

## Chapter 8-E

### FXMarketSpace Limited

#### 8E01. SCOPE OF CHAPTER

This chapter sets forth the clearing-related rules that are applicable to FXMarketSpace Ltd., a centrally cleared, global foreign exchange marketplace. The rules in this chapter are generally applicable to the clearing and settlement of FXMarketSpace Products. FXMarketSpace Clearing Members are also subject to all of the Rules in CME's Rulebook and the procedures in the Manual that are applicable to clearing members unless otherwise stated in such Rule or procedure or an exemption has been granted by staff or the Clearing House Risk Committee and it is determined that such exemption will not jeopardize the financial integrity of CME. FXMarketSpace Clearing Members must execute all agreements and documents required by the Exchange to participate in FXMarketSpace. FXMarketSpace also has its own rulebook that contains rules generally applicable to the trading and non-clearing aspects of FXMarketSpace Products which should be reviewed before trading FXMarketSpace Products.

#### 8E02. DEFINITIONS

##### **FXMARKETSPACE**

A joint venture entity created and owned equally by CME and Reuters, and their successors and assigns, for the trading and clearing of global foreign exchange products.

##### **FXMARKETSPACE CLEARING MEMBER**

An entity that is approved by CME as an FXMarketSpace Clearing Member and is afforded full rights and privileges to trade and clear for its own account, and on behalf of customers, transactions in FXMS Products. FXMarketSpace Clearing Members shall not be entitled to clear products other than FXMarketSpace Products. The requirements to qualify as an FXMarketSpace Clearing Member are set forth in this Chapter 8-E.

CME Clearing Members shall be afforded full rights and privileges to trade and clear for their own accounts, and on behalf of their customers, transactions in FXMarketSpace Products in accordance with their existing clearing member privileges.

An FXMarketSpace Clearing Member that is affiliated with a CME Clearing Member must have a cross guarantee with the CME Clearing Member for its activity involving FXMarketSpace Products unless an exemption is provided by Exchange staff. References in this Chapter to FXMS Clearing Members shall include CME Clearing Members as applicable.

All FXMS clearing transactions between CME Clearing Members or FXMS Clearing Members and the Clearing House are proprietary in nature even if they arise from transactions on FXMarketSpace by customers. CME Clearing Member FXMS accounts and FXMS Clearing Members' accounts with the Clearing House are also solely proprietary in nature and all funds therein are solely for the benefit of the Clearing Member.

##### **FXMS**

FXMarketSpace

##### **FXMARKETSPACE PRODUCTS**

All products available for trading on FXMarketSpace including, but not limited to, over-the-counter foreign exchange spot, forward outright, forward swaps, non-deliverable forwards and options on any of the foregoing.

#### 8E03. FXMARKETSPACE CLEARING MEMBER QUALIFICATIONS

The qualifications to become an FXMarketSpace Clearing Member are set forth below. The specific qualifications in this rule are not applicable to CME Clearing Members.

1. An FXMS Clearing Member must be a U.S. or foreign bank that is in good standing.
2. FXMS Clearing Members must meet all membership requirements established by FX MarketSpace.
3. FXMS Clearing Members must be in compliance with their regulatory capital

requirements, subject to a minimum tier 1 capital of USD \$1.0 billion.

4. FXMS Clearing Member applicants that are domiciled in a country with a Moody's country rating that is less than Aaa may be subject to a higher capital requirement. FXMS Clearing Member applicants that are domiciled in a country with a Moody's country rating below Baa3 are not eligible for FXMS clearing membership.
5. FXMS Clearing Members shall maintain on deposit with CME a membership deposit collateral pool of \$5 million for claims, including Rule 110 claims, that may be made by CME or other Clearing Members against such FXMS Clearing Member that are related to trading losses or other losses related to membership on CME.
6. FXMS Clearing Members shall submit to CME annual audited financial statements as well as all unaudited financial statements provided to their primary regulator within five days after such statements are provided to their regulator. All financial statements shall be in the English language
7. Without limitation of any other provision of CME's Rules and the procedures in the Manual that are applicable to CME Clearing Members, the books and records of FXMS Clearing Members regarding FXMS activities or CME activities in connection therewith shall be made promptly available for inspection upon reasonable request by CME for the purpose of complying with any reporting or other requirement under applicable law or regulation and subject to reasonable standards of confidentiality.

