

**CME CLEARING EUROPE LIMITED
APPLICATION FOR REGISTRATION AS A DERIVATIVES CLEARING ORGANIZATION
COMPLIANCE WITH CORE PRINCIPLES**

| DCO Core Principles | CMECE Response |
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| (A) Compliance | |
| <p>(i) IN GENERAL. To be registered and to maintain registration as a derivatives clearing organization, a derivatives clearing organization shall comply with each core principle described in this paragraph and any requirement that the Commission may impose by rule or regulation pursuant to section 8a(5).</p> <p>(ii) DISCRETION OF DERIVATIVES CLEARING ORGANIZATION. Subject to any rule or regulation prescribed by the Commission, a derivatives clearing organization shall have reasonable discretion in establishing the manner by which the derivatives clearing organization complies with each core principle described in this paragraph.</p> | <p>See the Letter from Andrew Lamb to David Stawick, dated November 26, 2010 (the "Application Letter"), and the exhibits thereto, and this Table.</p> |
| (B) Financial resources | |
| <p>(i) IN GENERAL. Each derivatives clearing organization shall have adequate financial, operational, and managerial resources, as determined by the Commission, to discharge each responsibility of the derivatives clearing organization.</p> <p>(ii) MINIMUM AMOUNT OF FINANCIAL RESOURCES. Each derivatives clearing organization shall possess financial resources that, at a minimum, exceed the total amount that would—</p> <p style="padding-left: 40px;">(l) enable the organization to meet its financial obligations to its members and participants notwithstanding a default by the member or participant creating the largest financial exposure for that organization in extreme but plausible market conditions;</p> | <p>See Section I.A., I.B., IV.B., and IV.C. of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit C – Biographical Information of Directors • Confidential Exhibit G – Organizational Chart for CMECE • Confidential Exhibit H – Biographical Information of Employees • Confidential Exhibit I – Services Agreement • Confidential Exhibit J – CMECE Financial Projections • Confidential Exhibit K – Intercompany Note • Confidential Exhibit L – CME Group Comfort Letter • Confidential Exhibit N – Clearing Procedures (Risk Management Procedure) • Confidential Exhibit N – Clearing Procedures (Guarantee |

and

(II) enable the derivatives clearing organization to cover the operating costs of the derivatives clearing organization for a period of 1 year (as calculated on a rolling basis).

Fund Procedure)

- Confidential Exhibit S - CMECE SPAN Implementation Paper
- Confidential Exhibit T – Guarantee Fund Policy
- Confidential Exhibit U – CMECE Notice Regarding Transitional Period for Guarantee Fund Contributions
- Confidential Exhibit V – CMECE Collateral Policy
- Confidential Exhibit W – Stress Testing Policy
- Confidential Exhibit X – Hypothetical Stress Test Results

Based on the prior experience of CME in conducting clearing operations, and CMECE Management’s experience at other clearing organizations, CMECE believes that its current staffing levels, in conjunction with the services provided by CME under the Services Agreement, are sufficient for its initial projected operations. CMECE will reassess its staffing needs from time to time based on the level of business and product types being cleared.

Through the collection of Margin under its Risk Management Procedures and the maintenance of Guarantee Fund (including CMECE’s contribution to the Guarantee Fund), CMECE will possess financial resources that, at a minimum, exceed the total amount that would enable CMECE to meet its financial obligations to its Clearing Members, notwithstanding a default by the Clearing Member creating the largest financial exposure for CMECE in extreme but plausible market conditions. The adequacy of CMECE’s default resources are stress tested on a daily basis.

CMECE currently has, and will maintain, financial resources that, at a minimum, enable CMECE to cover its projected operational expenses on a rolling one–year basis.

