



## **OCC Rules**

## **Chapter I - Definitions**

### **RULE 101 - Definitions**

Unless the context otherwise requires, for all purposes of these rules, the terms herein shall have the meanings given them in Article I of the By-Laws of the Corporation or as set forth below:

#### **A.**

##### **Authorized Representative**

(1) The term "authorized representative" of a Clearing Member means a person for whom the Clearing Member has filed evidence of authority pursuant to Rule 202.

*Amended January 23, 1992.*

#### **B.**

##### **Bank Account**

(1) The term "bank account" shall mean a bank account established pursuant to Rule 203, or any Rule supplementing or replacing Rule 203.

*Amended November 7, 1991; January 23, 1992.*

#### **C.**

##### **Clearing Bank**

(1) The term "Clearing Bank" means a bank or trust company which has entered into an agreement with the Corporation in respect of settlement of confirmed trades on behalf of Clearing Members.

*Amended November 7, 1991; January 23, 1992; December 14, 2012*

#### **D.**

Reserved.

#### **E.**

##### **EDCP Unvested Balance**

(1) The term "EDCP Unvested Balance" shall mean, as of any date, the funds held under The Options Clearing Corporation Executive Deferred Compensation Plan Trust which are (a) deposited on and after January 1, 2020 in respect of the Corporation's Executive Deferred Compensation Plan (the "EDCP") and (b) in excess of amounts necessary to pay for the benefits accrued and vested under the EDCP as of such date.

*Adopted January 24, 2020.*

##### **Electronic Data Entry**

(2) The term "electronic data entry" shall mean the transmission by a Clearing Member to the Corporation via electronic means of reports, notices, instructions, data or other items.

*Adopted July 1, 2002.*

##### **Electronic Data Retrieval**

(3) The term "electronic data retrieval" shall mean the retrieval by a Clearing Member via electronic means of reports, notices, instructions, data and other items made available by the

Corporation.  
*Adopted July 1, 2002.*

**Exercise Position**

(4) The term "exercise position" shall mean the position of a Clearing Member in any account in respect of option contracts which have been exercised by such Clearing Member, or for which such Clearing Member is the Assigned Clearing Member, in such account.

*Amended January 23, 1992.*

**Exercise Settlement Amount**

(5) The term "exercise settlement amount" as used in respect of stock options shall mean the amount payable to the Delivering Clearing Member upon delivery of the underlying security or securities in respect of the exercise of an option contract.

*Amended January 23, 1992.*

**Exercise Settlement Date**

(6) The term "exercise settlement date" shall mean the date specified in Rule 903 or any Rule that replaces that Rule.

*Amended October 26, 1989, January 23, 1992, March 3, 1999, July 14, 2004.*

**F.**

Reserved.

**G.**

**Good Deliverable Form**

(1) The term "good deliverable form" shall have the meaning set forth in Rule 904.

*Amended January 23, 1992.*

**H.**

Reserved.

**I.**

Reserved.

**J.**

Reserved.

**K.**

Reserved.

**L.**

Reserved.

## **M.**

Reserved

## **N.**

### **Net Daily Premium**

(1) The term "net daily premium" when applied to any account of a Clearing Member for any settlement time, means the net amount payable to or by the Corporation at such settlement time in respect of all confirmed trades of the Clearing Member in such account as a Purchasing Clearing Member and a Writing Clearing Member.

*Amended January 23, 1992; December 14, 2012*

## **O.**

### **Office**

(1) The term "office" in respect of any Clearing Member means the office established by such Clearing Member pursuant to Rule 201.

*Amended January 23, 1992.*

### **Operational Loss Fee**

(2) The term "Operational Loss Fee" shall mean the fee that would be charged to Clearing Members in equal shares, up to the maximum amount identified in the Corporation's schedule of fees less the aggregate amount of Operational Loss Fees previously charged and not yet refunded at the time of calculation, if, after contributing the entire EDCP Unvested Balance, shareholders' equity remains below the levels identified in the Corporation's schedule of fees.

*Adopted January 24, 2020.*

## **P.**

Reserved.

## **Q.**

Reserved.

## **R.**

### **Restricted Letter of Credit**

(1) The term "restricted letter of credit" shall mean, in relation to a restricted lien account, a letter of credit deposited with the Corporation pursuant to Rule 604(c), or portion of the amount of such a letter of credit, which does not constitute margin for any account or accounts maintained by the depositing Clearing Member other than the account or accounts specified in the letter of credit.

*Amended January 23, 1992; September 1, 2006.*

## **S.**

### **Spot Month Series**

(1) The term "spot month series," used as of the third Friday or any prior business day in any calendar month, shall mean any series of options expiring in that calendar month. Used as of any business day in a calendar month after the third Friday, such term shall mean any series of options expiring in the next succeeding calendar month.

*Adopted September 25, 1978; amended January 23, 1992.*

**T.**

**Target Capital Requirement**

(1) The term “Target Capital Requirement” shall mean the amount of shareholders’ equity recommended by Management and approved by the Board to ensure compliance under both the SEC and CFTC rules and to keep such additional amount the Board may approve for capital expenditures.

*Adopted January 24, 2020.*

**U.**

Reserved.

**V.**

Reserved.

**W.**

Reserved.

**X.**

Reserved.

**Y.**

Reserved.

**Z.**

Reserved.

*Amended April 18, 1975; April 13, 1983; May 22, 1984; April 11, 1989; June 16, 1989.*

\* \* \*

## **Chapter II - Miscellaneous Requirements**

### **RULE 201 - Offices**

(a) Every Clearing Member shall maintain facilities for conducting business with the Corporation. There shall be available at said facility during such hours as may be specified from time to time by the Corporation, a representative of the Clearing Member authorized in the name of the Clearing Member to take all action necessary for conducting business with the Corporation.

*Amended December 31, 1996; September 25, 2013*

(b) Every Clearing Member shall promptly provide written notice to the Corporation of the relocation of its facilities maintained by such Clearing Member pursuant to the requirement of subparagraph (a) above.

*Adopted December 31, 1996; September 25, 2013*

### **RULE 202 - Evidence of Authority**

Every Clearing Member shall file with the Corporation a certified list of the signatures of the representatives of such Clearing Member (including partners and officers) who are authorized to sign agreements and other papers necessary for conducting business with the Corporation, together with an executed copy of the powers of attorney, resolutions or other instruments giving such authority. The Clearing Member shall promptly notify the Corporation of any changes to the representatives who are authorized to act on behalf of the Clearing Member and the certified list of signatures shall be updated accordingly.

*Amended April 25, 2012; September 25, 2013*

Any Clearing Member who has given a person authorization to transact business with the Corporation shall, immediately upon the withdrawal, retirement, resignation or discharge of such person or upon the revocation of his power to act, give written notice to the Corporation.

*Amended September 25, 2013*

### **RULE 203 - Bank Accounts**

Every Clearing Member shall establish and maintain a bank account in a Clearing Bank for each account maintained by it with the Corporation. Every Clearing Member that desires to deposit foreign currency as margin must designate a bank account established and maintained by it at a Clearing Bank in the country of origin of such currency or in such other location as the Corporation may approve. Each Clearing Member shall authorize the Corporation to withdraw funds from such bank account in accordance with the Rules.

### **RULE 204 - Designation of Clearing Offices**

Every Clearing Member shall designate the office of the Corporation through which it shall clear its confirmed trades and otherwise conduct business with the Corporation, and each Clearing Member shall clear all of its confirmed trades (no matter on which Exchange such transaction was effected) and otherwise conduct all of its business with the Corporation through the office of the Corporation it so designates. Notwithstanding the foregoing, the Corporation may from time to time permit one or more Clearing Members to utilize services of the Corporation through more than one office of the Corporation and Clearing Members may designate a different office as the one through which they will file exercise notices, receive assignments of exercise notices, deliver or receive certificates for underlying securities, or any one or more of the foregoing.

*Amended December 14, 2012; June 17, 2013*

### **...Interpretations and Policies:**

.01 For purposes of this Rule 204, each Clearing Member shall be deemed to have designated the Corporation's primary processing facility (or, if in operation, back-up processing facility) as the office through which it shall clear confirmed trades and otherwise conduct all of its business with the Corporation on any given day.

*Adopted September 25, 2013*

## **RULE 205 – Submission of Items to Corporation**

(a) Except as otherwise permitted by the Corporation, Clearing Members shall submit instructions, notices, reports, data, and other items to the Corporation by electronic data entry in accordance with procedures prescribed or approved by the Corporation. Items submitted to the Corporation by electronic data entry shall be deemed to constitute "writings" for purposes of any applicable law.

*Adopted July 1, 2002.*

(b) Items required or permitted to be submitted to the Corporation otherwise than by electronic data entry shall be submitted in such manner as the Corporation shall prescribe.

*Adopted July 1, 2002.*

(c) Items required or permitted to be submitted to the Corporation shall be submitted at or prior to such times as the Corporation shall specify. The Corporation may disregard any untimely submission or correction of any such item.

*Adopted July 1, 2002.*

(d) If unusual or unforeseen conditions (including but not limited to power failures, equipment or system malfunctions, or operational or other problems) experienced by a Clearing Member, a Clearing Member's facilities manager, an Exchange, securities futures market, futures market or international market or the Corporation prevent a Clearing Member from submitting any instruction, notice, report, data, or other item to the Corporation via electronic data entry on a timely basis, the Corporation may in its discretion (i) require the Clearing Member to submit the item by other means, and/or (ii) extend the applicable cut-off time by such period as the Corporation deems reasonable, practicable, and equitable under the circumstances; provided, however, that cut-off times for submission of exercise notices at expiration are governed by Rule 805, and by Article VI, Sec. 18 of the By-Laws.

*Adopted July 1, 2002. Amended December 3, 2008.*

## **RULE 206 – Retrieval of Items from Corporation**

(a) Except as otherwise permitted by the Corporation, Clearing Members shall retrieve instructions, notices, reports, data, and other items from the Corporation by electronic data retrieval in accordance with procedures prescribed or approved by the Corporation. Items retrieved from the Corporation by electronic data entry shall be deemed to constitute "writings" for purposes of any applicable law.

*Adopted July 1, 2002.*

(b) Items required or permitted to be retrieved from the Corporation otherwise than by electronic data retrieval shall be retrieved in such manner as the Corporation shall prescribe.

*Adopted July 1, 2002.*

(c) If unusual or unforeseen conditions (including but not limited to power failures or equipment malfunctions) prevent the Corporation from making any instruction, notice, report, data, or other item available to a Clearing Member for electronic data retrieval on a timely basis, the Corporation may in its discretion (i) make such item available to such Clearing Member by other means, and/or (ii) extend the applicable time frame by such period as the Corporation deems

reasonable, practicable, and equitable under the circumstances.  
*Adopted July 1, 2002.*

## **RULE 207 – Records**

Every Clearing Member shall keep records showing (a) with respect to each confirmed trade in option contracts, the names of the Clearing Members who are parties to the transaction, the underlying security or future (or, in the case of index options or packaged spread options, the underlying index), the type of option, the premium, the trade date, the exercise price (or, in the case of packaged spread options, the base exercise price and spread interval), the expiration month, the name of the customer, whether the transaction was a purchase or writing transaction and whether it was an opening or closing transaction; (b) with respect to each confirmed trade in BOUNDS, the series, the trade price, the trade date, the name of the customer, whether the transaction was a purchase or writing transaction and whether it was an opening or closing transaction; (c) with respect to each confirmed trade in futures, the series, the trade price, the trade date, the name of the customer, whether the transaction was a purchase or sale transaction and whether it was an opening or closing transaction; and (d) with respect to each confirmed trade in options contracts, futures or BOUNDS, such other information as may from time to time be required by law, regulation, the Exchange on which the transaction was effected or the Corporation. Such records, and all other records required by the By-Laws and Rules, shall be retained readily accessible for at least five years in such form as the Corporation may authorize and shall be deemed the joint property of the Corporation and the Clearing Member maintaining them. The Corporation shall be entitled to inspect or take temporary possession of any such records at any time upon demand.

*Amended April 4, 1977, April 11, 1989, October 26, 1989, October 28, 1991, August 26, 1996, September 24, 1997, March 3, 1999, August 20, 2001, May 16, 2002; March 20, 2009; December 14, 2012; September 25, 2013*

## **RULE 208 - Reports by the Corporation**

The Corporation may from time to time prescribe the form of reports to be made available and the manner by which reports are to be made available by the Corporation to Clearing Members. Each Clearing Member shall have the duty to promptly retrieve and review each report made available to such Clearing Member for errors. Except as may otherwise be provided in these Rules, the failure of a Clearing Member to advise the Corporation by telephone or email on the business day on which the report is made available of any item requiring change for any reason whatsoever shall constitute a waiver of such Clearing Member's right to have such item changed.

*Amended January 29, 1991, July 1, 2002; September 25, 2013*

## **RULE 209 - Payment of Fees and Charges**

(a) Fees and charges owing by a Clearing Member to the Corporation shall be due and payable within five business days following the end of each calendar month. Notwithstanding the foregoing, the Operational Loss Fee owing by a Clearing Member to the Corporation shall be due and payable within five business days following the Corporation's notice to the Clearing Member that the Operational Loss Fee is due.

*Amended January 24, 2020.*

(b) The Corporation shall be authorized to withdraw from each Clearing Member's bank account established with respect to its firm account, on or after the fifth business day following the end of each calendar month or, in the case of an Operational Loss Fee, on or after the fifth business day following the Corporation's notice to the Clearing Member that the Operational Loss Fee is due, (i) an amount equal to the amount of any fees and charges owing to the Corporation, (ii) an amount equal to the amount of any fees due to an Exchange for whom the Corporation has agreed to collect such fees, (iii) if the Clearing Member is a Market Loan Clearing Member, an



amount equal to the amount of any fees and charges owing to any Loan Market for which the Corporation has agreed to collect such fees and charges, (iv) the amount of any fine levied by the Corporation for a minor rule violation that the Clearing Member has not timely contested, as described in Rule 1201(b), and (v) the amount of any other fine levied by the Corporation pursuant to Chapter XII.

*Amended January 19, 1983; January 23, 2009; April 25, 2012; January 24, 2020.*

## **RULE 210 - Reserved**

Reserved

[Deleted July 1, 2002.]

## **RULE 211 - Notices of Proposed Amendments to By-Laws and Rules**

Prior to filing a proposed rules change with the Securities and Exchange Commission or the Commodity Futures Trading Commission, or as soon as possible thereafter, the Corporation shall provide all Clearing Members and other registered clearing agencies with the text or a description of the proposed rule change and a statement of its purpose and effect on Clearing Members. This Rule 211 shall not require the Corporation to give notice of any modification that is made in a proposed rules change after the Corporation has given notice of such proposed rules change, although to the maximum extent practicable, the Corporation shall also give notice of such modifications. The failure of the Corporation to comply with this Rule in any respect shall not affect the validity, force or effect of any rules change or of any action taken by the Corporation pursuant thereto.

*Amended February 11, 1976; May 12, 1983; May 16, 2002.*

### **...Interpretations and Policies:**

.01 The Corporation shall satisfy the notification requirements of this Rule 211 by posting proposed rule changes on its website.

*Adopted September 25, 2013*

## **RULE 212 – Security Measures**

(a) The Corporation may require Clearing Members to use access codes assigned or approved by the Corporation for electronic data entry and retrieval, and to comply with such other security measures as the Corporation may from time to time prescribe. Clearing Members shall take appropriate precautions to protect the security of their access codes and prevent the unauthorized use thereof. A Clearing Member shall immediately notify the Corporation and take such other security measures as may be necessary or appropriate if it has reason to believe that any access code has been compromised.

*Adopted July 1, 2002.*

(b) Items submitted to the Corporation otherwise than by electronic data entry shall be authenticated by the use of an authorization stamp supplied or approved by the Corporation. Authorization stamps not supplied by the Corporation shall meet such requirements as to format and content as the Corporation may prescribe. Clearing Members shall take appropriate precautions to safeguard their authorization stamps and prevent the unauthorized use thereof. A Clearing Member shall immediately notify the Corporation and take such other security measures as may be necessary or appropriate if it has reason to believe that any authorization stamp has been stolen or otherwise compromised.

*Adopted July 1, 2002.*

(c) A Clearing Member shall be bound by any instruction, notice, report, data, or other item submitted to the Corporation in the name of the Clearing Member (i) by electronic data entry with the use of a current access code assigned or approved by the Corporation, or (ii) otherwise than by electronic data entry with the use of a current authorization stamp supplied or approved by the Corporation, whether or not the submission was authorized by the Clearing Member. Any such current access code or authorization stamp shall have the same force and effect as an authorized signature. For purposes of this subsection, an access code or authorization stamp supplied to or approved for use by a Clearing Member shall be deemed "current" until such time as (i) the Clearing Member notifies the Corporation that the access code or stamp has been compromised and the Corporation has had a reasonable time to act on such notice, or (ii) the Corporation disapproves continued use of the access code or stamp for other reasons.  
*Adopted July 1, 2002.*

## **RULE 213 - Financial Statements of the Corporation**

Within 60 days following the close of each fiscal year, the Corporation shall furnish to each Clearing Member copies of (i) the Corporation's audited financial statements for such fiscal year, together with the report of the Corporation's independent public accountants thereon, and (ii) a report by the Corporation's independent public accountants on the Corporation's system of internal accounting control, describing any material weaknesses discovered and any corrective action taken or proposed to be taken. Within 30 days following the close of each fiscal quarter, the Corporation shall make available to any Clearing Member, upon request, copies of the Corporation's unaudited financial statements for such fiscal quarter.  
*Adopted May 12, 1983.*

## **RULE 214 - Financial and Operations Personnel**

(a) Except as otherwise provided in this Rule 214, every Domestic Clearing Member shall employ at least one associated person who is registered as a "Limited Principal Financial and Operations" with the Financial Industry Regulatory Authority or has passed the appropriate qualification examination for registration as such. Every Canadian Clearing Member that is an exempt Non-U.S. Clearing Member shall employ at least one associated person who is registered as such Canadian Clearing Member's Chief Financial Officer with the Investment Industry Regulatory Organization of Canada. Every Non-U.S. Clearing Member that is not an exempt Non-U.S. Clearing Member shall employ at least one associated person who has taken and successfully completed any applicable OCC financial and operational examination for an employee who is responsible for supervising the preparation of such Clearing Member's financial reports. If a Clearing Member elects to use an associated person to satisfy those of the foregoing requirements applicable to such Clearing Member, that associated person shall be a full-time employee of the Clearing Member.

*Adopted January 8, 1992. Amended March 17, 1993, December 31, 1996; April 25, 2012; November 26, 2013*

(b) Notwithstanding paragraph (a) of this Rule 214, the Risk Committee may exempt from the requirements of this Rule any Clearing Member which is a "Managed Clearing Member," as that term is defined in Rule 309. Additionally, upon the written request of a Clearing Member, the Risk Committee may, in exceptional cases and where good cause is shown, waive the foregoing requirements and accept other standards as evidence of a Clearing Member's experience in clearing securities or futures transactions.

*Adopted January 8, 1992. Amended May 16, 2002; February 15, 2006; July 19, 2006; March 6, 2014*

(c) Each Clearing Member shall ensure that it has an appropriate number of clearing operations personnel with the requisite capability, experience, and competency to reasonably ensure that the Clearing Member is able to clear and settle confirmed trades in Cleared Contracts, Stock Loans,

and Market Loans, as applicable, and account types for which it is approved, and to meet all other requirements of membership in the Corporation. Each Clearing Member shall submit to the Corporation a list of such personnel in such form as is acceptable to the Corporation, including, without limitation, the names, titles, primary offices, email addresses, and business phone numbers for all such personnel.

*Adopted April 25, 2012. Amended June 17, 2013*

(d) Every Clearing Member shall maintain the ability to process expected volumes and values of transactions cleared by the Clearing Member within required time frames, including at peak times and on peak days; the ability to fulfill collateral, payment, and delivery obligations as required by the Corporation, and the ability to participate in applicable default management activities, including auctions, as may be required by the Corporation and in accordance with applicable laws and regulations.

*April 25, 2012.*

### ***...Interpretations and Policies***

**.01** As used in this Rule, the term "associated person" shall have the same meaning as set forth in Section .03 of the Interpretations and Policies under Section 1 of Article V of the By-Laws of the Corporation.

*Adopted January 8, 1992.*

**.02** Should a separation occur between the only associated person who meets the requirements of this Rule and the Clearing Member, such Clearing Member shall have three months from the effective date of the separation to comply with this Rule. The Clearing Member shall give the Corporation prompt written notice of such a separation. In the event that a Clearing Member has not complied with the requirements of the first sentence of this paragraph, the Risk Committee, in its discretion, may: (1) require such Clearing Member to execute a facilities management agreement that will be in effect until such time that the Clearing Member does comply; or (2) require such Clearing Member to make additional Clearing Fund deposits and/or margin deposits, in such amounts as the Risk Committee shall determine, for the protection of the Corporation, other Clearing Members or the public.

*Adopted January 8, 1992. Amended December 31, 1996; July 19, 2006; March 6, 2014*

## **RULE 215 - Notice of Material Changes and Information Requests**

(a) Each Clearing Member shall give the Corporation prompt prior written notice of any material change in its form of organization or ownership structure, including:

*Adopted April 25, 2012*

(1) the merger, combination or consolidation between the Clearing Member and another person or entity;

(2) the assumption or guarantee by the Clearing Member of all or substantially all of the liabilities of another person or entity in connection with the direct or indirect acquisition of all or substantially all of the assets of such person or entity;

(3) the sale of a significant part of the Clearing Members' business or assets to another person or entity;

(4) a change in the name, form of business organization, or jurisdiction of organization or incorporation of the Clearing Member; and

*Amended April 25, 2012.*

(5) a change in the direct or indirect beneficial ownership of 10% or more of the equity of the Clearing Member.

(b) Each Clearing Member shall give the Corporation no less than 30 days prior written notice of material operational changes, including:

*Adopted December 31, 1996. Amended April 25, 2012.*

(1) a planned change in location of clearing operations;

(2) a planned change in location of its offices maintained pursuant to Rule 201; and

(3) a planned change in the personnel of the Clearing Member responsible for ensuring that the Clearing Member is able to fulfill its obligations as a Clearing Member pursuant to Rule 214(c).

(c) Each Clearing Member shall give the Corporation no less than 60 days prior written notice of its intention to enter into a facilities management arrangement, as described in Rule 309.

Implementation of such facilities management agreement shall be subject to approval by the Corporation before implementation pursuant to Rule 309(f).

*Adopted April 25, 2012.*

(d) Each Clearing Member shall, within the time period reasonably prescribed by the Corporation, furnish to the Corporation such documents and information as the Corporation may from time to time require pursuant to Article V, Section 3(g) of the Corporation's By-Laws and Chapters II and III of the Corporation's Rules.

*Adopted April 25, 2012.*

(e) Nothing in this Rule 215, including the Interpretations and Policies, shall prohibit the Corporation from instituting disciplinary proceedings against a Clearing Member pursuant to Chapter XII of the Rules for a violation of this Rule.

*Adopted April 25, 2012.*

(f) A violation of this Rule 215 shall constitute a "minor rule violation" for purposes of Chapter XII of the Rules.

*Adopted April 25, 2012.*

***...Interpretations and Policies:***

**.01** The Corporation may fine a Clearing Member for its failure to provide any notice, documents, or information as required under paragraphs (a), (b), (c) or (d) of this Rule 215. Fines will follow the schedule below:

First Occasion	Second Occasion	Third Occasion	Fourth Occasion
\$300	\$600	\$1,500	***

\*\*\*Four or more violations within a rolling 24 month period will result in a disciplinary proceeding in accordance with Chapter XII of the Rules.

Fines to be levied for offenses within a rolling twenty-four month period beginning with the first occasion.

For purposes of this Fine Schedule, documents and information shall include, but not be limited to, the financial, regulatory and other information required to be submitted to the Corporation.

*Adopted April 25, 2012.*

**.02** A change in the location of a Clearing Member's clearing operations of the offices maintained pursuant to Rule 201 or a change in a Clearing Member's personnel shall not be deemed "planned" if such change is undertaken on an emergency basis, provided that the Clearing

Member notice to the Corporation as soon as reasonably possible of such change.  
*Adopted April 25, 2012.*

## **RULE 216 – Large Trader Reports**

Except to the extent that large trader reports required by the Commodity Futures Trading Commission (“CFTC”) are filed on behalf of a Clearing Member by a contract market or other CFTC registrant, such reports shall be filed by the Clearing Member effecting the transaction(s) subject to such reporting requirements.  
*Adopted May 16, 2002.*

## **RULE 217 - Clearing Members Who Are or Become Subject to a Statutory Disqualification**

(a) In the event a Clearing Member is or becomes subject to a statutory disqualification (as defined in the Interpretations and Policies under Article V, Section 1 of the By-Laws), and in the case of a Clearing Member that is registered with the CFTC as a futures commission merchant, if a principal of the Clearing Member is or becomes subject to statutory disqualification under Section 8a(2)-(4) of the Commodity Exchange Act, the Corporation may determine not to permit, and will not permit if so ordered by the SEC, such Clearing Member to continue in Clearing Membership subject to the provisions of this Rule.  
*Adopted May 18, 2012.*

(b) A Clearing Member that is or becomes subject to a statutory disqualification shall promptly (i) notify the Corporation in writing as soon as practicable upon learning of such statutory disqualification and in any event within 5 business days thereafter, (ii) accompany such notification with a statement of whether or not the Clearing Member is seeking to continue being a Clearing Member notwithstanding the statutory disqualification, and (iii) further accompany such notification with copies of all documents that are contained in the record of any proceeding that resulted in the statutory disqualification as well as any information and forms, including amendments thereto, related to the statutory disqualification provided to the SEC, the CFTC or any self-regulatory organization, including, as applicable, any amended Form BD, Financial Industry Regulatory Authority (“FINRA”) Form MC-400A, any written response to a National Futures Association (“NFA”) Rule 504 Notice of Intent or other written request for relief addressed to such self-regulatory organization. Clearing Members that are not members of FINRA or NFA must provide the Corporation with, at a minimum, the information contained in FINRA Form MC-400A in addition to any forms filed with any self-regulatory organization or regulatory agency with respect to a statutory disqualification or similar provision of the laws or regulations applicable to such applicant.  
*Adopted May 18, 2012.*

(c) Any failure to provide the notice and supporting documentation required by paragraph (b) of this Rule may be deemed a violation of the Corporation’s Rules and subject a Clearing Member to Disciplinary Proceedings as provided for in Chapter XII of the Rules. Following the receipt of such notification, or in the event the Corporation becomes aware that a Clearing Member is subject to a statutory disqualification and has failed to submit a notification pursuant to paragraph (b) of this Rule within the required time period, the Corporation may convene a Disciplinary Committee to conduct a hearing or institute a disciplinary proceeding concerning the matter pursuant to Chapter XII of the Rules.  
*Adopted May 18, 2012.*

(d) Any Clearing Member which is the subject of a Chapter XII disciplinary proceeding under this Rule shall promptly submit any information requested by the Corporation in connection with such proceeding.

(e) No determination to discontinue or condition Clearing Membership shall take effect until the review procedures under Chapter XII of the Rules have been exhausted or the time for review has expired.

*Adopted May 18, 2012.*

(f) The Corporation may waive all or certain of the provisions of this Rule when a proceeding is pending before another self-regulatory organization to determine whether to permit a Clearing Member to continue in Clearing Membership notwithstanding a statutory disqualification. The Corporation shall determine whether it will concur in any Exchange Act Rule 19h-1 filing made by another self-regulatory organization with respect to the Clearing Member.

*Adopted May 18, 2012.*

(g) The Corporation also may waive the hearing provisions hereof with respect to a Clearing Member if the Corporation intends to grant the Clearing Member's application to continue in Clearing Membership and either: (i) there is no requirement under Exchange Act Rule 19h-1(a)(2) or Exchange Act Rule 19h-1(a)(3) that the Corporation make a notice filing with the Commission to permit the Clearing Member to continue in Clearing Membership; or (ii) the Corporation determines that it is otherwise appropriate to waive the hearing provisions under the circumstances.

*Adopted May 18, 2012.*

## **RULE 218 - Operational and Default Management Testing**

(a) The Corporation has established standards for designating those Clearing Members required to participate in business continuity and disaster recovery testing that the Corporation reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event that business continuity and disaster recovery plans are required to be activated. Such standards take into account the following factors: (i) volume thresholds; (ii) the nature of interconnectedness based on a firm's approved business activities; (iii) the existence of significant operational issues during the past twelve months; and (iv) past performance with respect to operational testing. The specific standards adopted by the Corporation are published to Clearing Members and any updates or modifications thereto shall be published to Clearing Members and applied on a prospective basis.

(b) Upon advance notification that it has been designated to participate in business continuity and disaster recovery testing as described in subparagraph (a) above, Clearing Members shall be required to fulfill, within the time frames established by the Corporation, certain testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation.

*Adopted October 2, 2015*

(c) The Corporation shall periodically designate Clearing Members required to participate in default management testing by using key factors to select designees that the Corporation reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets, the promotion of robust risk management, the support of stability of the broader financial system and the protection investors and the public interest. Such key factors will include but not be limited to: (i) suitability of business activities and anticipated impact on resources; (ii) historical open interest and volume in asset classes, where appropriate; and (iii) participation in previous tests.

*Adopted: April 11, 2017*

(d) Upon advance notification that a Clearing Member has been designated to participate in default management testing as described in subparagraph (c) above, the Clearing Member shall be required to fulfill, within the time frames established by the Corporation, certain testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation.

*Adopted: April 11, 2017*

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## **Chapter III - Financial Requirements**

### **RULE 301 - Initial Requirements**

(a) Every Clearing Member registered as a broker or dealer under Section 15(b)(1) or (2) of the Securities Exchange Act of 1934 shall have an initial net capital of not less than \$2,500,000, and the aggregate principal amount of its satisfactory subordination agreements (other than such agreements which qualify as equity capital under Securities and Exchange Commission Rule 15c3-1(d)) shall not initially exceed 70 per cent of its debt-equity total. Every Clearing Member (other than an exempt Non-U.S. Clearing Member) which has not elected to operate pursuant to the alternative net capital requirements shall also have an initial net capital of not less than 12-1/2 per cent of such Clearing Member's aggregate indebtedness. Every Clearing Member electing to operate pursuant to the alternative net capital requirements shall also have an initial net capital of not less than 5 per cent of its aggregate debit items. Every Clearing Member shall continue to meet the requirements set forth in the preceding provisions of this Rule until the later of (i) three months after its admission to Clearing Membership, or (ii) twelve months after it commenced doing business as a broker or dealer.

*Amended October 8, 1976, September 11, 1979, June 17, 1982, Amended August 20, 2001, May 16, 2002, June 9, 2004.*

(b) Exempt Non-U.S. Clearing Members shall comply with such initial requirements for the ratio of net capital to aggregate indebtedness as the Corporation may specify.

*Amended July 22, 1987; May 19 1989.*

(c) Every Clearing Member registered as a futures commission merchant under Section 4f(a)(1) of the Commodity Exchange Act shall have an initial requirement of not less than \$2,500,000 in adjusted net capital as computed under the regulations of the Commodity Futures Trading Commission, and shall meet such greater or additional minimum financial requirements as are established by regulation of the Commodity Futures Trading Commission in respect of futures commission merchants. Every such Clearing Member shall continue to meet the requirements set forth in the preceding sentence until the later of (i) three months after its admission to Clearing Membership, or (ii) twelve months after it commenced doing business as a futures commission merchant. For purposes of determining compliance with any minimum net capital requirements specified elsewhere in the By-Laws and Rules, a Clearing Member referred to in this paragraph shall calculate its net capital as specified in the rules of the Commodity Futures Trading Commission.

*Adopted August 20, 2001. Amended May 16, 2002, June 9, 2004.*

(d) Every Clearing Member shall have access to sufficient financial resources to meet obligations arising from clearing membership in extreme but plausible market conditions, as determined by the Corporation for purposes of this Rule.

*Adopted April 25, 2012.*

***...Interpretations and Policies:***

**.01** An exempt Non-U.S. Clearing Member that is a Canadian Clearing Member and that commenced doing business as a broker or dealer within twelve months prior to its admission to Clearing Membership shall maintain an initial early warning reserve (as determined in accordance with Form 1 of the International Financial Reporting Standards of not less than \$2,500,000 (United States) until the later of (i) three months after its admission to Clearing Membership, or (ii) twelve months after it commenced doing business as a broker or dealer. An exempt Non-U.S. Clearing Member that is a Canadian Clearing Member and not subject to the requirements of the previous sentence shall maintain an initial early warning reserve of not less than such United States dollar amount as the Corporation may require, on a case by case basis, at the time of such Clearing Member's application for Clearing Membership. Every such Clearing Member shall continue to meet such requirement until three months after its admission to Clearing Membership. *Adopted July 22, 1987, amended December 20, 1995, June 9, 2004; October 26, 2012*

**.02** If a Clearing Member is registered as a broker-dealer under Section 15(b)(1) of the Securities Exchange Act of 1934 and also as a futures commission merchant under Section 4f(a)(1) of the Commodity Exchange Act, the Clearing Member would be required to comply with applicable capital requirements under the Commodity Exchange Act as well as with the minimum capital requirements imposed under Rule 301. *Adopted August 20, 2001.*

## **RULE 302 - Minimum Net Capital**

(a) No opening purchase transaction or opening sale transaction shall be cleared by or through any Clearing Member, and no Stock Loan shall be entered into by any Clearing Member, at any time when such Clearing Member's net capital is less than the greater of \$2,000,000 or (in the case of a Clearing Member not electing to operate pursuant to the alternative net capital requirements, other than an exempt Non-U.S. Clearing Member) 6 2/3 per cent of its aggregate indebtedness or (in the case of a Clearing Member electing to operate pursuant to the alternative net capital requirements) 2 per cent of its aggregate debit items.

*Amended October 8, 1976, September 11, 1979, June 17, 1982, July 15, 1993, June 9, 2004.*

(b) Exempt Non-U.S. Clearing Members shall comply with such requirements for the ratio of net capital to aggregate indebtedness as the Corporation may specify.

*Amended July 22, 1987; May 19, 1989.*

***...Interpretations and Policies:***

**01** An exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall maintain early warning reserve (as determined in accordance with Form 1 of the International Financial Reporting Standards) of not less than the greater of \$2,000,000 (United States) or 2% of such Canadian Clearing Member's total margin required (as determined in accordance with Form 1). *Adopted July 22, 1987, amended December 20, 1995, June 9, 2004; October 26, 2012.*

## **RULE 303 - Early Warning Notice**

(a) A Clearing Member shall notify an officer of the Corporation immediately, and shall promptly (in any event prior to 3:00 P.M. Central Time (4:00 P.M. Eastern Time) of the next business day) confirm such notice in writing, if the Clearing Member notifies, is required to notify, or receives notice from, any regulatory organization (as defined in this paragraph) of any financial difficulty affecting the Clearing Member or of any failure by the Clearing Member to be in compliance with the financial responsibility rules or capital requirements of any regulatory organization. Any notice, whether written or otherwise, from a regulatory organization informing a Clearing Member



that it may fail to be in compliance with the financial responsibility rules or capital requirements of the regulatory organization unless it takes corrective action, or informing it that it has triggered any provision in the nature of an early warning provision contained in any such rule or regulation, constitutes a notice for purposes of the preceding sentence. The Clearing Member shall include with any written confirmation to the Corporation a copy of any written notice provided or received by the Clearing Member which is referred to in the confirmation.

*Adopted March 10, 1998.*

(b) A Clearing Member registered as a broker-dealer under Section 15(b)(1) or (2) of the Securities Exchange Act of 1934 shall notify an officer of the Corporation immediately by telephone, and shall promptly (in any event prior to 3:00 P.M. Central Time (4:00 P.M. Eastern Time) of the following business day) confirm such notice in writing, if:

*Amended October 8, 1976, September 11, 1979, March 10, 1998, May 16, 2002.*

(1) such Clearing Member's net capital shall become less than the greater of \$2,500,000, or (in the case of a Clearing Member not electing to operate pursuant to the alternative net capital requirements) ten per cent (10%) of its aggregate indebtedness, or (in the case of a Clearing Member electing to operate pursuant to the alternative net capital requirements) five per cent (5%) of its aggregate debit items; or

*Amended September 11, 1979; May 16, 2002, June 9, 2004.*

(2) the aggregate principal amount of such Clearing Member's satisfactory subordination agreements (other than such agreements which qualify as equity capital under paragraph (d) of Securities and Exchange Commission Rule 15c3-1) shall exceed 70 per cent of such Clearing Member's debt-equity total; or

*Adopted September 11, 1979.*

(3) such Clearing Member has not elected to operate under paragraph (a)(7) of said Rule 15c3-1 and the sum of (i) the deductions from such Clearing Member's net worth required by paragraph (c)(2)(x)(A) of said Rule 15c3-1 in respect of transactions in certain accounts guaranteed, endorsed or carried by such Clearing Member, and (ii) the equity required by paragraph (a)(6)(iii) of said Rule in respect of transactions in accounts carried by such Clearing Member pursuant to paragraph (a)(6) of said Rule (such deductions and equity being calculated in accordance with the provisions of paragraph (c)(2)(x)(B) of said Rule), shall exceed 800 per cent of such Clearing Member's net capital; or

*Adopted September 11, 1979.*

(4) such Clearing Member has elected to operate under paragraph (a)(7) of said Rule 15c3-1 and the sum of the deductions required by paragraph (a)(7)(iii) of said Rule in respect of positions in certain accounts guaranteed, endorsed, or carried by such Clearing Member (calculated in accordance with the provisions of paragraph (a)(7)(iv) of said Rule) shall exceed 800 per cent of such Clearing Member's net capital; or

*Adopted September 11, 1979, amended June 17, 1982.*

(5) such Clearing Member's Examining Authority has granted to such Clearing Member, pursuant to paragraph (c)(2)(v)(C) of said Rule 15c3-1, an extension of any time period provided for resolving short securities differences under paragraph (c)(2)(v)(A) of said Rule.

*Adopted June 17, 1982.*

(6) such Clearing Member has provided any notice as required by paragraph (e)(1)(iv) of Rule 15c3-1. Such Clearing Member shall also furnish the Corporation with a copy of each notice so provided.

*Adopted February 7, 1992.*

(c) A Clearing Member registered as a futures commission merchant under Section 4f(a)(1) of the Commodity Exchange Act shall notify an officer of the Corporation immediately by telephone, and shall promptly (in any event prior to 3:00 P.M. Central Time (4:00 P.M. Eastern Time) of the following business day) confirm such notice in writing, if the Clearing Member's net capital shall become less than the greater of \$2,500,000 or the minimum net capital required by the Clearing Member's Designated Self-Regulatory Organization.

*Adopted May 16, 2002. Amended June 9, 2004.*

(d) An exempt Non-U.S. Clearing Member shall notify an officer of the Corporation immediately by telephone, and shall promptly (in any event prior to 3:00 P.M. Central Time (4:00 P.M. Eastern Time) of the following business day) confirm such notice in writing, of (1) any violation on its part of the rules or regulations relating to financial responsibility or protection of customer property of its Non-U.S. Regulatory Agency (or any other governmental agency or instrumentality or independent organization or exchange to whose authority it is subject), (2) any notice (whether written or otherwise) received from such Agency (or any other agency, instrumentality, organization or exchange) (i) alleging a violation of any such rule or regulation, (ii) informing it that it may violate any such rule or regulation unless it takes corrective action, or (iii) informing it that it has triggered any provision in the nature of an early warning provision contained in any such rule or regulation, or (3) such other events as the Corporation may specify.

*Amended July 22, 1987; May 19, 1989, March 10, 1998.*

***...Interpretations and Policies:***

**.01** The term "regulatory organization" as used in this paragraph in respect of any Clearing Member, means: (1) the Securities and Exchange Commission and any other federal or state regulatory agency having jurisdiction over the Clearing Member (including the Commodity Futures Trading Commission (the "CFTC") in the case of a Clearing Member which is subject to the jurisdiction of the CFTC); (2) any self-regulatory organization (as defined in Section 3(a) of the Securities Exchange Act of 1934, as amended) of which the Clearing Member is a member or participant; (3) any clearing organization (as defined in Regulation Section 1.3(d) under the Commodity Exchange Act, as amended), board of trade, contract market and registered futures association of which the Clearing Member is a member or participant; and (4) in the case of a Non-U.S. Clearing Member, any Non-U.S. Regulatory Agency or instrumentality or independent organization or exchange having jurisdiction over the Non-U.S. Clearing Member or of which the Non-U.S. Clearing Member is a member or participant.