#### **8E04. FXMARKETSPACE PRODUCTS**

FXMarketSpace Products shall be cleared through the CME Clearing House.

#### **8E05. SUBSTITUTION**

Each transaction in an FXMarketSpace Product shall be submitted to the Clearing House in accordance with the rules of FXMarketSpace, and shall be accepted by the Clearing House if executed in accordance with such rules. Upon such acceptance, the Clearing House shall automatically and without further action, through the process of novation, step into the middle of such transaction, with the effect that, for each trade executed over the FXMarketSpace trading platform, there shall be two equal and offsetting over-the-counter transactions as follows: one between the buyer and the Clearing House, as seller; and an equal and offsetting transaction between the Clearing House and the seller. In the case of customers executing transactions on the FXMarketSpace trading platform as foreign exchange prime brokerage clients of either the Clearing Member or an affiliate of such Clearing Member, then simultaneously with the Clearing House novation, each Clearing Member shall be substituted for such customer and be deemed to have bought from or sold to the Clearing House, as the case may be.

#### **8E06. CLEARING MEMBER DEFAULT**

In the event that a Clearing Member, including an FXMarketSpace Clearing Member, fails promptly to discharge any obligation to the Clearing House, it shall be in default in accordance with Rule 802. Pursuant to the Rules, all of the assets and collateral of an FXMarketSpace Clearing Member that are available to CME including, but not limited to, its security deposit and performance bond shall be applied by the Clearing House to discharge the obligation.

#### **8E07. SECURITY DEPOSIT**

CME Clearing Members and FXMS Clearing Members contributions to CME's security deposit pool may be used to cover losses incurred by the Clearing House if a defaulting Clearing Member's assets are insufficient to cover such loss, regardless of the cause of default. The detailed provisions regarding a default are set forth in Rule 802.

The detailed security deposit rules applicable to Clearing Members are set forth in Rule 816.

#### **8E08. LIEN ON COLLATERAL**

Each FXMS Clearing Member hereby grants to CME a first priority and unencumbered lien

against all of its assets or collateral required for clearing membership by CME or FX MarketSpace, as applicable, including all funds deposited with the Clearing House by the FXMS Clearing Member with respect to FXMarketSpace transactions. FXMS Clearing Members shall execute any documents required by CME to create and enforce such lien.

#### **8E09. CUSTOMER REGISTRATION**

All transactions executed on FXMarketSpace, and any transactions related to post-execution trade processing such as give-ups or transfers, shall be identified with an account number which identifies the owner of that transaction, whether the transaction is a proprietary transaction of the FXMarketSpace Clearing Member or arises from a transaction on FXMarketSpace by a customer. FXMarketSpace Clearing Members shall register, on CME approved forms, all of the “ultimate” (or end) customer accounts authorized to execute transactions on FXMarketSpace.

#### **8E10. RISK MANAGEMENT**

Without limitation of any other provision of CME’s Rules and the procedures in the Manual that are applicable to CME Clearing Members, FXMS Clearing Members will be subject to risk management and monitoring practices by CME regarding FXMS Clearing Members activities relating to FXMS or CME for the purpose of complying with any reporting or other requirement under applicable law or regulation, including, but not limited to, prompt responses on reasonable risk, settlement, liquidity, and operational queries as well as reasonable on-site risk reviews in accordance with CME Rules and subject to reasonable standards of confidentiality. FXMS Clearing Members will also be subject to on-going oversight by the Clearing House Risk Committee regarding FXMS Clearing Members activities relating to FXMS or CME for the purposes of complying with any reporting or other requirement under applicable rule or regulation in a manner consistent with oversight of CME Clearing Members and subject to reasonable standards of confidentiality.