| (C) Participant and product eligibility | |
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| <p>(i) IN GENERAL. Each derivatives clearing organization shall establish—</p> <ul style="list-style-type: none"> (I) appropriate admission and continuing eligibility standards (including sufficient financial resources and operational capacity to meet obligations arising from participation in the derivatives clearing organization) for members of, and participants in, the derivatives clearing organization; and (II) appropriate standards for determining the eligibility of agreements, contracts, and transactions submitted to the derivatives clearing organization for clearing. <p>(ii) REQUIRED PROCEDURES. Each derivatives clearing organization shall establish and implement procedures to verify, on an ongoing basis, the compliance of each participation and membership requirement of the derivatives clearing organization.</p> <p>(iii) REQUIREMENTS. The participation and membership requirements of each derivatives clearing organization shall—</p> <ul style="list-style-type: none"> (I) be objective; (II) be publicly disclosed; and (III) permit fair and open access. | <p>See Section II and III of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit A – CMECE Rules • Confidential Exhibit N – Clearing Procedures (CMECE Membership Procedure) • Confidential Exhibit O – Clearing Member Application • Confidential Exhibit P – Clearing Member Agreement • Confidential Exhibit R – Terms of Reference of the Risk Committee <p>Clearing Members must apply to CMECE for Clearing Membership and meet certain minimum standards. These standards are set forth in the CMECE Rules, which are publicly available. Among other requirements, these standards require that the applicant must: have all necessary licenses to become a Clearing Member (which includes, for any applicant located in the U.S. clearing for customers, or any applicant that that intends to clear for U.S. domiciled customers, that it be registered with the Commission as a “futures commission merchant” and be an “eligible contract participant”); meet minimum capital requirements of £10 million; have made a contribution to the Guarantee Fund (currently a minimum of \$2.5 million); satisfy CMECE as to its fitness and propriety, financial, operational, technical, and risk management capacity and competence; and satisfy CMECE that it has written anti–money laundering, risk management, disaster recovery, and business continuity policies.</p> <p>The CMECE Risk and Membership Department is responsible for verifying, on an ongoing basis, the compliance of Clearing Members with the CMECE admission and eligibility standards and monitoring compliance with the CMECE Rules.</p> <p>Clearing activities and risk policies with respect to a new product must be endorsed and recommended by CMECE’s Risk</p> |

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| | Committee, and confirmed by the Board of Directors, before the new product is introduced and implemented. |
| (D) Risk management | |
| <p>(i) IN GENERAL. Each derivatives clearing organization shall ensure that the derivatives clearing organization possesses the ability to manage the risks associated with discharging the responsibilities of the derivatives clearing organization through the use of appropriate tools and procedures.</p> <p>(ii) MEASUREMENT OF CREDIT EXPOSURE. Each derivatives clearing organization shall—</p> <p style="padding-left: 40px;">(I) not less than once during each business day of the derivatives clearing organization, measure the credit exposures of the derivatives clearing organization to each member and participant of the derivatives clearing organization; and</p> <p style="padding-left: 40px;">(II) monitor each exposure described in subclause (I) periodically during the business day of the derivatives clearing organization.</p> <p>(iii) LIMITATION OF EXPOSURE TO POTENTIAL LOSSES FROM DEFAULTS. Each derivatives clearing organization, through margin requirements and other risk control mechanisms, shall limit the exposure of the derivatives clearing organization to potential losses from defaults by members and participants of the derivatives clearing organization to ensure that—</p> <p style="padding-left: 40px;">(I) the operations of the derivatives clearing organization would not be disrupted; and</p> <p style="padding-left: 40px;">(II) nondefaulting members or participants would not be exposed to losses that nondefaulting members or participants cannot anticipate or control.</p> <p>(iv) MARGIN REQUIREMENTS. The margin required from</p> | <p>See Section IV of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit A – CMECE Rules • Confidential Exhibit I – Services Agreement • Confidential Exhibit N – Clearing Procedures (Risk Management Procedure) • Confidential Exhibit N – Clearing Procedures (Guarantee Fund Procedure) • Confidential Exhibit Q – Terms of Reference of the Audit Committee • Confidential Exhibit R – Terms of Reference of the Risk Committee • Confidential Exhibit T – Guarantee Fund Policy • Confidential Exhibit W – Stress Testing Policy • Confidential Exhibit X – Hypothetical Stress Test Results • Confidential Exhibit CC – Settlement Price Procedures <p>CMECE has systems and procedures to manage the risks associated with discharging its obligations as a DCO. CMECE's risk management practices are ultimately overseen by the Board of Directors. The COO and the risk team are responsible for the implementation of risk management policies and procedures, but the Audit Committee and the Risk Management Committee provide oversight of the effective implementation and adequacy of risk policies and practices.</p> <p>CMECE runs a comprehensive suite of risk-based stress testing analysis on a daily basis to inform decisions on margin adequacy (including the need for additional margin), Guarantee Fund adequacy, and for general Clearing Member monitoring.</p> |