*Adopted March 10, 1998.*

**02** An exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall perform daily computations of its early warning reserve (as determined in accordance with Form 1 of the International Financial Reporting Standards) and shall notify the Corporation promptly, and in any event prior to 3:00 P.M. Central Time (4:00 P.M. Eastern Time) of the following business day, if such Clearing Member's early warning reserve shall become less than (i) \$2,500,000 (United States), at the United States dollar to Canadian dollar exchange rate then in effect (determined in such manner as the Corporation shall prescribe).

*Adopted July 22, 1987; Amended May 19, 1989, December 20, 1995, June 9, 2004; October 26, 2012.*

## **RULE 304 - Restrictions on Distributions**

(a) No Clearing Member other than an exempt Non-U.S. Clearing Member shall withdraw any funds from any subordinated loan account (whether at the maturity of the subordinated loan or otherwise) without the prior written authorization of the Corporation if, after giving effect to such withdrawal, a condition specified in Rule 303(b), (1), (2), (3) or (4) would exist with respect to such Clearing Member.

*Amended November 8, 1976, September 11, 1979, February 28, 1991.*

(b) No Clearing Member other than an exempt Non-U.S. Clearing Member shall withdraw any funds from the accounts of partners (if such accounts are included as part of the net capital of the Clearing Member), and no such Clearing Member shall make any withdrawal or payment whether by dividend or distribution or otherwise to stockholders, partners, or employees, if the effect of such withdrawal or payment would be to reduce the net capital of the Clearing Member below \$2,500,000, or such withdrawal or payment would be inconsistent with the requirement of paragraph (e) of Securities and Exchange Commission Rule 15c3-1.

*Amended November 8, 1976, June 9, 2004.*

(c) Exempt Non-U.S. Clearing Members shall comply with such restrictions on distributions as the Corporation may specify.

*Amended December 4, 1981; July 22, 1987; May 19, 1989.*

***...Interpretations and Policies:***

**.01** No exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall withdraw any funds from any uniform subordinated loan account (as defined in the regulations of such Clearing Member's Non-U.S. Regulatory Agency), whether at the maturity of the subordinated loan or otherwise, without the prior written authorization of the Corporation if, after giving effect to such withdrawal, a condition specified in Rule 303(b) or in Interpretation 1 to Rule 303 would exist with respect to such Clearing Member.

**.02** No exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall withdraw any funds from the accounts of partners, if such accounts are included as part of the early warning reserve (as determined in accordance with Form 1 of the International Financial Reporting Standards) of the Clearing Member, and no such Clearing Member shall make any withdrawal or payment whether by dividend or distribution or otherwise to stockholders, partners, or employees, if the effect of such withdrawal or payment would be to reduce the early warning reserve of such Clearing Member below \$2,500,000 (United States), at the United States dollar to Canadian dollar exchange rate then in effect (determined in such manner as the Corporation may prescribe).

*Adopted July 22, 1987; Amended May 19, 1989, December 20, 1995, June 9, 2004; October 26, 2012*

**.03** Each exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall provide written notice to the Corporation of any request submitted to the Investment Industry Regulatory Organization of Canada to withdraw capital at the time it submits such request.

*Adopted October 26, 2012.*

## **RULE 305 - Restrictions on Certain Transactions, Positions and Activities**

**RULE 305.** (a) If the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer of the Corporation shall at any time determine that the financial or operational condition of a Clearing Member makes it necessary or advisable, for the protection of the Corporation, other Clearing Members, or the general public, to impose restrictions on such Clearing Member's positions and stock loan and borrow positions with the Corporation, such officer shall have the authority (i) to prohibit or to impose limitations on the clearance of opening purchase transactions or opening writing transactions by such Clearing Member, (ii) to require such Clearing Member to reduce or eliminate existing unsegregated long positions or short positions in such Clearing Member's accounts with the Corporation, (iii) to require such Clearing Member to hedge existing unsegregated long positions or existing short positions for which a deposit in lieu of margin has not been made in accordance with the Rules in such Clearing Member's accounts with the Corporation, (iv) to prohibit or to impose limitations on the acceptance by the Corporation of Stock Loans entered into by such Clearing Member, (v) to require such Clearing Member to reduce or

eliminate existing stock loan positions or stock borrow positions in such Clearing Member's accounts with the Corporation, (vi) to require such Clearing Member to hedge existing stock loan positions or stock borrow positions, and/or (vii) to require such Clearing Member to transfer any account maintained by such Clearing Member with the Corporation, any position or stock loan or borrow position maintained in any such account, or any account carried by such Clearing Member, to another Clearing Member.

*Adopted September 11, 1979, amended July 15, 1993, August 26, 1996, December 10, 1997; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(b) If the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer of the Corporation shall at any time determine that the financial or operational condition of a Clearing Member makes it necessary or advisable, for the protection of the Corporation, other Clearing Members, or the general public, to impose restrictions on such Clearing Member's facilities management activities or activities as an Appointed Clearing Member, such officer shall have the authority to prohibit such Clearing Member from engaging in such activities or to impose such limitations on such activities as such officer deems necessary or appropriate in the circumstances.

*Amended January 28, 1994, December 10, 1997; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(c) Any action taken by the Chief Executive Officer or Chief Operating Officer, or Designated Officer with respect to a Clearing Member pursuant to paragraph (a) or (b) shall be subject to review by the Risk Committee of the Corporation upon submission by the Clearing Member of a request for review to the Secretary of the Corporation within five business days of the date such action is taken. The Risk Committee shall schedule an early hearing. The Clearing Member shall be given not less than one day's notice of the place and time of such hearing. At the hearing, the Clearing Member shall be afforded an opportunity to be heard and to present evidence in its behalf and may be represented by counsel. A verbatim record of the hearing shall be prepared and the cost of the transcript may, in the discretion of the Risk Committee, be charged in whole or in part to the Clearing Member if the Risk Committee does not modify the action of the Chief Executive Officer or Chief Operating Officer, or Designated Officer. The Clearing Member shall be notified in writing of the outcome of the Risk Committee's review.

*Adopted September 11, 1979. Amended January 7, 1991, December 10, 1998; July 19, 2006; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(d) The filing of a request for review pursuant to paragraph (c) of this Rule shall not impair the validity or stay the effect of the action which the Clearing Member seeks to have reviewed, and the Clearing Member shall be obligated to comply with such action without delay notwithstanding the pendency of such request for review. Any modification or reversal by the Risk Committee of any action taken pursuant to paragraph (a) or (b) hereof shall not invalidate any acts taken by the Corporation prior to such modification or affect any rights of any person arising out of any such acts.

*Amended January 7, 1991; July 19, 2006; March 6, 2014*

#### ***...Interpretations and Policies:***

Situations in which action may be taken under Rule 305 include, but are not limited to, the following:

**.01** A Clearing Member's net capital becomes less than \$2,500,000 or, as applicable, 11 per cent of the sum described in clauses (i) and (ii) of Rule 303(a)(3) or 11 per cent of the deductions described in Rule 303(a)(4).

*Amended June 9, 2004.*

**.02** For a period of three consecutive months, a Clearing Member's net capital remains less than 8-1/3 per cent of aggregate indebtedness (if the Clearing Member does not operate under the

alternative net capital requirements) or 4 per cent of aggregate debit items (if the Clearing Member operates under the alternative net capital requirements).  
*Amended June 17, 1982.*

**.03** During the three months after admission to Clearing Membership, or during the twelve months after commencing business as a broker or dealer or futures commission merchant, a Clearing Member ceases to meet the initial financial requirements of Rule 301.  
*Amended May 16, 2002.*

**.04** A Clearing Member's net worth becomes less than the greater of: (1) the largest one-month pre-tax loss (exclusive of extraordinary items), if any, reported over the prior twelve-month period; or (2) \$75,000.  
*Amended February 7, 1992.*

**.05** A Clearing Member's subordinated debt (excluding any portion treated as equity under SEC rules) exceeds 70 per cent of its debt-equity total on one or more days in two consecutive months.

**.06** A Clearing Member sustains net pre-tax losses (after giving effect to all gains and losses, whether realized or unrealized, in trading, investment or other proprietary accounts) in any three-month period which exceed 50 per cent of the Clearing Member's net capital (before the application of the adjustments provided for in paragraphs (c)(2)(vi), (c)(2)(viii) and (c)(2)(x) of SEC Rule 15c3-1 and Appendices A and B to said Rule, adjusted where applicable by the provisions of paragraph (f) of said Rule) as of the end of such three-month period.

**.07** The Clearing Member is experiencing such operational difficulties that the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer determines that action under Rule 305 is necessary or advisable in the circumstances.  
*Amended December 10, 1997; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

**.08** The Clearing Member was listed in the two special surveillance lists (SIPC Form 5A) most recently filed with the Securities Investor Protection Corporation by the Clearing Member's designated Examining Authority.

**.09** The Clearing Member is an exempt Non-U.S. Clearing Member and such Clearing Member gives notice to the Corporation pursuant to Rule 303(b) or an Interpretation and Policy thereunder.

**.10** The Clearing Member, the Appointed Clearing Member of the Clearing Member or CDS (if the Clearing Member is a Canadian Clearing Member described in Rule 901) is experiencing such difficulty in meeting its obligations to the correspondent clearing corporation that the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer determines that action under Rule 305 is necessary or advisable in the circumstances.  
*Adopted January 28, 1994, Amended December 10, 1997; August 20, 2001, October 19, 2001, March 16, 2004; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

**.11** A Clearing Member lacks access to sufficient financial resources to meet obligations arising from clearing membership in extreme but plausible market conditions, as determined by the Corporation for purposes of this Rule.  
*Adopted April 25, 2012.*

**.12** A Clearing Member lacks the ability to process expected volumes and values of transactions cleared by the Clearing Member within required time frames, including at peak times and on peak days; the ability to fulfill collateral, payment, and delivery obligations as required by the

Corporation, and the ability to participate in applicable default management activities, including auctions, as may be required by the Corporation and in accordance with applicable laws and regulations.

*Adopted April 25, 2012.*

## **RULE 306 - Financial Reports**

(a) Every Clearing Member other than an exempt Non-U.S. Clearing Member shall cause to be filed with the Corporation a true and complete copy of Part I of Securities and Exchange Commission Form X-17A-5 within 10 business days after the end of each month, except for those months which conclude a calendar quarter. Every Clearing Member shall cause to be filed with the Corporation a true and complete copy of Part II (or Part IIA in the case of a Clearing Member who files Part IIA with the Securities and Exchange Commission or its designated Examining Authority in lieu of Part II) of Securities and Exchange Commission Form X-17A-5 within 17 business days after the end of each calendar quarter and within 17 business days after the date selected for the annual audit of financial statements when said date is other than the end of a calendar quarter. Notwithstanding the foregoing no Domestic Clearing Member shall be required to file with the Corporation Part I or Part II or IIA of Form X-17A-5 prior to the earlier of (i) the date when such Part is filed with the Clearing Member's designated Examining Authority, or (ii) the date when such Part is required to be filed with such Examining Authority pursuant to the rules and regulations of the Securities and Exchange Commission and the procedures of such Examining Authority and any extensions of time duly granted to the Clearing Member thereunder. In the event the designated Examining Authority of any Domestic Clearing Member shall at any time require such Clearing Member to file any of the foregoing reports with such Examining Authority on a more frequent basis, then such Clearing Member shall file with the Corporation a true and complete copy of each such report at the same time it is filed with the designated Examining Authority. A Domestic Clearing Member's obligation to file any report under the preceding provisions of this Rule shall be deemed to have been met if the Clearing Member's designated Examining Authority files such report with the Corporation within four business days after such report is required to be filed with such designated Examining Authority; or, should the designated Examining Authority fail to do so, if the Clearing Member files such report directly with the Corporation no later than 24 hours after the Corporation requests the Clearing Member to do so. The Corporation may require any Clearing Member at any time to make more frequent net capital computations or to file with the Corporation the above reports on a more frequent basis or such other reports or financial statements in such form or detail as may be prescribed by the Corporation, including for purposes of assessing whether the Clearing Member is meeting the financial requirements for clearing membership on an ongoing basis.

*Amended February 15, 1977; April 25, 2012.*

(b) Exempt Non-U.S. Clearing Members shall cause to be filed with the Corporation such financial reports at such times as the Corporation may specify. The Corporation may require any such Clearing Member at any time to file the financial reports required by the Corporation with the Corporation on a more frequent basis or to file such other reports or financial statements containing such additional information in such form or detail as may be prescribed by the Corporation. In the event such Clearing Member's Non-U.S. Clearing Agency shall at any time require such Clearing Member to file financial reports with such Agency on a more frequent basis, then such Clearing Member shall file the financial reports required by the Corporation on such basis.

*Amended September 11, 1979; June 6, 1985; July 22, 1987.*

### ***...Interpretations and Policies:***

**.01** Every exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall cause to be filed with the Corporation a true and complete copy of its Form 1 of the International Financial Reporting Standards ("Form 1") within 30 calendar days of the end of each month, except for that month which concludes the fiscal year of such Clearing Member and such other month in the

fiscal year of such Clearing Member as is designated by the Foreign Regulatory Agency of such Clearing Member as a month in which such Clearing Member is to file a Form 1. Every such Clearing Member shall cause to be filed with the Corporation a true and complete copy of its Form 1 within 35 calendar days after the end of (i) such Clearing Member's fiscal year and (ii) such other month in the fiscal year of such Clearing Member as is designated by the Non-U.S. Regulatory Agency of such Clearing Member as a month in which such Clearing Member is to file a Form 1. Notwithstanding the foregoing, no such Clearing Member shall be required to file with the Corporation any Form 1 prior to the earlier of (x) the date when such Form 1 is filed with such Clearing Member's Non-U.S. Regulatory Agency or (y) the date when such Form 1 is required to be filed with such Agency pursuant to the rules, regulations or procedures of such Agency and any extensions of time duly granted to such Clearing Member thereunder.  
*Adopted July 22, 1987, amended December 20, 1995; October 26, 2012.*

**.02** Any Clearing Member that is not fully registered with the Securities and Exchange Commission as a broker-dealer under Section 15(b)(1) or (2) of the Securities Exchange Act of 1934 but that is registered with the Commodity Futures Trading Commission (the "CFTC") as a futures commission merchant may, in lieu of filing reports on Form X-17A-5, cause to be filed with the Corporation a report of its financial condition on CFTC Form 1-FR-FCM within 17 business days after the end of each month (regardless of whether or not such Clearing Member is required to prepare or file such report on a monthly basis with another regulatory or self-regulatory organization). Additionally, a copy of the annual audited report on Form 1-FR-FCM required to be filed with the CFTC pursuant to CFTC Regulation 1.10(b)(ii) must be filed with the Corporation each year within 90 days (or such longer period to which the Corporation may consent) after the close of such Clearing Member's fiscal year. If the Clearing Member's designated self-regulatory organization ("DSRO") requires such Clearing Member to file any report on Form 1-FR-FCM on an earlier date or on a more frequent basis than is required under this Interpretation, then such Clearing Member shall file with the Corporation a true and complete copy of each such report at the same time it is filed with the DSRO. Notwithstanding the foregoing, no such Clearing Member will be required to file any report on Form 1-FR-FCM with the Corporation prior to the date specified in any extension of time duly granted by the CFTC or the DSRO, so long as such extension is not issued on a permanent basis and a copy of such extension is filed with the Corporation in a timely manner. The Corporation may require any Clearing Member at any time to make more frequent net capital computations or to file with the Corporation the above reports on a more frequent basis or to file such other reports or financial statements in such form or detail as may be prescribed by the Corporation, including for purposes of assessing whether the Clearing Member is meeting the financial requirements for clearing membership on an ongoing basis.  
*Adopted November 7, 2001. Amended July 14, 2005; April 25, 2012.*

**.03** The Corporation shall deliver to the CFTC upon request any financial report provided to the Corporation pursuant to Rule 306 by a Clearing Member that is not a futures commission merchant.  
*Adopted April 25, 2012.*

## **RULE 307 - Definitions**

The terms "net capital," "aggregate indebtedness", and "debt-equity total" shall be computed for a Clearing Member in accordance with Securities and Exchange Commission Rule 15c3-1; provided, however, that a Clearing Member that is registered as a futures commission merchant under Section 4f(a)(1) of the Commodity Exchange Act and is not otherwise required to calculate its net capital in accordance with Rule 15c3-1, may instead calculate net capital as required under the rules of the Commodity Futures Trading Commission. The term "alternative net capital requirements" shall mean the requirements set forth in paragraph (a)(1)(ii) of said Rule 15c3-1, and the term "satisfactory subordination agreement" shall mean a subordination agreement meeting the requirements of Appendix D to said Rule 15c3-1 and any additional requirements, not inconsistent therewith, imposed by a Clearing Member's Examining Authority. Except as otherwise limited by paragraph (a)(1)(ii) of said Rule 15c3-1, the term "aggregate debit items"

shall be computed for a Clearing Member in accordance with the Formula for Determination of Reserve Requirements for Brokers and Dealers (Exhibit A to Securities and Exchange Commission Rule 15c3-3). The term "Examining Authority" of a Clearing Member shall have the meaning set forth in the General Instructions to Part II of Securities and Exchange Commission Form X-17A-5 or shall mean the Clearing Member's "designated self-regulatory organization", as defined in the Rules of the Commodity Futures Trading Commission, as applicable. For the purpose of this Chapter III only, the term "customer" shall have the meaning set forth in paragraph (c)(6) of said Rule 15c3-1.

*Amended October 8, 1976; September 11, 1979; May 16, 2002; April 25, 2012.*

**... Interpretations and Policies:**

**.01** If a Clearing Member maintains proprietary options positions but carries those positions in an account or accounts with another Clearing Member and is otherwise eligible to calculate its net capital requirement in accordance with the provisions of Securities and Exchange Commission Rule 15c3-1(a)(6), the Clearing Member must nevertheless take the risk based haircuts associated with proprietary securities positions in determining its compliance with the Corporation's minimum net capital requirements. Clearing Members that were Clearing Members on June 13, 2005 will have until July 27, 2005 to comply with the foregoing Interpretation.

*Adopted June 13, 2005.*

## **RULE 308 - Audits**

(a) Every Clearing Member that is not an exempt Non-U.S. Clearing Member and is not exempt under paragraph (d) of Securities and Exchange Commission Rule 17a-5 shall file each year with the Corporation a copy of the annual audited report required to be filed with the Securities and Exchange Commission pursuant to said Rule 17a-5.

(b) Any Clearing Member that is not an exempt Non-U.S. Clearing Member and is not subject to the filing requirements of Securities and Exchange Commission Rule 17a-5 shall file with the Corporation once each year an audited report of its financial condition prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards by a firm of independent public accountants satisfactory to the Corporation.

*Amended May 16, 2002.*

(c) The report required to be filed by paragraph (a), (b) or (e) of this Rule shall be as of the same fixed or determinable date each year unless a change is approved by the Corporation, and shall be filed within sixty days after the date of the financial statements contained therein. Any extension of time for filing that has been duly granted to a Clearing Member by its designated Examining Authority, or, in the case of an exempt Non-U.S. Clearing Member, by its Non-U.S. Regulatory Agency, shall be recognized by the Corporation upon receipt of a copy of the extension granted.

(d) Every Clearing Member that is not an exempt Non-U.S. Clearing Member shall file with the Corporation concurrently with the report required to be filed by paragraph (a) or (b) of this Rule an accountant's supplemental report on material inadequacies as described in paragraph (j) of Securities and Exchange Commission Rule 17a-5.

(e) Every exempt Non-U.S. Clearing Member shall file each year with the Corporation such annual financial reports, audited in accordance with generally accepted auditing standards of the country in which such Clearing Member has its principal place of business by a firm of independent public accountants satisfactory to the Corporation, as the Corporation may prescribe.

*Amended October 8, 1976; September 11, 1979; February 2, 1983; July 22, 1987.*

**... Interpretations and Policies:**



**.01** An exempt Non-U.S. Clearing Member that is a Canadian Clearing Member shall cause to be filed each year with the Corporation true and complete copies of its audited Form 1 of the International Financial Reporting Standards and of any report in the nature of a supplemental report on material inadequacies prepared by the auditor performing such audit.  
*Adopted July 22, 1987. Amended October 26, 2012.*

## **RULE 309 - Managing Clearing Members and Managed Clearing Members**

(a) As used herein, the term "Managing Clearing Member" shall mean a Clearing Member which provides any facilities management services to one or more other Clearing Members, and the term "Managed Clearing Member" shall mean a Clearing Member for which any management clearing services are provided by another Clearing Member.

(b) Every Managing Clearing Member shall at all times maintain net capital of not less than the greater of (i) the minimum net capital required under the provisions of Rule 302 or (ii) the sum of (A) \$4,000,000 plus (B) \$200,000 times the number of Managed Clearing Members in excess of four for which the Managing Clearing Member provides facilities management services.  
*Amended June 9, 2004.*

(c) A Managing Clearing Member shall notify the Corporation promptly, and in any event prior to 3:00 p.m. Central Time (4:00 p.m. Eastern Time) of the following business day, if such Managing Clearing Member's net capital shall become less than the net capital required by paragraph (b) of this Rule 309.

(d) At any time when the net capital of a Managing Clearing Member shall be less than the minimum amount prescribed by paragraph (b) of this Rule 309, the Managing Clearing Member shall be subject to the restrictions on distributions set forth in Rules 304(a) and 304(b), and the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer shall have the authority to impose any or all of the limitations or restrictions set forth in Rule 305(a) on the positions, stock loan and borrow positions and transactions of the Managing Clearing Member and every Managed Clearing Member for which the Managing Clearing Member provides facilities management services.

*Amended July 15, 1993, December 10, 1997; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(e) In the event that a facilities management agreement is to be terminated, the Managed Clearing Member will be required to withdraw from membership in the Corporation, effective as of the business day immediately preceding the termination date of the agreement, unless the Risk Committee has determined in accordance with Article V, Section 1 of the By-Laws either that the Managed Clearing Member has the operational capability, experience and competence to perform the managed services required of a Clearing Member or that the Managed Clearing Member has entered into a facilities management agreement, which is in a form approved by the Corporation, which provides for the performance of the managed services and which will become effective on or before such termination date.

*Amended January 7, 1991; July 19, 2006; May 1, 2007; March 6, 2014*

(f) In the event that a Clearing Member proposes to become a Managed Clearing Member by entering into a facilities management agreement with a Managing Clearing Member, such Clearing Member shall not implement such agreement until the Risk Committee has determined that the agreement is in a form acceptable to the Corporation and otherwise meets the requirements of Article V, Section 1, Interpretation and Policy .05 of the By-Laws.

*Adopted May 1, 2007. Amended March 20, 2008; March 6, 2014*

**...Interpretations and Policies:**

**.01** A Clearing Member that proposes to become a Managed Clearing Member may request an expedited review of its proposed facilities management agreement. If the Corporation in its sole discretion consents to perform such a review, then the Chief Executive Officer, Chief Operating Officer, or any delegate of such officer shall have the authority to determine whether the submitted agreement meets the requirements of paragraph (f) of this Rule and to approve or disapprove the agreement. Any delegate shall be an officer of the rank of Senior Vice President or higher. Thereafter, at the next scheduled meeting of the Risk Committee, the Risk Committee shall independently review the agreement and determine de novo whether such requirements have been met and approve or disapprove the agreement. Should the Risk Committee's determination result in the modification or reversal of the action taken by the Chief Executive Officer, Chief Operating Officer, or any delegate of such officer, any acts taken by the Corporation or the Clearing Member prior to such modification or reversal shall not be invalidated nor shall any rights of any person arising out of such acts be affected. If the Risk Committee disapproves a facilities management agreement that was previously approved by the Corporation's management, the Clearing Member shall be given a reasonable period of time in which to enter into an appropriately revised agreement or cease to be a Managed Clearing Member.

*Adopted June 9, 2004. Amended March 20, 2008; March 6, 2014; April 28, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

**.02** A Managed Clearing Member that proposes to operate without a facilities management agreement may request an expedited review of its proposal. If the Corporation in its sole discretion consents to perform such a review, then the Chief Executive Officer, Chief Operating Officer, or any delegate of such officer who is a Designated Officer shall have the authority to determine whether the Managed Clearing Member has the operational capability, experience and competency to perform the managed services as specified in paragraph (e) of this Rule and to approve or disapprove termination of its facilities management agreement. Thereafter, at the next scheduled meeting of the Risk Committee, the Risk Committee shall independently review the Managed Clearing Member's operational capability, experience and competency to determine de novo whether the requirements of paragraph (e) have been met and approve or disapprove such termination. Should the Risk Committee's determination result in the modification or reversal of the action taken by the, Chief Operating Officer, or any delegate of such officer who is a Designated Officer, any acts taken by the Corporation or the Clearing Member prior to such modification or reversal shall not be invalidated nor shall any rights of any person arising out of such acts be affected. If the Risk Committee disapproves the termination of a facilities management agreement that was previously approved by the Corporation's management, the Clearing Member shall be given a reasonable period of time in which to enter into a new facilities management arrangement or terminate its clearing membership.

*Adopted August 12, 2008. Amended March 6, 2014; April 28, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

## **RULE 309A - Appointed Clearing Members and Appointing Clearing Members**

(a) Every Appointed Clearing Member shall at all times maintain net capital of not less than the greater of (i) the minimum net capital required under the provisions of Rule 302 or (ii) the sum of (A) \$4,000,000 plus (B) \$200,000 times the number of Appointing Clearing Members in excess of four on whose behalf the Appointed Clearing Member makes settlement of obligations to deliver or receive underlying securities arising from the exercise or maturity of cleared securities.

*Adopted and Amended September 29, 2004.*

(b) An Appointed Clearing Member shall notify the Corporation promptly, and in any event prior to 3:00 p.m. Central Time (4:00 p.m. Eastern Time) of the following business day, if such Appointed Clearing Member's net capital shall become less than the net capital required by paragraph (a) of this Rule 309A.

*Adopted September 29, 2004.*

(c) At any time when the net capital of an Appointed Clearing Member shall be less than the minimum amount prescribed by paragraph (a) of this Rule 309A, the Appointed Clearing Member shall be subject to the restrictions on distributions set forth in Rules 304(a) and 304(b), and the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer of the Corporation shall have the authority to impose any or all of the limitations or restrictions set forth in Rule 305(a) on the positions, stock loan and borrow positions and transactions of the Appointed Clearing Member and each of its Appointing Clearing Members.  
*Adopted September 29, 2004. Amended March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

***...Interpretations and Policies:***

**.01** Every Appointed Clearing Member that was an Appointed Clearing Member as of October 1, 2003 shall meet the minimum net capital requirement of this Rule by October 1, 2004.  
*Adopted September 29, 2004.*

## **RULE 310 - Non-U.S. Clearing Members**

(a) Except as otherwise provided in this Rule 310, every Non-U.S. Clearing Member shall cause to be filed with the Corporation those financial reports described in Rules 306(a) and 308(a), (b), and (d), prepared in accordance with United States accounting practices and standards and the accounting and financial reporting requirements of the Securities and Exchange Commission applicable to Domestic Clearing Members. In the event that the Corporation determines that such reports do not comply with the requirements of the preceding sentence, the Corporation may, in its discretion: (1) impose any sanctions or restrictions available under the By-Laws and Rules, including the imposition of variation margins under Rule 609 and the imposition of the restrictions described in Rule 305(a); or (2) require such Non-U.S. Clearing Member to make additional Clearing Fund deposits and/or margin deposits, in such amounts as it shall determine, for the protection of the Corporation, its Clearing Members and the public.

(b) Any Canadian Clearing Member may elect in its application for admission to the Corporation to be an exempt Non-U.S. Clearing Member and thereby to file, in lieu of the financial reports described in Rules 306(a) and 308(a), (b) and (d), the financial reports described in Interpretation 1 to Rule 306 and Interpretation 1 to Rule 308. Such an election shall be irreversible except with the approval of the Corporation. A subordinated loan agreement of any such Clearing Member that is in the form of the Uniform Subordination Agreement or Uniform Standby Subordinated Loan Agreement approved by the Canadian stock exchanges shall be deemed satisfactory by the Corporation within the meaning of Appendix D to Securities and Exchange Commission Rule 15c3-1. The debt to debt-equity total ratio test in Rule 301 and Interpretation 5 to Rule 305 shall not apply to such Clearing Members (but Interpretation 4 to Rule 305 shall apply to such Clearing Members). Any Canadian securities firm that is applying for Clearing Membership as an exempt Non-U.S. Clearing Member shall specify in its application all of the affiliates and subsidiaries the assets and liabilities of which it proposes to consolidate in its financial reports to the Corporation, and shall supply such other information with respect to such affiliates and subsidiaries as the Corporation may require. Upon admission to Clearing Membership such firm shall not alter its reporting practice with respect to consolidation except with the approval of the Corporation.

(c) In evaluating the compliance of exempt Non-U.S. Clearing Members with the financial requirements imposed on Clearing Members under the By-Laws and Rules, and in determining the necessity or appropriateness of imposing restrictions or limitations on exempt Non-U.S. Clearing Members pursuant to Rule 305 (including evaluating the applicability to such Clearing Members of the interpretations and policies adopted under that Rule), the Corporation shall, where necessary, convert the financial information supplied by such Clearing Members, as nearly as may be, into a form consistent with the accounting concepts and principles of Securities and Exchange Commission Rule 15c3-1. The Corporation's conversion of such financial information

shall be binding and conclusive upon such Clearing Members. For the purposes of making the evaluations and determinations described in this Rule 310(c), the Corporation shall deem exempt Non-U.S. Clearing Members not to have elected to operate pursuant to the alternative net capital requirements or under paragraph (a)(7) of Rule 15c3-1, and, except as otherwise specified in this Rule 310, the Corporation shall deem any subordinated loan agreement of an exempt Non-U.S. Clearing Member not satisfactory within the meaning of Appendix D to Securities and Exchange Commission Rule 15c3-1.

*Adopted June 6, 1985; amended August 9, 1986; July 22, 1987.*

(d) (1) Beginning on the Section 871(m) Effective Date, (i) no FFI Clearing Member shall conduct any transaction or activity through the Corporation unless such FFI Clearing Member is a Qualified Intermediary Assuming Primary Withholding Responsibility and FATCA Compliant, and (ii) no FFI Clearing Member shall conduct any transaction or activity through the Corporation for its own account unless such Clearing Member is a Qualified Derivatives Dealer and such transaction is within the scope of the exemption from withholding tax for Dividend Equivalents paid to Qualified Derivatives Dealers pursuant to Chapters 3 and 4 of subtitle A, and Chapter 61 and Section 3406, of the Internal Revenue Code.

*Adopted November 30, 2016*

(2) Each FFI Clearing Member shall certify annually to the Corporation that it satisfies the requirements of Rule 310(d)(1) by providing to the Corporation appropriate tax documentation attesting to such Clearing Member's tax status, with the first such certification being delivered to the Corporation no later than the Section 871(m) Implementation Date. Each FFI Clearing Member shall also update its certification to the Corporation when required by applicable law or administrative guidance and, if sooner, whenever the certification is no longer accurate.

*Adopted November 30, 2016*

(3) Each FFI Clearing Member shall provide the Corporation with information relating to Dividend Equivalents the Corporation pays or is treated as paying to such Clearing Member in sufficient detail and in a sufficiently timely manner to enable the Corporation to report under Chapters 3 and 4 of subtitle A of the Internal Revenue Code the required amounts and other information relating to Dividend Equivalents and transactions giving rise thereto between OCC and the FFI Clearing Member on IRS Forms 1042 and 1042-S (or successor forms).

*Adopted November 30, 2016*

(4) Beginning on the Section 871(m) Implementation Date, each FFI Clearing Member shall promptly inform the Corporation in writing if it (i) undergoes a change in circumstance that would affect its compliance with this Rule 310(d), or (ii) otherwise knows or has reason to know that it is not, or will not be, in compliance with this Rule 310(d), in each case, within two days of knowledge thereof.

*Adopted November 30, 2016*

(5) An FFI Clearing Member shall indemnify the Corporation for any loss, liability or expense (including taxes and penalties) sustained by the Corporation as a result of such FFI Clearing Member failing to comply with the requirements of this Rule 310(d).

*Adopted November 30, 2016*

## **RULE 311 - Clearing Member Risk Management**

(a) Each Clearing Member must maintain current written risk management policies and procedures that address the risks the Clearing Member may pose to the Corporation.

*Adopted April 25, 2012.*

(b) Each Clearing Member must provide to the Corporation such information and documentation as may be requested by the Corporation from time to time regarding such Clearing Member's risk management policies, procedures, and practices, including, but not limited to, information and

documents relating to the liquidity of its financial resources and its settlement procedures.  
*Adopted April 25, 2012.*

(c) Each Clearing Member must provide to the Commodity Futures Trading Commission such information and documentation as requested by the Commodity Futures Trading Commission regarding such Clearing Member's risk management policies, procedures, and practices.  
*Adopted April 25, 2012.*

\* \* \*

## ***Chapter IV - Trade Reporting, Novation, and Confirmation***

### **RULE 401 - Reporting of Confirmed Trades and Novation**

(a) Each business day each Exchange or OTC Trade Source shall report to the Corporation information with respect to each confirmed trade made on such Exchange or affirmed on such OTC Trade Source during said business day (or on a previous day and reconciled on said business day) and as to which confirmed trade information has been submitted by or on behalf of the Purchasing Clearing Member and the Writing or Selling Clearing Member. Such confirmed trade information shall also include a Customer CMTA Indicator, a CMTA Customer Identifier, and an IB Identifier to the extent required under applicable Exchange rules. The acceptance of every confirmed trade and the issuance of every cleared contract by the Corporation as provided in this rule shall be subject to the conditions that this reported trade information (i) passes the Corporation's trade validation process, (ii) is provided to the Corporation during such times as the Corporation shall prescribe, and (iii) satisfies certain criteria, as specified in paragraphs (a)(1) and (a)(2) of this Rule 401.

*Amended September 20, 1982; August 28, 1985; August 21, 1987; April 11, 1989; October 26, 1989, October 28, 1991, December 23, 1994, August 26, 1996, September 24, 1997, March 3, 1999, August 20, 2001, May 16, 2002; October 28, 2002; March 25, 2004; March 9, 2005; November 27, 2007; March 20, 2009; December 14, 2012; May 24, 2018; May 6, 2019*

(1) Options. (i) If the relevant transaction is in options, the Corporation's acceptance of the confirmed trade shall be subject to the condition that the trade information submitted by participant Exchanges for such transaction includes: (A) the identity of the Purchasing Clearing Member and the Writing Clearing Member to the transaction; (B) the clearing date; (C) the transaction time; (D) the trade source; (E) the trade quantity; (F) the trade price; (G) the product type; (H) the ticker symbol; (I) the series/contract date; (J) whether the trade is a put or call; (K) the strike price; (L) whether the trade is a purchase or sale; (M) the account type; (N) the allocation indicator, if applicable; (O) the CMTA indicator, if applicable; (P) the Given-Up Clearing Member, if applicable; (Q) the trade type, including, in the case of futures options, whether the transaction is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade; (R) in the case of OTC options transactions in a securities customers' account, a unique customer ID for the customer for whom the trade was executed; and (S) in the case of OTC options, such other variable terms as provided in Section 6 of Article XVII of the By-Laws.

*Amended May 16, 2002; October 28, 2002; November 28, 2007; May 24, 2018; May 6, 2019*

(ii) In addition to the foregoing information that is required as a condition to the Corporation's acceptance of the confirmed trade, the Corporation may also request certain optional trade information that is not required as a condition for acceptance.

*Adopted May 24, 2018*

(iii) If the relevant transaction is in securities options for a customer or non-customer other than a Market-Maker, the trade information submitted by participant Exchanges for such transaction shall include an Actionable Identifier from the Purchasing Clearing Member and an Actionable Identifier from the Writing Clearing Member, as described in Interpretation and Policy .06 to this rule. Notwithstanding the foregoing, an Actionable Identifier is not required as a condition to the Corporation's acceptance of the confirmed trade.

*Adopted May 6, 2019*

(2) *Futures.* (i) If the relevant transaction is in futures, the Corporation's acceptance of the confirmed trade shall be subject to the condition that the trade information submitted by participant Exchanges for such transaction includes: (A) the identity of the Purchasing Clearing Member and the Selling Clearing Member to the transaction; (B) the clearing date, (C) the transaction time; (D) the trade source; (E) the trade quantity; (F) the trade price; (G) the product type; (H) the ticker symbol; (I) the series/contract date; (J) whether the trade is a purchase or a sale; (K) the account type; (L) the allocation indicator, if applicable; (M) the CMTA indicator, if applicable; (N) the Given-Up Clearing Member, if applicable; and (O) whether the trade is an exchange-for-physical or block trade or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade.

*Amended September 20, 1982; August 28, 1985; August 21, 1987; April 11, 1989; October 26, 1989, October 28, 1991, December 23, 1994, August 26, 1996, September 24, 1997, March 3, 1999, Amended August 20, 2001; May 16, 2002; October 28, 2002; March 20, 2009; May 24, 2018; May 6, 2019*

(ii) In addition to the foregoing information that is required as a condition to the Corporation's acceptance of the confirmed trade, the Corporation may also request certain optional trade information that is not required as a condition for acceptance.

*Adopted May 24, 2018*

(3) **BOUNDS.** If the relevant transaction is in BOUNDS, the matching trade information for such transaction shall include (A) the identity of the Purchasing Clearing Member and the Writing Clearing Member and of the accounts in which the transaction was effected, (B) the series, (C) the number of BOUNDS, (D) the trade price per single BOUND, (E) except for a transaction in a Market-Maker's account, whether an opening or closing transaction, and (F) such other information as may be required by the Corporation.

*Amended September 20, 1982; August 28, 1985; August 21, 1987; April 11, 1989; October 26, 1989, October 28, 1991, December 23, 1994, August 26, 1996, September 24, 1997, March 3, 1999, Amended August 20, 2001; May 16, 2002; October 16, 2002; October 28, 2002.*

(b) Subject to Rule 407, each Clearing Member shall be responsible to the Corporation in respect of each confirmed trade in which such Clearing Member is identified as a Purchasing Clearing Member or Writing or Selling Clearing Member in confirmed trade information reported to the Corporation by an Exchange or OTC Trade Source upon the acceptance of such confirmed trade by the Corporation pursuant to the provisions of this Rule 401.

*Amended October 28, 2002, June 9, 2004; March 20, 2009; December 14, 2012; May 24, 2018*

(c) As used in this Rule in respect of a particular Exchange, the term "business day" shall ordinarily mean any day on which such Exchange is open for trading in cleared contracts. Notwithstanding the foregoing, when an international market is open for trading on a day when Exchanges in the United States are closed, the Corporation may agree with such international market that confirmed trade information regarding confirmed trades effected on such international market on such day shall be reported to the Corporation on the following business day.

*Amended September 20, 1982; August 28, 1985; August 21, 1987; April 11, 1989; October 26, 1989, October 28, 1991, December 23, 1994, August 26, 1996, September 24, 1997, March 3, 1999, Amended August 20, 2001; May 16, 2002; October 28, 2002; March 20, 2009; December 14, 2012*

(d) The Corporation shall prescribe the times during which confirmed trade information is to be reported to the Corporation and the format of such reporting. The cut-off time on each business day for an OTC Trade Source to submit confirmed trades in OTC options to the Corporation for premium settlement on the next business day shall be 4:00 p.m. Central Time or such other time as the Corporation may establish with prior notice to Clearing Members. Premium settlement for confirmed trades in OTC options submitted after 4:00 p.m. on any business day or on a day other than a business day shall be effected on the second following business day. The Corporation shall prescribe the format of reporting of Confirmed Trades in OTC options.

*Adopted October 28, 2002. Amended December 14, 2012; May 24, 2018*

(e) The Corporation shall have no obligation to any purchaser, writer, buyer, or seller for any loss resulting from the untimely reporting by an Exchange, market, or OTC Trade Source of any confirmed trade information or from any error in confirmed trade information furnished to the Corporation.

*Adopted May 24, 2018*

(f) An Exchange or OTC Trade Source may instruct the Corporation to disregard a transaction previously reported by such Exchange or OTC Trade Source as a confirmed trade because of a subsequent determination that (i) the trade information was not correct as originally submitted by the Exchange or OTC Trade Source, or (ii) new or revised trade information was required to properly clear the transaction. In accordance with such instruction, the Corporation shall disregard the previously reported transaction and such transaction shall be deemed null and void and given no effect for purposes of the By-Laws and Rules. The Corporation shall have no obligation to any purchaser, writer, buyer, or seller in acting pursuant to an Exchange's or OTC Trade Source's instruction to disregard a previously reported transaction.