#### **8E11. FINANCIAL REQUIREMENTS**

- A. Subject to exceptions granted by CME staff regarding CME imposed financial requirements, FXMarketSpace Clearing Members must comply with the following:
  1. Maintenance of minimum capital requirements;
  2. Notification requirements to the Audit Department when a clearing member:
    - (i) Fails to maintain minimum capital requirements;
    - (ii) Fails to maintain current books and records; or
    - (iii) Changes its fiscal year.
- B. CME staff may prescribe additional accounting, reporting, and other financial and/or operational requirements and clearing members must comply with such requirements. All clearing members must provide notice to the Audit Department of a failure to comply with the additional accounting, reporting, financial, and/or operational requirements. The Audit Department must receive immediate written notification when a clearing member knows or should know of such failure.
- C. CME staff may grant exceptions to the financial requirements of Rule 970. for good cause if it is determined that such exceptions will not jeopardize the financial integrity of CME.
- D. Violation of this rule may constitute a major offense.

#### **8E12. SETTLEMENT**

##### **8E12.A. Physical Settlement (Deliveries) of Currency Pairs through CLS**

All spot, forward and swap (hereafter, collectively referred to as “forward”) transactions in currency pairs consummated on the FXMarketSpace trading platform shall be settled on each transaction’s value date, in accordance with the terms agreed to on trade date. Transactions in FXMarketSpace Products shall be settled via **Continuous-Linked Settlement (CLS)**, in accordance with CLS Rules as in effect from time to time, except as otherwise noted in the Manual. Settlement of such transactions shall be undertaken by FXMarketSpace Clearing

Members, either directly or through an authorized third party that settles directly with CLS. However, if such FXMarketSpace Clearing Member or authorized third party fails to make a required settlement, the FXMarketSpace Clearing Member is responsible for good-value settlement of the failed transaction and is also liable for any losses or other associated costs incurred by the Clearing House from such failure. Each FXMarketSpace Clearing Member, or its authorized CLS settlement agent, shall provide standing CLS settlement instructions for each currency pair that it trades on the FXMarketSpace trading platform.

For each set of standing instructions, an FXMarketSpace Clearing Member shall specify (a) its **CLS bank**, (b) its **CLS participant identifier** and (c) **instructions outside of CLS**. Each FXMarketSpace Clearing Member, or its authorized CLS settlement agent, shall comply with all applicable CLS rules governing cutoff times for post-execution settlement of forward transactions

Forward transactions for which settlement is completed shall be margined up to, but not on, the settlement date. The forward transactions shall be removed in clearing after settlement is completed.

Notwithstanding the above, if an FXMS transaction fails to match in CLS prior to the applicable settlement cut-off time, the FXMS Clearing Member on the opposite side of such transaction may: (i) settle the transaction via CLS on the following Business Day, or (ii) transmit funds outside of CLS to the applicable CME account. However, such funds must be confirmed in a CME account before the currency on the opposite side of the transaction is paid out. In the event either procedure (i) or (ii) above is followed, CME shall not be responsible for good-value settlement and any charges CME incurs as a result of a failed settlement will be the responsibility of the applicable FXMS Clearing Member.

#### **8E12.B. Settlement of Currency Pairs Not Through CLS**

In the event that, in accordance with CLS or applicable CME Rules, settlement of any currency pair cannot be undertaken through CLS, the Clearing House shall not release the applicable performance bond (margin) until such settlement is completed.

### **8E13. INSOLVENCY**

In the event of a bankruptcy or insolvency of an FXMS Clearing Member, the default Rules of CME shall apply. In addition, if a bankruptcy or insolvency of an FXMS Clearing Member or a CME Clearing Member involves FXMS Products, the applicable U.S. laws and industry standards shall apply to the close-out netting and liquidation of such FXMS Products.

### **8E14. MITIGATION OF LOSSES**

In the event of a fail involving an FXMS Product, FXMS Clearing Members shall work cooperatively with their counterparties and CME to mitigate any losses that may occur as a result of such fail.