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| <p>each member and participant of a derivatives clearing organization shall be sufficient to cover potential exposures in normal market conditions.</p> <p>(v) REQUIREMENTS REGARDING MODELS AND PARAMETERS. Each model and parameter used in setting margin requirements under clause (iv) shall be:</p> <ul style="list-style-type: none"> (I) risk-based; and (II) reviewed on a regular basis. | <p>CMECE manages its counterparty and market risk by margining each Clearing Member's Contracts on a daily and intra-day basis according to the Risk Management Procedure. CMECE will maintain a Guarantee Fund in accordance with the Guarantee Fund Procedure.</p> |
| <p>(E) Settlement procedures</p> | |
| <p>Each derivatives clearing organization shall—</p> <ul style="list-style-type: none"> (i) complete money settlements on a timely basis (but not less frequently than once each business day); (ii) maintain an accurate record of the flow of funds associated with each money settlement; (iii) possess the ability to comply with each term and condition of any permitted netting or offset arrangement with any other clearing organization; (iv) employ money settlement arrangements to eliminate or strictly limit the exposure of the derivatives clearing organization to settlement bank risks (including credit and liquidity risks from the use of banks to effect money settlements); (v) ensure that money settlements are final when effected; (vi) regarding physical settlements, establish rules that clearly state each obligation of the derivatives clearing organization with respect to physical deliveries; and (vii) ensure that each risk arising from an obligation described in clause (vi) is identified and managed. | <p>See Section V.B. of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit A – CMECE Rules • Confidential Exhibit O – Clearing Procedures (Clearing and Settlement Procedure) • Confidential Exhibit Y – Settlement Bank Agreement with Barclays Bank • Confidential Exhibit Z – Settlement Bank Agreement with JPMorgan N.A. • Confidential Exhibit AA – Custody Agreement • Confidential Exhibit CC – Settlement Price Procedures <p>CMECE operates two settlement cycles each clearing day and maintains accurate flow-of-funds records for each such settlement. CMECE is not a party to any netting or offsetting arrangement with any other clearing organization. CMECE's settlement process is conducted through its Settlement Banks. Settlement payments are made in eligible cash, but once eligible cash is received by CMECE, Clearing Members are permitted to substitute eligible securities. CMECE does not anticipate physical delivery.</p> |

| (F) Treatment of funds | |
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| <p>(i) REQUIRED STANDARDS AND PROCEDURES. Each derivatives clearing organization shall establish standards and procedures that are designed to protect and ensure the safety of member and participant funds and assets.</p> <p>(ii) HOLDING OF FUNDS AND ASSETS. Each derivatives clearing organization shall hold member and participant funds and assets in a manner by which to minimize the risk of loss or of delay in the access by the derivatives clearing organization to the assets and funds.</p> <p>(iii) PERMISSIBLE INVESTMENTS. Funds and assets invested by a derivatives clearing organization shall be held in instruments with minimal credit, market, and liquidity risks.</p> | <p>See Section VI of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit A – CMECE Rules • Confidential Exhibit Y – Settlement Bank Agreement with Barclays Bank • Confidential Exhibit Z – Settlement Bank Agreement with JPMorgan N.A. • Confidential Exhibit AA – Custody Agreement • Confidential Exhibit BB – CMECE Investment Policy <p>CMECE intends to designate several banks to act as “Settlement Banks,” which will maintain accounts and settle and hold funds on behalf of Clearing Members and which also will maintain accounts and settle and hold funds for CMECE. The current Settlement Banks are Barclays Bank plc, JPMorgan N.A. (acting through its London branch) and, CMECE will designate a settlement bank in the United States with respect to CMECE’s Sequestered Client Account.</p> <p>CMECE will maintain the following accounts at each Settlement Bank: (i) CMECE Segregated Client Account, (ii) CMECE Non-Segregated Client Account, (iii) CMECE house, (iv) CMECE Guarantee Fund, and (v) fees and charges. Additionally, CMECE will maintain a CMECE Sequestered Client Account at a bank located in the United States. Funds in the CMECE Sequestered Client Account, the CMECE Segregated Client Account and the CMECE Non-Segregated Client Account may not be comingled with each other, or with the other CMECE accounts.</p> <p>CMECE’s investment policy limits both counterparty risk and concentrations of counterparty risk in respect of investments. CMECE’s investment policy with respect to Client funds includes only the investments permitted by CFTC Regulation 1.25.</p> |

