by the exchange are reasonable and equitably allocated and do not have the effect of creating an unreasonable condition or limit on access by participants to the services offered by the exchange.
- (b) The process for setting fees is fair and appropriate, and the fee model is transparent.

PART 15 INFORMATION SHARING AND OVERSIGHT ARRANGEMENTS

15.1 Information Sharing and Regulatory Cooperation

The exchange has mechanisms in place to enable it to share information and otherwise co-operate with the Commission, self-regulatory organizations, other exchanges, clearing agencies, investor protection funds, and other appropriate regulatory bodies.

15.2 Oversight Arrangements

Satisfactory information sharing and oversight agreements exist between the Ontario Securities Commission and the Foreign Regulator.

PART 16 IOSCO PRINCIPLES

16.1 IOSCO Principles

To the extent it is consistent with the laws of the foreign jurisdiction, the exchange adheres to the standards of the International Organisation of Securities Commissions (IOSCO) including those set out in the "Principles for the Regulation and Supervision of Commodity Derivatives Markets" (2011).