*Adopted May 24, 2018*

(g) Upon the acceptance of a confirmed trade by the Corporation, the Corporation shall be substituted through novation as the buyer to the seller and the seller to the buyer, the rights of the parties to such transaction shall be solely against the Corporation and the Corporation shall be obligated to the parties in accordance with the provisions of the By-Laws and the Rules. A confirmed trade shall be deemed to have been accepted for clearing by the Corporation at such time that the confirmed trade meets the conditions specified in this Rule 401 and Rule 406, as applicable, and the related position information has been recorded in OCC's clearing system; except as provided (i) in Section 7 of Article XII of the By-Laws with respect to a Confirmed Trade in a future issued in an exchange-for-physical transaction, block trade, or other non-competitively executed trade, and (ii) in this paragraph (g) of Rule 401 with respect to a confirmed trade in a Backloaded OTC option. In the case of a confirmed trade in a Backloaded OTC option, such a confirmed trade shall not be deemed accepted, and may be rejected, by the Corporation until the Selling Clearing Member has met its regular morning cash settlement obligations to the Corporation on the following business day. A Backloaded OTC option will not be accepted for clearing by the Corporation if the Corporation receives such Backloaded OTC option from the relevant OTC Trade Source after 4:00 P.M. Central Time (5:00 P.M. Eastern Time on the business day that is four business days prior to the expiration date of the Backloaded OTC option.

*Adopted May 24, 2018*

#### ***...Interpretations and Policies:***

**.01** In the case of futures, trade information submitted by an Exchange need not identify a transaction as opening or closing if the Exchange elects not to include such information in reporting its matching trade information. In that case, the Corporation will initially treat all purchase and sale transactions in futures in accounts other than Market Maker accounts as opening transactions. Each Clearing Member having such transactions in such accounts shall submit gross position adjustment information to the Corporation as necessary to identify the actual open interest in each such account at the end of each trading day based upon the day's trading activity and any applicable rules of an Exchange. In the event an account contains an

insufficient number of futures contracts in a particular series to effect a gross position adjustment in accordance with such information, the adjustment shall be applied up to the number of available contracts in such series and the remainder of the adjustment shall be given no effect. *Adopted August 20, 2001. Amended May 16, 2002; October 28, 2002; December 19, 2006; March 20, 2009.*

**.02** A Clearing Member may, through the systems of the Corporation, update certain non-critical trade information with respect to such transaction, provided that such updates are not in contravention of any rule of the Exchange on which a confirmed trade was executed. *Adopted December 19, 2006. Amended March 20, 2009; June 7, 2011; December 14, 2012*

**.03** Under procedures established from time to time in its discretion, the Corporation may review the reasonableness of prices for transactions reported as confirmed trades and identify certain of them to the reporting Exchange for its consideration of whether new or revised trade information is required to properly clear the transaction. *Adopted May 24, 2018*

**.04** The Corporation will accept for clearing confirmed trades in flexibly structured options and flexibly structured security futures, provided that the variable terms of the contract comply with any limitations on such variable terms published by the Corporation from time to time by notice to the Exchanges that have clearing agreements with the Corporation. *Adopted May 24, 2018*

**.05** The Corporation will not treat an EFP or block trade as a noncompetitively executed trade subject to Article XII, Section 7 of the By-Laws if the Exchange on which such trade is executed has made representations satisfactory to the Corporation that the Exchange has rules, policies or procedures that require each EFP and block trade that is submitted to the Corporation to be executed at a reasonable price and that such price is validated by the Exchange. *Adopted May 24, 2018*

**.06** Actionable Identifier.

Each Actionable Identifier that is required to be submitted pursuant to paragraph (a)(1)(iii) of this rule by the Purchasing Clearing Member shall consist of either the name, series of numbers, or other identifying information assigned by the Purchasing Clearing Member to the customer account or non-customer account (other than a Market-Maker account) held at the Purchasing Clearing Member that originated the purchase transaction. Each Actionable Identifier that is required to be submitted pursuant to paragraph (a)(1)(iii) of this rule by the Writing Clearing Member shall consist of either the name, series of numbers, or other identifying information assigned by the Writing Clearing Member to the customer account or non-customer account (other than a Market-Maker account) held at the Writing Clearing Member that originated the sale transaction. In the event an Actionable Identifier is transmitted to another Clearing Member to clear a purchase or sale transaction, the Purchasing Clearing Member in the case of a purchase transaction, and Writing Clearing Member in the case of a sale transaction, shall establish and maintain policies and procedures reasonably designed to include sufficient information in the Actionable Identifier field to allow the Clearing Member receiving such Actionable Identifier to promptly clear the transaction. Each Clearing Member that has adopted such policies and procedures shall annually certify to the Corporation, in a form and manner specified by the Corporation, that such policies and procedures are reasonably designed to provide that sufficient information is included in the Actionable Identifier fields to allow the Clearing Member(s) receiving such Actionable Identifiers to promptly clear the transactions. *Adopted May 6, 2019*

From the date on which the Actionable Identifier requirement in paragraph (a)(1)(iii) of this rule is approved ("approval date") to the end of the twelfth month from such approval date, the Corporation will not treat as a violation of this rule the failure to include an Actionable Identifier as prescribed in paragraph (a)(1)(iii) of this rule or the failure of a Clearing Member's policies and



procedures to provide that sufficient information is included in the Actionable Identifier field to allow the Clearing Member receiving such Actionable Identifier to promptly clear the transaction. From the thirteenth to the end of the eighteenth month from such approval date, an Actionable Identifier will be required as prescribed in paragraph (a)(1)(iii) of this rule but the Corporation will not treat as a violation of this rule the failure of a Clearing Member's policies and procedures to provide that sufficient information is included in the Actionable Identifier field to allow the Clearing Member receiving such Actionable Identifier to promptly clear the transaction. From the nineteenth month after such approval date and thereafter, the Corporation will treat as a violation of this rule the failure to include an Actionable Identifier as prescribed in paragraph (a)(1)(iii) of this rule or the failure of a Clearing Member's policies and procedures to provide that sufficient information is included in the Actionable Identifier field to allow the Clearing Member receiving such Actionable Identifier to promptly clear the transaction, subject to the manner in which the Corporation enforces violations of its rules under Rule 1201. At the end of the nineteenth month after such approval date, the Corporation shall delete this second paragraph in Interpretation and Policy .06 of this rule in its entirety.

*Adopted May 6, 2019*

## **RULE 402 - [Reserved]**

## **RULE 403 - Obligations of Purchasing Clearing Members**

The Purchasing Clearing Member in a confirmed trade in respect of a cleared contract other than a future shall be obligated to pay the Corporation the amount of the premium agreed upon in such transaction. In the event that the Corporation fails to receive such payment at or before the settlement time, the Corporation shall have the right to apply any funds credited to accounts of the Clearing Member with the Corporation or that are otherwise in the possession or at the disposal of the Corporation to the payment of such premium; provided, however, that the Corporation shall not apply funds in a customers' account, segregated futures account (including a segregated futures professional account), customers' lien account, Market-Maker's account (if the Market-Maker is a customer) or in a combined Market-Makers' account (if the Market-Makers are customers) for the payment of premiums on transactions in any account other than such account. Notwithstanding any other provision of the By-Laws or Rules, if the Corporation accepts an opening purchase transaction in an account at a time when the Corporation has not received payment of all amounts due from the Purchasing Clearing Member in respect of such account, the long position resulting from the acceptance of such transaction by the Corporation shall be deemed to be an unsegregated long position, and the Corporation shall have the right to close out or, in the case of options, to exercise such long position and to apply the proceeds in accordance with Chapter XI of the Rules.

*Adopted May 24, 2018*

## **RULE 404 - Obligations of the Corporation**

Upon the acceptance of a confirmed trade in respect of cleared contracts, the Corporation shall be obligated as follows:

*Adopted May 24, 2018*

(a) In an opening purchase transaction, the Corporation shall be obligated to issue to the Purchasing Clearing Member the number of cleared contracts purchased in such transaction.

*Adopted May 24, 2018*

(b) In a closing purchase transaction, the Corporation shall be obligated to reduce the Purchasing Clearing Member's short position in the cleared security in which the transaction was effected by the number of contracts purchased in such transaction.

*Adopted May 24, 2018*

(c) In an opening or closing writing transaction, the Corporation shall be obligated to pay, at the time and in the manner specified by the Rules, the Writing Clearing Member the amount of the premium agreed upon in such transaction.

*Adopted May 24, 2018*

## **RULE 405 - Issuance of Cleared Contracts**

The Corporation shall be the issuer of all cleared contracts purchased in confirmed trades. Subject to the provisions of Rule 401 and 406, a cleared contract shall be issued by the Corporation in every opening purchase transaction at the time the Corporation accepts such transaction for clearing. Any such cleared contract shall carry the rights and obligations set forth in the By-Laws and Rules applicable to the particular cleared contract and shall contain the variable terms as agreed upon by the Purchasing Clearing Member and Selling Clearing Member (or by Exchange Members authorized to give up the names of such Clearing Members), as shown on the trade information filed by them with the Exchange on which such opening purchase transaction occurred or the OTC Trade Source through which such transaction was affirmed and which is transmitted to the Corporation in a report of confirmed trades submitted by such Exchange or OTC Trade Source. In the event of a discrepancy between the trade information filed with the Exchange or OTC Trade Source and the information reported to the Corporation, the latter shall govern as between the Clearing Member and the Corporation. Unless and until a cleared contract is issued as provided by the By-Laws, the Corporation shall have no obligation in respect thereof.

*Adopted May 24, 2018*

### **. . . Interpretations and Policies:**

.01 The Corporation is substituted through novation as the buyer to every seller and the seller to every buyer and is the obligor to the extent set forth in the Rules with respect to obligations owing to persons having positions in cleared contracts. With respect to cleared securities, OCC is deemed to be the "issuer" as that term is defined in Section 2(a)(4) of the Securities Act of 1933 and Section 3(a)(8) of the Securities Exchange Act of 1934. OCC serves the same functional role with respect to cleared contracts that are governed by the Commodity Exchange Act, and the terms "issuer," "issuance," etc. are therefore used to refer to OCC's role with respect to all cleared contracts.

*Adopted May 24, 2018*

## **RULE 406 - Payments to Corporation**

Except as provided in Section 7 of Article XII with respect to futures issued in exchange-for-physical transactions, block trades, or other trades designated by a futures market or security futures market reporting the trades as non-competitively executed trades and Rule 401(g) with respect to Backloaded OTC options, the Corporation shall have no right to reject any confirmed trade or to refuse to issue any cleared contract as a consequence of the failure of the Purchasing Clearing Member to pay any amount due to the Corporation at or before the settlement time for such transaction; provided, however, that (i) notwithstanding any other provision the Corporation shall have no obligation to accept any confirmed trade of a suspended Clearing Member that was effected after the time at which the Clearing Member was suspended and (ii) in the case of any confirmed trade for any Backloaded OTC option, the Corporation may reject such confirmed trade if the Selling Clearing Member fails to meet its initial margin obligations to the Corporation in

respect of such Backloaded OTC option when due.  
*Adopted May 24, 2018*

## **RULE 407 - Clearing Member Trade Assignment (“CMTA”)**

(a) (1) Clearing Members that are parties to a CMTA arrangement shall register their arrangement with the Corporation and provide such information regarding the arrangement as the Corporation shall require. The registration of a CMTA arrangement shall be effective when the Clearing Members have supplied to the Corporation confirmed information regarding the arrangement. Such registration shall: (i) constitute notice to the Corporation that the Executing Clearing Member has been authorized by the Carrying Clearing Member to direct the transfer of confirmed trades to a designated account or accounts of the Carrying Clearing Member; (ii) constitute the continuing representation and warranty of each Clearing Member to the Corporation that they have entered into a CMTA Agreement which, if the Corporation has specified an approved form, is in substantially the form approved by the Corporation; and (iii) remain in effect until terminated as specified herein. A Clearing Member that is a party to a CMTA arrangement involving CMTA Customers shall also register with the Corporation each CMTA Customer Identifier and each IB Identifier that has been assigned for purposes of such CMTA arrangement, and shall promptly update such registrations to the extent a CMTA Customer Identifier or an IB Identifier is modified or deleted; provided that the identifiers have been approved by the other Clearing Member to the CMTA arrangement before the identifiers are submitted to the Corporation for registration. Registration of such identifiers, including any modifications or deletions thereto, shall be effective when the Corporation's systems have accepted such registration or updated identifier information. The Corporation may reject the registration of a particular CMTA Customer Identifier or IB Identifier in the event an assigned identifier is already registered with the Corporation.

*Adopted June 9, 2004. Amended March 9, 2005; October 15, 2010; December 14, 2012*

(2) In addition to the foregoing registrations, Clearing Members that are parties to a CMTA arrangement may elect to authorize the Corporation to settle fees and commissions owed by the Carrying Clearing Member to the Executing Clearing Member in respect of transfers effected pursuant to that arrangement. Clearing Members making such election shall specifically register that aspect of their CMTA arrangement with the Corporation. Such registration shall authorize (i) the Executing Clearing Member to enter into the Corporation's systems fee and commission information with respect to transfers effected pursuant to the CMTA arrangement between the Clearing Members, subject to such system checks as may be established by the Corporation from time to time, and (ii) the Corporation to calculate and settle, in accordance with the applicable provisions of Rule 504, the aggregate of such entered amounts on the next following business day without any further authorization or consent of the Carrying Clearing Member. Registration of this aspect of the Clearing Members' CMTA arrangement shall be effective when the Corporation's systems have accepted such registration. Any entries made pursuant to such registration shall be solely for fees and commissions related to transfers effected pursuant to the Clearing Members' CMTA arrangement and for no other purposes.

*Adopted October 15, 2010.*

(b) Before transferring a confirmed trade to a Carrying Clearing Member as specified in the confirmed trade information reported to the Corporation, the Corporation shall first determine whether a CMTA registration is in effect between the Executing Clearing Member and the Carrying Clearing Member. If such a registration is in effect, the Corporation shall transfer the confirmed trade to the designated account of the Carrying Clearing Member unless such confirmed trade information additionally includes a Customer CMTA Indicator. In that event, the Corporation shall further determine whether such confirmed trade information also includes a CMTA Customer Identifier and IB Identifier. If the matching confirmed trade information includes a CMTA Customer Identifier and an IB Identifier and each such identifier matches a CMTA

Customer Identifier and an IB Identifier registered for purposes of the CMTA arrangement between the Carrying Clearing Member and the Executing Clearing Member, the Corporation shall transfer the confirmed trade to the Carrying Clearing Member. If, however, (i) a CMTA registration is not in effect, (ii) the Corporation, in its sole discretion, determines that the information submitted in connection with the CMTA transaction contains an error or omission as provided in paragraph (c) of Interpretation .01 to Article VI, Section 1 of the By-Laws, or (iii) the confirmed trade information reported in respect of a confirmed trade includes a Customer CMTA Indicator, but incorrect, incomplete, or missing information as to either identifier, the transaction shall be deemed to be a failed CMTA transaction and shall not be transferred to an account of the Carrying Clearing Member. A failed CMTA transaction will instead be transferred to a designated account of the Executing Clearing Member, which shall be responsible for the clearance and settlement of such transaction. In the absence of such designation, the Corporation shall transfer the failed CMTA transaction to the customers' or segregated futures account, as applicable, of the Executing Clearing Member.

*Adopted June 9, 2004. Amended March 9, 2005; October 26, 2005; December 14, 2012*

(c) The Carrying Clearing Member shall be responsible for the clearance and settlement of each confirmed trade that has been transferred to one of its accounts pursuant to an effective CMTA registration, subject to such Carrying Clearing Member's right to effect a Return as specified herein.

*Adopted June 9, 2004. Amended December 14, 2012*

(d) A Carrying Clearing Member may Return to the Executing Clearing Member a position resulting from the transfer of a confirmed trade, as follows:

*Adopted June 9, 2004. Amended December 14, 2012*

(1) Except as otherwise provided herein, the right of a Carrying Clearing Member to effect a Return is conditioned upon the Carrying Clearing Member (i) delivering an irrevocable notice of such Return (a "Return Notice") to the Corporation and to the Executing Clearing Member and (ii) entering an irrevocable instruction to the Corporation (a "Return Instruction") to transfer such position to an account of the Executing Clearing Member. A Return Notice shall be delivered and a Return Instruction shall be entered at or prior to 8:15 a.m. Central Time (9:15 a.m. Eastern Time) on the business day first succeeding the trade date for the transaction.

*Adopted June 9, 2004.*

(2) A Return Notice directed to the Corporation shall be delivered in accordance with the procedures from time to time specified by the Corporation, and shall constitute the Carrying Clearing Member's representation and warranty that a Return Notice has been properly delivered to the Executing Clearing Member. A Return Instruction shall be entered in accordance with the procedures from time to time specified by the Corporation.

*Adopted June 9, 2004.*

(3) A Return shall be effected only for one or more reasons permitted in the CMTA Agreement between the Clearing Members. The Carrying Clearing Member shall identify the reason(s) for the Return in connection with its entry of a Return Instruction in accordance with procedures specified by the Corporation, and the Corporation shall make such reason(s) available to the Executing Clearing Member. The delivery of a Return Notice and entry of a Return Instruction constitutes a Carrying Clearing Member's representation and warranty that the reason(s) for the Return is one of the reasons designated in the CMTA Agreement between such Clearing Members. The Corporation shall have no obligation to inquire into the validity of the reason(s) for any Return.

*Adopted June 9, 2004.*

(4) A Return will be effective upon the latter of the Carrying Clearing Member's delivery of the Return Notice or entry of the Return Instruction, provided that such delivery and entry occur at or before the cut off time specified in this Rule.

*Adopted June 9, 2004.*

(e) The Carrying Clearing Member shall be responsible for the clearance and settlement of any position resulting from a confirmed trade transferred to it in accordance herewith that (i) has been exercised or assigned, (ii) has matured or (iii) will expire or mature before the Corporation's next business day, notwithstanding the fact that the Carrying Clearing Member has the right to Return such position. To the extent that a Carrying Clearing Member has the right to Return such position, the Carrying Clearing Member shall not effect a Return pursuant to this Rule. Rather, the respective rights, obligations and claims of the Carrying Clearing Member and the Executing Clearing Member with respect to such position shall be governed by the CMTA Agreement between the Clearing Members. A Carrying Clearing Member shall also be responsible for any position for which it did not effect a Return notwithstanding that it had the right to do so.

*Adopted June 9, 2004. Amended December 14, 2012*

(f) An Executing Clearing Member shall designate the account into which positions shall be transferred pursuant to a Return effected by a Carrying Clearing Member. In the absence of such designation, such positions shall be transferred to the customers' or segregated futures account, as applicable, of the Executing Clearing Member. An Executing Clearing Member that receives a position following a Return shall be responsible for such position and may not re-transfer it to the Carrying Clearing Member that initiated the Return. To the extent that a Return is due to the misidentification of the Carrying Clearing Member, the Executing Clearing Member may effect a CMTA Retransfer with respect to the returned position to correct its error and the Carrying Clearing Member receiving the position shall thereafter be responsible for it, subject to any right that it may have to Return such position. CMTA Retransfers shall be completed within the timeframes periodically specified by the Corporation.

*Adopted June 9, 2004.*

(g) If a Return or CMTA Retransfer is not effected until after the date of the relevant transaction, such Return or CMTA Retransfer will not be reflected in any Daily Position Reports and no premium, variation or margin adjustments will be made in respect of such Return until the business day after the date on which the Return or CMTA Retransfer is effected. Notwithstanding the foregoing, the Corporation shall be entitled to effect margin settlements and/or other settlements in respect of any Return or CMTA Retransfer on an intra-day basis as otherwise specified in the By-Laws and Rules.

*Adopted June 9, 2004.*

(h) A Carrying Clearing Member may not submit a Return Notice or Return Instruction after the cutoff time specified in this Rule, and the submission of either a Return Notice or a Return Instruction thereafter may subject the Carrying Clearing Member to disciplinary action. Any failure of a Carrying Clearing Member to enter a Return Instruction to the Corporation for which a timely Return Notice has been given also may subject the Carrying CMTA Clearing Member to disciplinary action, unless (i) the position to be Returned matured, was exercised or assigned or expired unexercised on trade date or the business day first succeeding the trade date for the transaction or (ii) such failure was caused by systems unavailability or some other event outside of the reasonable control of such Carrying Clearing Member. Effecting a CMTA Retransfer after the timeframe specified by the Corporation may subject the Executing Clearing Member to disciplinary action.

*Adopted June 9, 2004.*

(i) Clearing Members that have registered a CMTA arrangement may mutually agree to terminate such registration by delivering notice thereof to the Corporation in accordance with procedures specified by the Corporation. In addition, either Clearing Member may unilaterally terminate the registration by delivering written notice of termination to the other Clearing Member and to a designated representative of the Corporation in accordance with procedures and time frames prescribed by the Corporation. The Corporation shall be authorized to terminate all CMTA registrations of a suspended Clearing Member effective as of the date and time specified by the Corporation.

*Adopted June 9, 2004.*

(j) Upon receipt of a termination notice in respect of a CMTA registration, the Corporation shall promptly notify the affected Clearing Members of the termination. A mutually agreed upon termination shall be effective when both Clearing Members thereto notify the Corporation that they have agreed to terminate their CMTA registration. A unilateral termination shall be effective at 8:00 a.m. Central Time (9:00 a.m. Eastern Time) on the business day immediately succeeding the business day on which notice of termination was given to the Corporation. In the event the terminated CMTA arrangement provided for the settlement of fees and commissions between the affected Clearing Members, the Corporation shall be authorized to effect settlement of such amounts for entries inputted into the Corporation's systems prior to the effective time of such termination.

*Adopted June 9, 2004. Amended October 15, 2010.*

(k) The Carrying Clearing Member shall be responsible for the clearance and settlement of all confirmed trades properly submitted for transfer prior to the effective termination of the CMTA registration, subject to any right that it may have to Return such transaction. After the termination of a CMTA registration, all transactions submitted for transfer pursuant to such registration shall be deemed to be failed CMTA transactions and shall be transferred as specified in paragraph (b) hereof.

*Adopted June 9, 2004. December 14, 2012*

(l) Until such time as the Corporation shall provide otherwise, CMTA transactions in OTC options shall not be permitted. Transfers of OTC options between accounts of the same Clearing Member or between accounts of different Clearing Members is a manual process and may be effected only with the consent of the Corporation and for such purposes and subject to such procedures as the Corporation may provide.

*Adopted December 14, 2012*

#### ***...Interpretation and Policies:***

**.01** In the event that the Corporation has not made available position and exercise and assignment reports to Clearing Members by 6:00 a.m. Central Time (7:00 a.m. Eastern Time), or such other time as the Corporation may periodically establish on not less than 30 days prior notice to affected Clearing Members, the Corporation shall have the discretion to extend the cut-off time for the submission of Return Notices and Return Instructions to such time as the Corporation deems fair and equitable under the circumstances. The Corporation shall provide notice of such extension to Clearing Members as soon as is practicable under the circumstances, using such means as the Corporation may from time to time determine.

*Adopted June 9, 2004.*

**.02** For systemic reasons, the Corporation may establish criteria applicable to the characters used to form a CMTA Customer Identifier and an IB Identifier, including number of required characters, acceptable type of character and other similar criteria.

*Adopted March 9, 2005.*

## **RULE 408 - Allocations of Positions**

(a) One or more positions in cleared contracts may be allocated from a designated account of a Giving-Up Clearing Member to a designated account of a Given-Up Clearing Member through the processes provided for in this Rule; provided, however, that this Rule 408 shall have no application to positions in OTC options.

*Adopted December 13, 2005. Amended December 14, 2012; May 24, 2018*

(b) If (i) the confirmed trade information submitted to the Corporation in respect of a confirmed trade instructs that the position resulting therefrom is to be allocated from a designated account of the Giving-Up Clearing Member to a designated account of the Given-Up Clearing Member, or the Giving-Up Clearing Member has submitted an instruction to the Corporation that one or more

positions are to be allocated from a designated account of the Giving-Up Clearing Member to a designated account of the Given-Up Clearing Member, and (ii) the Giving-Up Clearing Member and the Given-Up Clearing Member are parties to an allocation agreement registered with the Corporation at the time the Corporation processes the instruction, then the Corporation shall adjust the positions in the respective designated accounts of the Giving-Up and Given-Up Clearing Member in accordance with the allocation instruction. If the Giving-Up Clearing Member and the Given-Up Clearing Member are not parties to an allocation agreement registered with the Corporation, then the Corporation shall adjust the positions in the respective designated accounts of the Giving-Up and Given-Up Clearing Member in accordance with the allocation instruction only upon receipt of notice from the Given-Up Clearing Member of its affirmative acceptance of the allocation.

*Adopted December 13, 2005. Amended December 14, 2012*

(c) For purposes of this Rule, Clearing Members may register their allocation agreements with the Corporation by providing such information regarding the agreement as the Corporation shall require. The registration of an allocation agreement shall be effective when both parties have supplied the required information to the Corporation. The registration of an allocation agreement shall: (i) constitute notice to the Corporation that the Giving-Up Clearing Member has been authorized by the Given-Up Clearing Member to allocate positions to an account of the Given-Up Clearing Member without further action by the Given-Up Clearing Member, and (ii) remain in effect until terminated in accordance with this Rule.

*Adopted December 13, 2005*

(d) The Given-Up Clearing Member shall be responsible for all settlement and other obligations in respect of each position that has been allocated to one of its accounts pursuant to a registered allocation agreement or pursuant to its acceptance of an allocation instruction. If (i) there is not a registered allocation agreement on file with the Corporation or (ii) the Given-Up Clearing Member has rejected or not provided the Corporation with notice of its affirmative acceptance of an allocation at or before the deadline prescribed by the Corporation, the position(s) that is (are) the subject of such allocation instruction shall remain in the account of the Giving-Up Clearing Member, which shall be responsible for all settlement and other obligations in respect thereof, unless the position is transferred or adjusted pursuant to other provisions of the By-Laws and Rules.

*Adopted December 13, 2005*

(e) Allocation instructions may be submitted for a single position (i.e., a position in a given series established at a single contract price (in the case of futures) or premium (in the case of options) or a group of positions (i.e., positions of the same series established at different contract prices (in the case of futures) or premiums (in the case of options)). If an allocation instruction is for a single position, then the allocation instruction shall identify the contracts comprising the position by quantity, series, and the contract price (in the case of futures) or the premium (in the case of options) at which such allocation is to be effected, which shall be the price or premium at which the position was established. If the allocation instruction is for a group of positions, the allocation instruction shall provide the foregoing information for each of the positions comprising the group position, provided that the contract price (in the case of futures) or premium (in the case of options) may be an average price to the extent not prohibited by Exchange rules or applicable law. The submission of an allocation instruction using an average price constitutes the Giving-Up Clearing Member's representation and warranty to the Corporation that the use of such average price is not prohibited by Exchange rules or applicable law, and the Corporation will accept such average price as the contract price (in the case of futures contracts) or premium (in the case of options) for all purposes under the By-Laws and Rules.

*Adopted December 13, 2005*

(f) If an allocation instruction is submitted after the date the confirmed trade(s) resulting in the position(s) to be allocated is reported to the Corporation, the allocation will not be given effect in any Daily Position Reports and no premium, variation or margin adjustments will be made in

respect of the allocated position(s) until the business day after the date on which the allocation instruction is executed by the Corporation. Notwithstanding the foregoing, the Corporation shall be entitled to require intra-day margin settlements and/or other intra-day settlements in respect of any allocated position as otherwise specified in the By-Laws and Rules.

*Adopted December 13, 2005. Amended December 14, 2012*

(g) All allocation instructions (whether submitted through matching trade information or through the Corporation's systems) and acceptances shall be submitted by means and within timeframes periodically prescribed by the Corporation. Instructions and acceptances submitted through other means or outside such timeframes shall be deemed null and void and given no effect, unless the Corporation in its sole discretion exercises its authority to accept another means or extend the applicable timeframe under Rule 205(d).

*Adopted December 13, 2005*

(h) Clearing Members that have registered their allocation agreements with the Corporation may mutually agree to terminate such registration by delivering notice thereof to the Corporation in accordance with procedures specified by the Corporation. In addition, either Clearing Member may unilaterally terminate the registration by delivering written notice of termination to the other Clearing Member and the Corporation in accordance with procedures and timeframes prescribed by the Corporation. The Corporation shall be authorized to terminate the registration of all allocation agreements of a suspended Clearing Member effective as of the date and time specified by the Corporation.

*Adopted December 13, 2005*

(i) Upon receipt of notice of the termination of registration of an allocation agreement, the Corporation shall promptly notify the affected Clearing Members of the termination. A mutually agreed upon termination of registration shall be effective when both Clearing Members to the allocation agreement notify the Corporation that they have agreed to terminate its registration. A unilateral termination of registration shall be effective at 8:00 a.m. Central Time (9:00 a.m. Eastern Time) on the business day immediately succeeding the business day on which notice of termination of registration was given to the Corporation.

*Adopted December 13, 2005*

(j) The Given-Up Clearing Member shall be responsible for all settlement and other obligations with respect to each position allocated to one of its accounts prior to the effective termination of the registration of an allocation agreement. After the termination of the registration of an allocation agreement, allocations may be made by the Giving-Up Clearing Member to the Given-Up Clearing Member only upon the Giving-Up Clearing Member's affirmative acceptance of such allocations as provided for in this Rule.

*Adopted December 13, 2005*

***...Interpretations and Policies:***

**.01** For the convenience of Clearing Members, the Corporation may generate information to be included in an allocation instruction, including contract price or premium information which, for an allocation instruction in respect of grouped positions, may reflect a suggested average price. It shall be the duty of each Giving-Up Clearing Member to review each allocation instruction before its submission to the Corporation for processing. The submission of an allocation instruction for processing constitutes the Giving-Up Clearing Member's agreement with all terms incorporated in such instruction.

*Adopted December 13, 2005*



## **Chapter V – Daily Cash Settlement**

### **RULE 501 - Daily Position Report**

Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) of each business day, the Corporation shall make available to each Clearing Member a Daily Position Report for each account maintained by the Clearing Member with the Corporation. The Daily Position Report shall list, among other things, all confirmed trades of the Clearing Member in such account settling on such business day and shall show the net daily premiums due to or from the Corporation in such account as a result of such transactions. Net daily premiums shall be further combined and netted with net variation payments due to or from the Corporation in respect of positions and transactions in futures in such accounts as calculated by the Corporation in accordance with Chapter XIII of the Rules

*Amended January 29, 1991, Amended August 20, 2001; May 16, 2002; December 14, 2012*

#### **...Interpretations and Policies:**

**.01** The Corporation makes available to each Clearing Member, during a business day, updated position information that reflects all confirmed and accepted trades.

*Adopted October 28, 2002. Amended May 24, 2018*

**.02** In the case of any account that is divided into sub-accounts, separate daily cash premium, futures variation, escrow and exercise settlement amounts will be calculated by the Corporation pursuant to this Rule 501 and Rules 502 and 503, respectively, for each such sub-account that is settlement-enabled in accordance with Interpretation and Policy .03 under Article VI, Section 3 of the By-Laws.

*Adopted September 28, 2007.*

### **RULE 502 - Daily Premium And Futures Variation Settlement**

(a) At or before settlement time on each business day, each Clearing Member shall be obligated to pay the Corporation the amount of any net daily premium and variation payments in an account shown to be due to the Corporation on the Daily Position Report for such account for such day (notwithstanding any credit balance which may be due from the Corporation to the Clearing Member in any other account). Subject to the provisions of Rule 607, the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net amount. Notwithstanding the foregoing, at any settlement time the Corporation may, in its discretion, require any Clearing Member to pay the gross amount of premiums due to the Corporation in respect of all of such Member's confirmed trades in an account reaching settlement on such business day (i.e., without credit for premiums payable to the Member), and the Corporation shall be authorized to withdraw funds from the applicable bank account of such Clearing Member in such amount.

*Amended January 29, 1991, Amended August 20, 2001; December 14, 2012*

(b) Subject to Rule 505, at or before the settlement time on each business day, the Corporation shall be obligated to pay a Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI) the amount of any net daily premium and variation payments in an account shown to be due from the Corporation to such Clearing Member on the Daily Position Report for such account for such day.

*Amended January 29, 1991, Amended August 20, 2001; June 24, 2011.*

(c) In the event any writing transaction reflected on the Daily Position Report for an account of a Clearing Member shall be rejected by the Corporation, the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an

amount equal to the premium on the rejected transaction.  
*Amended January 29, 1991.*

## **RULE 503 – Reserved**

Reserved.

## **RULE 504 – Non Guaranteed Settlement Service**

(a) A Clearing Member may use the Corporation's non-guaranteed settlement service to settle money differences arising in connection with cleared contracts or other transactions cleared by the Corporation, subject to such further limitations as may be described in procedures prescribed by the Corporation from time to time. The non-guaranteed settlement system shall be used solely for the purposes described herein, and shall not be used for any other purpose.

*Adopted April 4, 2005. Amended October 15, 2010.*

(b) A Clearing Member may initiate a non-guaranteed settlement by transmitting a non-guaranteed settlement instruction (an "Instruction") to the recipient Clearing Member in accordance with the procedures established by the Corporation. Instructions transmitted on a particular business day must be approved on the same business day by such deadline as shall be specified by the Corporation from time to time. If the recipient Clearing Member does not approve the Instruction by such deadline, the Instruction shall be deemed null and void. If the Instruction is approved by the recipient Clearing Member by such deadline, the Corporation shall act as agent for each Clearing Member in effecting such non-guaranteed settlement in accordance with this Rule.

*Adopted April 4, 2005. Amended October 15, 2010.*

(c) On or before such time as shall be specified by the Corporation, each Clearing Member that is a paying Clearing Member in respect of Instructions approved in accordance with paragraph (b) shall be obligated to pay the Corporation, as agent, and the Corporation shall be authorized to withdraw from such Clearing Member's bank account established with respect to its firm account, any money-only settlement amounts shown to be due other Clearing Members in such Instructions.

*Adopted April 4, 2005.*

(d) Subject to the provisions of this Rule, on or before such deadline as shall be specified by the Corporation from time to time, the Corporation, as agent, shall pay to each Clearing Member that is a collecting Clearing Member in respect of Instructions approved in accordance with paragraph (b), any non-guaranteed settlement amounts shown to be due from other Clearing Members in such Instructions.

*Adopted April 4, 2005. Amended October 15, 2010.*

(e) As provided in Rule 407 and notwithstanding any other provision of this Rule, the Corporation, as agent, shall be authorized to effect non-guaranteed settlement of fees and commissions owed by a Carrying Clearing Member to an Executing Clearing Member for transfers effected pursuant to their registered CMTA arrangement, provided that such registration authorizes the Corporation to effect such settlements. Aggregate amounts to be settled shall be calculated based on the entries made by the Executing Clearing Member into the Corporation's systems and the Corporation shall have no obligation to validate the correctness of such entries. Settlement of such amounts will be effected on the business day first succeeding the business day on which the Executing Clearing Member entered the applicable information into the Corporation's systems. No further authorization or consent of the Carrying Clearing Member shall be required in connection therewith and the Corporation shall have no role in resolving any disputes between the Carrying Clearing Member and the Executing Clearing Member regarding

such settlements.

*Adopted October 15, 2010. Amended May 24, 2018*

(f) The Corporation shall not be obligated to make payment to a Clearing Member pursuant to this Rule unless the Clearing Member has satisfied all payment obligations then owing to the Corporation. Any non-guaranteed settlement amounts withheld by the Corporation as a result of a Clearing Member's failure to satisfy such obligations shall be retained by the Corporation and used to satisfy any such obligations.

*Adopted April 4, 2005. Amended October 15, 2010.*

(g) Anything else herein to the contrary notwithstanding, non-guaranteed settlement payments are not guaranteed by the Corporation, and in facilitating non-guaranteed settlements between Clearing Members pursuant to this Rule 504, the Corporation shall act solely as agent for such Clearing Members, and shall have no obligation to pay or credit to any Clearing Member non-guaranteed settlement amounts not theretofore collected from other Clearing Members. If a Clearing Member is suspended by the Corporation pursuant to Chapter XI, any pending Instructions initiated by or transmitted to such suspended Clearing Member shall be deemed null and void to the extent that such suspended Clearing Member is the paying Clearing Member. The Corporation shall have no obligation to effect settlement of fees and commissions as provided in Rule 407 if either the Executing Clearing Member or the Carrying Clearing Member has been suspended by the Corporation.

*Adopted April 4, 2005. Amended October 15, 2010; Amended May 24, 2018*

(h) Non-guaranteed settlement processing will not be performed until the settlements described in Rule 502 and in Rule 605 have been completed. If the Corporation deems it advisable not to process non-guaranteed settlements on any business day, the Corporation will inform Clearing Members with pending settlements of its determination and of the business day on which non-guaranteed settlement processing will be resumed.

*Adopted October 15, 2010.*

## **RULE 505 - Extension of Settlements**

The Board of Directors, Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation shall be authorized to extend, to the close of the Federal Reserve Banks' Fedwire Funds Service on a settlement day, any or all times at which the Corporation is obligated to pay a settlement amount to Clearing Members as set forth in the By-Laws, Rules or procedures of the Corporation upon a determination that an emergency or force majeure condition exists which would make such extension necessary or advisable for the protection of the Corporation or is otherwise in the public interest. Such determination and the reasons therefor shall be promptly reported to the SEC, the CFTC and any other regulatory or supervisory agencies having jurisdiction over the Corporation, but the effectiveness of the settlement extension shall not be conditioned upon such report. As soon as practicable after such determination has been made, the Corporation shall notify Clearing Members thereof and, in general terms, what procedures shall be taken by the Corporation in connection therewith. Any determination made under this Rule shall be in the sole discretion of the Board of Directors, Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation, as applicable, and not subject to review. In the event a determination is made by the Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation, the Board of Directors shall be notified as soon as practicable of the determination. A report detailing any extension of time for settlement shall be prepared and maintained with the records of the Corporation.

*Adopted June 24, 2011. Amended March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

\* \* \*

## **Chapter VI - Margins**

### **Introduction**

The Rules in this Chapter are applicable to the determination of margin requirements, the deposit of margin assets by Clearing Members, and the holding of margin assets by the Corporation.

*Adopted June 25, 1999. Amended November 26, 2002; February 15, 2006.*

### **RULE 601 - Margin Requirements**

**RULE 601.** (a) *Deposit of Margin Assets.* Prior to the time specified by the Corporation on every business day, every Clearing Member shall be obligated to deposit with the Corporation, in accordance with the following provisions of this Rule, margin assets with respect to (1) the positions in cleared contracts maintained in each account with the Corporation at the opening of such business day (including positions resulting from confirmed trades having a settlement time on such business day); (2) the stock loan positions and stock borrow positions maintained in each account with the Corporation at the opening of such business day (including such positions that were established as a result of Stock Loans initiated on the preceding business day); and (3) any settlement obligations in an account arising from the exercise, assignment, or maturity of any of the foregoing. The minimum amount of margin assets that a Clearing Member is required to deposit with the Corporation shall be such that the aggregate margin assets deposited in respect of the Clearing Member's account, including the margin assets deposited on such business day, is equal to the margin requirement for such account calculated pursuant to the applicable provisions of this Rule 601.

*Amended July 15, 1993, August 26, 1996, June 11, 1998, Amended August 20, 2001; February 15, 2006; December 14, 2012; December 26, 2012*

(b) *Definitions.*

The following, as used in this Rule, shall have the meanings assigned to them below:

(1) The term "stock option" shall mean a stock option contract.

(2) The term "offsetting assigned short contract" shall mean, with respect to an exercised stock option, a short contract of the same class to which an exercise notice has been assigned and which has the same exercise settlement date.

*Amended February 15, 2006.*

(3) The term "underlying interest," as used in respect of any cleared contract, shall have the meaning set forth in Article I of the By-Laws and, as used in respect of any stock loan or borrow position, shall mean the Eligible Stock which is the subject of the position.