| (G) Default rules and procedures | |
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| <p>(i) IN GENERAL. Each derivatives clearing organization shall have rules and procedures designed to allow for the efficient, fair, and safe management of events during which members or participants—</p> <ul style="list-style-type: none"> (I) become insolvent; or (II) otherwise default on the obligations of the members or participants to the derivatives clearing organization. <p>(ii) DEFAULT PROCEDURES. Each derivatives clearing organization shall—</p> <ul style="list-style-type: none"> (I) clearly state the default procedures of the derivatives clearing organization; (II) make publicly available the default rules of the derivatives clearing organization; and (III) ensure that the derivatives clearing organization may take timely action— <ul style="list-style-type: none"> (aa) to contain losses and liquidity pressures; and (bb) to continue meeting each obligation of the derivatives clearing organization. | <p>See Section VII of the Application Letter.</p> <p>See the following Exhibit to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit A – CMECE Rules <p>CMECE has publicly available default rules that clearly state the procedures of CMECE upon an “Event of Default.” A Clearing Member “Event of Default” includes: (i) the failure of a Clearing Member to discharge any obligation to CMECE; (ii) the Clearing Member notifying CMECE that it is, or is likely to be, unable to discharge any obligation to CMECE; (iii) if CMECE believes that the Clearing Member is, or is likely to be, unable to discharge any obligation to the Clearinghouse; (iv) if the Clearing Member is subject to an insolvency event; or (v) if CMECE reasonably considers that the financial or operational condition of the Clearing Member or any of its affiliates is such that to allow the Clearing Member to continue its operation as such would jeopardize the integrity of CMECE or otherwise introduce an unacceptable level of risk to CMECE or its Clearing Members. The CEO of CMECE has absolute discretion as to whether to conclude that an Event of Default exists and, if so, whether to apply CMECE’s default rules.</p> <p>CMECE’s default rules provide, <i>inter alia</i>, for the ability of CMECE to: (i) transfer positions registered in the accounts of a defaulting Clearing Member, with or without the assets backing those positions; (ii) close-out positions and to set-off assets backing those positions, after realizing value for securities accepted as backing; (iii) hold positions through to settlement; and (iv) enter into new contracts that reduce the market risk of the open positions of the defaulting Clearing Member.</p> |

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| (H) Rule enforcement | |
| <p>Each derivatives clearing organization shall—</p> <p>(i) maintain adequate arrangements and resources for—</p> <p style="padding-left: 40px;">(I) the effective monitoring and enforcement of compliance with the rules of the derivatives clearing organization; and</p> <p style="padding-left: 40px;">(II) the resolution of disputes;</p> <p>(ii) have the authority and ability to discipline, limit, suspend, or terminate the activities of a member or participant due to a violation by the member or participant of any rule of the derivatives clearing organization; and</p> <p>(iii) report to the Commission regarding rule enforcement activities and sanctions imposed against members and participants as provided in clause (ii).</p> | <p>See Section VIII of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Exhibit A – CMECE Rules • Confidential Exhibit I – Services Agreement • Confidential Exhibit N – Clearing Procedures (Complaints Procedure) • Confidential Exhibit R – Risk Committee Terms of Reference <p>The Risk and Membership team is responsible for monitoring compliance with the CMECE Rules. In the event of non-compliance, and depending upon the severity of the non-compliance, the Risk Committee of CMECE will undertake a disciplinary role. Under the Services Agreement, CME provides CMECE assistance with regulatory and monitoring services.</p> <p>Disputes among Clearing Members and between a Clearing Member and CMECE are addressed in accordance with the Complaints Procedure. CMECE may investigate and bring disciplinary proceedings against its Clearing Members. CMECE has the authority and ability to discipline, limit and suspend a Clearing Member for violation of the CMECE Rules. CMECE will report disciplinary actions to the FSA, the Commission, and other relevant regulatory authorities, where appropriate.</p> |
| (I) System safeguards | |
| <p>Each derivatives clearing organization shall—</p> <p>(i) establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk through the development of appropriate controls and procedures, and automated systems, that are reliable, secure, and have adequate scalable capacity;</p> <p>(ii) establish and maintain emergency procedures, backup facilities, and a plan for disaster recovery that allows for—</p> | <p>See Sections IV.A. and IX of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Confidential Exhibit I – Services Agreement • Confidential Exhibit Q – Audit Committee Terms of Reference • Confidential Exhibit DD – CME Disaster Recovery and Business Continuity Plan • Confidential Exhibit EE – CMECE Disaster Recovery and |

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| <p>(I) the timely recovery and resumption of operations of the derivatives clearing organization; and</p> <p>(II) the fulfillment of each obligation and responsibility of the derivatives clearing organization; and</p> <p>(iii) periodically conduct tests to verify that the backup resources of the derivatives clearing organization are sufficient to ensure daily processing, clearing, and settlement.</p> | <p style="text-align: center;">Business Continuity Plan</p> <p>The purpose of CMECE's Audit Committee is to assist the Board of Directors in ensuring the financial integrity of CMECE and the soundness of its internal risk controls and procedures. CME provides clearing services to CMECE pursuant to the Services Agreement. These services include the operation of risk management monitoring systems and the provision of IT disaster recovery and other IT facilities and services, including business recovery premises. CME and CMECE both have Disaster Recovery and Business Continuity Plans that are tested on a regular basis.</p> |
| <p>(J) Reporting</p> | |
| <p>Each derivatives clearing organization shall provide to the Commission all information that the Commission determines to be necessary to conduct oversight of the derivatives clearing organization.</p> | <p>See Section X.A. of the Application Letter.</p> <p>CMECE will provide to the Commission on request all information necessary for the Commission to conduct its oversight function of CMECE under the Act with respect to its activities as a registered DCO, including the reporting of transaction information to a registered swap data repository.</p> |
| <p>(K) Recordkeeping</p> | |
| <p>Each derivatives clearing organization shall maintain records of all activities related to the business of the derivatives clearing organization as a derivatives clearing organization—</p> <p>(i) in a form and manner that is acceptable to the Commission; and</p> <p>(ii) for a period of not less than 5 years.</p> | <p>See Section X.B. of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Confidential Exhibit I – Services Agreement <p>In accordance with the Act and CFTC Regulations, CMECE will maintain records of all activities related to its business as a DCO in a form and manner, and for the time period, set forth in CFTC Regulation 1.31.</p> |

| (L) Public information | |
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| <p>(i) IN GENERAL. Each derivatives clearing organization shall provide to market participants sufficient information to enable the market participants to identify and evaluate accurately the risks and costs associated with using the services of the derivatives clearing organization.</p> <p>(ii) AVAILABILITY OF INFORMATION. Each derivatives clearing organization shall make information concerning the rules and operating and default procedures governing the clearing and settlement systems of the derivatives clearing organization available to market participants.</p> <p>(iii) PUBLIC DISCLOSURE. Each derivatives clearing organization shall disclose publicly and to the Commission information concerning—</p> <p>(I) the terms and conditions of each contract, agreement, and transaction cleared and settled by the derivatives clearing organization;</p> <p>(II) each clearing and other fee that the derivatives clearing organization charges the members and participants of the derivatives clearing organization;</p> <p>(III) the margin–setting methodology, and the size and composition, of the financial resource package of the derivatives clearing organization;</p> <p>(IV) daily settlement prices, volume, and open interest for each contract settled or cleared by the derivatives clearing organization; and</p> <p>(V) any other matter relevant to participation in the settlement and clearing activities of the derivatives clearing organization.</p> | <p>See Section II.A., IV.C.3, and XI of the Application Letter.</p> <p>The CMECE Rules, including default and settlement finality rules, will be available on the CMECE website (http://www.cmeclearingeuropa.co.uk/), without access restrictions. CMECE’s detailed operating procedures will also be available on its website, with access restricted to market participants.</p> <p>Additionally, CMECE will publicly disclose information concerning:</p> <ul style="list-style-type: none"> • the terms and conditions of each contract cleared and settled by CMECE; • each clearing and other fee that CMECE charges its Clearing Members; • the margin–setting methodology, and the size and composition of the financial resource package of CMECE; • daily settlement prices, volume, and open interest for each contract settled or cleared by CMECE; and • other matters relevant to participation in the settlement and clearing activities of CMECE. |

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| (M) Information Sharing | |
| <p>Each derivatives clearing organization shall—</p> <p>(i) enter into, and abide by the terms of, each appropriate and applicable domestic and international information-sharing agreement; and</p> <p>(ii) use relevant information obtained from each agreement described in clause (i) in carrying out the risk management program of the derivatives clearing organization.</p> | <p>See Section XII of the Application Letter.</p> <p>CMECE will, as appropriate, enter into and abide by the terms of information-sharing agreements and use relevant information obtained from such agreements in carrying out its risk management program. CMECE is not currently party to any formal, UK, or international, information-sharing agreements and arrangements. CMECE is not aware of any such arrangement between clearing houses in the UK but may initiate discussion with other UK clearing houses. CMECE has applied to join the European Association of Clearing Houses (EACH). CMECE will join the international exchange and clearing house information-sharing agreement administered by CME, which provides for information-sharing on an international basis. CMECE will notify the Commission of its entry into information-sharing arrangements with other clearing organizations or other groups or associations on a timely basis.</p> |
| (N) Antitrust considerations | |
| <p>Unless necessary or appropriate to achieve the purposes of this Act, a derivatives clearing organization shall not—</p> <p>(i) adopt any rule or take any action that results in any unreasonable restraint of trade; or</p> <p>(ii) impose any material anticompetitive burden.</p> | <p>See Section XIII of the Application Letter.</p> <p>CMECE believes that its Clearing Member eligibility criteria and the CMECE Rules have been designed to avoid unreasonable restraints of trade or the imposition of any material anticompetitive burden. In particular, access to CMECE will not require the acquisition of any equity interest and will be available to qualified applicants on a fair, equitable, and timely basis. The criteria for access to the CMECE system are publicly disclosed. The CMECE system will operate without discrimination among different Clearing Members. CMECE will not adopt any rules or take other actions that would constitute an unreasonable restraint of trade or impose any additional anticompetitive burden.</p> |