*Adopted July 15, 1993, amended August 26, 1996, Amended August 20, 2001; February 15, 2006.*

(c) *Margin Requirement Calculation -- Accounts Other Than Customers' Accounts and Firm Non-Lien Accounts.*

The margin requirement for an account other than a customers' account, firm non-lien account or segregated futures account shall be the amount of margin assets, expressed in U.S. dollars, that must be held in the account such that the minimum expected liquidating value of the account after excluding positions covered by deposits in lieu of margin (the "minimum expected liquidating value"), measured at such confidence level as may be selected by the Corporation from time to time, will be not less than zero. To determine the minimum expected liquidating value of the account, the Corporation will revalue the assets and liabilities in the account under a large number of projected price scenarios created by large-scale Monte Carlo simulations that preserve

both univariate and multivariate historical attributes of all included simulated input variables. Such revaluations may include an allowance for costs the Corporation might incur in liquidating all or portions of the account as a result of bid-ask spreads, illiquidity, or other factors. The Corporation will use pricing models to predict the impact of changes in values of underlying interests on positions in cleared contracts and, where applicable as indicated below, margin assets.

*Amended November 20, 2013; May 28, 2014*

In calculating the minimum expected liquidating value of an account, the Corporation may either value margin assets as provided in Rule 604 or may include margin assets consisting of securities in the Monte Carlo simulations on the same basis as cleared contracts and underlying interests, thus recognizing any historical correlations among the values of margin assets, underlying assets and cleared contracts. The margin requirement will always be stated as a fixed amount of cash that would be required in the account to produce a minimum expected liquidating value of zero. However, if margin assets are deposited in the form of securities and are included in the Monte Carlo simulations on the same basis as underlying interests, the quantity of such assets required to satisfy the margin requirement will depend upon the identity of the securities deposited and the identity of the other positions and margin assets in the account.

The Corporation's methodology for calculating margin requirements incorporates measures designed to ensure that margin requirements are not lower than those that would be calculated using volatility estimated over a historical look-back period of at least 10 years.

*Adopted September 1, 2018*

Notwithstanding any other provision of this Rule 601, the Corporation may fix the margin requirement for any account or any class of cleared contracts at such amount as it deems necessary or appropriate under the circumstances to protect the respective interests of Clearing Members, the Corporation, and the public.

*Amended February 15, 2006; November 20, 2013*

*(d) Margin Requirement Calculation -- Customers' Accounts and Firm Non-Lien Accounts.*

The margin requirement for a customers' account or a firm non-lien account with the Corporation shall be calculated as provided in paragraph (c), except that:

*Amended December 4, 1992, August 26, 1996, June 11, 1998, Amended August 20, 2001; February 15, 2006.*

- (1) in determining the minimum expected liquidating value of such an account, segregated long option positions (other than exercised long option positions that are out of the money) shall be valued at zero; and

*Amended August 26, 1996, Amended August 20, 2001; February 15, 2006.*

- (2) unsegregated option contracts that have been exercised shall cease to be classified as unsegregated for purposes of calculating the minimum expected liquidating value from and after the opening of business on the business day following the date of exercise, except to the extent that for any such exercised contract there is carried in the same account an offsetting assigned short contract in the same class of options. If the number of such exercised option contracts exceeds the number of offsetting assigned short contracts, such exercised contracts that have the highest marking prices, up to the aggregate number of offsetting assigned short contracts, shall continue to be classified as unsegregated.

*Amended December 4, 1992; February 15, 2006.*

*(e) Margin Requirement Calculation – Segregated Futures Accounts; Calculation of Initial Margin on a Gross Basis*

*Adopted November 2, 2012. Amended May 28, 2014*

(1) The initial margin requirement for segregated futures accounts (including segregated futures professional accounts, internal non-proprietary cross-margining accounts and non-proprietary X-M accounts) shall be the amount of margin assets, expressed in U.S. dollars, that must be held in such an account such that the minimum expected liquidating value of the account, measured at such confidence level as may be selected by the Corporation from time to time, will be not less than zero. To determine the minimum expected liquidating value of the account, the Corporation will revalue the assets and liabilities in the account under the Standard Portfolio Analysis of Risk margin calculation system. The initial margin requirement will always be stated as a fixed amount of cash that would be required in the segregated futures account to produce a minimum expected liquidating value of zero.

*Adopted May 28, 2014*

(2) For purposes of calculating the initial margin requirement for segregated futures accounts (including segregated futures professional accounts, internal non-proprietary cross-margining accounts and non-proprietary X-M accounts) pursuant to paragraph (e)(1) of this Rule 601, such initial margin requirement shall equal the aggregate of the initial margin that would be required with respect to all customers of the Clearing Member if the positions of each such customer were treated as being the positions of a separate Clearing Member and held in separate Clearing Member accounts; provided that, for purposes of this calculation, initial margin assets and settlement obligations arising from the exercise, assignment, or maturity of cleared contracts shall not be attributed to such customers, but shall instead be accounted for as if such assets or obligations were attributable to their own separate sub-accounts and thereafter included in the calculation of gross initial margin at the Clearing Member level. Each Clearing Member shall submit to the Corporation on each business day, at or prior to the time specified by the Corporation, a data file that identifies the positions of each futures customer of the Clearing Member.

*Adopted: November 2, 2012. Amended June 12, 2014, June 26, 2018*

(3) In the event that the records of the Corporation indicate that the Clearing Member has positions in cleared contracts in segregated futures accounts that are not reflected in the data file submitted by the Clearing Member pursuant to subparagraph (2) of this paragraph, the Corporation shall calculate a separate initial margin requirement with respect to all such positions as if such positions were the positions of a separate Clearing Member. The Corporation shall make such initial margin calculations using such adjustments as the Corporation deems necessary to ensure that each futures customer's positions within each segregated futures account are properly margined on a gross basis in accordance with applicable rules of the Commodity Futures Trading Commission.

*Adopted: November 2, 2012. Amended May 28, 2014*

*(f) Exclusions from Margin Requirement Calculation.* The following shall be excluded from the margin requirement calculation for any account pursuant to Rule 601(c), (d), or (e):

*Amended November 2, 2012.*

(1) exercised, assigned, matured or expired positions in cleared contracts or stock loan and borrow positions and any settlement obligations arising therefrom when the Corporation determines that (i) the Clearing Member's obligations in respect thereof have been fully and irrevocably discharged or (ii) the Corporation no longer has liability in respect thereof.

(2) short positions in options or BOUNDS for which a deposit in lieu of margin has been made in accordance with the Rules.

(3) upon the receipt by the Corporation of an Alternate Settlement Notification prepared in accordance with Rule 1302B(k), the physically-settled Treasury future(s) identified on such Alternate Settlement Notification.

*Adopted February 15, 2006. Amended December 1, 2008; November 20, 2009; August 23, 2012*

(4) exercised or assigned option contracts or matured physically-settled stock futures contracts that are CCC-eligible with respect to which the Corporation has no further settlement obligations under Rules 901(c) and 901(d).

*Adopted July 31, 2017*

### **...Interpretations and Policies:**

**.01** A Clearing Member may direct the Corporation to combine positions carried in firm lien accounts for the purpose of calculating a single combined margin requirement for such accounts pursuant to this Rule 601.

*Amended December 10, 1997; July 20, 2006; February 15, 2006.*

**.02** Notwithstanding Rule 601, the margin requirement for X-M accounts shall be determined in accordance with the applicable Participating CCO Agreement.

*Amended November 26, 1991, December 22, 1992, August 26, 1996, September 26, 1996, Amended August 20, 2001; February 15, 2006.*

**.03** Notwithstanding the provisions of Rule 601, the Corporation may exclude positions in credit default options and credit default basket options in any account of a Clearing Member from the margin requirement calculations under paragraphs (c), (d), and (e) of Rule 601. The margin requirement for excluded short positions in any series of credit default options or credit default basket options shall be a fixed amount determined by the Corporation based upon the maximum potential exercise settlement amount for such options as determined by the Corporation. Except to the extent that the Corporation determines otherwise, long positions in credit default options and credit default basket options shall be given no value for margin purposes and shall not offset margin requirements on short positions except to the extent that a Clearing Member carries unsegregated long positions and short positions in the same class of options in the same account.

*Adopted June 6, 2007. Amended August 20, 2007; November 2, 2012.*

**.04** In the case of any account that is divided into sub-accounts, the Corporation will calculate and report to the Clearing Member pursuant to this Chapter VI a separate margin requirement in any such sub-account that is margin enabled considering only the positions in such sub-account, and in determining whether such margin requirement is satisfied will consider only collateral identified as being in such sub-account, in accordance with Interpretation and Policy .03 under Article VI, Section 3 of the By-Laws.

*Adopted September 28, 2007.*

**.05** To the extent that stock loan positions and stock borrow positions established in an account pursuant to the Stock Loan/Hedge Program (provided for in Article XXI of the By-Laws and Chapter XXII of the Rules) or the Market Loan Program (provided for in Article XXIA of the By-Laws and Chapter XXIIA of the Rules) have Collateral set at a percentage greater than 100% of the market value of the Loaned Stock, an additional margin charge equal to the excess Collateral shall be applied to the account of the Lending Clearing Member, and a margin credit equal to the excess Collateral shall be applied to the account of the Borrowing Clearing Member. This margin charge/credit shall be an addition to, or a reduction of, the margin requirement otherwise determined for the accounts of the Lending Clearing Members and Borrowing Clearing Members in accordance with this Rule 601. For purposes of calculating their net capital requirements in accordance with Rule 15c3-1 promulgated under the Securities Exchange Act of 1934, as amended, Lending Clearing Members and Borrowing Clearing Members shall not be required to



treat such additional margin, any portion of the Collateral or any portion of the Loaned Stock as an "unsecured receivable" requiring a deduction from net capital.

*Adopted December 1, 2008. Amended April 5, 2011.*

**.06** The Corporation from time to time may designate those margin assets in the form of Government securities, GSE debt securities, common stock or fund shares which, if deposited in respect of any account of a Clearing Member, will be included in the Monte Carlo simulations (as described in paragraph (c) of Rule 601) when calculating the minimum expected liquidating value of such account. Margin assets deposited in any other form shall continue to be valued as provided in Rule 604.

*Adopted July 15, 2008. Amended November 1, 2010.*

**.07** In addition to calculating the initial margin requirement for segregated futures accounts in accordance with paragraphs (e)(1) and (2) of this Rule 601, the Corporation shall also calculate the initial margin requirement for such accounts in accordance with Section (c) of this Rule 601 on a net basis. If at any time the initial margin requirement calculated in accordance with Section (c) of this Rule 601 exceeds the initial margin requirement calculated in accordance paragraphs (e)(1) and (2) of this Rule 601, the Corporation shall apply an enhanced margin requirement to the relevant segregated futures account in the amount of such excess.

*Adopted May 28, 2014*

## **RULE 602. - Customer-Level Margin Requirement**

(a) Each Clearing Member shall collect initial margin from its futures customers in such amount as is communicated by the Corporation from time to time.

*Adopted April 25, 2012.*

(b) Each Clearing Member shall ensure that no futures customer of such Clearing Member withdraws funds from its customer account with such Clearing Member unless the net liquidating value plus margin deposits remaining in such account after giving effect to the withdrawal are sufficient to meet the customer initial margin requirement with respect to all confirmed trades cleared for such account.

*Adopted April 25, 2012. Amended June 17, 2013*

### **...Interpretations and Policies:**

**.01** For purposes of Rule 602, "hedge positions" shall be excluded from a Clearing Member's margin calculations for the customer's account holding such positions. Clearing Members shall determine which positions are "hedge positions" in a manner consistent with applicable regulations of the Commodity Futures Trading Commission and will identify such positions to the Corporation.

*Adopted April 25, 2012.*

## **RULE 603 - Risk Committee**

The Risk Committee may, from time to time, increase the amount of margin which may be required in respect of any cleared contract, open short position or exercised contract if in the discretion of the Risk Committee such increase is advisable for the protection of the Corporation, the Clearing Members, or the general public.

*Amended January 18, 1978; April 11, 1989; August 11, 1989; October 26, 1989, March 29, 1999, May 16, 2002; July 19, 2006; March 6, 2014*

## **RULE 604 - Form of Margin Assets**

To satisfy the margin requirements determined under Rule 601, a Clearing Member may deposit margin assets with the Corporation in the forms specified in paragraphs (a) - (c) of this Rule 604. *Amended March 31, 2003; February 15, 2006.*

(a) *Cash.* Clearing Members may deposit U.S. dollars in accordance with procedures acceptable to the Corporation. Funds so deposited may from time to time be partially or wholly invested by the Corporation for its account in Government securities, and any interest or gain received or accrued on the investment of such funds shall belong to the Corporation. *Amended June 8, 1976, November 7, 1991; November 19, 2008.*

(b) *Securities.* The types of securities specified in subparagraphs (1) - (4) of this paragraph (b) may be deposited with the Corporation in the manner specified for each. *Adopted March 31, 2003.*

(1) *Government Securities.* Clearing Members may deposit, as hereinafter provided, Government securities which are free from any limitation as to negotiability. Government securities shall be valued for margin purposes at 99.5% of the current market value for maturities of up to one year; 98% of the current market value for maturities in excess of one year through five years; 96.5% of the current market value for maturities in excess of five years through ten years; and 95% of the current market value for maturities in excess of ten years. Government securities deposited pursuant hereto shall be deposited by the Clearing Member in an account of the Corporation in an approved custodian in the name of the Corporation or by such other method as the Corporation may from time to time approve. All interest or gain received or accrued on such Government securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member, and any interest on, or proceeds from the maturity of, such Government securities received by the Corporation shall be credited by the Corporation to the account of the Clearing Member in respect of which the deposit was made. Current market value shall be determined by the Corporation at such intervals as the Risk Committee shall from time to time prescribe, but not less often than daily on the basis of the quoted bid prices therefor supplied by a source designated by the Corporation.

*Amended June 8, 1976; August 2, 1976; September 27, 1977; November 7, 1991, October 28, 1996, December 3, 1996, April 12, 2002; March 31, 2003; April 4, 2005; July 19, 2006; July 1, 2010; March 6, 2014; October 13, 2016*

(2) *GSE Debt Securities.* Clearing Members may deposit, as hereinafter provided, GSE debt securities which are free from any limitation as to negotiability. GSE debt securities shall be valued for margin purposes at (1) 99% of the current market value for maturities of up to one year; (2) 97% of the current market value for maturities in excess of one year through five years; (3) 95% of the current market value for maturities in excess of five years through ten years; and (4) 93% of the current market value for maturities in excess of ten years. Such GSE debt securities deposited pursuant hereto shall be deposited by the Clearing Member in an account of the Corporation in an approved custodian in the name of the Corporation or by such other method as the Corporation may from time to time approve. All interest or gain received or accrued on such GSE debt securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member, and any interest on, or proceeds from the maturity of, such Government securities received by the Corporation shall be credited by the Corporation to the account of such Clearing Member in respect of which the deposit was made. Current market value shall be determined by the Corporation at such intervals as the Risk Committee shall from time to time prescribe, but not less often than daily on the basis of the quoted bid prices therefor supplied by a source designated by the Corporation.

*Adopted April 12, 2002. Amended April 4, 2005; July 19, 2006; July 1, 2010; March 6, 2014; October 13, 2016*

(3) *Money Market Fund Shares.* (i) Clearing Members may deposit with the Corporation shares in a money market fund ("MMF Shares") if such money market fund (the "Fund"): (A) is registered

as an investment company under the Investment Company Act of 1940 and is in compliance with Securities and Exchange Commission Rule 2a-7 thereunder; (B) holds only "First Tier Securities" as that term is defined in Rule 2a-7; (C) performs a net asset value computation at least once each business day and makes such computation available to the Corporation no later than 9:00 AM the following business day; (D) represents to, and agrees with, the Corporation that the Fund is and will remain in compliance with subparagraphs (A) through (C) above; (E) agrees to notify the Corporation immediately of any noncompliance with such subparagraphs; and (F) waives any right it may otherwise have to postpone the payment of redemption proceeds and the right to redeem shares in kind and agrees to redeem MMF Shares in cash not later than the business day following a redemption request by the Corporation except when such redemptions cannot be effected because of unscheduled closings of the Federal Reserve Banks or the New York Stock Exchange. Notwithstanding the definition in Article I of the By-Laws, the term "business day" may be defined for purposes of this subparagraph (b)(3) by agreement between a Fund and the Corporation. Any notice that a Fund is required to give the Corporation pursuant this subparagraph (i) shall be given by telephone to an officer of the Corporation and shall promptly (and in any event no later than 3:00 P.M. Central Time (4:00 P.M. Eastern Time) of the following business day) be confirmed in writing.

*Adopted March 31, 2003.*

(ii) Prior to the deposit of MMF Shares as margin pursuant to this subparagraph (b)(3), the Clearing Member must have entered into an agreement with the Corporation and the Fund and/or its transfer agent, or shall have made other arrangements acceptable to the Corporation to perfect the Corporation's security interest in the MMF Shares through "control," as that term is defined in Articles 8 and 9 of the Uniform Commercial Code as in effect in the state of Illinois.

*Adopted March 31, 2003. Amended December 7, 2007.*

(iii) Notwithstanding that a Fund meets the qualifications set out in subparagraph (i) of this subparagraph (b)(3), a Clearing Member may not deposit MMF Shares in such Fund if the Fund or its sponsor controls, is controlled by, or under common control with the Clearing Member. For purposes of this subparagraph (iii), a person shall be deemed to control another person if the person has an equity interest of 20% or more in such other person. This rule may be waived by the Corporation if the Fund can demonstrate that an acceptable arrangement has been made for the control of underlying portfolio investments and the processing of Corporation redemption requests by a third party.

*Adopted March 31, 2003.*

(iv) No more than 5% of the total number of outstanding shares of any one Fund will be accepted for deposit from a Clearing Member. In determining whether a Clearing Member's deposit of a Fund's shares exceeds the foregoing limitation, the Corporation will aggregate the Clearing Member's deposit of such Fund's shares across all of the Clearing Member's accounts. MMF Shares deposited by a Clearing Member will be valued by the Corporation on a daily basis at 98% of current market value or such lower value as the Risk Committee may prescribe from time to time. If a Fund fails to meet any qualification set forth in subparagraph (i) of this subparagraph (b)(3), the Corporation may prescribe on a daily basis a lesser valuation for such Fund's shares.

*Adopted March 31, 2003. Amended July 19, 2006; March 6, 2014*

(v) The deposit of MMF Shares in respect of a segregated futures account shall constitute the Clearing Member's representation to the Corporation that the Fund meets the requirements of CFTC Regulation 1.25.

*Adopted March 31, 2003.*

(4) Equity Issues. (i) Clearing Members may deposit, as hereinafter provided, common stocks which meet the standards prescribed below. Common stocks (including fund shares) must be "covered securities" within the meaning of Section 18(b)(1) of the Securities Act of 1933. Common stocks which are neither underlying securities nor fund shares that have as their reference index an index that underlies any cleared contract must have a market value of at least

\$3 per share, as determined by the Corporation; provided, however, that the Corporation may waive this requirement at its discretion upon a determination that other factors, including trading volume, the number of shareholders, the number of outstanding shares, and current bid/ask spreads warrant such result. An issue that is suspended from trading by the market that listed or qualified the issue for trading because of volatility, lack of liquidity or similar characteristics, may not be deposited as margin with the Corporation. If the issue is listed or traded on more than one market and the markets do not take the same action, the Corporation will use its discretion to determine which market's actions will be definitive for purposes of this Rule. Each deposit pursuant to this Rule 604 (b)(4) shall be made with respect to a designated account of the Clearing Member. Deposited stocks shall be valued in accordance with Rule 601. Common stocks deposited pursuant to Rule 610T and Rule 610 shall have no value as margin for the purposes of this Rule 604(b)(4).

*Amended January 7, 1991, August 22, 1991, April 11, 1994, October 3, 1997, September 25, 2001; March 31, 2003; December 5, 2005; July 19, 2006; July 15, 2008; April 29, 2009; October 23, 2009; November 17, 2009; March 6, 2014; May 21, 2014; October 13, 2016*

(ii) Deposits may be made hereunder by depositing securities with a bank or trust company or other depositee approved by the Corporation under irrevocable arrangements (A) permitting the securities to be promptly sold by or on the order of the Corporation for the account of the Clearing Member without notice and (B) requiring the Clearing Member to pay all fees and expenses incident to the ownership or sale of the securities or the arrangement with the depository. The securities shall be deemed to have been deposited with the Corporation at the time the Corporation receives written confirmation of such deposit from the depository or receives confirmation satisfactory to it that the securities have been pledged to the Corporation through an EDP Pledge System. All dividends or gain received or accrued on such securities, prior to any sale or negotiation thereof, shall belong to the depositing Clearing Member.

*Adopted August 20, 1982. Amended December 31, 1996, Amended August 20, 2001, March 31, 2003.*

(iii) The term "stock", as used in this Rule 604(b)(4), includes fund shares and index-linked securities, each as defined in Article I of the By-Laws. In order to be eligible for deposit, fund shares and index-linked securities must meet the requirements applicable to stocks under the preceding provisions of this Rule and must be of a class approved by the Corporation for deposit as margin.

*Adopted December 31, 1996. Amended September 25, 1997; October 23, 1998; November 26, 2002; October 23, 2009.*

(5) No securities held for the account of a securities customer (other than a Market-Maker) may be deposited hereunder in respect of any account other than the customers' account or the customers' lien account. No securities held for the account of any Market-Maker shall be deposited in respect of any account other than such Market-Maker's account in which such Market-Maker is a participant. No securities carried for the account of any securities customer that is either a "fully paid security" or an "excess margin security" within the meaning of SEC Rule 15c3-3 shall be deposited with respect to any account hereunder except to the extent permitted pursuant to any interpretive guidance or no-action relief of the SEC or a self-regulatory organization (as defined in Section 3(a) of the Securities Exchange Act of 1934, as amended). Securities held for the account of a futures customer shall be held in accordance with the provisions of the Commodity Exchange Act and the regulations thereunder.

*Amended December 31, 1996, August 20, 2001, March 31, 2003; November 9, 2005; January 26, 2010.*

(c) *Letters of Credit.* Clearing Members may deposit with the Corporation letters of credit denominated in U.S. dollars issued by banks or trust companies approved by the Corporation for this purpose. Such letters of credit shall be in a form prescribed by the Corporation and shall meet the following criteria:

*Amended November 19, 2008.*

(1) Letters of credit shall contain the unqualified commitment of the issuer to pay a specified sum of money to the Corporation within 60 minutes after receipt of a demand for payment that is made prior to 3:00 P.M. Central Time on a day prior to the expiration of the letter of credit when the issuer is open for business. If the Corporation makes a demand for payment prior to the expiration of the letter of credit and either (i) after 3:00 P.M. Central Time or (ii) on a day when the issuer is not open for business, then the issuer shall pay the demanded sum as soon as possible thereafter but in any event within 60 minutes after the earliest time when the issuer is next open for business.

*Amended August 30, 1999; November 19, 2008.*

(2) Letters of credit shall expire at 11:59 P.M. (local time of the issuer) on any date that the Corporation has specified as one of the permissible expiration dates for letters of credit.

*Adopted August 30, 1999. Amended November 19, 2008.*

(3) All letters of credit shall be irrevocable.

*Amended August 30, 1999; November 19, 2008.*

Under unusual circumstances, the Chief Executive Officer or Chief Operating Officer or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer, following consultation with the staff of the Securities and Exchange Commission, may accept, on a temporary basis, a letter of credit which varies from the preceding requirements.

*Amended August 20, 2001; March 6, 2014; February 15, 2019*

If a Clearing Member shall deposit with the Corporation a letter of credit which indicates on its face that it is being deposited to serve as margin for the Clearing Member's customers' account or for a segregated futures account, such letter of credit shall not constitute margin for any other account maintained by the Clearing Member until such time as the issuing bank shall instruct the Corporation by amendment to the letter of credit stating that such letter of credit is not so restricted.

*Amended August 20, 2001; March 9, 2004.*

Notwithstanding the provisions of any other Rule, the Corporation may draw upon a letter of credit at any time, whether or not the Clearing Member which deposited such letter of credit has been suspended by the Corporation or is in default with respect to any obligation to the Corporation, if the Corporation determines that such draw is advisable to protect the Corporation, other Clearing Members or the general public. If such a draw is made without suspending the Clearing Member, funds received pursuant to the draw will be subject to the By-Laws and Rules applicable to deposits of cash margin.

*Amended May 17, 1982; September 6, 1991, November 7, 1991, November 1, 1994, May 20, 1997, August 30, 1999.*

(d) Funds and securities held by or subject to the instructions of the Corporation as margin shall, subject to the rights of the Corporation in respect thereof, remain the property of the respective Clearing Members for whose accounts such funds and securities are held. Funds and securities deposited in respect of a segregated futures account shall be held in accordance with the provisions of Section 4d of the Commodity Exchange Act and regulations thereunder. All other funds held by the Corporation as margin (other than funds invested by the Corporation pursuant to subsection (a) of this Rule and funds credited by the Corporation to a Liquidating Settlement Account pursuant to Chapter XI) shall be deposited to the credit of the Corporation in an account or accounts, designated as Clearing Member margin accounts, with such banks, trust companies or other depositories as the Board of Directors may select. Such funds shall not be commingled with funds of the Corporation or used by the Corporation as working capital. To the extent that funds held by the Corporation as margin are invested by the Corporation in securities pursuant to subsection (a) of this Rule, the Corporation shall maintain records clearly identifying such securities as held in trust for Clearing Members. The Corporation shall have the right to

commingle funds and securities held as margin for the account of any Clearing Member with funds and securities held as margin for other Clearing Members.

*Adopted June 8, 1976, Amended August 20, 2001; March 9, 2004; January 3, 2012.*

(e) Notwithstanding any other provision of this Rule 604, in determining the U.S. dollar amount of the margin credit to be given to any foreign currency asset denominated in a foreign currency, the Corporation may use such exchange rates and apply such "haircuts" as it deems appropriate for its protection.

*Adopted November 7, 1991.*

*Amended June 1, 1975; February 4, 1981; January 13, 1984; April 18, 1985; January 3, 1986; April 22, 1988; August 21, 1989; November 19, 2008; July 1, 2010.*

(f) Notwithstanding the foregoing, in lieu of any valuation method provided in this Rule 604 with respect to margin assets in the form of securities, the Corporation may elect to value any or all such margin assets pursuant to Rule 601 using the same multivariate analysis applied to underlying interests rather than assigning any fixed dollar value to such margin assets.

*Adopted February 15, 2006.*

***...Interpretations and Policies:***

**.01** The Corporation may in its discretion approve a bank or trust company as an issuer of letters of credit pursuant to Rule 604(c) if:

(a) U.S. Institutions:

(1) it is organized under the laws of the United States or a State thereof and is regulated and examined by federal or state authorities having regulatory authority over banks or trust companies; and

(2) it has, at the time of approval and continuously thereafter, Tier 1 Capital of \$100,000,000 or more; or  
*Amended May 7, 2015*

(b) Non-U.S. Institutions:

(1) it is organized under the laws of a country other than the United States and has a Federal or State Branch or Agency (as defined in the International Banking Act of 1978) located in the United States;

(2) it has, at the time of approval and continuously thereafter, Tier 1 Capital in excess of \$200,000,000 (U.S.);  
*Amended May 7, 2015*

(3) its principal executive office is located in a country that (a) is rated "AAA" by Moody's Investor Service and/or Standard & Poor's, or (b) has been approved by the Risk Committee as a "AAA" equivalent country based on consultations with at least two entities satisfactory to the Risk Committee as experienced in international banking and finance matters; and  
*Amended July 19, 2006; March 6, 2014*

(4) (a) it has a "P-1" rating from Moody's Investor Service and/or an "A-1" rating from Standard & Poor's on its commercial paper or other short-term obligations; or

- (b) in the event it has no rating on its commercial paper or other short-term obligations,
  - (i) any such commercial paper or short-term obligations issued by its parent or an affiliated entity has such a rating;
  - (ii) any such commercial paper or short-term obligations issued by non-affiliated entities and supported or guaranteed by the institution has such a rating;
  - (iii) the institution, its parent or an affiliated entity has an "AAA" rating from Moody's Investor Service and/or an "AAA" rating from Standard & Poor's on its long-term obligations; or
  - (iv) it has been approved by the Risk Committee as a "P-1" or "A-1" equivalent institution.  
*Adopted January 12, 1983; amended June 30, 1983; August 21, 1989; July 19, 2006; March 6, 2014*
- (c) For the purposes of this Rule 604, Tier 1 Capital shall mean the Tier 1 Capital reported by a bank to its regulatory authority.

*Adopted May 7, 2015*

**.02** No more than 50% of a Clearing Member's margin on deposit at any given time may include letters of credit in the aggregate, and no more than 20% may include letters of credit issued by any one institution.

*Adopted January 12, 1983.*

*Amended February 15, 1984; November 6, 2001; July 11, 2014.*

**.03** Any letter of credit issued by a Non-U.S. institution must be payable at a Federal or State Branch or Agency thereof.

*Adopted January 12, 1983. Amended November 7, 1991; November 19, 2008.*

**.04** The total amount of letters of credit issued for the account of any one Clearing Member by a U.S. or Non-U.S. institution shall not exceed 15% of such institution's Tier 1 Capital.

*Adopted January 12, 1983; Amended June 30, 1983, May 7, 2015*

**.05** Both U.S. and Non-U.S. Institutions:

(1) must supply the Corporation at the time of application for approval with its most recent annual financial report, and, in the event such report is as of a date more than 90 days prior to the date of application, its most recent quarterly financial statements;

(2) must supply the Corporation subsequent to approval with annual reports and quarterly financial statements as issued; and

(3) must provide, in a form satisfactory to the Corporation, appropriate documentation as to individuals authorized to sign letters of credit on the institution's behalf, and the institution's legal authority to issue letters of credit.

*Adopted January 12, 1983; amended June 7, 1984.*

**.06** The Corporation reserves the right in its sole discretion to refuse or revoke approval of any institution as an issuer of letters of credit at any time.

*Adopted January 12, 1983.*

**.07** All assets pledged to the Corporation for whatever purpose shall be free of any lien or other encumbrance senior to that of the Corporation.

*Adopted April 25, 2012.*

**.08** The Corporation will not accept a letter of credit issued pursuant to Rule 604(c) for the account of a Clearing Member in which the issuing institution, a parent, or an affiliate has an equity interest in the amount of 20% or more of such Clearing Member's total capital.

*Adopted September 23, 1983.*

**.09** A letter of credit may be issued by a Non-U.S. branch of a U.S. institution provided it otherwise conforms with this rule and the Interpretations and Policies hereunder and is payable at a U.S. office of such institution.

*Adopted April 30, 1986. Amended November 7, 1991; November 19, 2008.*

**.10** Clearing Members may deposit with the Corporation pass-through letters of credit to satisfy margin obligations for segregated futures accounts and segregated futures professional accounts that are not eligible to hold positions in security futures.

*Adopted June 17, 2016.*

**.11** The Corporation will not accept the deposit of government securities, debt or equity issues pursuant to this Rule 604 from an approved bank or trust company or other depositee ("depository") if such depository, a parent, or an affiliate has an equity interest in the amount of 20% or more of the depositing Clearing Member's total capital.

*Adopted January 12, 1994.*

**.12** Cash deposited as margin in a segregated futures account or segregated futures professional account that is invested by the Corporation shall be invested in accordance with the requirements of Commodity Futures Trading Commission ("CFTC") Rules 1.25, 1.26, and 1.27 and such other rules as may be adopted by the CFTC to govern the investment of such funds.

*Adopted May 16, 2002. Amended March 13, 2014*

**.13** Securities deposited by a Clearing Member that do not at the time of deposit satisfy the requirements of Rule 604 may nevertheless be accepted for deposit by the Corporation. Such securities, if accepted, as well as previously accepted securities that cease to meet the requirements of Rule 604, will be subject to the lien and other rights of the Corporation therein as provided in these Rules or the By-Laws of the Corporation, but will be valued at zero for margin purposes unless and until such securities, as the result of subsequent market movements, or otherwise, meet such requirements.

*Adopted April 4, 2005.*

**.14** In the case of any account that is divided into sub-accounts, the Corporation will calculate the 10% limitation on the value of an issue of any one issuer as described in subparagraph (b)(4) of this Rule 604 separately for the parent account and any sub-account that is margin and collateral enabled. Neither the margin requirement nor margin excess of any sub-account that is margin enabled, nor the collateral in any sub-account that is collateral enabled, will be considered in connection with such calculation for any other sub-account or for the parent account.

*Adopted September 28, 2007. Amended November 17, 2009.*

**.15** The Corporation may in its discretion determine that a security which meets the criteria listed in Rule 604(b) is nevertheless disapproved as margin collateral with respect to all accounts of all Clearing Members, and therefore not grant margin credit, based on such factors as (i) trading volume, (ii) number of outstanding shareholders, (iii) number of outstanding shares, (iv) volatility and liquidity and (v) any other factors the Corporation determines are relevant.

*Adopted October 23, 2009. Amended October 31, 2014*



**.16** The Corporation may, in its discretion, determine that a common stock meeting the criteria of Rule 604(b)(4) is disapproved as margin collateral with respect to some or all of the shares of such common stock held by a particular Clearing Member based on the number of shares of a particular common stock held by a Clearing Member in any account or the number of shares of shares of a particular common stock held in aggregate across all of a Clearing Member's accounts. The Corporation may also determine, in its discretion, to disapprove as margin collateral with respect to a particular Clearing Member any common stock issued by such Clearing Member or an affiliate of such Clearing Member. For purposes of this Interpretation and Policy, "affiliate" shall mean any entity that controls, is controlled by, or is under common control with a Clearing Member, with direct or indirect ownership of 10% or more of the equity of the subject entity constituting control. Notwithstanding the foregoing, the Corporation may determine in its discretion that some or all of the shares of a security that have otherwise been disapproved pursuant to this Interpretation and Policy .15 are nevertheless acceptable as margin collateral with respect to particular Clearing Members to the extent to which such security serves as a hedge with respect to cleared contracts held in the same account.

*Adopted October 31, 2014*

**.17** For a transition period specified by the Corporation, deposits of Government securities pursuant to Rule 604(b)(1) or deposits of GSE debt securities pursuant to Rule 604(b)(2) may be made in an account at an approved custodian in the name of the Clearing Member and pledged to the Corporation provided that such a deposit shall not be effective until the Corporation receives confirmation satisfactory to it that the securities have been so pledged through an EDP Pledge System.

*Adopted July 1, 2010. Amended October 13, 2016*

## **RULE 605 - Daily Margin Report**

Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) of each business day, the Corporation shall make available to each Clearing Member a Daily Margin Report for each account maintained by the Clearing Member with the Corporation. The Daily Margin Report shall show the amount of margin required by the Corporation on the Clearing Member's short positions in options (including futures options and commodity options that are subject to the Corporation's margin requirements pursuant to any Participating CCO Agreement), the Clearing Member's positions in futures (including commodity futures that are subject to the Corporation's margin requirements pursuant to any Participating CCO Agreement), and the Clearing Member's exercised contracts and stock loan and borrow positions. Margins previously deposited by the Clearing Member and any surplus over the amount required or deficit to be satisfied, as the case may be, will also be shown. A deficit in any account of a Clearing Member as shown in the Daily Margin Report of a particular day shall be satisfied by 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on such day, notwithstanding any error in such Report and notwithstanding any margin excess that may exist in another account of the Clearing Member. Subject to the provisions of Rule 606, the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of any account an amount equal to such deficit as shown on the Daily Margin Report. All errors in the Daily Margin Report shall be reported to the Corporation promptly, and any correction or adjustment in the amount of required margin shall be shown on the next day's Daily Margin Report.

*Amended October 26, 1989, January 29, 1991, July 15, 1993, June 11, 1998, March 29, 1999, August 20, 2001; May 16, 2002; March 20, 2009; December 26, 2012*

### **. . . . Interpretations and Policies:**

**.01** The Daily Margin Report will not include the amount of margin required by the Corporation on the Clearing Member's positions in variance futures. Instead, the Corporation will advise Clearing Members of such margin requirement separately, but in any event before 9:00 A.M. Central Time. For all purposes of the By-Laws and Rules, including Rule 605, the margin requirement with

respect to variance futures will be treated as if it were included in the Daily Margin Report.  
*Adopted May 10, 2004.*

## **RULE 606 - Application of Settlement Credit**

The Corporation may apply in satisfaction of any margin deficit any credit balance in favor of the Clearing Member shown on his Daily Position Report to be applicable to trades that settle on the business day of such margin deficit; provided, however, that any such balance arising in a segregated futures account may not be applied in satisfaction of any margin deficit arising in any account other than a segregated futures.

*Amended August 20, 2001; March 9, 2004.*

## **RULE 607 - Application of Cash Margin Excess**

A margin excess reported on a Clearing Member's Daily Margin Report, not to exceed the amount of cash margin on deposit as shown in such Report, may be applied against the amount of the net daily premium and variation payment due to the Corporation in such account in accordance with Rule 502 or against the foreign currency option exercise settlement amount due to the Corporation in accordance with Rule 1606; provided, however, that the cash margin excess and the obligation to which it is applied must be in the same currency.

*Amended November 24, 1982, November 7, 1991, Amended August 20, 2001; May 24, 2018*

## **RULE 608 - Withdrawals of Margin**

In the event that the amount of a Clearing Member's margin on deposit exceeds the amount required on a particular day, as reported by the Corporation for such day, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation by the Clearing Member between such times as the Corporation may specify of a withdrawal request in such form as the Corporation shall prescribe. Notwithstanding the foregoing, (a) a Clearing Member may not withdraw margin in any form or currency in an amount in excess of the amount of margin of that form or currency deposited in the account from which the withdrawal is made, (b) a Clearing Member may not withdraw margin in any form or currency if such withdrawal would result in the Clearing Member's reasonably anticipated settlement obligations to the Corporation exceeding the liquidity resources available to satisfy such settlement obligations, as determined by the Corporation in its discretion, and (c) the Corporation may, if it deems it advisable for any of the reasons described in Rule 609, reject any withdrawal request. In the event of any such rejection, credit shall continue to be given for any margin deposit in respect of which withdrawal was rejected until such time as the withdrawal of such margin deposit is authorized.

*Amended August 20, 1982; September 5, 1986, November 7, 1991, January 28, 1994, December 10, 1997; April 4, 2005; July 15, 2008; May 19, 2014*

### **. . . Interpretations and Policies:**

**.01** Where a Clearing Member seeks to withdraw a security that has been included in the Monte Carlo simulations (as described in paragraph (c) of Rule 601) when calculating the minimum expected liquidating value of any account, the Corporation may require that it be replaced with collateral having a value determined in accordance with such procedures as the Corporation may specify from time to time.

*Adopted December 3, 2009.*

**.02** For purposes of determining whether a Clearing Member's reasonably anticipated settlement obligations to the Corporation would exceed the liquidity resources available to the Corporation to satisfy such settlement obligations, the Corporation shall consider as liquidity resources the margin assets remaining on deposit with respect to such account that are in the form of U.S. dollars and may, in its discretion, consider the amount remaining on deposit with respect to such

Clearing Member's account that are in the form of U.S. Government securities and/or the Corporation's other available liquidity resources. In situations in which the anticipated settlement obligations exceed the liquidity resources available, the Corporation shall reject a withdrawal of margin assets in the form of U.S. dollars and, if it has considered such assets in calculating the Corporation's liquidity resources, in the form of U.S. Government securities.

*Adopted November 29, 2012; Amended May 19, 2014*

## **RULE 609 - Intra-Day Margin**

The Corporation may require the deposit of such additional margin ("intra-day margin") by any Clearing Member in any account at any time during any business day, as such officer deems advisable to reflect changes in (i) the market price during such day of any series of options held in a short position in such account or of any underlying interest underlying any cleared contract (including an exercised option) in such account or of any Loaned Stock that is the subject of a stock loan or borrow position in such account, (ii) the size of such Clearing Member's positions in cleared contracts or stock loan or borrow positions, (iii) the value of securities deposited by the Clearing Member as margin, (iv) the financial position of the Clearing Member, or otherwise to protect the Corporation, other Clearing Members or the general public, or (v) stress test exposures such that a Sufficiency Stress Test (as defined in Rule 1001(a)) identifies an exposure that exceeds 75% of the current Clearing Fund requirement less deficits. Additionally, the Corporation shall require the deposit of intra-day margin by a Clearing Member in the event that the Corporation, in its discretion, determines that the Clearing Member's reasonably anticipated settlement obligations to the Corporation would exceed the liquidity resources available to satisfy such settlement obligations. A Clearing Member shall satisfy a required deposit of intra-day margin in immediately available funds within the time prescribed by such officer or, in the absence thereof, within one hour of the Corporation's issuance of an instruction debiting the applicable bank account of the Clearing Member.