| (O) Governance Fitness Standards | |
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| <p>(i) GOVERNANCE ARRANGEMENTS.—Each derivatives clearing organization shall establish governance arrangements that are transparent—</p> <ul style="list-style-type: none"> (I) to fulfill public interest requirements; and (II) to permit consideration of the views of owners and participants. <p>(ii) FITNESS STANDARDS.—Each derivatives clearing organization shall establish and enforce appropriate fitness standards for—</p> <ul style="list-style-type: none"> (I) directors; (II) members of any disciplinary committee; (III) members of the derivatives clearing organization; (IV) any other individual or entity with direct access to the settlement or clearing activities of the derivatives clearing organization; and (V) any party affiliated with any individual or entity described in this clause. | <p>See Section I.A., I.C., and II.A. of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Confidential Exhibit D – Form of Regulatory Certification of CMECE Directors and Employees • Confidential Exhibit E – Form of Certificate of CMECE regarding director qualifications • Confidential Exhibit F – Form of Certificate of CMECE certifying the determination of director independence • Confidential Exhibit N – Clearing Procedures (Membership Procedure) • Confidential Exhibit O – Clearing Member Application • Confidential Exhibit P – Clearing Member Agreement <p>CMECE’s governance arrangements are transparent and fulfill public interest requirements by including three independent non-executive directors on its Board of Directors, who also serve as the chairmen of the Board of Directors, the Audit Committee, and the Risk Committee.</p> <p>CMECE has established fitness standards for its directors and employees. Each director and employee is required to certify to CMECE that he/she does not have a history of serious disciplinary offenses, such as those that would be disqualifying under Section 1.63 of the CFTC Regulations. Additionally, CMECE has established fitness standards for its Clearing Members, including that each Clearing Member must satisfy CMECE as to its fitness and propriety, financial, operational, technical, and risk management capacity and competence; and satisfy CMECE that it has written anti-money laundering, risk management, disaster recovery, and business continuity policies.</p> |

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| (P) Conflicts of Interest | |
| <p>Each derivatives clearing organization shall—</p> <p>(i) establish and enforce rules to minimize conflicts of interest in the decision-making process of the derivatives clearing organization; and</p> <p>(ii) establish a process for resolving conflicts of interest described in clause (i).</p> | <p>See Section I.E. of the Application Letter.</p> <p>See the following Exhibits to the Application Letter:</p> <ul style="list-style-type: none"> • Confidential Exhibit M – Conflicts of Interest Policy <p>CMECE's Conflicts of Interest Policy sets forth rules to minimize conflicts of interest in the decision-making process and to resolve any such conflict of interest.</p> |
| (Q) Composition of Governing boards | |
| <p>Each derivatives clearing organization shall ensure that the composition of the governing board or committee of the derivatives clearing organization includes market participants.</p> | <p>See Section I.D. of the Application Letter.</p> <p>Prior to its designation as a DCO, CMECE will ensure that the composition of the governing board or committee of the derivatives clearing organization includes market participants.</p> |
| (R) Legal Risk | |
| <p>Each derivatives clearing organization shall have a well-founded, transparent, and enforceable legal framework for each aspect of the activities of the derivatives clearing organization.</p> | <p>See Section XIV of the Application Letter.</p> <p>See the following Exhibit to the Application Letter:</p> <ul style="list-style-type: none"> • Confidential Exhibit FF – “Ring-fence” memorandum <p>Through its agreements with its Clearing Members, its settlement banks, CME, and other service providers, CMECE believes that it has a well-founded, transparent, and enforceable legal framework for each aspect of the activities of the derivatives clearing organization.</p> |