*Amended December 27, 1977; August 20, 1982; April 11, 1989; September 26, 1989; October 26, 1989, July 15, 1993, January 28, 1994, December 10, 1997, March 29, 1999, August 20, 2001, March 27, 2003; July 15, 2008; May 19, 2014; September 1, 2018*

### **. . . Interpretations and Policies**

.01 For purposes of determining whether a Clearing Member's reasonably anticipated settlement obligations to the Corporation would exceed the liquidity resources available to the Corporation to satisfy such settlement obligations, the Corporation shall consider as liquidity resources the margin assets remaining on deposit with respect to such account that are in the form of U.S. dollars and may, in its discretion, consider the amount remaining on deposit with respect to such Clearing Member's account that are in the form of U.S. Government securities and/or the Corporation's other available liquidity resources.

*Adopted November 29, 2012; Amended May 19, 2014*

## **RULE 609A - Waiver of Margin**

The Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation shall be authorized to waive, in whole or in part, conditionally or unconditionally, any deposit of margin that would otherwise be required to be made by any Clearing Member in any account at any time during any business day upon a determination that such waiver (i) is advisable in the interest of maintaining fair and orderly markets or is otherwise advisable in the public interest and for the protection of investors, and (ii) is consistent with maintaining the financial integrity of the Corporation. Such officer shall use his best efforts to attempt to consult with officials of the Securities and Exchange Commission prior to granting any such waiver; provided, however, that the authority contained herein shall not be conditioned by such consultation. The Corporation shall advise its Board of Directors and the Securities and Exchange Commission as soon as practicable in writing of the granting of any such waiver and the reasons therefor, and a record of

any such waiver shall be prepared and maintained with the records of the Corporation.  
*Adopted October 28, 1987, amended February 26, 1988; June 23, 1988, December 10, 1997;  
March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

## **Rule 610 - Deposits in Lieu of Margin**

(a) In lieu of depositing margin in respect of certain options carried in a short position for the account of a customer (including any Market Maker that is not a proprietary Market Maker), a Clearing Member or an approved custodian may deposit eligible collateral in respect of certain option contracts included in a short position, in each case as specified herein, and further described in Rules 610A, 610B and 610C, as applicable. Each such deposit shall be referred to as a "deposit in lieu of margin." The types of deposits in lieu of margin permitted by the Corporation are "specific deposits" and "escrow deposits." Specific deposits may be either "member specific deposits," which are provided for in Rule 610A, or "third-party specific deposits," which are provided for in Rule 610B. Escrow deposits are provided for in Rule 610C. All deposits in lieu of margin are also subject to this Rule 610. Specific deposits are limited to stock call option contracts, and only the underlying securities may be deposited in respect of such options. Escrow deposits may be made in respect of stock and index put options and index call options. Escrow deposits in respect of stock and index puts shall consist of cash or U.S. Government securities, or any combination thereof, and escrow deposits in respect of index calls shall consist of cash, U.S. Government securities or any securities that would be eligible for deposit as margin under Rule 604(b)(4).

*Adopted October 13, 2016*

(b) Deposits in lieu of margin may be made only in respect of certain specified option contracts held by the Clearing Member in a short position. A deposit in lieu of margin may be made only when the deposited collateral is either carried by the Clearing Member for the account of the same customer for whom the short option position is carried or in the custody of an approved custodian making the deposit is acting on behalf of such customer. A deposit in lieu of margin may be made only in respect of the Clearing Member account at the Corporation in which the related short option position of the customer is maintained, which must be a customers' account, a Market-Maker's account or combined Market-Makers' account, provided that no proprietary Market-Maker is a participant in such account.

*Adopted October 13, 2016*

(c) In the event that a stock call option contract with respect to which a specific deposit has been made is adjusted to require delivery of property different from, or in addition to, the security underlying such contract, such specific deposit shall be disregarded except to the extent that the deposited security is deliverable upon exercise, provided that if the adjustment requires the delivery of securities other than the securities included in the deposit, the deposit shall be disregarded in its entirety, and provided further that the deposit shall not cover any obligation to deliver cash.

*Adopted October 13, 2016*

(d) The deposit hereunder of cash or securities held for the account of any customer may be made only to the extent permitted by applicable law and the rules and regulations thereunder, and shall be deemed to constitute the Clearing Member's certificate and representation to the Corporation that such deposit has been duly authorized by the customer and does not contravene any provision of law or any rule thereunder.

*Adopted October 13, 2016*

(e) Deposits in lieu of margin must be made on any business day between such times as the Corporation may specify.

*Adopted October 13, 2016*

(f) In the event any short position for which a deposit in lieu of margin has been made is closed out by a closing purchase transaction or transferred to an account of another Clearing Member, or in the event that settlement is made in respect of an exercise notice assigned to such position, the Clearing Member that carried such position shall promptly request the withdrawal of such deposit, but unless and until such deposit is withdrawn from the account, the Corporation shall be entitled, upon the assignment of an exercise notice in respect of any option contract of the same series and included in a short position in the same account as the one for which the deposit was made, or upon the closing out of any such option contract by the Corporation pursuant to Rule 610C(h): (i) in the case of a specific deposit, to take possession of the deposited securities for the purpose of satisfying the obligations of the Clearing Member in connection with such assignment, or (ii) in the case of an escrow deposit, to demand performance by the participating escrow bank (as defined in Rule 610C) in respect of such assignment or closeout, as applicable.  
*Adopted October 13, 2016*

(g) The making of a deposit in lieu of margin shall constitute the grant to the Corporation of a security interest in and right of setoff against the deposit in lieu of margin to secure the Clearing Member's obligations in respect of such short position. The Corporation shall have a first priority perfected security interest in all deposits in lieu of margin.  
*Adopted October 13, 2016*

***...Interpretations and Policies:***

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, the deposit or pledge of collateral pursuant to this Rule 610 from an approved custodian other than through the Depository if such custodian, a parent or an affiliate has an equity interest in the amount of 20% or more of the depositing Clearing Member's total capital.  
*Adopted October 13, 2016*

.02 For the purposes of this Rule, the term "Government securities" means securities with a fixed principal amount issued or guaranteed by the United States, excluding Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP-STRIPS).  
*Adopted October 13, 2016*

## **Rule 610A - Member Specific Deposits**

(a) *Effecting a Member Specific Deposit* Member specific deposits may be made only of underlying securities held by a Clearing Member at the Depository for the account of a particular customer in respect of specified call stock option contracts held by the Clearing Member in a short position for such customer. To make a member specific deposit, a Clearing Member shall cause confirmation to be issued through the Depository's EDP Pledge System that such securities have been pledged to the Corporation in respect of such short position, subject to the provisions of this Rule. The Clearing Member shall maintain a record for each member specific deposit identifying the customer, the account of the customer in which the underlying securities are held and the specified option contracts for which the member specific deposit was made, and the Clearing Member shall supply such record to the Corporation upon the Corporation's request.  
*Adopted October 13, 2016*

(b) *Transfer of Member Specific Deposits to the Corporation on Clearing Member Default* If an exercise of options of a series covered by a member specific deposit is assigned to the account of the Clearing Member in respect of which the deposit is made, and the Clearing Member fails to make timely settlement in respect of the assignment, the Corporation shall be entitled to take possession of the underlying securities for the purpose of making such settlement and/or reimbursing the Corporation for losses incurred in connection with such failure. If a short position in an option series covered by a member specific deposit has been closed out through a closing purchase transaction and the Clearing Member has failed to make payment to the Corporation of

the premium, the Corporation shall be entitled to take possession of a sufficient number of the securities constituting such member specific deposit to satisfy the Clearing Member's obligation to the Corporation.

*Adopted October 13, 2016*

(c) *Method of Making Withdrawals* Member specific deposits made through the Depository's EDP Pledge System may be withdrawn or released through such system on each business day between such times as the Corporation may specify, with authorization by the Corporation, so long as the margin requirements under this Chapter VI in respect of the account of the Clearing Member in respect of which the deposit was made would still be met after giving effect to such withdrawal or release.

*Adopted October 13, 2016*

(d) *Rollover* If a short position covered by a member specific deposit has been closed out, the Clearing Member may "roll over" such specific deposit to cover a different short position of the same customer and option type, by submitting a rollover instruction to the Corporation through the EDP Pledge System of the Corporation. A rollover instruction shall be subject to approval or rejection by the Corporation in its sole discretion.

*Adopted October 13, 2016*

## **Rule 610B - Third-Party Specific Deposits**

(a) *Effecting a Third-Party Specific Deposit* Third-party specific deposits may be made only of underlying securities held at the Depository through an approved custodian, which is a participant of the Depository, for the account of particular customers of a Clearing Member in respect of specified stock call option contracts held by the Clearing Member in a short position for such customers. To make a third-party specific deposit of securities that have been deposited by a customer of a Clearing Member, an approved custodian shall cause the issuance of a confirmation through the Depository's EDP Pledge System that such securities have been pledged to the Corporation in respect of such short position, subject to the provisions of this Rule.

*Adopted October 13, 2016*

(b) *Rollover* If a short position covered by a third-party specific deposit has been closed out, an approved custodian may "roll over" such specific deposit to cover a different short position of the same customer, Clearing Member and option type, by submitting a rollover instruction to the Corporation through the EDP Pledge System of the Corporation. A rollover instruction shall be subject to approval or rejection by the Corporation in its sole discretion.

*Adopted October 13, 2016*

(c) *Rights of Clearing Member* The making of a third-party specific deposit or the rollover of a deposit shall constitute the grant to the Clearing Member in respect of whose account the deposit is made of a security interest in and right of setoff against the deposited securities to secure the customer's obligations to such Clearing Member in respect of such short position. With respect to such security interest in such securities:

*Adopted October 13, 2016*

(1) such security interest shall at all times be subordinated to the Corporation's security interest;

*Adopted October 13, 2016*

(2) the Clearing Member may not exercise remedies with respect to such security interest unless the Corporation has consented to such exercise or unless the Corporation's interest has been withdrawn or released pursuant to the terms of the Rules; and

*Adopted October 13, 2016*

(3) the Corporation acknowledges that to the extent it has "control" for purposes of the Uniform Commercial Code over such security entitlements created by the approved custodian in the

securities, it has such control both for itself and on behalf of the Clearing Member.

*Adopted October 13, 2016*

*(d) Method of Making Withdrawals*

(1) An approved custodian may request the release of a third-party specific deposit by submitting a request through the Depository's EDP Pledge System. No requested release shall be given effect by the Corporation unless (i) the margin requirements under this Chapter VI in respect of the customers' account of the Clearing Member in respect of which the deposit was made would still be met after giving effect to such release; (ii) the Clearing Member has approved the release through the Depository's EDP Pledge System, and (iii) the deposit is not subject to a "hold" instruction pursuant to Rule 610B(d)(3).

*Adopted October 13, 2016*

(2) Any third-party specific deposit made in accordance with this Rule shall be released by the Corporation on its own initiative at a time specified by the Corporation on the business day following the exercise settlement date unless (i) the Corporation has received notice from the correspondent clearing corporation by such time indicating that the settlement obligations in respect of such short position have not been met; that the correspondent clearing corporation has determined to suspend, decline or cease to act for the Clearing Member in respect of whose account such deposit was made; or, that the correspondent clearing corporation has determined to prohibit or limit such Clearing Member's access to services offered by the correspondent clearing corporation, in which case the deposit shall not be released until such time as the Corporation determines it has no further obligations in respect of the short position, (ii) the Corporation has directed that the exercise be settled otherwise than through the correspondent clearing corporation, in which case the deposit shall not be released until the Corporation determines it has no further obligations in respect of the short position and approves the release of such deposit, or (iii) the deposit is subject to a "hold" instruction pursuant to Rule 610B(d)(3), in which case, notwithstanding clauses (i) or (ii), the deposit shall be treated in accordance with paragraph (e) of this Rule.

*Adopted October 13, 2016*

(3) A Clearing Member may request a "hold" with respect to a third-party specific deposit by submitting an instruction requesting that the Corporation not release such deposit, either upon request of the relevant approved custodian or on its own initiative, for so long as such instruction is in effect.

*Adopted October 13, 2016*

*(e) Transfer of Third-Party Specific Deposits to Clearing Member upon Customer Default*

A Clearing Member that has declined to approve of the release of a third-party specific deposit pursuant to paragraph (d) of this Rule or requested a "hold" pursuant to Rule 610B(d)(3) with regard to such deposit which remains in effect may request that the Corporation, through the Depository's systems, obtain possession of the securities constituting such third-party specific deposit, or a portion thereof, and direct the Depository to deliver such securities to an account at the Depository specified by such Clearing Member. By submitting a request for delivery or declining to approve a release of a third-party specific deposit pursuant to this Rule, a Clearing Member shall be deemed: (x) to represent that it has the legal right to submit the request or to decline to approve the release, as applicable, and it has the legal right to take possession and/or direct disposition of the securities requested to be delivered, as a result of a valid and perfected lien on and security interest in such securities or otherwise, and (y) to indemnify and hold harmless the Corporation, its directors, officers, employees and agents, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person for any reason as a result of a breach of such representation or the delivery of such securities.

*Adopted October 13, 2016*

A Clearing Member shall further provide such documentation as the Corporation may reasonably request relating to its legal right to take possession and/or direct disposition of the securities requested to be delivered. Upon receipt of such request the Corporation shall, unless prohibited by applicable law or regulations or court order, through the facilities of the Depository, instruct the Depository to deliver the relevant securities, directly or indirectly, to the account at the Depository specified by such Clearing Member, provided that if a Clearing Member has not made a request in proper form pursuant to this paragraph (e) by the 5<sup>th</sup> business day following such Clearing Member's request for a "hold" with regard to such deposit, the Corporation shall, subject to paragraph (f) of this Rule, release such third-party specific deposit, and, provided further, that the Corporation shall not be responsible for any failure by the Depository to act on such instruction.  
*Adopted October 13, 2016*

*(f) Transfer of Third-Party Specific Deposits to the Corporation upon Clearing Member Default*

If an exercise of options of a series covered by a third-party specific deposit is assigned to the customers' account of the Clearing Member in respect of which the deposit is made, and the Clearing Member fails to make timely settlement in respect of the assignment, the Corporation shall be entitled to take possession of the underlying securities for the purpose of making such settlement and/or reimbursing the Corporation for losses incurred in connection with such failure. If a short position in an option series covered by a third-party specific deposit has been closed out through a closing purchase transaction and the Clearing Member has failed to make payment to the Corporation of the premium, the Corporation shall be entitled to take possession of a sufficient number of the securities constituting such third-party specific deposit to satisfy the Clearing Member's obligation to the Corporation.  
*Adopted October 13, 2016*

*(g) Effect of Release of Third Party Specific Deposit* The release of a third-party specific deposit by the Corporation in accordance with the provisions of this Rule shall have the effect of releasing any and all rights of the Corporation and any rights of the Clearing Member established pursuant to this Rule with respect to the deposit against the relevant approved custodian. A release will not affect any other rights of the Clearing Member for whose account the deposit was made.  
*Adopted October 13, 2016*

## **Rule 610C - Escrow Deposits**

A participating escrow bank, which must be a participant of the Depository unless it effects escrow deposits consisting only of cash, may effect escrow deposits in respect of short positions in stock put option contracts and index put or call option contracts and may effect "roll overs" and withdrawals of such deposits, and a Clearing Member may instruct the Corporation with regard to short positions to be covered by such deposits, by submitting instructions to the Corporation through an EDP Pledge System, subject to the following provisions of this Rule:  
*Adopted October 13, 2016*

*(a) Eligible Collateral.* Escrow deposits may consist of the following instruments with respect to the following short positions:  
*Adopted October 13, 2016*

(1) with respect to short positions in stock put option contracts or index put option contracts: cash; U.S. Government securities; or any combination thereof; and  
*Adopted October 13, 2016*

(2) with respect to short positions in index call options: cash; U.S. Government securities; common stocks; or any combination thereof.  
*Adopted October 13, 2016*



(b) *Manner of Holding.* (i) Shares of common stock and U.S. Government securities included within an escrow deposit shall be held in the participating escrow bank's participant account at the Depository. Cash included within an escrow deposit shall be held in an account of the customer approved by the Corporation, and into which the Corporation has online view access (each, an "approved account"), at the participating escrow bank governed by an agreement in a form acceptable to the Corporation and signed by the customer, the Corporation and the participating escrow bank (the "tri-party agreement").

*Adopted October 13, 2016*

(ii) The Corporation shall have a perfected security interest in each approved account and in all cash and securities within an escrow deposit.

*Adopted October 13, 2016*

(iii) Approved accounts shall be used solely for the purpose of making escrow deposits.

*Adopted October 13, 2016*

(c) *Method of Effecting Escrow Deposits.*

(1) A participating escrow bank may effect an escrow deposit for a Clearing Member's account by submitting an instruction as follows:

*Adopted October 13, 2016*

(i) in the case of an escrow deposit consisting of securities, by pledging such securities to the Corporation using the Depository's EDP Pledge System; or

*Adopted October 13, 2016*

(ii) in the case of an escrow deposit consisting of cash, by pledging such cash to the Corporation using the Corporation's EDP Pledge System.

*Adopted October 13, 2016*

(2) A participating escrow bank shall specify the number of option contracts to be covered by each escrow deposit through an entry in the Corporation's EDP Pledge System. The number of option contracts covered by an escrow deposit shall be the lesser of the number specified by the participating escrow bank in respect of such deposit and the number determined by the Corporation pursuant to this Rule 610C, in either case subject to the right of the relevant Clearing Member to reduce the number of contracts supported by a deposit.

*Adopted October 13, 2016*

(3) Notwithstanding any other provision of this Rule 610C, if the Corporation deems necessary for the protection of the Corporation, other Clearing Members or the general public, the Corporation may approve or reject a deposit, or may disregard a deposit at any time, including, without limitation, as a result of the maturity of, or a corporate action involving the issuer of, securities included within an escrow deposit.

*Adopted October 13, 2016*

(d) *Method of Making Withdrawals.* A participating escrow bank may request a withdrawal of an escrow deposit by submitting an instruction as follows:

*Adopted October 13, 2016*

(1) in the case of an escrow deposit consisting of securities, by submitting a release request through the Depository's EDP Pledge System;

*Adopted October 13, 2016*

(2) in the case of an escrow deposit consisting of cash, by submitting an instruction through the Corporation's EDP Pledge System.

*Adopted October 13, 2016*

A Clearing Member may approve or disapprove of a withdrawal of deposited securities through the Depository's EDP Pledge System. A Clearing Member may request a "hold" with respect to any escrow deposit made in respect of such Clearing Member's account by submitting an instruction through the Corporation's EDP Pledge System requesting that the Corporation not grant any request for withdrawal of such deposit or release such deposit for so long as such instruction is in effect. No withdrawal instruction shall be given effect by the Corporation unless (i) the margin requirements under this Chapter VI in respect of the customers' account of the Clearing Member in respect of which the deposit was made would still be met after giving effect to such withdrawal, (ii) in the case of a withdrawal of deposited securities, the Clearing Member has approved the withdrawal through the Depository's EDP Pledge System, and (iii) the deposit is not subject to a "hold" instruction.<sup>1</sup>

*Adopted October 13, 2016*

(e) *Rollover.* If a short position covered by an escrow deposit has been closed out, a participating escrow bank may effect the "roll over" of such escrow deposit to cover a different short position of the same customer, Clearing Member and option type by submitting a rollover instruction using electronic means prescribed by the Corporation for such purpose. A rollover instruction shall be subject to approval or rejection by the Corporation in its sole discretion.

*Adopted October 13, 2016*

(f) *Rights of Clearing Member.* The making of an escrow deposit shall constitute the grant by the customer to the Clearing Member in respect of whose account the deposit is made of a security interest in and right of setoff against the deposited securities and deposited cash to secure the customer's obligations to such Clearing Member in respect of such short position. With respect to such security interest in the securities or cash included within an escrow deposit:

*Adopted October 13, 2016*

(1) such security interest shall at all times be subordinated to the Corporation's security interest;

*Adopted October 13, 2016*

(2) the Clearing Member may not exercise remedies with respect to such security interest unless the Corporation has consented to such exercise or unless the Corporation's interest has been withdrawn or released pursuant to the terms of the Rules; and

*Adopted October 13, 2016*

(3) the Corporation acknowledges that to the extent it has "control" for purposes of the Uniform Commercial Code over the security entitlements created by the participating escrow bank in the securities, and over the cash, included within the escrow deposit, it has such control both for itself and on behalf of the Clearing Member.

*Adopted October 13, 2016*

(g) *Initial Minimum.* The total value of the escrow deposit as of the time such deposit is made shall not be less than the product of:

*Adopted October 13, 2016*

(1) the applicable initial percentage for the category of option covered by the short position (e.g., stock put options, index call options or index put options), as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks; and

*Adopted October 13, 2016*

(2) the product of the number of option contracts specified in the instruction and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in

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<sup>1</sup> This sentence is based on existing Rule 613(b).

the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract.  
*Adopted October 13, 2016*

(h) *Maintenance Minimum.* In connection with its calculation of required margin pursuant to Rule 601, the Corporation shall calculate the value of each escrow deposit made pursuant to this Rule. If in making such calculation the Corporation determines that the total value of an escrow deposit shall be less than the product of:  
*Adopted October 13, 2016*

(1) the applicable maintenance percentage for the category of option covered by the short position, as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks; and  
*Adopted October 13, 2016*

(2) the product of the number of option contracts covered by the escrow deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract, the Corporation may, upon notice to the Clearing Member on whose behalf the escrow deposit was made, disregard the escrow deposit and require that margin be deposited in respect of the short position theretofore covered by the escrow deposit. If such margin is not timely deposited and the Clearing Member is suspended by the Corporation, the Corporation may close out such short position and: (i) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of reimbursing itself for costs incurred in connection with such close-out.  
*Adopted October 13, 2016*

(i) *Agreements of Participating Escrow Bank Regarding Escrow Deposits.* By effecting an escrow deposit, a participating escrow bank agrees that:  
*Adopted October 13, 2016*

(1) The participating escrow bank will not release the escrow deposit, nor will it direct the Depository to release, or consent to the Depository's release of, the escrow deposit, either to the customer or to any other party, without the prior consent of the Corporation; provided, however a participating escrow bank may release the escrow deposit to the Corporation or to a third party pursuant to a written court order or an order of the Corporation.  
*Adopted October 13, 2016*

(2) The participating escrow bank will not subject the escrow deposit, any securities or cash included within the escrow deposit, any cash held in the approved account at the participating escrow bank associated with the deposit or any portion of any of the foregoing to any right (including any right of set-off), charge, security interest, lien or claim of any kind in favor of the participating escrow bank, or any person claiming through the participating escrow bank. Further, the participating escrow bank waives (or, to the extent such waiver is prohibited by law, subordinates) any right (including any right of set-off), charge, security interest, lien or claim of any kind in its favor with respect to any securities or cash included within the escrow deposit, an approved account or other assets credited thereto or proceeds thereof or any portion of any of the foregoing, and the participating escrow bank will promptly notify the Corporation and the Clearing Member with respect to whose account the escrow deposit was made if any notice of lien, levy, court order or other process which purports to affect such escrow deposit or any portion thereof is served upon it.  
*Adopted October 13, 2016*

(3) To the extent the escrow deposit is in respect of a short position in index call options, the participating escrow bank will maintain a written affirmation from the relevant customer stating that all index call options written for such customers' account and covered by escrow deposits with the participating escrow bank are written against a diversified stock portfolio.

*Adopted October 13, 2016*

(4) Upon reasonable request of the Corporation, the participating escrow bank shall cooperate with the Corporation in reconciling balances in each approved account.

*Adopted October 13, 2016*

(j) *Representations and Warranties of Participating Escrow Bank When Giving an Instruction.* A participating escrow bank, by giving an instruction with respect to an escrow deposit or rollover, represents as follows:

*Adopted October 13, 2016*

(1) The participating escrow bank holds the securities specified in the instruction at the Depository for the account of the customer on whose behalf the escrow deposit was made and holds the cash specified in the instruction in an approved account.

*Adopted October 13, 2016*

(2) The customer on whose behalf the escrow deposit was made or its agent has specifically authorized the participating escrow bank to submit the instruction to the Corporation and to hold the cash and/or securities specified in the instruction as an escrow deposit pursuant to the Rules in respect of the customer's short position in respect of which the escrow deposit is made.

*Adopted October 13, 2016*

(3) The escrow deposit, or any portion thereof, is not subject to any right (including any right of set-off), charge, security interest, lien or claim of any kind in favor of the participating escrow bank or any person claiming through the participating escrow bank.

*Adopted October 13, 2016*

(4) The participating escrow bank has obtained from the customer or its duly authorized representative confirmation of the customer's understanding that: (A) if the short position specified in the instruction is closed out under circumstances permitting the related escrow deposit to be withdrawn by the Clearing Member, the customer shall work with the Clearing Member to ensure that the Clearing Member withdraws the escrow deposit from the Corporation, and until the escrow deposit is duly released by the Corporation, the Corporation will retain the right to demand delivery or payment of the escrow deposit or its proceeds upon the assignment of an exercise notice to any short position in a series of options specified in the instruction carried in the Clearing Member's customers' account with the Corporation; and (B) exercise notices assigned by the Corporation to short positions for which escrow deposits have been made by the Clearing Member are allocated to particular customers by the Clearing Member or by their respective brokers, and if the Clearing Member is suspended by the Corporation and the Corporation cannot promptly determine the identities of the assigned customers, the Corporation will reallocate the exercise notices, and reallocation will be binding on the customer notwithstanding any contrary notice or confirmation which the customer may have received from the Clearing Member or the customer's broker.

*Adopted October 13, 2016*

(5) If the customer is the participating escrow bank acting in a fiduciary or similar capacity, or a trust or similar account maintained with the participating escrow bank, the participating escrow bank nonetheless understands that in submitting the instruction to the Corporation and functioning as escrowee and bailee of the escrow deposit pursuant to the Rules, the participating escrow bank is acting in a wholly separate capacity, and not in its capacity as customer.

*Adopted October 13, 2016*

(6) The escrow deposit meets the requirements set forth in paragraphs (a) and (b)(i) above.  
*Adopted October 13, 2016*

(7) The total value of the escrow deposit as of the initial deposit of collateral and upon each addition of collateral to such escrow deposit is sufficient to support the number of contracts specified by the participating escrow bank in the relevant instruction, taking into account the valuation principles set forth in paragraph (g) of this Rule 610C.  
*Adopted October 13, 2016*

(8) The total amount of cash held by the participating escrow bank pursuant to outstanding escrow deposits does not exceed a dollar amount equal to a percentage, as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks, of the Tier 1 Capital of the participating escrow bank.  
*Adopted October 13, 2016*

(9) To the extent that the escrow deposit includes securities (such securities and any proceeds thereof or distributions thereon, the “deposited securities”):  
*Adopted October 13, 2016*

(i) The deposited securities are held in the participating escrow bank’s account at the Depository.  
*Adopted October 13, 2016*

(ii) The participating escrow bank has notified the Depository of the pledge to the Corporation of the deposited securities and the Depository has noted such pledge on its records.  
*Adopted October 13, 2016*

(iii) The customer or its duly authorized representative has provided an authorization under which the Corporation has the right to liquidate the deposited securities in the event of the participating escrow bank’s failure to meet its settlement obligations or insolvency.  
*Adopted October 13, 2016*

(iv) The participating escrow bank is a “securities intermediary” (as defined in Section 8-102(a)(14) of the Uniform Commercial Code).  
*Adopted October 13, 2016*

(10) To the extent that the escrow deposit includes cash:  
*Adopted October 13, 2016*

(i) The participating escrow bank has established an approved account for the customer for the purpose of effecting escrow deposits and pledging the cash within escrow deposits to the Corporation, and the deposited cash specified in the instruction (the “deposited cash”) has been properly credited to one of such approved accounts.  
*Adopted October 13, 2016*

(ii) The customer’s approved account constitutes a “deposit account” within the meaning of Article 9 of the Uniform Commercial Code.  
*Adopted October 13, 2016*

(iii) The customer or its duly authorized representative has provided an authorization under which the Corporation has the right to deliver the deposited cash to its designee in the event of the participating escrow bank’s insolvency or failure to meet its settlement obligations.  
*Adopted October 13, 2016*

(iv) The participating escrow bank is a “bank” (as defined in Section 9-102(a)(8) of the Uniform Commercial Code) and will be acting in that capacity with respect to the approved account.  
*Adopted October 13, 2016*

(k) *Agreements of Participating Escrow Bank When Giving an Instruction.* A participating escrow bank, by giving an instruction with respect to an escrow deposit or rollover, irrevocably agrees as follows:

*Adopted October 13, 2016*

(1) To the extent that the escrow deposit includes deposited securities:

*Adopted October 13, 2016*

(i) The participating escrow bank shall promptly and fully comply with “entitlement orders” (as that term is defined in Section 8-102(a)(8) of the Uniform Commercial Code) or directions originated by the Corporation concerning all deposited securities without the further consent of the customer, including without limitation any entitlement order or direction originated by the Corporation instructing the participating escrow bank to deliver any or all of the deposited securities to the Corporation or its designees.

*Adopted October 13, 2016*

(ii) The participating escrow bank shall make reasonable efforts within its powers to ensure that the Depository follows the procedures described in clause (i).

*Adopted October 13, 2016*

(iii) The participating escrow bank shall comply promptly and fully with an order from the Corporation to liquidate the deposited securities to the extent necessary to perform the participating escrow bank’s obligations under the Rules without the further consent of the customer or the Clearing Member.

*Adopted October 13, 2016*

(2) To the extent that the escrow deposit includes cash:

*Adopted October 13, 2016*

(i) The participating escrow bank shall hold the deposited cash applicable to the customer in the approved account at the participating escrow bank.

*Adopted October 13, 2016*

(ii) The participating escrow bank shall promptly and fully comply with disposition instructions originated by the Corporation concerning the approved account and all deposited cash and earnings thereon without the further consent of such customer or the Clearing Member, including without limitation any disposition instruction originated by the Corporation instructing the participating escrow bank to deliver any or all of the deposited cash to the Corporation or its designees.

*Adopted October 13, 2016*

(l) *Notice of Material Changes to Participating Escrow Bank.* Each participating escrow bank shall give the Corporation prompt prior written notice, in the manner specified by the Corporation, of any material change in its form of organization or ownership structure, including:

*Adopted October 13, 2016*

(1) the merger, combination or consolidation between the participating escrow bank and another person or entity;

*Adopted October 13, 2016*

(2) the assumption or guarantee by the participating escrow bank of all or substantially all of the liabilities of another person or entity in connection with the direct or indirect acquisition of all or substantially all of the assets of such person or entity;

*Adopted October 13, 2016*

(3) the sale of a significant part of the participating escrow bank's business or assets to another person or entity;

*Adopted October 13, 2016*

(4) a change in the name, form of business organization, or jurisdiction of organization or incorporation of the participating escrow bank; and

*Adopted October 13, 2016*

(5) a change in the direct or indirect beneficial ownership of 10% or more of the equity of the participating escrow bank.

*Adopted October 13, 2016*

For the avoidance of doubt, to the extent prohibited by law, a participating escrow bank need not provide the foregoing notice in advance of a public announcement.

*Adopted October 13, 2016*

(m) *Reports.* On each business day, the Corporation shall make available to the participating escrow bank and to each Clearing Member a listing of all deposit, rollover and withdrawal instructions submitted to the Corporation on that business day with respect to escrow deposits made by the participating escrow bank for such Clearing Member.

*Adopted October 13, 2016*

(n) *Assignment of Exercises.* If any information made available to a participating escrow bank by the Corporation indicates that an exercise notice has been allocated to a short position covered by an escrow deposit that is being withdrawn or released, the participating escrow bank may not return the escrow deposit to the customer.

*Adopted October 13, 2016*

(o) *Release of Escrow Deposits in Respect of Stock Put Options upon Expiration.* Any escrow deposit in respect of a short position in stock put options shall be released by the Corporation on its own initiative at a time specified by the Corporation on the fourth business day following the expiration date for the short position covered by such escrow deposit, unless:

*Adopted October 13, 2016*

(1) the Corporation has received notice from the correspondent clearing corporation indicating that the Clearing Member's obligations in respect of such short position have not been satisfied, in which case the escrow deposit shall not be released until such time as the Corporation determines it has no further obligations in respect of the short position; or

*Adopted October 13, 2016*

(2) the deposit is subject to a "hold" instruction, in which case the procedures set forth in paragraph (s) below shall apply.

*Adopted October 13, 2016*

(p) *Release of Escrow Deposits in Respect of Index Options upon Expiration.* Any escrow deposit made in respect of a short position in index options shall be released by the Corporation on its own initiative at a time specified by the Corporation on the first business day following the expiration date for the short position covered by such escrow deposit, unless:

*Adopted October 13, 2016*

(1) the Clearing Member carrying the short position is not in full compliance with its obligations to the Corporation; or

*Adopted October 13, 2016*

(2) the deposit is subject to a "hold" instruction, in which case the procedures set forth in paragraph (s) below shall apply.

*Adopted October 13, 2016*

*(q) Transfer of Escrow Deposits to the Corporation on Clearing Member Default.* If a Clearing Member fails to meet its settlement obligations with the Corporation on any business day or is suspended, the Corporation has the option of approving or disapproving any withdrawal of an escrow deposit by such Clearing Member or the relevant participating escrow bank.

*Adopted October 13, 2016*

(1) If a Clearing Member is in default with respect to any short position covered by an escrow deposit on any business day, the Corporation may take possession of the cash and securities making up any escrow deposit supporting such short position and: (i) in the case of securities, direct the Depository to deliver such securities to the account at the Depository specified by the Corporation and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of satisfying the Clearing Member's obligations in respect of such short position (or reimbursing itself for losses incurred as a result of the default).

*Adopted October 13, 2016*

(2) If a Clearing Member fails to meet its settlement obligations with the Corporation or is suspended on any business day, the Corporation may close out any short position held with respect to such Clearing Member, take possession of the securities and/or cash making up any escrow deposit supporting such short position and: (i) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case, for the purpose of reimbursing itself for costs incurred in connection with such close-out.

*Adopted October 13, 2016*

*(r) Participating Escrow Bank Default.* If a participating escrow bank has become insolvent, fails to satisfy the applicable requirements set forth in Rules 610 and 610C or breaches the relevant participating escrow bank agreement or tri-party agreement, the Corporation may nonetheless accept new deposits or accept any escrow rollovers or withdrawals for which settlement was to have been made by the participating escrow bank (provided that the affected Clearing Members would be in compliance with their obligations to the Corporation after giving effect thereto), but such acceptance shall not prejudice or impair such rights as such Clearing Members may have against the participating escrow bank or its customers; provided, that the Corporation may also take any of the following actions: (i) disqualify the participating escrow bank from submitting new escrow deposits; (ii) disapprove any withdrawals by such participating escrow bank, (iii) take possession of deposited securities and cause such securities to be delivered to the participant account of the Corporation at the Depository and/or take possession of deposited cash and cause such cash to be delivered to a bank account specified by the Corporation, in either case for satisfying the participating escrow bank's settlement obligations (or reimbursing itself for losses incurred as a result of such failure or insolvency), (iv) disregard any escrow deposits, (v) require the participating escrow bank to withdraw any escrow deposit, or (vi) close out any short position supported by an escrow deposit made by the participating escrow bank, take possession of the securities and/or cash making up any escrow deposit supporting such short position and: (A) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (B) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of reimbursing itself for costs incurred in connection with such close-out. In the event of a participating escrow bank's failure to meet its settlement obligations with respect to a Clearing Member or a participating escrow bank's insolvency, the Clearing Member shall have the right to take possession of the deposited securities or cash, as described in paragraph (s) below, provided that the Corporation has released its rights in such deposited securities or cash.

*Adopted October 13, 2016*



*(s) Transfer of Escrow Deposits to Clearing Member upon Customer Default.*

(1) A Clearing Member that has disapproved of the withdrawal of an escrow deposit (in the case of a withdrawal of deposited securities) or requested a “hold” with regard to such deposit may request, using a form prescribed by the Corporation for such purpose, that the Corporation obtain possession of the securities or cash included within the escrow deposit, or a portion thereof, and deliver such securities to the account at the Depository specified by the Clearing Member, or cash to a location specified by the Clearing Member. By submitting a request for delivery with respect to the securities or cash included within an escrow deposit, a Clearing Member shall be deemed:

*Adopted October 13, 2016*

(i) to represent that, because the customer has defaulted in its obligations to the Clearing Member in respect of the short position covered by the deposit, it has the legal right to take possession and/or direct disposition of the deposited securities or deposited cash requested to be delivered, as a result of a valid and perfected lien on and security interest in the deposited securities and deposited cash or otherwise, and

*Adopted October 13, 2016*

(ii) to indemnify and hold harmless the Corporation, its directors, officers, employees and agents, against all losses or expenses (including attorneys’ fees) reasonably incurred by such person for any reason as a result of a breach of the representation in clause (1) or the delivery of such deposited securities or deposited cash.

*Adopted October 13, 2016*

(2) A Clearing Member shall further provide such documentation as the Corporation may reasonably request relating to its legal right to take possession and/or direct disposition of the securities requested to be delivered.

*Adopted October 13, 2016*

(3) Upon receipt of such a request and upon confirmation that Clearing Member has met any additional required margin, the Corporation shall, unless prohibited by applicable law or regulations or court order: (i) in the case of deposited securities, through the facilities of the Depository, instruct the Depository to deliver such deposited securities, directly or indirectly, to an account at the Depository specified by such Clearing Member, or (ii) in the case of deposited cash, instruct the participating escrow bank to deliver such deposited cash as directed by the Clearing Member. If a Clearing Member has not made a request in proper form or requested an extension by the 5<sup>th</sup> business day following the Clearing Member’s request for a “hold” with respect to such deposit, the Corporation shall release the escrow deposit unless the Clearing Member is not in compliance with its obligations to the Corporation as of such time, in which case the Corporation may exercise the remedies set forth in paragraph (q); and, provided further, the Corporation shall not be responsible for any failure by the Depository or any participating escrow bank to act on any such instruction.

*Adopted October 13, 2016*

*(t) Effect of Release or Withdrawal of Escrow Deposit.* The release of an escrow deposit by the Corporation or the withdrawal of an escrow deposit with the Corporation’s consent releases any and all rights of the Corporation against the participating escrow bank with respect to the escrow deposit. A release or withdrawal of an escrow deposit will not affect any other rights of the Clearing Member for whose account the escrow deposit was made.

*Adopted October 13, 2016*

**. . . Interpretations and Policies:**

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, an escrow deposit pursuant to this Rule 610C from a participating escrow bank other than through the Depository, if such participating escrow bank, a parent or an affiliate has an equity interest in the amount of

20% or more of the total capital of the Clearing Member for whose account the deposit is made.  
*Adopted October 13, 2016*

.02 For purposes of this Rule, the term "participating escrow bank" means an approved custodian that has entered into and has in effect a participating escrow bank agreement with the Corporation.

*Adopted October 13, 2016*

.03 For purposes of this Rule, the term "participating escrow bank agreement" shall mean an agreement between the Corporation and a participating escrow bank approved to act as a custodian of escrow deposits for the purposes of Chapter VI of the Rules, providing, among other things, that such bank is subject to all provisions of the Rules governing the escrow deposit program for effecting escrow deposits, rollovers and withdrawals of escrow deposits without the issuance of escrow receipts.

*Adopted October 13, 2016*

.04 For the purposes of this Rule, the term "Government securities" means securities with a fixed principal amount issued or guaranteed by the United States, excluding Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP-STRIPS).

*Adopted October 13, 2016*

.05 For the purposes of this Rule, the term "business day" means any day other than a day on which the Corporation, the Depository and/or commercial banks in New York City are authorized or required to be closed.

*Adopted October 13, 2016*

## **RULE 611 - Segregation of Long Positions**

(a) Subject to the provisions of Rule 403, and except as provided in paragraph (d) hereof in the case of long positions in OTC options, all long positions (other than long positions in futures) in securities customers' accounts and firm non-lien accounts shall be deemed to be segregated long positions unless the Corporation receives contrary instructions from a Clearing Member in accordance with the following provisions of this Rule 611. All segregated long positions shall be held by the Corporation free of any charge, lien or claim of any kind in favor of the Corporation or any person claiming through it, until such positions shall be closed or exercised in accordance with the By-Laws and Rules or until the Clearing Member shall file with the Corporation written instructions, in such form as the Corporation may from time to time prescribe, directing that such positions be released from segregation. All positions in futures shall be deemed to be unsegregated for purposes of this Rule 611. All positions in cleared securities that are carried in a customers' lien account shall be deemed to be unsegregated for purposes of this Rule 611.

*Amended October 29, 1976; August 20, 2001, May 16, 2002; July 14, 2005; December 14, 2012; May 24, 2018*

(b) Each business day, during such hours as the Corporation may from time to time establish, a Clearing Member may file with the Corporation instructions, in such form as the Corporation may from time to time prescribe, designating any segregated long position in such Clearing Member's customers' account or firm non-lien account which the Clearing Member desires the Corporation to release from segregation. On the following business day, and each business day thereafter while such instructions remain in effect, such instructions shall be reflected on a report to be made available by the Corporation to such Clearing Member. The Corporation shall have a lien on each unsegregated long option carried in a customers' account (including any exercised option contracts) as provided in the applicable provisions of Article VI, Section 3 of the By-Laws. The Corporation's lien on any long position which the Corporation has been directed to release from segregation as provided herein shall continue until (i) the Corporation receives instructions, in such form as the Corporation may from time to time prescribe, directing that such long position

be segregated and held free of lien, and (ii) the Clearing Member duly pays to the Corporation in accordance with these Rules, all amounts payable by such Clearing Member on the business day following the Corporation's receipt of such instructions. Notwithstanding the foregoing, Clearing Members shall not be permitted to file instructions to release any long position in an OTC options from segregation, and all such long positions shall be segregated except as provided in paragraph (d) of this Rule 611.

*Amended October 29, 1976; December 21, 1979, January 9, 1981, April 11, 1989, March 29, 1999, September 1, 2006, December 14, 2012, September 25, 2013*

(c) No Clearing Member shall instruct the Corporation to release from segregation, or permit to remain unsegregated, any long position in option contracts carried in a customers' account or firm non-lien account for any customer or non-customer unless the Clearing Member is simultaneously carrying in such account for such customer or non-customer a short position in option contracts or an offsetting long or short position in security futures contracts and the margin required to be deposited by such customer or non-customer in respect of such short option position or long or short security futures position has been reduced as a result of the carrying of such long option position. The filing by a Clearing Member of any instruction to release a long position in options contracts from segregation shall constitute a representation by the Clearing Member to the Corporation that such instruction is authorized, is in accordance with the preceding sentence and is in compliance with all applicable laws and regulations. If an account includes segregated and unsegregated long positions in the same series of options and the aggregate long position in such series is reduced by the filing of an exercise notice or the execution of a closing writing transaction in such account, such reduction shall be applied by the Corporation first against the segregated long position in such account, and only the excess, if any, of the number of option contracts exercised or closed out over the number of option contracts included in such segregated long position shall be applied against the unsegregated long position in such account.

*Adopted June 1, 1975. Amended December 21, 1979, April 11, 1989, October 28, 1991, December 21, 1992, March 29, 1999; July 14, 2005; September 25, 2013*

(d) In the case of a long position in OTC options carried in the securities customers' account of a Clearing Member and for which the Corporation has received a customer ID, to the extent permitted under all applicable laws and regulations (including the rules of the Financial Industry Regulatory Authority, Inc. and any other regulatory or self-regulatory organization to which the Clearing Member is subject), the Corporation shall automatically unsegregate such long position to the extent that the Corporation identifies a qualifying spread position where the short leg of the spread is carried under the same customer ID. The Clearing Member shall not carry a qualifying spread position for a customer unless the customer's margin requirement has been reduced in recognition of the spread, and the carrying of a qualifying spread position for the account of a customer shall constitute a representation to the Corporation that the customer's margin has been so reduced.

*Adopted December 14, 2012*

***...Interpretations & Policies:***

**.01** When a customer or non-customer has closed out the short leg of a "spread," a Clearing Member shall be deemed to be in compliance with Rule 611(c) if the Clearing Member, as promptly thereafter as is reasonably practicable, instructs OCC to segregate the long leg of the spread; provided, however, that such instruction shall in any event be given to OCC at or prior to the time required by OCC in order to implement the segregation instruction not later than the opening of business on the second business day following the day on which the short leg was closed.

*Adopted June 24, 2004.*

## **RULE 612 – RESERVED**

Reserved.

## **RULE 613 – RESERVED**

Reserved.

## **RULE 614 - RESERVED**

Reserved.

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## ***Chapter VII - Cross-Margining with Participating CCOs***

### **RULE 701 - Cross-Margining Accounts**

(a) Each Joint Clearing Member electing to establish a set of proprietary X-M accounts shall execute a Proprietary Cross-Margin Account Agreement with the Corporation and the Carrying CCO(s) in such form as the Corporation and the Participating CCO(s) may specify, pursuant to which the Carrying CCO(s) and the Corporation shall jointly have a lien on and security interest in all Contracts from time to time purchased or carried in any of such set of proprietary X-M accounts, all cash, securities and property deposited or held in respect thereof, and all proceeds of any of the foregoing, as security for the obligations of the Joint Clearing Member to the Corporation and/or the Carrying CCO(s), whether or not arising from the X-M accounts.  
*Amended November 26, 1991, June 28, 1993.*

(b) Each Pair of Affiliated Clearing Members electing to establish a set of proprietary X-M accounts shall execute a Proprietary Cross-Margin Account Agreement with the Corporation and the Carrying CCO(s) in such form as the Corporation and the Participating CCO(s) may specify, pursuant to which: (1) the Pair of Affiliated Clearing Members shall be jointly and severally liable to the Corporation and the Carrying CCO(s) in respect of their set of proprietary X-M accounts; and (2) the Carrying CCO(s) and the Corporation shall jointly have a lien on and security interest in all Contracts from time to time purchased or carried in any of such set of proprietary X-M accounts, all cash, securities and property deposited or held in respect thereof, and all proceeds of any of the foregoing, as security for any obligation of the Pair of Affiliated Clearing Members, or either of them, to the Corporation and/or the Carrying CCO(s), whether or not arising from the X-M account. The Pair of Affiliated Clearing Members shall also agree that all margin deposited by either of them in respect of the set of proprietary X-M accounts shall be treated as their joint property.  
*Amended November 26, 1991, June 28, 1993.*

(c) Each Joint Clearing Member electing to establish a set of non-proprietary X-M accounts shall execute a Non-Proprietary Cross-Margin Account Agreement with the Corporation and the Carrying CCO(s) in such form as the Corporation and the Participating CCO(s) may specify, pursuant to which the Carrying CCO(s) and the Corporation shall jointly have a lien on and security interest in all Contracts from time to time purchased or carried in any of such set of non-proprietary X-M accounts, all cash, securities and property deposited or held in respect thereof, and all proceeds of any of the foregoing, as security for the obligations of the Joint Clearing Member to the Corporation and the Carrying CCO(s) in respect of such set of non-proprietary X-M accounts.  
*Adopted November 26, 1991, June 28, 1993.*

(d) Each Pair of Affiliated Clearing Members electing to establish a set of non-proprietary X-M accounts shall execute a Non-Proprietary Cross-Margin Account Agreement with the Corporation

and the Carrying CCO(s) in such form as the Corporation and the Participating CCO(s) may specify, pursuant to which: (1) the Pair of Affiliated Clearing Members shall be jointly and severally liable to the Corporation and the Carrying CCO(s) in respect of their set of non-proprietary X-M accounts; and (2) the Carrying CCO and the Corporation shall jointly have a lien on and security interest in all Contracts from time to time purchased or carried in any of such set of non-proprietary X-M accounts, all cash, securities and property deposited or held in respect thereof, and all proceeds of any of the foregoing, as security for the obligations of the Pair of Affiliated Clearing Members to the Corporation or the Carrying CCO in respect of any of such set of non-proprietary X-M accounts. The Pair of Affiliated Clearing Members shall also agree that all margin deposited by either of them in respect of the set of non-proprietary X-M accounts that does not constitute segregated customer funds may be treated as belonging to either or both of them.

*Adopted November 26, 1991, June 28, 1993.*

(e) Each Joint Clearing Member or Pair of Affiliated Clearing Members electing cross-margining shall establish and maintain one or more bank accounts at a clearing bank that has been designated by the Corporation and the Participating CCO(s) as an "X-M Clearing Bank." The Joint Clearing Member or the Pair of Affiliated Clearing Members shall designate one bank account in respect of a set of proprietary X-M accounts, and another bank account in respect of a set of non-proprietary X-M accounts, and shall authorize the Designated Clearing Organization to withdraw funds from each such bank account in accordance with the Rules for purposes of making daily settlement in respect of a set of X-M accounts.

*Adopted September 26, 1989, amended November 26, 1991, June 28, 1993.*

## **RULE 702 - Designation of Designated Clearing Organization**

Each Joint Clearing Member and each Pair of Affiliated Clearing Members electing cross-margining shall, on such form as the Corporation and the Participating CCO(s) may specify, designate either the Corporation or a Carrying CCO as its or their Designated Clearing Organization. Notwithstanding the above, if a Carrying CCO has elected not to be a Designated Clearing Organization, then each Joint Clearing Member and each Pair of Affiliated Clearing Members electing cross-margining shall designate the Corporation or, in the case of cross-margining with more than one Participating CCO, another Carrying CCO as its or their Designated Clearing Organization.

*Adopted September 26, 1989, amended November 6, 1992, June 28, 1993, December 15, 1993.*

## **RULE 703 – Reserved**

Reserved

## **RULE 704 - Margin Required in Respect of Sets of X-M Accounts**

(a) A Joint Clearing Member or Pair of Affiliated Clearing Members shall deposit margin in respect of its or their sets of X-M accounts. The amount of such margin shall be determined by the Corporation and the Carrying CCO(s) in accordance with the applicable Participating CCO Agreement.

*Amended June 28, 1993.*

(b) The Corporation may require the deposit of intra-day margin with respect to sets of X-M accounts at any time during any business day if the Corporation deems such margin advisable to reflect changes in market prices or other market conditions, the size of positions carried by a Joint Clearing Member or Pair of Affiliated Clearing Members, the financial condition of the Joint Clearing Member or Pair of Affiliated Clearing Members or other changed circumstances. Any such intra-day margin shall be deposited within such time as may be prescribed by the Corporation. Credit shall be given for all such intra-day margin deposits on the X-M Margin and

Settlement Report for such sets of X-M accounts on the following business day.  
*Amended June 28, 1993*  
*Adopted September 26, 1989.*

***...Interpretations and Policies:***

**.01** In the event that lack of intermarket coordination in the application of "circuit breakers" results in a reopening of trading in the securities markets on a day when trading in stock index futures remains halted or locked limit, then, notwithstanding any other provision of the By-Laws and Rules, the Corporation shall have plenary authority to take such actions as it deems appropriate in the interests of investors and the safety of the clearing and settlement system to address the problems resulting from such lack of intermarket coordination. Such actions may include, but need not be limited to: (i) establishing, for purposes of calculating X-M margin requirements, marking prices for affected products that are different from the marking prices that would ordinarily be used, and (ii) making adjustments in the calculation of required margin in respect of X-M accounts to compensate for the difference between futures variation margin payments as calculated based on an early closing price and the variation margin payments that would have been made if the futures markets had calculated variation margin payments based upon values established in the securities markets after a reopening. There can be no assurances that trading in markets for securities products while index futures markets are halted or locked limit will not result in higher margin and variation margin payments by Clearing Members than would be required based upon the theoretical relative values of the cross-margined products.  
*Adopted December 21, 1998.*

## **RULE 705 - Forms of Margin**

Margin deposited in respect of sets of X-M accounts may be deposited in the form of cash, United States Treasury securities, GSE debt securities, shares in money market funds ("MMF Shares"), letters of credit, common stock meeting the requirements of Rule 604 (b)(3) or a combination of the foregoing. Cash may from time to time be partially or wholly invested in Government securities, and any interest or gain received or accrued on such investments shall belong to the Corporation or the Participating CCO(s) as may be mutually agreed between or among the Corporation and the Participating CCO(s). United States Treasury securities, GSE debt securities and MMF Shares shall meet the requirements of the Corporation as set forth in the Rules and the Participating CCO(s) as set forth in its (their) rules, and shall be valued at the lowest value that would be given to them under the Rules or the rules of the Participating CCO(s). Letters of credit shall be in a form mutually acceptable to the Corporation and the Participating CCO(s) and shall be issued by a bank approved by them for that purpose. Notwithstanding the foregoing, a particular form of margin may be deposited in respect of X-M accounts in a particular cross-margining program, only if mutually acceptable to the Corporation and each Participating CCO, and shall be valued in accordance with the Participating CCO Agreement executed by the Corporation and the Participating CCO(s).  
*Adopted September 26, 1989, amended June 28, 1993, April 11, 1994; April 12, 2002; July 30, 2008.*

## **RULE 706 - Cross-Margining Settlement Procedures**

The Corporation shall conduct daily settlement in respect of sets of X-M accounts in accordance with this Rule with each Joint Clearing Member and each Pair of Affiliated Clearing Members that has designated the Corporation as its or their Designated Clearing Organization.  
*Amended June 28, 1993.*

(a) At or prior to such time as the Corporation may specify on each business day on which each Participating CCO is open for business, the Corporation shall make available to each such Joint Clearing Member, and to the OCC Clearing Member of each such Pair of Affiliated Clearing

Members, a report (the "X-M Margin and Settlement Report") showing: (i) the margin requirement in respect of each set of X-M accounts of such Joint Clearing Member or Pair of Affiliated Clearing Members; (ii) the amount of margin previously deposited in respect of each such set of X-M accounts; and (iii) any margin in excess of the amount required ("Margin Excess") or margin deficit ("Margin Deficit") to be satisfied in respect of each such set of X-M accounts. Such report shall also show for each such set of X-M Accounts (x) the net amount of premiums and exercise settlement amounts due to or from the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of Contracts in the OCC X-M account and in respect of futures option and commodity option contracts in each CCO X-M account in such set of X-M Accounts and (y) the net amount of variation margin due to or from the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of futures contracts in each CCO X-M account. The amounts described in clauses (x) and (y) of this subsection shall be netted together with any Margin Excess in the form of cash and any Margin Deficit to obtain a single net settlement amount (the "Cash Settlement Amount") due to or from the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of each set of X-M accounts on that day.  
*Amended January 29, 1991, June 28, 1993; March 20, 2009.*

(b) If the Cash Settlement Amount is an amount due from the Joint Clearing Member or Pair of Affiliated Clearing Members, the Corporation shall debit such Clearing Member's designated bank account for such amount at or prior to such time as the Corporation may specify. Subject to Rule 505, if the Cash Settlement Amount is due to the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of its or their set of Proprietary X-M Accounts, the Corporation shall pay the Cash Settlement Amount to the designated bank account of such Joint Clearing Member or Pair of Affiliated Clearing Members at or prior to the settlement time; provided, however, that no amount shall be paid to such account until the Corporation has determined that the Joint Clearing Member has completed its settlement obligations, or that each of the Pair of Affiliated Clearing Members have completed their settlement obligations, to the Corporation and the Participating CCO(s) in respect of all other accounts carried by it or them at the Corporation and the Participating CCO(s). Subject to Rule 505, if the Cash Settlement Amount is due to the Joint Clearing Member or Pair of Affiliated Clearing Members in respect of its or their set of Non-Proprietary X-M Accounts, the Corporation shall pay the Cash Settlement Amount to the designated bank account of such Joint Clearing Member or Pair of Affiliated Clearing Members at or prior to the settlement time; provided, however, that no amount shall be paid to such account until the Corporation has determined that the Joint Clearing Member has completed its settlement obligations, or that each of the Pair of Affiliated Clearing Members have completed their settlement obligations, to the Corporation and the Participating CCO(s) in respect of all other accounts (as specified in the Participating CCO Agreement) carried by it or them at the Corporation and the Participating CCO(s).  
*Amended June 28, 1993, December 15, 1993; June 24, 2011.*

(c) That portion, if any, of the Excess Margin remaining after application in accordance with subsection (a) of this Rule may be withdrawn from sets of X-M accounts in accordance with Rule 608.  
*Adopted September 26, 1989. Amended June 28, 1993; December 3, 2009.*

## **RULE 707 - Close-Out of OCC X-M Accounts**

**RULE 707.** (a) The Board of Directors or a Designated Officer (as defined in Rule 1102) of the Corporation may summarily suspend a Clearing Member if such Clearing Member or its affiliated CCO Clearing Member is in default in the payment of funds or any other obligation in respect of sets of X-M accounts. The OCC X-M accounts of a Clearing Member may be liquidated by the Corporation at the request of a Carrying CCO whether or not the Corporation suspends, or is permitted under the Rules to suspend, such Clearing Member. Upon the suspension of a Joint Clearing Member or the OCC Clearing Member of a Pair of Affiliated Clearing Members, or upon receiving notice from a Carrying CCO of the suspension by such Carrying CCO in accordance with its rules of a Joint Clearing Member or an affiliated CCO Clearing Member, the Corporation

shall have the right to liquidate the Contracts in the OCC X-M accounts, and any margin deposited in respect of the sets of X-M accounts, in accordance with the applicable Participating CCO Agreement, and shall deposit any proceeds of such liquidation in accounts (the "Proprietary X-M Liquidating Account" and the "Non-Proprietary X-M Liquidating Account") provided for therein. Funds in the Proprietary X-M Liquidating Account and the Non-Proprietary X-M Liquidating Account shall be utilized as described in such Agreement.

*Amended November 26, 1991, June 28, 1993, March 19, 2015*

(b) If the funds in the Proprietary and Non-Proprietary Liquidating Accounts, when applied to the full extent permitted in accordance with the applicable Participating CCO Agreement, are insufficient to offset the aggregate of the liquidating deficits in the sets of X-M accounts, the shortfall shall be allocated between or among the Corporation and the Participating CCOs pursuant to the applicable Participating CCO Agreement. In the event that, as a result of any such allocation, the Corporation incurs a loss arising from the liquidation of Contracts cleared by a Carrying CCO, the Corporation may demand immediate payment of the amount of such loss from the OCC Clearing Member and, if such payment is not made promptly, the Corporation may, if it has not already done so, suspend such Clearing Member pursuant to Rule 1102.

*Amended November 26, 1991, June 28, 1993.*

*Adopted September 26, 1989.*

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## ***Chapter VIII - Exercise and Assignment***

### **RULE 801 - Exercise of Options**

Issued and unexpired option contracts may, subject to Exchange Rules and the By-Laws, be exercised as follows:

*Amended January 12, 1977.*

(a) A Clearing Member desiring to exercise an American option contract on any business day other than its expiration date shall submit exercise notices to the Corporation on such business day through electronic means prescribed by the Corporation for that purpose within such timeframe as the Corporation shall prescribe; provided that no option contract expiring on a day that is not a business day may be exercised on the business day immediately preceding its expiration date. The Corporation may change such timeframes upon not less than thirty days' prior written notice to affected Clearing Members. Every submission of an exercise notice in accordance herewith shall become irrevocable at the applicable deadline specified by the Corporation on the date of submission. No Clearing Member shall revoke or modify any exercise notice after the applicable deadline. Each Clearing Member that files an exercise notice after the applicable deadline shall prepare and preserve, for not less than three years, a memorandum describing in reasonable detail the error that gave rise to late filing.

*Amended January 12, 1977; August 18, 1977, October 10, 1980, September 20, 1982, February, 1996; March 6, 2006; June 17, 2013; September 25, 2013*

(b) Any expiring American option contract may be exercised on its expiration date in accordance with Rule 805. Any capped or European option contract may be exercised (other than automatically exercised in the case of a capped option) only on its expiration date in accordance with Rule 805. Any binary options that meet the exercise parameters set forth in Rule 1501 will



be automatically exercised in accordance with that rule. Notwithstanding the foregoing, any expiring flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, short term index option contract or OTC index option contract that meets the exercise parameters set forth in Rule 1804(c) will be automatically exercised on its expiration date in accordance with that Rule. No option contract expiring on a day that is not a business day may be exercised on the business day immediately preceding its expiration date.

*Adopted January 12, 1977; amended August 18, 1977, February 22 and 23, 1993, November 1, 1994, October 18, 1995, October 25, 1996; April 16, 2004; July 12, 2005; June 23, 2006; June 6, 2007; August 20, 2007; November 30, 2007; March 25, 2009; November 9, 2010; December 14, 2012; June 17, 2013*

(c) Option contracts may be exercised only in a unit of trading or an integral multiple thereof. Exercise notices may be filed in respect of opening purchase transactions which have not yet been accepted by the Corporation, and shall be assigned by the Corporation at the same time and in the same manner as exercise notices filed on the same business day in respect of issued option contracts, provided that any such exercise notice shall be deemed to be null and void and of no force or effect if the opening purchase transaction in respect of which it was filed is not accepted by the Corporation on the business day immediately following the date on which such exercise notice was filed.

*Adopted January 12, 1977; amended June 30, 1977.*

(d) Notwithstanding the foregoing provisions of this Rule, and except as otherwise provided in this paragraph (d), the Chief Executive Officer, Chief Operating Officer, or any delegate of such officer, may in the sole discretion of such person permit a Clearing Member to file any exercise notice after an applicable deadline prescribed pursuant to paragraph (a) of this Rule, solely for the purpose of correcting a bona fide error on the part of the Clearing Member or a customer, subject to the following conditions:

*Amended July 9, 1991, November 24, 1993, December 10, 1997, May 16, 2002, May 23, 2003; March 6, 2006; March 25, 2009; June 17, 2013; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(1) The Clearing Member shall request permission to file such exercise notice at a time early enough, in the judgment of the authorized individual acting on the request, to allow the Corporation to complete its nightly processing in a reasonably timely manner notwithstanding any delay resulting from the granting of the request.

*Amended July 9, 1991; June 17, 2013*

(2) The Clearing Member shall be liable to the Corporation for a late filing fee of \$250,000 per line item listed on any exercise notice accepted for filing after the start of critical processing, and shall be informed of such fee at the time a request to file any exercise notice subject to such fee is submitted to the Corporation. Fifty percent of any late filing fee shall be distributed to the assigned Clearing Member or pro-rata to the assigned Clearing Members.

*Adopted July 9, 1991. Amended July 9, 1991; May 22, 2002; March 2, 2020.*

The Corporation will not accept any late exercise request received after 6:00 A.M. Central Time (7:00 A.M. Eastern Time). Clearing Members that have been assigned a late exercise notice shall be notified of the assignment by 8:00 A.M. Central Time (9:00 A.M. Eastern Time). Notwithstanding any other provision of the Rules or By-Laws, the Corporation will not accept any request to revoke or modify a previously submitted exercise notice.

*Adopted July 9, 1991, Amended February 7, 1996, May 22, 2003; June 17, 2013; March 2, 2020.*

(3) The Clearing Member shall deliver to the Corporation, within two business days after submitting a filing pursuant to this paragraph (d), a memorandum describing in

reasonable detail the error that gave rise to such action. Every memorandum shall be reviewed by the Chief Executive Officer, Chief Operating Officer, or any other officer of the Corporation designated by the Chief Executive Officer or Chief Operating Officer, as applicable, and, in his or her sole discretion such officer shall make a submission for remission of any late filing fee pursuant to subparagraph (d)(5).

*Amended May 16, 2002; March 6, 2006; March 20, 2009; June 17, 2013; April 26, 2017; February 15, 2019*

(4) The filing of an exercise notice pursuant to this paragraph (d) may be deemed a violation of the procedures of the Corporation, and may be subject to disciplinary action pursuant to Chapter XII of the Rules.

*Amended March 6, 2006; June 17, 2013*

(5) The Corporation may remit, in whole or in part, any late filing fee imposed pursuant to subparagraph (d)(2), if the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer finds that the filing giving rise to the fee was necessitated by circumstances beyond the reasonable control of the Clearing Member and its customer, or that remission is otherwise equitable in the circumstances.

*Amended March 6, 2006; June 17, 2013; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(6) An exercise notice accepted by the Corporation pursuant to this paragraph (d) after Midnight shall be deemed for all purposes to have been properly submitted to the Corporation on the preceding day.

*Adopted July 9, 1991, amended February 7, 1996.*

*Amended June 1, 1975; August 6, 1981; September 20, 1982; November 24, 1982; August 28, 1985; March 12, 1986; May 6, 1987; July 22, 1987; August 21, 1987; March 6, 2006.*

Filing of exercise notices after the applicable deadline specified by the Corporation shall not be permitted under any circumstances in respect of (i) futures options of such classes, or traded on such futures market(s), as may be designated by the Corporation and specified in its procedures or (ii) any exercise notice that the Corporation has determined not to be eligible for late processing.

*Adopted March 25, 2009. Amended June 17, 2013, September 25, 2013*

### ***...Interpretations and Policies:***

**.01** The Corporation may permit one or more Clearing Members to tender, revoke, or modify exercise notices by electronic data entry, provided that electronic data entry procedures shall not apply to exercises governed by Rule 805. See Rule 205 with respect to the extension of cut-off times in the event of power failures, equipment malfunctions, and other unusual or unforeseen conditions.

*Adopted May 22, 1984. Amended July 1, 2002.*

**.02** The Corporation may designate earlier cut-off times than those specified in Rule 801 when the Exchanges announce an early close. The Corporation shall give Clearing Members such notice of the designation of any such earlier cut-off time, including any change in the cut-off times specified in Rule 801(d)(2), as the Corporation deems practical under the circumstances.

*Adopted November 19, 1999. Amended March 6, 2006.*

**.03** The Corporation may make available to each Clearing Member, during a business day, updated information as to exercise notices submitted by such Clearing Member. Such updated information on exercises submitted by a Clearing Member shall be considered provisional and informational only and is subject to revision at any time. Only delivery advices and exercise and assignment reports (as the case may be) may be relied upon as definitively reflecting exercise

notices accepted by the Corporation.  
*Adopted October 28, 2002.*

**.04** With respect to any Market-Maker account, the Corporation shall process sell transactions in respect of American option contracts prior to exercises in respect of such contracts; provided that, for the purposes of this Interpretation and Policy, JBO Participants' accounts shall not be considered Market-Maker accounts until such time as the Corporation on not less than 30 days' notice to Clearing Members is able to identify, on a subaccount basis, the transactions of a JBO Participant within JBO Participant accounts, in which case JBO Participant accounts shall be considered Market-Maker accounts.

*Adopted October 27, 2014*

## **RULE 802 - Acceptance of Exercise Notice**

An exercise notice properly tendered to the Corporation in accordance with Rule 801 or deemed to have been properly tendered to the Corporation in accordance with Rule 805 shall be accepted by the Corporation on the date on which such notice was, or is deemed to have been, tendered.

*Amended June 1, 1975; January 12, 1977; March 12, 1986; July 9, 1991, October 18, 1995.*

## **RULE 803 - Assignment of Exercise Notices to Clearing Members**

Exercise notices accepted by the Corporation shall be assigned in accordance with the Corporation's procedures to Clearing Members with open short positions in the series of options involved, provided that:

*Amended October 29, 1976; April 17, 1980, November 2, 1995.*

(a) the Corporation may assign an exercise notice to a Clearing Member in respect of an opening writing transaction made by such Clearing Member on the day on which the exercise notice was accepted by the Corporation; and

*Adopted April 17, 1980.*

(b) the Corporation shall not assign an exercise notice to a Clearing Member in respect of any open short position after the Corporation has received confirmed trade information for a closing purchase transaction which, upon acceptance by the Corporation, will eliminate such short position, unless and until such closing purchase transaction is rejected by the Corporation.

*Adopted April 17, 1980. Amended October 28, 2002; December 14, 2012*

Subject to the provisions of the By-Laws, exercise notices accepted by the Corporation shall be assigned at or before 8:00 A.M. Central Time (9:00 A.M. Eastern Time) on the following business day. Assignments shall be dated and effective as of the date the applicable exercise notices were accepted by the Corporation. A Clearing Member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Corporation, and, if applicable, a Clearing Member submitting an exercise notice shall (subject to the provisions of Rule 901) be notified of the identity of the Assigned Clearing Member, through the transmission of Delivery Advices or as soon as practicable after such notice is assigned by the Corporation.

*Amended March 10, 1976; January 29, 1991, July 9, 1991; October 28, 2002; March 16, 2004; December 14, 2012*

### **...Interpretations and Policies:**

**.01** Under the Corporation's assignment procedures the Corporation will assign exercise notices to Clearing Members in respect of positions in a particular account of such Clearing Member or, in the case of an account divided into sub-accounts, a particular sub-account. In the case of short positions in OTC options in a Clearing Member's securities customers' account for which the Corporation has a customer ID, the Corporation will assign exercise notices to specific customer

IDs.

*Adopted September 28, 2007; Amended December 14, 2012*

## **RULE 804 - Allocation of Exercises**

Except as provided in the last sentence of this Rule 804, each Clearing Member shall establish fixed procedures for the allocation of exercises assigned in respect of short positions in the Clearing Member's accounts to specific option contracts included in such short positions. The allocation shall be made in accordance with the requirements set forth in Exchange Rules and any applicable rules of any self-regulatory organization of which the Clearing Member is a member. During the term of any restriction imposed on a Clearing Member pursuant to Rule 305, the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer may require the Clearing Member to report to the Corporation, not later than 8:00 A.M. Central Time (9:00 A.M. Eastern Time) on each business day, the name and address of each writer to whom the Clearing Member allocated an exercise assigned to the Clearing Member on the preceding business day. Such reports shall indicate, for each writer, the series of options for which an exercise was allocated and the number of contracts included in the allocation, and shall state whether any specific deposit or escrow deposit has been made in respect of such writer's short position in such series of options. The foregoing provisions of this Rule 804 shall not apply to the allocation of exercises of OTC options; and in the case of short positions in OTC options in respect of which the Corporation has assigned exercises to a particular customer ID, the Clearing Member shall allocate the exercise only to the customer associated with such customer ID.

*Amended January 28, 1976; September 11, 1979; April 17, 1980, October 28, 1991, November 2, 1995, December 10, 1997; December 14, 2012; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

### **...Interpretations and Policies:**

**.01** The procedures established by a Clearing Member pursuant to this Rule must provide, in the case of an account divided into sub-accounts, for the allocation of exercises to specific option contracts included in short positions maintained in the sub-account to which the exercise notice was assigned pursuant to Rule 803.

*Adopted September 28, 2007.*

## **RULE 805 - Expiration Exercise Procedure**

(a) At or before such time and date as the Corporation shall from time to time specify with respect to each expiration date, the Corporation shall make available to each Clearing Member an Expiration Exercise Report.

*Amended January 29, 1991, October 18, 1995; June 17, 2013*

(b) Upon retrieving an Expiration Exercise Report, each Clearing Member may submit exercise instructions in response to such report through electronic means prescribed by the Corporation for that purpose. Such instructions shall indicate, with respect to each series of options listed for each of the Clearing Member's accounts, the number of option contracts of that series, if any, to be exercised for that account. If no option contracts of a particular series are to be exercised for a particular account, the Clearing Member may so indicate opposite the title of that series. Each Clearing Member desiring to submit instructions in accordance with the preceding provisions of this subparagraph (b) shall submit such instructions to the Corporation before such time and date as the Corporation shall from time to time specify with respect to an expiration date. Instructions to exercise given pursuant to this subparagraph (b) shall become irrevocable at such time and

date with respect to each expiration date as the Corporation shall from time to time specify.  
*Amended October 18, 1995; December 14, 2012; June 17, 2013*

(c) If, after the deadline prescribed pursuant to subparagraph (b) for the submission of exercise instructions in response to Expiration Exercise Reports, but prior to the expiration time for such option contracts on the expiration date, a Clearing Member desires to exercise option contracts expiring on such expiration date in addition to those which the Clearing Member has previously instructed the Corporation to exercise, the Clearing Member may do so by tendering to the Corporation, prior to such expiration time, a written exercise notice on such form as the Corporation shall prescribe, provided that (i) the Corporation may designate in its procedures classes of futures options with respect to which no late exercise notices will be accepted; and (ii) the Corporation will not accept any late exercise notices with respect to OTC options.

*Amended October 18, 1995, November 2, 1995; March 25, 2009; December 14, 2012*

(d) Each Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time for such option contracts on each expiration date, an exercise notice with respect to:

*Amended October 18, 1995, November 2, 1995*

(1) each option contract listed in the Clearing Member's Expiration Exercise Report that the Clearing Member has instructed the Corporation to exercise in accordance with subparagraph (b) or (c), and

*Amended October 18, 1995.*

(2) every option contract of each series listed in the Clearing Member's Expiration Exercise Report that has an exercise price below (in the case of a call) or above (in the case of a put) the closing price of the underlying security by \$0.01 or more, unless the Clearing Member shall have duly instructed the Corporation, in accordance with subparagraph (b), to exercise none, or fewer than all, of the option contracts of such series carried in such account, provided that in the case of options with an exercise price expressed as a multiple of the per-unit price, in making the above calculations such multiple shall be applied to the closing price. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with subparagraph (b).

*Amended October 18, 1995; September 1, 2004; September 26, 2006; January 16, 2008; January 14, 2010.*

(e) It shall be the duty of each Clearing Member to review each Expiration Exercise Report against the Clearing Member's own position records and to verify the accuracy of the closing prices reflected in such report. If a Clearing Member discovers any error or omission in any Expiration Exercise Report, the Clearing Member shall immediately notify the Corporation thereof and cooperate with the Corporation in reconciling any discrepancies. If a Clearing Member's position records reflect expiring option contracts not listed in its Expiration Exercise Report, and the Clearing Member and the Corporation are unable to reconcile their respective position records before the deadline for the submission of exercise instructions prescribed in subparagraph (b), the Clearing Member may exercise any option contracts not listed in its Expiration Exercise Report (to the extent that such option contracts are subsequently determined to have existed in the Clearing Member's accounts) by tendering written exercise notices with respect to such option contracts in accordance with subparagraph (c). The Corporation shall have no liability to any Clearing Member or to any other person in respect of any loss or expense resulting from the exercise or non-exercise of any option contract due to any error or omission (whether relating to the inclusion of option contracts, the determination of closing prices, the making of computations or otherwise) in any Expiration Exercise Report.

*Amended October 18, 1995.*

(f) With respect to any expiration date, the Corporation may in its discretion extend any or all of the times and dates prescribed pursuant to subparagraphs (a) and (b). If unusual or unforeseen

conditions (including but not limited to power failures or equipment malfunctions) prevent the Corporation from making Expiration Exercise Reports available to Clearing Members on a timely basis, or Clearing Members from submitting on-line responses to such reports, prior to any applicable deadline, the Corporation, in its discretion, may prescribe such alternative procedures for exercising expiring options period as the Corporation deems reasonable, practicable and equitable under the circumstances. Notwithstanding the foregoing, in no event shall the deadline for submitting exercise instructions be extended beyond the expiration time for such option contracts except pursuant to Article VI, Section 18 of the By-Laws.

*Amended January 29, 1991, October 18, 1995, November 2, 1995; June 17, 2013*

(g) In the event that a Clearing Member tenders an exercise notice pursuant to subparagraph (c) (a "supplementary exercise notice") after the deadline prescribed pursuant to subparagraph (b) for the submission of exercise instructions in response to Expiration Exercise Reports, such Clearing Member shall be liable to the Corporation for a late filing fee of \$250,000 per line item for any supplementary exercise notice tendered after the commencement of critical expiration processing and shall be informed of such fee at the time the supplementary exercise notice is tendered.

*Amended October 18, 1995, May 26, 1999; December 3, 2008; March 2, 2020.*

The tender of a supplementary exercise notice may also be deemed to be a violation of the procedures of the Corporation, and may be subject to disciplinary action pursuant to Chapter XII of the Rules.

*Adopted May 26, 1999.*

(h) Notwithstanding the provisions of subparagraph (g), exercise instructions properly given in a supplementary exercise notice shall be valid and effective provided that such exercise notice is tendered prior to the expiration time for the option contracts sought to be exercised and in accordance with the procedures prescribed by the Corporation from time to time. Any tender of a supplementary exercise notice not made in accordance with such prescribed procedures shall be deemed null and void. If a Clearing Member files an exercise notice after the deadline prescribed pursuant to subparagraph (b) for the submission of exercise instructions in response to Expiration Exercise Reports, the Clearing Member shall be obligated to advise the Corporation in writing of the specific reasons therefor within two business days thereafter.

*Adopted October 18, 1995, amended November 2, 1995, May 26, 1999.*

(i) The Corporation may remit, in whole or in part, any filing fee imposed pursuant to subparagraph (g), if the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer finds that the tendering of the supplementary exercise notice giving rise to the fee was necessitated by circumstances beyond the reasonable control of the Clearing Member or its customer, or that remission is otherwise equitable under the circumstances.

*Adopted May 26, 1999. Amended March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(j) The term "closing price", as used with respect to an underlying security in this Rule 805, means the last reported sale price for the underlying security during regular trading hours (as determined by the Corporation) on the trading day immediately preceding the expiration date, or on the expiration date if the expiration date is a trading day, on such national securities exchange or other domestic securities market as the Corporation shall determine. Notwithstanding the foregoing, if an underlying security was not traded on such market during regular trading hours on the trading day immediately preceding the expiration date, or if the underlying security was traded during regular trading hours on such trading day but the Corporation is unable to obtain a last sale price, the Corporation may, in its discretion, (i) fix a closing price on such basis as it deems appropriate in the circumstances (including, without limitation, using the last sale price during regular trading hours on the most recent trading day for which a last sale price is available) or (ii) suspend the application of subparagraph (d)(2) to option contracts for which that security is an underlying security. During the term of any such suspension, Clearing Members may exercise

such option contracts only by giving affirmative exercise instructions in accordance with subparagraph (b) or (c).

*Adopted January 12, 1977.*

*Amended November 7, 1977; September 20, 1982; May 28, 1985; March 12, 1986; October 18, 1995; February 23, 1999; May 26, 1999; August 3, 2001; May 22, 2003; July 12, 2005.*

(m) [Rescinded September 20, 1982.]

***...Interpretations and Policies:***

**.01** When the day immediately preceding a Saturday expiration date is a holiday under Exchange Rules, the Corporation may, upon reasonable notice to Clearing Members, advance the exercise procedures provided for in Rule 805 by 24 hours. In that event:

*Amended October 18, 1995; May 16, 2002.*

(1) Expiration Exercise Reports will be made available by the Corporation, and Clearing Members will be required to submit exercise instructions in response to such Reports, on the day immediately preceding the expiration date.

*Amended January 29, 1991, October 18, 1995.*

(2) The provisions of Rule 805 with respect to the irrevocability of exercise instructions (including instructions deemed to have been given pursuant to Rule 805(d)(2)) shall apply notwithstanding the completion of exercise procedures on the day before the expiration date.

*Amended October 18, 1995.*

(3) Clearing Members may tender supplementary exercise notices at any time prior to the expiration time for such option contracts in accordance with Rule 805(c), but subject to the provisions of Rules 805(g) and (h).

*Adopted January 17, 1983, amended October 18, 1995, November 2, 1995.*

**.02** The exercise thresholds provided for in Rule 805(d) and elsewhere in the rules are part of the administrative procedures established by the Corporation to expedite its processing of exercises of expiring options by Clearing Members, and are not intended to dictate to Clearing Members which positions in customers' accounts should or must be exercised.

*Adopted June 14, 1988, amended October 18, 1995.*

**.03** The exercise procedures set forth in Rule 805 shall apply to the exercise of flexibly structured equity options, quarterly equity options, monthly equity options, weekly equity options and short term equity options, except that the time when the Corporation makes an Expiration Exercise Report available pursuant to paragraph (a) of Rule 805, and the time specified by the Corporation as the deadline for the submission of exercise instructions pursuant to paragraph (b) of Rule 805 for such options, may be different from the corresponding times that apply to standard.

*Adopted September 3, 1996. Amended July 12, 2005; June 23, 2006; November 9, 2010.*

**.04** With respect to any Market-Maker account, the Corporation shall process sell transactions in respect of option contracts prior to exercises in respect of such contracts; provided that, for the purposes of this Interpretation and Policy, JBO Participants' accounts shall not be considered Market-Maker accounts until such time as the Corporation on not less than 30 days' notice to Clearing Members is able to identify, on a subaccount basis, the transactions of a JBO Participant within JBO Participants' accounts, in which case JBO Participants' accounts shall be considered Market-Maker accounts.

*Adopted October 27, 2014*

## **RULE 806 - Reserved**

Reserved.

## **RULE 807 - Acceleration of Expiration Date**

When a stock option contract is adjusted pursuant to Section 11 of Article VI of the By-Laws to require the delivery upon exercise of a fixed amount of cash, the expiration date of the option contract will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the underlying security to a right to receive cash occurs.

*Adopted June 25, 1998. Amended January 18, 2007; July 18, 2012.*

### **. . . Interpretations and Policies:**

**.01** When option contracts are adjusted to require delivery of a fixed amount of cash and the expiration date is accelerated, the “exercise by exception” threshold for such contracts for purposes of Rule 805(d)(2) shall be \$.01 per share.

*Adopted January 18, 2007.*

\* \* \*

## **Chapter IX - Delivery of Underlying Securities and Payment**

### **Introduction**

The Rules in this Chapter are applicable to the discharge of delivery and payment obligations arising out of the exercise of physically settled stock option contracts and the maturity of physically settled stock futures contracts. As a general policy, the Corporation will direct that such obligations be settled through the facilities of the correspondent clearing corporation as specified in Rule 901 to the extent that the security to be delivered and received is CCC-eligible, and will direct that such obligations be settled on a broker-to-broker basis as specified in Rules 903 through 912 to the extent that the security to be delivered and received is not CCC-eligible. However, the Corporation may in its discretion make exceptions to this policy, either to direct that the delivery of CCC-eligible securities be made on a broker-to-broker basis as specified in Rules 903 through 912, utilizing services of the correspondent clearing corporation or otherwise, or (with the agreement of the correspondent clearing corporation) to direct that the delivery of non-CCC-eligible securities be made through the facilities of the correspondent clearing corporation as specified in Rule 901. The Corporation may alter a previous designation of a settlement method at any time (i) prior to the obligation time (as defined in Rule 901(c)) for any settlement to be made through the facilities of the correspondent clearing corporation pursuant to Rule 901 or (ii) prior to the designated delivery date for any settlement to be made on a broker-to-broker basis pursuant to Rules 903 through 912 by giving the affected Clearing Members such notice thereof as is practicable under the circumstances.

*Adopted March 16, 2004. Amended July 31, 2017*

## **RULE 901 - Settlement Through Correspondent Clearing Corporations**

(a) Every Stock Clearing Member and every Clearing Member that effects transactions in physically-settled stock futures shall be and remain a participant in good standing of the correspondent clearing corporation; provided, however, that the foregoing shall not apply to: (i) an



Appointing Clearing Member during a period when such Appointing Clearing Member has in effect an appointment of an Appointed Clearing Member pursuant to subparagraph (g) hereof; or (ii) a Canadian Clearing Member on behalf of which CDS maintains an identifiable subaccount in a CDS account at the correspondent clearing corporation, provided that CDS is a participant in good standing of the correspondent clearing corporation during the period when such Canadian Clearing Member has in effect an appointment of CDS pursuant to subparagraph (h) hereof.

*Adopted December 22, 1975. Amended October 4, 1976; October 26, 1989; January 28, 1994; March 29, 1999; August 20, 2001; October 19, 2001; March 16, 2004; July 31, 2017*

(b) In the event a Delivery Advice or Exercise and Assignment Activity Report directs that settlement in respect of the exercised or matured cleared security or securities identified therein shall be made through the facilities of the correspondent clearing corporation, the Corporation shall report such settlement obligations to the correspondent clearing corporation, furnishing such information with respect thereto as shall be necessary to enable settlement to be effected in respect of such obligations in accordance with the rules of the correspondent clearing corporation on the delivery date (or, if the correspondent clearing corporation is not open for business on that date, on the next date on which it is open for business). In reporting settlement obligations to the correspondent clearing corporation hereunder, the Corporation may net obligations of a Clearing Member to deliver and receive the same underlying security on the same delivery date; provided, however, that obligations arising from exercised option contracts may not be netted against obligations arising from matured stock futures contracts.

*Amended October 4, 1976; January 29, 1991; January 28, 1994; August 20, 2001; October 19, 2001; March 16, 2004.*

(c) Settlement obligations for CCC-eligible securities that settle "regular way," as defined in the rules and procedures of the correspondent clearing corporation, will ordinarily be directed for settlement through the facilities of the correspondent clearing corporation. Unless otherwise agreed between the correspondent clearing corporation and the Corporation, if (i) such settlement obligations are reported to and are not rejected by the correspondent clearing corporation; (ii) the correspondent clearing corporation has not notified the Corporation that it has ceased to act for the relevant Clearing Member or Appointed Clearing Member; and (iii) the clearing fund requirements of the relevant Clearing Member or Appointed Clearing Member owing to such correspondent clearing corporation, as determined in accordance with its rules and procedures, are received by the correspondent clearing corporation, the Corporation shall have no further obligation in respect of such settlement obligations, other than such obligations as the Corporation may have pursuant to its agreement with the correspondent clearing corporation, and full settlement shall be deemed to have been made by the Corporation in respect of such settlement obligations, from and after the time when the correspondent clearing corporation becomes unconditionally obligated, in accordance with its rules, to effect settlement in respect thereof or to close out the securities contract arising therefrom (the "obligation time"). If an obligation to make delivery is netted by the Corporation against an obligation to receive in accordance with subparagraph (b) hereof, full settlement shall be deemed to have been made in respect thereof at the opening of business of the Corporation on the delivery date. If the Corporation takes action pursuant to subparagraph (e) hereof, settlement shall be made in accordance with the provisions of subparagraph (e). From and after the time when settlement is deemed to have been made pursuant to the second sentence of this subparagraph (c), the obligations of the Delivering and the Receiving Clearing Member in respect of the contracts deemed to have been settled, and any other obligations resulting from settlement in respect thereof, shall be determined by the rules and procedures of the correspondent clearing corporation.

*Adopted October 4, 1976.*

*Amended January 28, 1994; March 29, 1999; August 20, 2001; October 19, 2001; March 16, 2004; July 31, 2017*

(d) It will ordinarily be the policy of the Corporation to cause settlement of exercised stock option contracts and matured physically-settled stock futures contracts for CCC-eligible securities that

are scheduled to be settled on the first business day after exercise or maturity (i.e., securities that do not settle “regular way” as defined in the rules and procedures of the correspondent clearing corporation) to be made through the facilities of the correspondent clearing corporation in accordance with the rules and procedures of the correspondent clearing corporation. If such settlement obligations are reported to and are not rejected by the correspondent clearing corporation prior to the time when it becomes unconditionally obligated, in accordance with its rules, to effect settlement in respect thereof or to close out the securities contract arising therefrom, the Corporation shall have no further obligation in respect of such settlement obligations. However, the Corporation may in its discretion determine to alter this policy in particular circumstances.

*Adopted July 31, 2017*

(e) A specification in any Delivery Advice that settlement is to be made through the facilities of the correspondent clearing corporation pursuant to this Rule 901 may be revoked by the Corporation at any time prior to the obligation time by an appropriate notice to the Receiving and Delivering Clearing Members. In the event of such revocation, delivery and payment shall be made in accordance with Rules 903 through 912; provided, however, that the Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer of the Corporation may, upon the application of the Receiving or the Delivering Clearing Member, extend or postpone the time for delivery to a date not more than two business days after the date of such revocation.

*Amended March 16, 2004; March 6, 2014; September 16, 2016; April 26, 2017; July 31, 2017; September 5, 2017; February 15, 2019*

(f) When an exercise notice is properly tendered to the Corporation pursuant to Rule 801, or when the maturity date of a physically-settled stock future occurs, prior to an “ex” date (as fixed by the primary market for the underlying security) for any distribution, whether or not an adjustment is required to be made pursuant to the By-Laws, Clearing Members effecting settlement in respect thereof pursuant to this Rule shall have such rights and obligations in respect of such distribution as may be provided under the rules and procedures of the correspondent clearing corporation; provided, however, that the Corporation may in its discretion direct that additional adjustments be made as between Receiving and Delivering Clearing Members to prevent inequities in respect of any distribution.

*Amended October 4, 1976; August 20, 2001; October 19, 2001; March 16, 2004.*

(g) An Appointing Clearing Member may, in lieu of being a participant of the correspondent clearing corporation, appoint, in such manner as the Corporation shall from time to time prescribe, an Appointed Clearing Member to act on its behalf with respect to the settlement of all exercised or matured cleared securities in the accounts of the Appointing Clearing Member which are settled through the correspondent clearing corporation pursuant to this Rule 901. An appointment pursuant to this subparagraph shall become effective as of the second business day following the day on which the Corporation shall receive written notice, in such form as the Corporation shall from time to time prescribe, from the Appointed Clearing Member of its acceptance of the appointment, or such later date as may be specified by the Appointed Clearing Member, and (unless the Corporation shall terminate the appointment at an earlier time) shall remain effective until the close of business on the thirtieth calendar day after the Corporation shall have received, from either the Appointing Clearing Member or the Appointed Clearing Member, written notice of revocation of the appointment, and shall remain effective thereafter, with respect to each obligation to make delivery or payment in respect of exercised or matured cleared securities directed to the Appointed Clearing Member for settlement prior to the effective date of the revocation, until settlement of such obligation is completed. During the effectiveness of such an appointment, the Corporation shall report each obligation of the Appointing Clearing Member to make delivery or payment in respect of an exercised or matured cleared security to the correspondent clearing corporation, and the Appointed Clearing Member shall be deemed to be the Delivering Clearing Member or the Receiving Clearing Member, as the case may be, in respect of each such contract for all purposes under this Rule 901. For purposes of Rule 208,

any report made available to an Appointed Clearing Member shall be deemed to have been made available to the Appointing Clearing Member at the time that it is made available to the Appointed Clearing Member.

*Amended October 26, 1989; January 28, 1994; March 29, 1999; August 20, 2001; October 19, 2001; March 16, 2004; May 1, 2007.*

(h) A Canadian Clearing Member on behalf of which CDS maintains an identifiable subaccount in a CDS account at the correspondent clearing corporation may appoint, in such manner as the Corporation shall from time to time prescribe, CDS to act on its behalf with respect to the settlement of all exercised or matured cleared securities in the accounts of the Canadian Clearing Member which are settled through the correspondent clearing corporation pursuant to this Rule 901. An appointment pursuant to this subparagraph shall become effective as of the second business day following the day on which the Corporation shall receive written notice of the appointment from the Canadian Clearing Member, or such later date as may be specified by the Canadian Clearing Member, and (unless the Corporation shall terminate the appointment at an earlier time) shall remain effective until the close of business on the thirtieth calendar day after the Corporation shall have received, from either the Canadian Clearing Member or CDS, written notice of revocation of the appointment, and shall remain effective thereafter, with respect to each obligation to make delivery or payment in respect of exercised or matured cleared securities directed to CDS for settlement prior to the effective date of the revocation, until settlement of such obligation is completed. During the effectiveness of an appointment pursuant to this subparagraph, the Corporation shall report each obligation of the Canadian Clearing Member to make delivery or payment in respect of an exercised or matured cleared security to the correspondent clearing corporation.

*Adopted January 28, 1994.*

*Amended March 29, 1999; August 20, 2001; October 19, 2001; March 16, 2004; May 1, 2007.*

(i) Notwithstanding any other provision of the By-Laws and Rules, the obligations of a Clearing Member to the Corporation in respect of the settlement of any securities contract arising from an exercised or matured cleared security which is settled by or on behalf of the Clearing Member through the correspondent clearing corporation pursuant to this Rule 901 will be deemed to be completed and performed once the obligation time, as defined in Rule 901(c), in respect of such securities contract has occurred and the Corporation has no further responsibility in respect of such securities contract to the correspondent clearing corporation.

*Adopted January 28, 1994*

*Amended August 20, 2001; October 19, 2001; March 16, 2004; July 31, 2017*

### ***...Interpretations and Policies:***

**.01** When the Corporation extends or postpones settlements pursuant to Rule 903 the Corporation may for technical reasons defer reporting affected exercised or matured contracts to the correspondent clearing corporation until a new delivery date is fixed. If an ex-date for a dividend or other distribution on the underlying stock occurs between the date of an exercise of an option or maturity date of a stock future and the date when the Corporation reports the resulting settlement obligations to the correspondent clearing corporation, the Delivering Clearing Member may not be obligated, under the rules of the correspondent clearing corporation, to deliver the distributed property. In order to prevent resulting inequities, the Board of Directors has determined pursuant to Rule 901(f) that in such cases Delivering Clearing Members shall be obligated to deliver the distributed cash or other property on the delivery date notwithstanding the absence of an obligation to do so under the rules of the correspondent clearing corporation. In the case of cash distributions, such delivery shall be made by appropriate charges and credits to the settlement accounts of Delivering and Receiving Clearing Members with the Corporation. In the case of non-cash distributions, delivery shall be made in such manner as the Corporation shall direct.

*Adopted March 18, 1987.*

*Amended August 20, 2001; October 19, 2001; March 16, 2004; July 31, 2017*

**.02** It will ordinarily be the policy of the Corporation to cause settlement of exercised stock option contracts and matured physically-settled futures contracts to be made through the facilities of the correspondent clearing corporation pursuant to Rule 901 to the extent that the security or securities to be delivered and received in such settlement are CCC-eligible, and to cause settlement of exercised stock option contracts and matured physically-settled futures contracts to be made pursuant to Rules 903 through 912 to the extent that the security or securities to be delivered and received in such settlement are not CCC-eligible. However, the Corporation may in its discretion determine to alter this policy in particular circumstances, either to cause delivery of CCC-eligible securities to be made pursuant to Rules 903 through 912 or (with the agreement of the correspondent clearing corporation) to cause delivery of non-CCC-eligible securities to be made through the facilities of the correspondent clearing corporation pursuant to Rule 901. For certain non-CCC eligible securities, delivery made on a broker-to-broker basis pursuant to Rules 903 through 912 may nevertheless involve facilities of a correspondent clearing corporation, provided that Rule 901 will not apply to such delivery unless the Corporation and the correspondent clearing corporation otherwise agree.

*Adopted January 28, 1994*

*Amended August 20, 2001; October 19, 2001; July 31, 2017*

## **RULE 902 - Delivery Advices**

Subject to the provisions of Rule 901, Delivery Advices made available to a Clearing Member by the Corporation pursuant to Rule 803 or Rule 1302 shall identify the designated settlement method, the quantity and description of each underlying security to be delivered against receipt of payment therefor, the quantity and description of each underlying security to be received against payment therefor, the delivery date, the event resulting in the obligation to deliver, receive or make payment, the exercise price (in the case of options), the final settlement price (in the case of stock futures), the allocation percentage of the exercise price or final settlement price, and, for settlements to be effected on a broker-to-broker basis, the contra Clearing Member to the settlement obligation. In the event that the Corporation directs that settlement be effected by a method different than a previously designated method, the Corporation shall provide notice thereof to the affected Clearing Members, but shall not revise any outstanding Delivery Advice.

*Amended June 1, 1975, January 29, 1991, Amended August 20, 2001; March 16, 2004.*

### ***...Interpretations and Policies:***

**.01** In the event that more than one underlying security is deliverable upon the exercise or maturity of a contract, the Corporation shall have the discretion to allocate a percentage of the exercise price or final settlement price to each underlying security to be delivered or received to determine the amount to be paid or received in respect of such security. Such allocation shall reflect the value of the underlying security relative to the aggregate value of the contract as determined by the Corporation.

*Adopted March 16, 2004.*

## **RULE 903 - Obligation to Deliver**

When a Delivery Advice or the Corporation directs that settlement be made on a broker-to-broker basis, the Delivering Clearing Member shall deliver each underlying security specified in the Delivery Advice against payment of the aggregate purchase price therefor on the delivery date specified therein, which, in the case of options, shall be the second business day following the day on which the exercise notice was, or is deemed to have been, properly tendered to the Corporation pursuant to Chapter VIII of the Rules, and, in the case of security futures, shall be the second business day following the maturity date, except for series that are designated by the Exchange on which such series are traded for settlement on the first business day following the maturity date of the applicable series, provided that:

*Amended July 9, 1991, June 7, 1995, August 20, 2001; March 16, 2004; January 28, 2014; September 5, 2017*

(a) the Corporation may designate a different delivery date for property that is deliverable as a result of an adjustment of a contract pursuant to the By-Laws and Rules; and

*Amended August 20, 2001.*

(b) The Chief Executive Officer, Chief Operating Officer or delegate of such officer may extend or postpone the time for delivery whenever, in such person's opinion, such action is required in the public interest or to meet unusual conditions.

*Amended June 1, 1975; September 5, 1980; April 3, 2003; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

***...Interpretations and Policies:***

**.01** The Corporation may delay delivery and payment during the period "when distributed" trading is declared by the primary market for the underlying stock.

*Adopted July 5, 1989. Amended August 20, 2001.*

**RULE 904 – Method of Delivery and Payment; Stock Transfer Taxes**

(a) Unless the Corporation directs otherwise, broker-to-broker settlements shall be made on a delivery-versus-payment basis through the facilities of The Depository Trust Company.

(b) If the Corporation directs that a broker-to-broker settlement be made otherwise than as provided in subsection (a), the Delivering Clearing Member and Receiving Clearing Member shall mutually agree upon the location and method for effecting delivery of each underlying security and payment therefor, unless the Corporation directs that a broker-to-broker settlement be made through the facilities of the National Securities Clearing Corporation.

*Amended March 16, 2004; July 31, 2007*

(c) Clearing Members shall make appropriate arrangements for the payment of any applicable stock transfer or similar taxes in the manner prescribed by the applicable laws and regulations of the taxing jurisdiction, and shall jointly and severally hold the Corporation harmless from any liability in respect thereof. Clearing Members shall furnish to the Corporation upon request such evidence as the Corporation may require with respect to the payment of such taxes. Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the transfer of securities pursuant to the exercise of an option contract shall be the responsibility of the Delivering Clearing Member except where the incidents of the tax are attributable solely to the Receiving Clearing Member (or his customer or customers), in which case the tax will be the responsibility of the Receiving Clearing Member.

*Amended April 4, 1977; March 16, 2004.*

**RULE 905 – Manner of Delivery**

Securities required to be delivered pursuant to Rule 904(b) shall be delivered by book-entry through the facilities of a securities depository registered as a clearing agency with the Securities and Exchange Commission or by delivery of a certificate or certificates in good deliverable form. A certificate shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of the certificate in such form would constitute good delivery under the rules of the primary market for the security.

*Amended March 16, 2004.*

## **RULE 906 - Acceptance of Delivery**

The Receiving Clearing Member shall accept a partial delivery if tendered in round lots or multiples thereof, or, if the unit of trading is or includes an odd lot, in such odd lot or multiples thereof.

*Amended August 20, 2001; March 16, 2004.*

## **RULE 907- Delivery Prior to Specified Delivery Date**

The acceptance of a delivery prior to the delivery date shall be at the option of the Receiving Clearing Member.

*Amended August 20, 2001; March 16, 2004.*

## **RULE 908 - Payment on Delivery**

When settlement is made pursuant to Rule 904(b), the Delivering Clearing Member shall have the right to require the allocable purchase price of the delivered units of the underlying security to be paid by customary means in immediately available funds.

*Amended August 20, 2001; March 16, 2004*

## **RULE 909 - Notice of Delivery and Payment**

Unless settlement is made through the correspondent clearing corporation pursuant to Rule 901, the Delivering Clearing Member and the Receiving Clearing Member shall each promptly submit notices to the Corporation, in accordance with the procedures and within the timeframes periodically specified by the Corporation, as to the number of units of the underlying security delivered (received) and the amount received (paid) therefor.

*Amended October 4, 1976; Amended August 20, 2001; October 19, 2001; March 16, 2004.*

(a) During times to be specified by the Corporation, the Corporation shall make available to the affected Delivering Clearing Member and Receiving Clearing Member reports reflecting the notices submitted by each such Clearing Member regarding delivery, payment, or receipt of delivery or payment in respect of an underlying security.

*Adopted March 16, 2004.*

(b) If the reported number of units of the underlying security delivered equals the reported number of units received, the delivery obligation with respect to such number of units shall be deemed discharged. If an equal number of units of such underlying security are reported to have been delivered and received, but such number is less than the total delivery obligation in respect of the underlying security, the remaining portion of such obligation shall be deemed outstanding. The delivery obligation in respect of such underlying security shall be deemed to be fully discharged when the total number of units reported to be delivered and received equals the total quantity of the underlying security to be delivered (received) as set forth in the applicable Delivery Advice. Once the total delivery obligation in respect of an underlying security has been fully discharged, the Delivering Clearing Member, the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

*Adopted March 16, 2004.*

(c) If the reported payment amount received equals the reported amount paid in respect of an underlying security, then the payment obligation with respect to such amount shall be deemed discharged. If equal amounts are reported to have been paid and received, but such amount is less than the total payment obligation, the remaining portion of the payment obligation shall be deemed outstanding. The payment obligation in respect of such underlying security shall be deemed to be fully discharged when the total amount reported to be paid and received equals the aggregate purchase price for such underlying security in the applicable Delivery Advice. Once

the total payment obligation has been fully discharged, the Delivering Clearing Member, the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

*Adopted March 16, 2004.*

(d) In the event a Delivering Clearing Member or a Receiving Clearing Member (as applicable) submits to the Corporation notice of a delivery, payment, or receipt of delivery or payment, and the contra Clearing Member to the settlement obligation does not respond to such notice two business days after such notice was made available to such Clearing Member, the contraparty's failure to respond shall constitute its acknowledgment to the Corporation that particular obligation has been settled as indicated in the notice furnished by the submitting Clearing Member, provided that the designated delivery date has occurred.

*Adopted March 16, 2004.*

(e) In the event that the notice submitted by the Delivering Clearing Member and the notice submitted by the Receiving Clearing Member regarding a delivery (receipt) of units of an underlying security, or payment (receipt of payment) therefor, contain contradictory information as to such delivery (receipt) or payment (receipt of payment), each such notice shall be deemed null and void and given no effect.

*Adopted March 16, 2004.*

## **RULE 910 - Failure to Deliver**

(a) The failure procedures set forth in paragraphs (b) – (e) of this Rule apply to deliveries of securities that are effected on a broker-to-broker basis pursuant to Rules 903-912, and such procedures shall not apply to any delivery to be made through the correspondent clearing corporation pursuant to Rule 901. A delivery to be made through the correspondent clearing corporation pursuant to Rule 901 shall be subject to the failure procedures, if any, provided by the rules and procedures of the correspondent clearing corporation.

*Adopted July 31, 2017*

(b) If the Delivering Clearing Member has not completed a required delivery by the close of business on the delivery date, the Receiving Clearing Member shall issue a buy-in notice, in paper format or in automated format through the facilities of a self-regulatory organization that provides an automated communications system, with respect to the undelivered units of the underlying security, within 20 calendar days following the delivery date, and shall thereupon buy in the undelivered securities. Except as otherwise directed by the Corporation, the buy-in shall be effected, as nearly as may be, in accordance with the then current procedures and interpretations of the correspondent clearing corporation for buy-ins of receive balance orders, and the Delivering Clearing Member and the Receiving Clearing Member shall have the rights and obligations set forth therein, provided that (i) buy-in notices shall not be retransmitted except to other Delivering Clearing Members, and (ii) extensions of time may be granted only by the Corporation (and not by the correspondent clearing corporation).

*Amended August 20, 2001; March 16, 2004.*

(c) The Clearing Member executing a buy-in shall as promptly as possible on the day of execution notify the Corporation and the Delivering Clearing Member, in such manner as the Corporation shall specify, as to the quantity purchased and the price paid. The defaulting party shall promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the following business day, pay the Receiving Clearing Member the excess, if any, of (i) the price paid on such buy-in over (ii) the settlement amount of the securities bought-in less any portion thereof already paid by the Receiving Clearing Member. Notwithstanding any other provision of the By-Laws and Rules, from and after the time when the Receiving Clearing Member has received payment of such difference, if any, the settlement obligation in respect of the undelivered units of the underlying security shall be deemed fulfilled and the Delivering Clearing Member and the

Corporation shall have no further obligation in respect thereof.  
*Amended August 20, 2001; March 16, 2004.*

(d) As used herein, the term "defaulting party" shall mean the Corporation when the buy-in notice is issued in respect of a call option contract and shall mean the Delivering Clearing Member when the buy-in notice is issued in respect of a put option contract. When the buy-in notice is issued in respect of a call option contract, the Delivering Clearing Member shall be obligated to pay to the Corporation the amount specified in subparagraph (b) not later than settlement time on the business day following the execution of the buy-in and the Corporation shall be authorized to withdraw such amount from such Clearing Member's bank account established in respect of its firm account.

*Amended August 20, 2001; March 16, 2004; April 13, 2005.*

(e) The failure of the Receiving Clearing Member to issue a buy-in notice within the time specified in this Rule 910 or to execute the buy-in in a timely manner shall not affect the contract rights of the parties except that the defaulting party may limit the amount which it is obligated to pay pursuant to subparagraph (b) hereof to the highest amount it would have been required to pay if the buy-in notice had been issued and executed on a timely basis.

*Amended August 20, 2001; March 16, 2004; April 13, 2005.*

## **RULE 910A - Protect Procedures**

(a) The protect procedures set forth in paragraph (b) of this Rule apply to deliveries of securities that are effected on a broker-to-broker basis pursuant to Rules 903 through 912 and such procedures shall not apply to any delivery to be made through the correspondent clearing corporation. A delivery to be made through the correspondent clearing corporation shall be subject to the protect procedures, if any, provided by the rules or procedures of the correspondent clearing corporation.

*Amended March 29, 1999, October 19, 2001; March 16, 2004; July 31, 2017*

(b) If a Receiving Clearing Member is entitled to receive warrants, rights, convertible securities or other securities which have been called for redemption or are due to expire or with respect to which a call or expiration date is impending or which are subject to a tender or exchange offer or other offer which will expire, and if the expiration time (as hereafter defined) is on or after the delivery date, such Receiving Clearing Member may deliver a notice (a "Liability Notice") to the Delivering Clearing Member not later than 9:00 a.m. Central Time on the business day preceding the expiration date. If a Liability Notice is so delivered to the Delivering Clearing Member, and the Delivering Clearing Member fails to deliver the securities by the expiration time, the defaulting party (as defined in paragraph (c) below) shall be liable for any damages which may accrue thereby. All claims for such damage shall be made promptly. For the purposes of this paragraph, the term "expiration time" means the latest time and date on which securities must be delivered or surrendered up to and including the last day of the protect period, if any.

*Amended March 29, 1999, Amended August 20, 2001; March 16, 2004.*

(c) As used herein, the term "defaulting party" shall mean the Corporation when the Liability Notice is issued in respect of a call option contract or a security future and shall mean the Delivering Clearing Member when the buy-in notice is issued in respect of a put option contract. When the Liability Notice is issued in respect of a call option contract or a security future, the Delivering Clearing Member shall be obligated to pay to the Corporation the amount of the damages referred to in paragraph (b) promptly upon notice from the Corporation that the Corporation has paid such amount to the Receiving Clearing Member. Once a Liability Notice is issued by a Receiving Clearing Member, unless subsequently withdrawn, no buy-in notice may be issued.

*Adopted February 4, 1991, March 29, 1999, Amended August 20, 2001.*



## **RULE 911 - Failure to Receive**

(a) The failure procedures set forth in paragraphs (b) – (c) of this Rule apply to deliveries and the receipt of deliveries of securities that are effected on a broker-to-broker basis pursuant to Rules 903-912, and such procedures shall not apply to any delivery or the receipt of any delivery to be made through the correspondent clearing corporation pursuant to Rule 901. A delivery to be made through the correspondent clearing corporation pursuant to Rule 901 shall be subject to the failure procedures, if any, provided by the rules and procedures of the correspondent clearing corporation.

*Adopted July 31, 2017*

(b) If a Receiving Clearing Member shall refuse to receive all of the units of the underlying security duly delivered to it in fulfillment of a delivery obligation, and such refusal shall continue beyond the close of business on the delivery date, the Delivering Clearing Member may, without notice, sell out in the best available market, for the account and liability of the defaulting party, all or any part of the undelivered units. Notice of such sell-out, including the quantity sold and the price received, shall be submitted as promptly as possible on the date of execution, in such manner as the Corporation shall specify, to the Corporation and the Receiving Clearing Member. As used in this Rule 911, the term "defaulting party" shall mean the Receiving Clearing Member in the case of a call option contract and the Corporation in the case of a put option contract or a security future. The defaulting party shall be obligated to pay promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the business day following the sell-out, to the Delivering Clearing Member the excess, if any, of the aggregate purchase price of the undelivered units over the price at which such units were sold out; and if the Corporation is the defaulting party, the Receiving Clearing Member shall pay such amount to the Corporation not later than settlement time on the business day immediately following the sell-out and the Corporation shall be authorized to withdraw such amount from the bank account established by the Receiving Clearing Member in respect of its firm account. Notwithstanding any other provision of the By-Laws and Rules, from and after the time when the Delivering Clearing Member has received payment of such difference, if any, the settlement obligation in respect of the units of the underlying security for which there was a refusal to receive shall be deemed fulfilled and the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

*Amended August 20, 2001; March 16, 2004.*

(c) If a Receiving Clearing Member shall fail to pay the aggregate purchase price for all of the units of the underlying security duly delivered to it in fulfillment of a delivery obligation, and such failure shall continue beyond the close of business on the delivery date, the defaulting party shall be obligated to pay such aggregate purchase price to the Delivering Clearing Member promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time), on the following business day, and if the Corporation is the defaulting party, the Receiving Clearing Member shall pay such amount to the Corporation not later than settlement time on such following business day and the Corporation shall be authorized to withdraw such amount from the bank account established by the Receiving Clearing Member in respect of its firm account. Notwithstanding any other provision of the By-Laws and Rules, from and after the time when the Delivering Clearing Member has received payment of such aggregate purchase price, the settlement obligation in respect of the units of the underlying security for which there was a refusal to pay shall be deemed fulfilled and the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

*Adopted March 16, 2004.*

## **RULE 912 - Delivery After "Ex" Date**

Subject to the provisions of Rule 901(f), when an exercise notice is properly tendered to the Corporation pursuant to Rule 801, or when the maturity date of a physically-settled stock future occurs, prior to an "ex" date (as fixed by the primary market for the underlying security) for a

distribution that causes an adjustment to be made pursuant to the By-Laws, the Delivering Clearing Member shall make delivery as required by such adjustment unless the parties otherwise agree. When an exercise notice is properly tendered to the Corporation, or when the maturity date of a physically-settled stock future occurs, prior to such an "ex" date for a distribution that does not cause an adjustment to be made pursuant to the By-Laws, and delivery of the underlying security is made too late to enable the Receiving Clearing Member to transfer the security into its name and to receive such distribution, the Delivering Clearing Member shall, at the time of delivery, issue its due bill check to the Receiving Clearing Member for the amount of the distribution, which check shall be payable on the payment date of such distribution.  
*Amended June 1, 1975, Amended October 4, 1976, Amended August 20, 2001, July 31, 2017*

## **RULE 914 - Maintenance and Elimination of Positions in Exercise Settlement Accounts**

[Deleted October 29, 1982.]

## **RULE 915 - Failure to Deliver by Correspondent Clearing Corporation**

[Deleted October 29, 1982.]

## **RULE 916 - Failure to Receive by Correspondent Clearing Corporation**

[Deleted October 29, 1982.]

\* \* \*

## ***Chapter X - Clearing Fund Contributions***

### **Introduction**

The Corporation shall maintain a Clearing Fund to which each Clearing Member shall contribute to make good certain losses suffered by the Corporation. As provided in this Chapter X, the size of the Clearing Fund shall at all times be subject to minimum sizing requirements and generally be calculated on a monthly basis by the Corporation; however, the calculated size of the Clearing Fund may be determined by the Corporation more frequently than monthly under certain conditions specified herein.

*Amended September 1, 2018*

### **RULE 1001 - Size of Clearing Fund**

(a) *Clearing Fund Size.* The size of the Clearing Fund shall be established on a monthly basis at an amount determined by the Corporation to be sufficient to protect the Corporation against losses stemming from the default of the two Clearing Member Groups that would potentially cause the largest aggregate credit exposure for the Corporation under stress test scenarios that represent extreme but plausible market conditions ("Sizing Stress Tests"). Such Sizing Stress Tests shall be supplemented by additional historical or hypothetical stress test scenarios ("Sufficiency Stress Tests") and, in the event Sufficiency Stress Tests call for a larger Clearing Fund size, the Clearing Fund shall be re-sized based on such Sufficiency Stress Test pursuant to

paragraph (c) of this Rule 1001. The size of the Clearing Fund for a given month shall not decrease by more than five percent from the prior month.

*Adopted September 23, 2011. Amended July 28, 2015; September 1, 2018*

(b) *Minimum Clearing Fund Size.* Notwithstanding paragraph (a) of this Rule 1001, in no event shall the size of the Clearing Fund be less than 110% of the size of the committed liquidity facilities of the Corporation plus the Cash Clearing Fund Requirement (as defined in Rule 1002(a)).

*Adopted July 21, 1983*

*Amended April 11, 1989, October 26, 1989, July 15, 1993, August 26, 1996, June 11, 1998, April 1, 1999, June 5, 2000; February 15, 2006; November 17, 2009; September 23, 2011; March 1, 2018; Amended September 1, 2018*

(c) *Intra-Month Sizing Adjustments.* If at any time between the regular monthly calculations of the size of the Clearing Fund a Sufficiency Stress Test identifies a breach that exceeds 90% of the size of the Clearing Fund requirement (less any margin collected as a result of a Sufficiency Stress Test breach pursuant to Rule 609), the calculated size of the Clearing Fund shall be increased by the greater of \$1 billion or 125% of the difference between the relevant exposure and the then-current Clearing Fund size.

*Adopted September 1, 2018*

(d) *Temporary Increase to Clearing Fund Size.* The Risk Committee, or the Executive Chairman, Chief Executive Officer, or Chief Operating Officer, upon notice to the Risk Committee, shall have the authority to increase the size of the Clearing Fund at any time for the protection of the Corporation, Clearing Members or the general public. Any determination by the Executive Chairman, Chief Executive Officer, or Chief Operating Officer to implement a temporary increase in Clearing Fund size would (i) be based upon then-existing facts and circumstances, (ii) be in furtherance of the integrity of OCC and the stability of the financial system, and (iii) take into consideration the legitimate interests of Clearing Members and market participants. Any temporary increase in the Clearing Fund shall be reviewed by the Risk Committee as soon as practical and, if such temporary increase is still in effect, the Risk Committee shall determine whether (A) the increase in the cash Clearing Fund requirement is no longer required, or (B) OCC's rules should be modified to ensure that OCC continues to maintain sufficient prefunded financial resources.

*Adopted September 1, 2018 – Amended February 15, 2019*

#### **...Interpretations and Policies:**

**.01** Notwithstanding any other provisions of this Rule 1001, the last sentence of Rule 1001(a) shall not take effect for a period of one month following the adoption of this Rule.

*Adopted September 1, 2018*

## **RULE 1002 - Clearing Fund Contributions**

(a) *Form and Method of Contributions.* Contributions to the Clearing Fund shall be in cash or in Government securities.

*Amended September 1, 2018*

(i) *Cash Clearing Fund Requirement.* Clearing Members shall collectively contribute \$3 billion in cash to the Clearing Fund ("Cash Clearing Fund Requirement"). Each Clearing Member's proportionate share of the Cash Clearing Fund Requirement shall be equal in percentage to its proportionate share of the Clearing Fund as determined by Rule 1003(a)(y). The Executive Chairman, Chief Executive Officer, or Chief Operating Officer, upon providing notice to the Risk Committee, shall have the authority to temporarily increase the amount of cash required to be maintained in the Clearing Fund, up to an amount that includes the size of the Clearing Fund as determined in accordance with Rule 1001, for the protection of OCC, Clearing

Members or the general public in accordance with the Corporation's policies and procedures. Any determination by the Executive Chairman, Chief Executive Officer, or Chief Operating Officer to implement a temporary increase in the Cash Clearing Fund Requirement would (i) be based upon then-existing facts and circumstances, (ii) be in furtherance of the integrity of OCC and the stability of the financial system, and (iii) take into consideration the legitimate interests of Clearing Members and market participants. Any temporary increase in the Cash Clearing Fund Requirement shall be reviewed by the Risk Committee as soon as practical (but in any event, such review must occur within 20 calendar days of such increase) and, if such temporary increase is still in effect, the Risk Committee shall determine whether (A) the increase in the Cash Clearing Fund Requirement is no longer required, or (B) OCC's rules should be modified to ensure that OCC continues to maintain sufficient liquidity resources.  
*Amended September 1, 2018; February 15, 2019*

(ii) *Government Securities.* For purposes of valuing Government securities for calculating contributions to the Clearing Fund, Government securities shall be valued at (1) 99.5% of the current market value for maturities less than one year; (2) 98% of the current market value for maturities between one and five years; (3) 96.5% of the current market value for maturities between five and ten years; and (4) 95% of the current market value for maturities in excess of ten years. For the purposes of this Rule, the current market value of Government securities shall be determined by the Corporation at such intervals as the Risk Committee shall from time to time prescribe, but not less often than monthly, on the basis of the quoted bid price therefor supplied by a source designated by the Corporation. Contributions of Government securities shall be deposited by the Clearing Member in an account of the Corporation in an approved custodian in the name of the Corporation or by such other method as the Corporation may from time to time approve.  
*Amended September 1, 2018*

(iii) *Assets Denominated in a Foreign Currency.* Notwithstanding any other provision of this Rule 1002 in determining the U.S. dollar amount of clearing fund credit to be given to any foreign currency or asset denominated in a foreign currency, the Corporation may use such exchange rates and apply such "haircuts" as it deems appropriate for its protection.  
*Amended September 1, 2018*

(b) *Interest or Gains on Government Securities.* Any interest or gain received or accrued on Government securities included within a Clearing Fund contribution shall belong to the contributing Clearing Member, and any interest on, or proceeds from the maturity of, such securities received by the Corporation shall be credited by the Corporation to an account of the Clearing Member on the records of the Corporation.  
*Amended September 1, 2018*

(c) *Investment of Cash.* Cash contributions to the Clearing Fund may from time to time be partially or wholly invested by the Corporation for its account in Government securities, and to the extent that such contributions are not so invested they shall be deposited by the Corporation in a separate account or accounts for Clearing Fund contributions in approved custodians, provided that such account or accounts may commingle the Clearing Fund contributions of different Clearing Members. Interest earned on cash deposits held at a Federal Reserve Bank shall accrue to the benefit of Clearing Members (calculated daily based on each Clearing Member's pro rata share of Clearing Fund cash deposits), provided that each such Clearing Member has provided OCC with all tax documentation as OCC may from time to time require in order to effectuate such payment, and all other interest earned on investments will accrue to the benefit of the Corporation.  
*Amended September 1, 2018*

(d) *Initial Contribution.* The initial contribution of each Clearing Member to the Clearing Fund shall be \$500,000 or such greater amount as may be fixed by the Risk Committee in its discretion at the time such Clearing Member's membership application is approved. Notwithstanding anything else to the contrary herein, the initial Clearing Fund contribution of a Futures-Only

Affiliated Clearing Member may be fixed by the Risk Committee to be the amount calculated pursuant to clause (y) of Rule 1003 if the conditions set forth in Rule 1002(f) are satisfied. The amount of such initial contribution shall remain in force until such time as determined by the Risk Committee (but in any event not later than the end of the first three calendar months commencing after the Clearing Member's admission to membership), after which time the amount of the Clearing Member's required contribution to the Clearing Fund shall be determined in accordance with paragraph (e) of this Rule; provided, however, that such contribution shall at all times remain subject to the minimum contribution requirement under Rule 1003 and to adjustments by the Corporation under Rule 1004.

*Amended September 1, 2018*

(e) *Deficits Due to Amendments* If the contribution to the Clearing Fund to be made by a Clearing Member is increased as a result of an amendment of the Rules, the increase shall not become effective until the Clearing Member is given two business days prior written notice of the amendment. Unless a Clearing Member notifies the Corporation in writing that it wishes to terminate its clearing membership and closes out or transfers all of its open long and short positions before the effective date of such amendment, such Clearing Member shall be liable to make the increased contribution by 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the second business day following the day on which notice is provided by the Corporation.

*Amended September 1, 2018*

(f) *Futures-Only Affiliated Clearing Members.* A Futures-Only Affiliated Clearing Member shall be exempt from contributing the amount set forth in clause (x) of Rule 1003(a) if its contribution is equal to the amount specified in clause (y) of Rule 1003(a) and the then existing contribution of its earlier-admitted member affiliate Clearing Member is no less than the amount specified in clause (x) of Rule 1003(a).

*Amended September 1, 2018*

### **. . . Interpretations and Policies:**

**.01** The Corporation will not accept the delivery of a depository receipt from an approved custodian if the approved custodian, a parent, or an affiliate has an equity interest in the amount of 20% or more of the contributing Clearing Member's total capital.

*Amended September 1, 2018*

**.02** The ability of a Clearing Member to terminate its clearing membership under Rule 1002(e) shall be separate from the ability of a Clearing Member to terminate its status as such under Rule 1006(h), in each case subject to the conditions specified therein.

*Adopted September 1, 2018*

**.03** For purposes of Rule 1002(a)(i), a Clearing Member shall satisfy any increase in its required cash contribution pursuant to an increase in Cash Clearing Fund Requirement no later than one hour before the close of the Fedwire on the business day following the Corporation's issuance of an instruction to increase cash contributions.

*Amended September 1, 2018*

## **RULE 1003 - Clearing Fund Allocation Methodology**

(a) *Allocated Contribution.* Unless determined pursuant to Rule 1002(d) or (f), the contribution to the Clearing Fund of each Clearing Member shall be the sum of (x) \$500,000 (such amount being the "fixed amount") and a separate amount equal to (y) such Clearing Member's proportionate share of an amount sufficient to cause the amount of the Clearing Fund (after taking into account each Clearing Member's fixed amount) to be equal to the Clearing Fund size determined pursuant to Rule 1001(a) (such amount being the "variable amount"). In no event shall the contribution of a Clearing Member be less than the fixed amount. A Clearing Member's contribution shall at all times be subject to separate and additional adjustments by the

Corporation pursuant to Rule 1004. A Clearing Member's proportionate share of the variable amount shall be equal to a weighted average of the Clearing Member's proportionate share of total risk, open interest and volume, in all accounts (including paired X-M accounts) of the Clearing Member, as calculated in accordance with this Rule 1003 and the Corporation's policies and procedures.

*Amended September 1, 2018*

(b) A Clearing Member's proportionate share of the variable amount of its Clearing Fund contribution shall be equal to a weighted average of the Clearing Member's proportionate share of total risk, open interest and volume. In calculating this average, total risk shall have a weighting of 70%, open interest shall have a weighting of 15%, and volume shall have a weighting of 15%.

*Amended September 1, 2018*

(i) *Total Risk.* For purposes of this Rule 1003, "total risk" means a risk measure aggregated across all accounts of a Clearing Member determined using the Corporation's margin methodology and such add-on charges as may be determined pursuant to the Corporation's policies and procedures. A Clearing Member's proportionate share of total risk shall be equal to a fraction, the numerator of which shall be the daily average of the total risk applicable to all accounts of such Clearing Member for the preceding calendar month, and the denominator of which shall be the daily average of the total risk applicable to all accounts of all Clearing Members for the preceding calendar month.

*Amended September 1, 2018, Amended December 16, 2019*

(ii) *Open Interest.* A Clearing Member's proportionate share of open interest shall be equal to a fraction, the numerator of which shall be the daily average number of open positions in cleared contracts plus cleared-contract equivalent units attributable to open stock loan and borrow positions held by such Clearing Member with the Corporation and the denominator of which shall be the daily average number of open positions in cleared contracts (adjusted in the same manner as in the numerator) plus cleared-contract equivalent units attributable to open stock loan and borrow positions held by all Clearing Members during the preceding calendar month. The numerator and denominator shall each include the average daily number of contracts held in paired X-M accounts.

*Amended September 1, 2018*

(iii) *Volume.* A Clearing Member's proportionate share of volume shall be equal to a fraction, the numerator of which shall be the daily average number of all cleared contracts and cleared-contract equivalent units attributable to stock loan and borrow positions cleared by such Clearing Member during a look-back period determined by the Corporation from time to time and the denominator of which shall be the daily average number of all cleared contracts (adjusted in the same manner as in the numerator) and cleared-contract equivalent units attributable to stock loan and borrow positions cleared by all Clearing Members during the preceding month. The numerator and denominator shall each include the average daily number of contracts cleared in paired X-M accounts.

*Amended September 1, 2018*

#### ***. . . Interpretations and Policies:***

.01 Cleared contract equivalent units attributable to a stock loan and borrow position for purposes of the calculations in Rule 1003(b)(ii) and (iii) will be calculated by dividing the number of shares of Eligible Stock underlying such position by a divisor that the Corporation determines, in its sole discretion, to be fair to the affected Clearing Members.

*Amended September 1, 2018*

.02 For purposes of Rule 1003(b)(ii) and (iii), the numerator and denominator of the relevant fractions shall include OTC options contracts and the number of such OTC options contracts shall

be adjusted as needed to ensure that the number of such OTC options contracts, as adjusted, is approximately equal to the number of options contracts other than OTC options contracts that would cover the same notional value or units of the same underlying interest.

*Amended September 1, 2018*

.03 The allocation methodology in this Rule 1003 shall be phased in over a three month period after implementation by adjusting 35% of the weighting to total risk from open interest by 10% in the first month, 10% in the second month, and 15% in the third month.

*Amended September 1, 2018*

## **RULE 1004 - Adjustments to Clearing Fund Contributions**

*Adjusted Contribution.* The required Clearing Fund contribution of a Clearing Member may be adjusted by the Corporation due to mergers, consolidations, position transfers, business expansions, membership approval or other similar events in connection with the calculations made in respect of a particular calendar month or at any other time. The Corporation shall provide notice to affected Clearing Members, by means of the reports described in Rule 1007, as soon as practicable after any such adjustment is determined. Any deficit resulting from the adjusted contribution shall be satisfied by the Clearing Member as provided in Rule 1005(a); provided, however that a deficit that would otherwise be required to be satisfied on the first business day of a calendar month may be satisfied on the second business day if the deficit coincides with a deficit due to regular monthly sizing of the Clearing Fund as provided for in Rule 1005(b). All individual adjustments as of a particular date, taken together, may result in a corresponding increase in the amount of the Clearing Fund but shall not be deemed to be a change in the calculated Clearing Fund size as that may be determined under Rule 1001. Any adjusted contribution resulting from any adjustment shall be in effect until the earlier of the next adjustment of the calculated size of the Clearing Fund under Rule 1001, or the next adjustment of the Clearing Member's required contribution pursuant to this paragraph.

*Adopted September 1, 2018*

## **RULE 1005 - Deficits and Increased Contributions**

(a) *Deficits Generally.* Except as otherwise provided in this Chapter X, including but not limited to paragraph (b) below and Rule 1002(e), or as the Corporation may otherwise agree from time to time in writing, whenever a report for a Clearing Member described in Rule 1007 shows a deficit, including but not limited to a deficit caused by a decrease in the value of the Clearing Member's contribution or an adjusted contribution pursuant to Rule 1004, such Clearing Member shall satisfy the deficit by a deposit in a form approved by the Corporation no later than one hour after being notified by the Corporation of such deficit.

*Amended September 1, 2018*

(b) *Deficits Due to Intra-Month and Regular Monthly Sizing.* Whenever a report described in Rule 1007 is made available in connection with regular monthly or intra-month determination of the calculated size of the Clearing Fund under Rule 1001 and the report shows a deficit for any Clearing Member, such Clearing Member shall satisfy the deficit by a deposit in a form approved by the Corporation by 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the second business day following the day on which notice is provided by the Corporation.

*Amended September 1, 2018*

(c) *Debit Authority of the Corporation.* Whenever a Clearing Member fails to timely satisfy any deficit shown on a report as described in Rule 1007, including but not limited to a deficit caused by the sizing determination pursuant to Rule 1001, a making good of a proportionate charge pursuant to Rule 1006(h), or a deficit caused for any other reason, the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of any firm account, at a time specified by the Corporation (which in the case of a deficit resulting from

the regular monthly determination of the calculated size of the Clearing Fund may be different from the time specified in connection with deficits caused for other reasons), an amount equal to such deficit, and any amount withdrawn by the Corporation will be treated as a cash contribution to the Clearing Fund. If the Corporation is unable to withdraw an amount equal to the deficit, any such failure may subject the Clearing Member to suspension and disciplinary proceedings as provided for in the By-Laws and Rules, including under Chapters XI and XII.

*Amended September 1, 2018*

## **RULE 1006 - Purpose and Use of Clearing Fund**

(a) *Conditions for Clearing Fund Use.* The Clearing Fund may be used to make good losses or expenses suffered by the Corporation, or losses suffered by the Clearing Fund resulting from borrowings pursuant to the authority in Rule 1006(f), (i) as a result of the failure of any Clearing Member to discharge duly any obligation on or arising from any confirmed trade accepted by the Corporation, (ii) as a result of the failure of any Clearing Member (including any Appointed Clearing Member) or of CDS to perform its obligations (including its obligations to the correspondent clearing corporation) under or arising from any exercised or assigned option contract or matured future or any other contract or obligation issued, undertaken, or guaranteed by the Corporation or in respect of which the Corporation is otherwise liable, (iii) as a result of the failure of any Clearing Member to perform any of its obligations to the Corporation in respect of the stock loan and borrow positions of such Clearing Member, (iv) in connection with any liquidation of a Clearing Member's open positions, (v) in connection with protective transactions effected for the account of the Corporation pursuant to Chapter XI of the Rules, (vi) as a result of the failure of any Clearing Member to make any other required payment or render any other required performance, (vii) as a result of the failure of any bank or securities or commodities clearing organization to perform its obligations to the Corporation for reasons specified in paragraph (c) of this Rule 1006, or (viii) as a result of a borrowing by the Corporation for liquidity needs for same day settlement pursuant to the authority in Rule 1006(f). Notwithstanding the foregoing, in the event that the Corporation performs a Voluntary Tear-Up or a Partial Tear-Up pursuant to Rule 1111, the Clearing Fund may be used to provide compensation to non-defaulting Clearing Members and their customers as a means of re-allocating the losses, costs and fees imposed upon them as a result of such Voluntary Tear-Up or Partial Tear-Up, but only to the extent that such losses, costs and fees can be reasonably determined by the Corporation.

*Amended September 1, 2018*

(b) *Clearing Member Failures.* (i) Upon occurrence of any of the events described in clauses (i) through (vi) of paragraph (a) of this Rule, the Corporation shall (after appropriate application of other funds in the accounts of the Clearing Member) apply the Clearing Member's Clearing Fund contribution to the discharge of the obligation, the reimbursement of such loss or expense, or the making of such payment or the funding of the performance, as applicable. If the sum of all such obligations, losses or expenses, and payments exceeds the sum of the amount of the Clearing Member's total Clearing Fund contribution and the amount of the other funds of the Clearing Member available to the Corporation, and if the Clearing Member fails to pay the Corporation the amount of any such deficiency on demand, the amount of the deficiency shall be first, funded by the Corporation's retained earnings in accordance with paragraph (e) of this rule; and next, paid out of the Clearing Fund and the EDCP Unvested Balance and charged on a proportionate basis against the sum of the EDCP Unvested Balance and all other Clearing Members' required contributions as calculated at the time, but the Clearing Member who failed to pay the deficiency shall remain liable to the Corporation for the full amount of such deficiency until repayment thereof by such Clearing Member.

*Amended September 1, 2018; January 24, 2020.*

(ii) If the Corporation performs a Voluntary Tear-Up or a Partial Tear-Up pursuant to Rule 1111, then, the Corporation may elect to proportionately charge the Clearing Fund and EDCP Unvested Balance in the amount(s) the Corporation reasonably determines necessary to compensate non-defaulting Clearing Members and their customers for the losses, costs or fees imposed upon



them as a direct result of such Voluntary Tear-Up or Partial Tear-Up, but only to the extent that such losses, costs and fees can be reasonably determined by the Corporation.  
*Amended September 1, 2018; January 24, 2020.*

(iii) For purposes of this Rule 1006(b), the share of any Clearing Fund loss or deficiency shall be borne pro rata by each Clearing Member (other than the suspended Clearing Member(s)) and the EDCP Unvested Balance. The percentage attributed to each shall be a fraction, the numerator of which shall be the sum of the fixed amount and variable amount calculated pursuant to Rule 1003 for such Clearing Member (or its initial contribution if applicable) or the EDCP Unvested Balance amount, as applicable, and the denominator of which shall be the sum of the EDCP Unvested Balance and fixed amounts, variable amounts and any initial contributions across all Clearing Members (other than suspended Clearing Member(s)).  
*Adopted September 1, 2018. Amended January 24, 2020.*

(c) *Bank or Clearing Organization Failures.* (i) If any bank or securities or commodities clearing organization shall fail to perform any obligation to the Corporation when due because of its bankruptcy, insolvency, receivership, suspension of operations, or any similar event, and the Corporation shall sustain a loss (whether directly or as a trustee, custodian, or secured party) by reason thereof that is not recoverable out of the Clearing Fund pursuant to paragraph (b), the Corporation may, in its discretion, reimburse itself for such loss out of the Clearing Fund pursuant to this paragraph (c), and the amount of any such reimbursement shall be charged proportionately against all Clearing Members' required contributions to the Clearing Fund as calculated at the time.  
*Amended September 1, 2018; January 24, 2020.*

(ii) With respect to any borrowing by the Corporation for liquidity needs for same day settlement pursuant to the authority in paragraph (e) of this Rule, if such borrowing remains outstanding for a period of less than thirty days, the Corporation may, in its discretion, consider such amount an actual loss to the Clearing Fund and the amount of any such loss shall be charged proportionately against all Clearing Members' required contributions to the Clearing Fund as calculated at the time, provided however, that if such borrowing remains outstanding on the thirtieth day, the Corporation shall consider such amount an actual loss to the Clearing Fund and the amount of any such loss shall be charged proportionately against all Clearing Members' required contributions to the Clearing Fund as calculated at the time.  
*Amended September 1, 2018*

(iii) For purposes of this Rule 1006(c), the share of any deficiency to be borne by each Clearing Member (other than the suspended Clearing Member(s)) shall be a fraction, the numerator of which shall be the sum of the fixed amount and variable amount calculated pursuant to Rule 1003 for such Clearing Member (or its initial contribution if applicable) and the denominator of which shall be the sum of the fixed amounts, variable amounts and any initial contributions across all Clearing Members (other than the suspended Clearing Member(s)). To the extent that a loss resulting from any of the events referred to in this paragraph is recoverable out of the Clearing Fund pursuant to paragraph (b), the provisions of paragraph (b) shall control, and this paragraph (c) shall be inapplicable.  
*Amended September 1, 2018; January 24, 2020.*

(d) *Notice of Charges.* Whenever any proportionate charge is made against Clearing Members' contributions to the Clearing Fund, the Corporation shall promptly notify all Clearing Members of the amount of the charge and the reasons therefor. For the purposes of paragraphs (b) through (d), the amount of any loss sustained by the Corporation shall be determined without reference to the possibility of any subsequent recovery in respect thereof, through insolvency proceedings or otherwise, but the net amount of any such recovery shall be applied in accordance with paragraph (h).  
*Amended September 1, 2018*

(e) *Use of Earnings.* (i) In advance of charging a loss or deficiency proportionately to the Clearing Fund required contributions of non-defaulting Clearing Members and the EDCP Unvested Balance pursuant to paragraph (b) of this Rule 1006, the Corporation will charge such loss or deficiency against the Corporation's current and retained earnings that are greater than 110% of its Target Capital Requirement.

(ii) Notwithstanding the provisions of paragraph (c), in lieu of charging a loss or deficiency proportionately to the Clearing Fund required contributions of non-defaulting Clearing Members pursuant thereto, the Corporation may, in its discretion, elect to charge such loss or deficiency in whole or in part against the Corporation's current earnings or retained earnings. If such charge is made against current earnings, such charge shall be deemed a refund of clearing fees to the non-defaulting Clearing Members to whose Clearing Fund contributions the loss or deficiency would otherwise have been charged, and in that case the Corporation shall notify each such Clearing Member of the aggregate amount of the charge against current earnings, the reasons therefor, and the amount deemed to have been refunded to such Clearing Member.

(iii) As used herein, the term "current earnings" shall mean the Corporation's net income before taxes for the period from the beginning of the fiscal year in which a loss or deficiency occurs to the close of the calendar month immediately preceding the occurrence of such loss or deficiency, less an amount equal to the aggregate of all refunds of clearing fees made or authorized to be made or deemed to have been made for such fiscal year. If the Corporation charges a deficiency in a Clearing Member's Clearing Fund contribution against the Corporation's current earnings or retained earnings, the Clearing Member shall remain liable to the Corporation for the full amount of such deficiency until repayment thereof by such Clearing Member.

*Amended September 1, 2018; February 13, 2019; January 24, 2020.*

(f) *Borrowings.* If (i) the Corporation deems it necessary or advisable to borrow or otherwise obtain funds from third parties in order to meet obligations arising out of the default or suspension, or in anticipation of the potential default or suspension, of a Clearing Member or any action taken by the Corporation in connection therewith pursuant to Chapter XI of the Rules or otherwise; or (ii) the Corporation sustains a loss reimbursable out of the Clearing Fund pursuant to paragraph (c) but elects to borrow or otherwise obtain funds from third parties in lieu of immediately charging such loss to the Clearing Fund; or (iii) the Corporation reasonably believes it necessary to borrow to meet its liquidity needs for same-day settlement as a result of the failure of any bank or securities or commodities clearing organization to achieve daily settlement, and in any case the Corporation determines that it will be unable to borrow or otherwise obtain such funds on acceptable terms on an unsecured basis; then the Corporation may take possession of cash or securities deposited by Clearing Members as contributions to the Clearing Fund and securities in which cash contributions to the Clearing Fund have been invested by the Corporation and use such assets to borrow or otherwise obtain funds through any means determined to be reasonable by the Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation in his discretion (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions); provided, in the case of any transaction effected under the circumstances specified in clause (i) or clause (iii) above, that the funds obtained through such transaction will be used solely for the purposes described in clause (i) or clause (iii), as applicable. The funds obtained by the Corporation pursuant to this paragraph (f)), irrespective of how such funds are applied, shall not be deemed to be charges against the Clearing Fund for a period not to exceed thirty days, and, during said period, shall not affect the amount or timing of any charges otherwise required to be made against the Clearing Fund pursuant to this Chapter X. If all or a part of any transaction effected by the Corporation pursuant to this paragraph (f) remains outstanding after thirty days, the Corporation, at the close of business of the thirtieth day (or on the first Business Day thereafter), shall consider the amount of Clearing Fund assets used to support the Corporation's obligations under the outstanding transaction as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with this Chapter X.

*Amended September 1, 2018; February 15, 2019*

(g) *Cross Guaranty Parties.* If the Corporation is obligated to make a payment to a Cross-Guaranty Party pursuant to a Limited Cross-Guaranty Agreement in respect of a suspended Clearing Member, the Corporation shall (after appropriate application of other funds in the accounts of the Clearing Member) apply the Clearing Member's Clearing Fund contribution to make such payment, or to reimburse itself for such payment. If the Corporation receives any funds in respect of a suspended Clearing Member from a Cross-Guaranty Party pursuant to a Limited Cross-Guaranty Agreement in circumstances in which the Corporation must still make a charge on a proportionate basis against other Clearing Members' required contributions to the Clearing Fund even after application of such funds, or in circumstances in which the Corporation has already made a charge on a proportionate basis against other Clearing Members' required contributions to the Clearing Fund, such funds shall be credited in accordance with the provisions of Rule 1010.

*Amended September 1, 2018; January 24, 2020.*

(h) *Making Good of Charges to the Clearing Fund.*

(A) *Replenishment.* Whenever an amount is paid out of the Clearing Fund contribution of a Clearing Member, whether by proportionate charge or otherwise, such Clearing Member shall be liable to promptly make good the deficiency in its required contribution resulting from such payment by replenishment of the Clearing Fund. Each Clearing Member shall have and shall at all times maintain the ability to replenish any deficiency described in this Rule 1006(h) by 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the first business day following the day on which the Corporation notifies the Clearing Member of such deficiency.

*Amended September 1, 2018*

(B) *Cooling-Off Period; Assessments.* Notwithstanding anything in this Rule 1006(h) and except as provided for below, if an amount is paid out of the Clearing Fund as a result of a proportionate charge under Rule 1006(b) resulting from any of the events described in clauses (i) through (vi) of Rule 1006(a), then starting on the date of such proportionate charge there shall automatically commence a cooling-off period during which a Clearing Member will not be liable to make good more than an additional 200% of the amount of its then required contribution (for definitional purposes, amounts in excess of a Clearing Member's then required contribution shall be "assessments"). The cooling-off period shall be fifteen consecutive calendar days from the date of such proportionate charge; provided however, that if one or more subsequent events described in clauses (i) through (vi) of Rule 1006(a) occur during the fifteen-day period and result in one or more proportionate charges against the Clearing Fund, the cooling-off period shall be extended through (i) the fifteenth calendar day from the date of the most recent proportionate charge resulting from the subsequent event, or (ii) the twentieth calendar day from the date of the initial proportionate charge, whichever is sooner. After the cooling-off period ends, Clearing Members shall not be liable for any deficiency arising from losses or expenses suffered by the Corporation as a result of any event described in clauses (i) through (vi) of Rule 1006(h) by 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the first business day following the day on which the Corporation notifies the Clearing Member of such deficiency.

*Amended September 1, 2018, Amended December 16, 2019*

(C) *Termination During Cooling-Off Period.* After the expiration of the cooling-off period, a Clearing Member will not be liable for replenishment of the Clearing Fund as required by paragraph (A) of this Rule 1006(h) or assessments as contemplated by paragraph (B) of this Rule 1006(h), if (i) not later than the last day of the cooling-off period the Clearing Member notifies the Secretary of the Corporation in writing that it is terminating its status as a Clearing Member, (ii) after giving such notice no opening purchase transaction or opening writing transaction is submitted for clearance through any of the Clearing Member's accounts and (if the Clearing Member is a Market Loan Clearing Member or a Hedge Clearing Member) no Stock Loan is initiated through any of the Clearing Member's accounts after the giving of such notice, and (iii) the Clearing Member closes out or transfers all of its open positions with the

Corporation, in each case not later than the last day of the cooling off period. A Clearing Member that so terminates its status as a Clearing Member shall be ineligible to be readmitted to such membership unless the Clearing Member agrees to such reimbursement of the persons who were Clearing Members at the time of such termination as the Board of Directors deems fair and equitable in the circumstances. In the event a Clearing Member notifies the Corporation of its intent to terminate its status as a Clearing Member in accordance with paragraph (C) of this Rule 1006(h), and such Clearing Member's computed contribution is less than its minimum required contribution, then the Clearing Member shall also make good 100% of the amount equal to its minimum required contribution less its computed contribution to the Clearing Fund.

*Amended September 1, 2018*

(i) *General Lien.* Without limiting any other rights granted herein, each Clearing Member grants to the Corporation a general lien on all cash, Government securities and other property of the Clearing Member contributed to the Clearing Fund (and any proceeds thereof) as security for any obligation of the Clearing Member to the Corporation including, without limitation, any obligation to satisfy a proportionate charge pursuant to this Rule 1006.

*Amended September 1, 2018*

(j) *Securities Intermediary.* Securities deposited in an account of the Corporation in an approved custodian in the name of the Corporation shall be credited to the Clearing Member's "clearing fund account," which shall be a securities account maintained on the records of the Corporation in the name of such Clearing Member, and the Corporation shall be the Clearing Member's securities intermediary with respect to such securities for purposes of Articles 8 and 9 of the Uniform Commercial Code. So long as any such securities and any proceeds thereof are so credited to the Clearing Member's clearing fund account, the Corporation shall have a general lien on and perfected security interest in and "control" over such securities and proceeds for purposes of Articles 8 and 9 of the Uniform Commercial Code.

*Amended September 1, 2018*

### **. . . Interpretations & Policies:**

**.01** Reserved.

**.02** If the Corporation has a deficiency after the application of all of the funds of a suspended Clearing Member that are available to the Corporation (including the Clearing Fund contributions of the Clearing Member), and the Clearing Member is a Common Member but the Corporation cannot, in its discretion, determine whether or in what amount it will be entitled to receive funds from a Cross-Guaranty Party pursuant to a Limited Cross-Guaranty Agreement in respect of the Clearing Member, or when it will receive such funds, the Corporation may, in its discretion, make a charge against other Clearing Members' contributions to the Clearing Fund in accordance with the provisions of paragraph (b). If the Corporation receives funds from a Cross-Guaranty Party in respect of the Clearing Member after making such a charge, the Corporation will credit such funds to the Clearing Fund in accordance with the provisions of Rule 1010.

*Amended September 1, 2018*

**.03** If the Corporation has a deficiency after the application of all of the funds of a suspended Clearing Member that are available to the Corporation (including the Clearing Fund contribution of the Clearing Member), and the Clearing Member is a Common Member and the Corporation determines in its discretion that it is likely to receive funds from a Cross-Guaranty Party pursuant to a Limited Cross-Guaranty Agreement in respect of the Clearing Member, the Corporation may, in its discretion and in anticipation of receipt of such funds from the Cross-Guaranty Party, forego making a charge, or make a reduced charge, against other Clearing Members' contributions to the Clearing Fund in accordance with the provisions of paragraph (b). If the Corporation thereafter does not receive or determines that it is not likely to receive the anticipated funds from the Cross-Guaranty Party, or receives funds in a smaller amount than anticipated, the Corporation may, in its discretion, make a charge, or an additional charge, against other Clearing

Members' contributions to the Clearing Fund in accordance with the provisions of paragraph (b).  
*Amended September 1, 2018*

**.04** If the Corporation receives funds from a Cross-Guaranty Party pursuant to a Limited Cross-Guaranty Agreement in respect of a suspended Clearing Member, and is thereafter required for any reason whatsoever to refund such funds to the Cross-Guaranty Party, the Corporation may, in its discretion, make a charge, or an additional charge, against other Clearing Members' contributions to the Clearing Fund in accordance with the provisions of paragraph (b) (based on the other Clearing Members' contributions as fixed at the time of the refund), to make itself whole for the funds refunded to the Cross-Guaranty Party.

*Amended September 1, 2018*

## **RULE 1007 – Reports**

At least once each business day, the Corporation shall make available to each Clearing Member certain reports listing the current amount and form of such Clearing Member's contribution to the Clearing Fund, the current amount of the contribution required of such Clearing Member, including the Clearing Member's required cash contribution to the Clearing Fund, and any deficit in the Clearing Member's contribution or surplus over and above the required amount, as applicable. The Corporation shall also issue a report whenever the calculated size of the Clearing Fund has changed, whether as the result of regular monthly sizing of the Clearing Fund or otherwise.

*Adopted September 1, 2018*

## **RULE 1008 – Withdrawals of Excess Clearing Fund**

In the event that the Clearing Fund report of a Clearing Member shows a surplus, such surplus may be withdrawn by the Clearing Member by submitting a Clearing Fund withdrawal request to the Corporation in such form as the Corporation shall prescribe. Thereupon, the Corporation shall authorize withdrawal of the excess contribution.

*Amended September 1, 2018*

## **RULE 1009 – Contribution Refunds**

Whenever a Clearing Member definitively ceases to be such, the amount of its contribution to the Clearing Fund shall be returned to it, but not until all confirmed trades and open positions of the Clearing Member from which losses or payments chargeable to the Clearing Fund might result have been fulfilled or closed, or, with the approval of the Corporation, another Clearing Member has been substituted thereon. All amounts chargeable against a Clearing Member's contribution to the Clearing Fund on account of transactions that occurred while it was a Clearing Member, including proportionate charges and unpaid fees, shall be deducted from the amount returned. For purposes of this Rule 1009, a Clearing Member will be deemed to have definitively ceased to be a Clearing Member at such time as it has fulfilled all requirements of Sub-sections (i) through (iii) of Rule 1006(h) and has met all outstanding obligations to the Corporation.

*Amended September 1, 2018*

## **RULE 1010 – Recovery of Losses**

If a loss charged proportionately against the contributions of Clearing Members is afterward recovered by the Corporation, in whole or in part, the net amount of such recovery shall be paid to the Clearing Members against whose contributions the loss was charged in proportion to the amounts charged against their respective contributions, whether or not they are still Clearing

Members.

*Amended September 1, 2018*

## **RULE 1011 – Voluntary Payments**

(a) Where, after the default of a Clearing Member, the Corporation determines that, notwithstanding the availability of any resources remaining under Rules 707, 1001, 1104 through 1107, 2210 and 2211, the Corporation may not have sufficient resources to satisfy its obligations and liabilities as a result of such default, the Corporation will issue a notice (a “**Voluntary Payment Notice**”) inviting all non-defaulting Clearing Members to make a payment to the Clearing Fund in addition to amounts required under Rule 1001 (a “Voluntary Payment”) to make up for the relevant shortfall. Terms for Voluntary Payments shall be set forth in the Voluntary Payment Notice and shall include, without limitation, the following:

- (i) no Clearing Member shall be obliged to make a Voluntary Payment;
- (ii) no Voluntary Payment may be withdrawn once made; and
- (iii) the Corporation shall have full discretion whether or not to accept a particular Voluntary Payment.

*Adopted August 23, 2018*

(b) If the Corporation successfully recovers from a suspended or defaulted Clearing Member (or from the estate of a suspended or defaulted Clearing Member), the Corporation shall seek to compensate first from any such recovery the non-defaulting Clearing Members that made voluntary payments, in the amount of each such Clearing Member's voluntary payment. If the amount of any such recovery is less than the amount the Corporation received in voluntary payments, then each non-defaulting Clearing Member shall be compensated from the recovery pro rata according to the relative size of its voluntary payment.

*Adopted August 23, 2018*

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## ***Chapter XI - Suspension of a Clearing Member***

### **RULE 1101 - Notice to Corporation**

A Clearing Member that is unable to meet its obligations, is insolvent, or becomes the subject of a bankruptcy petition, receivership proceeding, or the equivalent shall immediately notify the Corporation by telephone of such event. Such notice shall be confirmed in writing promptly by said Clearing Member.

*Amended January 3, 2012.*

### **RULE 1102 – Suspension**

The Board of Directors or a Designated Officer of the Corporation may summarily suspend any Clearing Member which: (i) has been and is expelled or suspended from any self-regulatory organization (as defined in Section 3(a) of the Securities Exchange Act of 1934, as amended, but not including the Municipal Securities Rulemaking Board, or as defined in the rules of the Commodity Futures Trading Commission); (ii) fails to make any delivery of cash, securities or

other property to the Corporation in a timely manner as required by the By-Laws or Rules; (iii) fails to make any delivery of funds or securities to another Clearing Member required pursuant to the By-Laws or Rules; (iv) fails to make any delivery of funds or securities to the correspondent clearing corporation in a timely manner, has appointed an Appointed Clearing Member to act on its behalf and such Appointed Clearing Member fails to make any delivery of funds or securities to the correspondent clearing corporation in a timely manner or effects settlement at the correspondent clearing corporation through an identifiable subaccount in an account of CDS at the correspondent clearing corporation and CDS fails to make any delivery of funds or securities to the correspondent clearing corporation in a timely manner; (v) is in such financial or operating difficulty that the Board of Directors or a Designated Officer of the Corporation determines and so notifies the appropriate regulatory agency for such Clearing Member (or, in the case of a Non-U.S. Clearing Member, the appropriate Non-U.S. Regulatory Agency) and the Securities and Exchange Commission or the Commodity Futures Trading Commission that suspension is necessary for the protection of the Corporation, other Clearing Members, or the general public; or (vi) in the case of a Non-U.S. Clearing Member, has been and is expelled or suspended by its Non-U.S. Regulatory Agency or any securities exchange or clearing organization of which it is a member. In addition, the Board of Directors or a Designated Officer of the Corporation may summarily suspend any Clearing Member in accordance with Rule 707 or Article VI, Section 25 of the By-Laws. In the event that any Clearing Member is suspended, the Corporation shall cease to act for it except as hereinafter specified. If the determination to summarily suspend a Clearing Member is made other than by the Board of Directors, then notice of the suspension must be given to the Board of Directors as soon as practicable.

*Amended February 11, 1976; January 18, 1978; May 12, 1983; January 28, 1994, August 20, 2001, October 19, 2001; July 1, 2009; June 21, 2011; December 12, 2011; January 5, 2012; March 6, 2014, March 19, 2015; April 26, 2017*

(b) Any Non-U.S. Clearing Member which has been expelled or suspended by its Non-U.S. Regulatory Agency or any securities exchange of which it is a member shall immediately so notify the Corporation.

*Amended June 6, 1985; August 9, 1986; July 22, 1987.*

### ***...Interpretations and Policies***

**.01** The occurrence of any of the events described in Rule 1102 shall constitute an event of "default" with respect to a Clearing Member.

*Adopted January 3, 2012.*

**.02** The circumstances in which the Board of Directors or a Designated Officer may make a determination pursuant to Rule 1102(a)(v) may include a determination that the Clearing Member lacks (a) access to sufficient financial resources to meet obligations arising from clearing membership in extreme but plausible market conditions, as determined by the Corporation for purposes of this Rule, or (b) the ability to process expected volumes and values of transactions cleared by the Clearing Member within required time frames, including at peak times and on peak days; the ability to fulfill collateral, payment, and delivery obligations as required by the Corporation, and the ability to participate in applicable default management activities, including auctions, as may be required by the Corporation and in accordance with applicable laws and regulations.

*Adopted April 25, 2012. Amended March 6, 2014, March 19, 2015*

## **RULE 1103 - Notice of Suspension to Clearing Members**

Upon the suspension of a Clearing Member, the Corporation shall as soon as possible notify all Clearing Members of the suspension. Such notice shall state, in general terms, how pending transactions, open positions, stock loan and borrow positions, exercised option contracts, matured futures and other pending matters will be affected and what steps are to be taken in

connection therewith.

*Amended July 15, 1993, Amended August 20, 2001; May 16, 2002; January 23, 2009.*

## **RULE 1104 - Creation of Liquidating Settlement Account**

(a) Upon the suspension of a Clearing Member, the Corporation shall promptly liquidate, in the most orderly manner practicable, including, but not limited to, a private auction, all margins deposited with the Corporation by such Clearing Member in all accounts (excluding securities held in a specific deposit or escrow deposit) and all of such Clearing Member's contributions to the Clearing Fund; provided, however, that (i) cash derived from margin deposited in respect of segregated futures accounts (including any segregated futures professional account) shall not be commingled with any other cash, and may be applied only to the obligations of such segregated futures accounts, and (ii) if the issuer of a letter of credit deposited by such Clearing Member pursuant to Rule 604(c) shall agree in writing to extend the irrevocability of its commitment thereunder in a manner satisfactory to the Corporation, the Corporation may, in lieu of demanding immediate payment of the face amount of such letter of credit, but reserving its right thereto, demand only such amounts as it may from time to time deem necessary to meet anticipated disbursements from the Liquidating Settlement Accounts provided for below. These and all other funds of the suspended Clearing Member subject to the control of the Corporation, except proceeds of segregated long positions, funds disposed of pursuant to Rules 1105 through 1107, and funds held in or payable to a segregated futures account, shall be placed by the Corporation in a special account, to be known as the Liquidating Settlement Account, in the name of the suspended Clearing Member, for the purposes hereinafter specified. Funds held in or payable to segregated futures accounts, and only such funds, shall be placed by the Corporation in a separate special account, to be known as the Segregated Liquidating Settlement Account, in the name of the suspended Clearing Member, for the purposes herein specified. Funds obtained from the issuer of a letter of credit shall be disbursed only after all other funds contained in the Liquidating Settlement Account, with the exception of funds derived from the suspended Clearing Member's contributions to the Clearing Fund, have been exhausted, or in the case of a letter of credit indicating on its face that it is being deposited to serve as margin for a segregated futures account, only after all other funds contained in the Segregated Futures Liquidating Settlement Account, have been exhausted. In the event the sum of (i) the proceeds from any restricted letter of credit held in a restricted lien account, (ii) the proceeds from the closing out of positions and securities in a restricted lien account over which the Corporation has a restricted lien as provided in Article VI, Section 3 of the By-Laws, (iii) the proceeds from the closing out of exercised option contracts, matured futures and expired BOUNDS in such restricted lien account, and (iv) the proceeds from the liquidation of securities held as margin in such restricted lien account should exceed the amount withdrawn by the Corporation from the Liquidating Settlement Account pursuant to Rules 1105 through 1107 and Rules 2210 and 2210A in respect of transactions or positions in such restricted lien account, the excess shall be remitted by the Corporation to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law. In the event the sum of (i) the proceeds from any restricted letter of credit held in segregated futures accounts, (ii) any variation payments received from closing out long or short positions in futures in segregated futures accounts, and (iii) the proceeds from the closing out of matured futures and long futures options and commodity options positions in segregated futures accounts should exceed the amount withdrawn by the Corporation from the Segregated Liquidating Settlement Account pursuant to Rules 1105 through 1107 in respect of transactions or positions in all segregated futures accounts, the excess shall be remitted by the Corporation to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law. Notwithstanding the foregoing provisions of this rule, margin and all other funds of a suspended Clearing Member in respect of sets of X-M accounts (other than such Clearing Member's contributions to the Clearing Fund) shall be subject to Rule 707 and the applicable Participating CCO Agreement and not to this Rule.

*Amended September 30, 1977; April 18, 1980; September 26, 1989, June 28, 1993, July 15,*



*1993, August 26, 1996, June 11, 1998, August 20, 2001; May 16, 2002; March 9, 2004; October 8, 2004; September 1, 2006; March 20, 2009; June 30, 2011; October 28, 2011; December 12, 2011; January 9, 2013*

(b) Notwithstanding the provisions of Rule 1104(a), if the Executive Chairman, Chief Executive Officer, or Chief Operating Officer shall determine in his discretion, taking into account the size and nature of a suspended Clearing Member's margin deposits and/or contributions to the Clearing Fund, the market conditions prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances as such officer deems relevant, that the immediate liquidation of some or all of the suspended Clearing Member's margin deposits and/or contributions to the Clearing Fund would not be in the best interests of the Corporation, other Clearing Members, or the general public, such assets need not be immediately liquidated. In such case, pending the ultimate disposition of the suspended Clearing Member's margin deposits and contributions to the Clearing Fund, the Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation may, for purposes of satisfying such Clearing Member's obligations under the By-Laws and Rules, cause the Corporation to use such Clearing Member's margin deposits and/or contributions to the Clearing Fund to borrow or otherwise obtain funds from third parties through any means determined to be reasonable by such officer in his discretion (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions). Any determination made pursuant to this paragraph shall be reported to the Board of Directors within 24 hours.

*Amended June 1, 1975; October 21, 1983; August 17, 1989; September 26, 1989, December 10, 1997; December 9, 2011; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(c) Any margin, clearing fund deposits, or other funds to be deposited in the Liquidating Settlement Account or the Segregated Liquidating Settlement Account that are denominated in one currency may be converted by the Corporation to any other currency at any time as the Corporation deems necessary or advisable in order to conserve such funds or apply such funds to the obligations of the Clearing Member to the Corporation. The Corporation may use any commercially reasonable means to convert funds in one currency to another currency.

*Adopted November 7, 1991, August 20, 2001.*

(d) After all of a suspended Clearing Member's obligations to the Corporation have been satisfied and the Corporation has made or provided for the remittances described in Rule 1104(a) in respect of the Clearing Member, if the Clearing Member is a Common Member and a positive balance remains in the Liquidating Settlement Account of the Clearing Member (taking into account the remaining value, if any, of any letter of credit the irrevocability of which has been extended in accordance with the provisions of Rule 1104(a)), the Corporation may pay any or all of such balance to one or more Cross-Guaranty Parties in accordance with the provisions of their respective Limited Cross-Guaranty Agreements.

*Adopted March 17, 1997. Amended September 1, 2006.*

(e) For the avoidance of doubt, any margin assets in the firm lien account of a Clearing Member that has been suspended pursuant to Rule 1102 may be applied to cover losses with respect to such Clearing Member's segregated futures account(s) if the assets in such segregated futures accounts are insufficient to cover a shortfall in such accounts.

*Adopted January 3, 2012.*

(f) For the avoidance of doubt, nothing in this Chapter XI or in any other provision of the By-Laws or Rules of the Corporation shall prevent the Corporation from transferring positions, cash, securities or other property carried in a segregated futures account of a defaulting Clearing Member to a non-defaulting Clearing Member at the direction of or with the consent of the transferring Clearing Member's representative or pursuant to an order of a court of competent jurisdiction.

*Adopted January 3, 2012.*

***...Interpretations and Policies:***

**.01** For purposes of this Chapter XI of the Rules, multiple accounts (including sub-accounts established in respect thereof) of the same type that are maintained by the Clearing Member shall be treated in accordance with Interpretation and Policy .02 and .03 under Article VI, Section 3 of the By-Laws.

*Adopted October 15, 2002. Amended October 13, 2005.*

**.02** (a) For purposes of this Rule 1104 and Rules 1106, 1107, 2210 and 2210A, in order to minimize the execution and liquidity risks associated with (i) liquidating a suspended Clearing Member's margins deposited with the Corporation and Clearing Fund contributions (collectively referred to in this Interpretation and Policy as "Collateral"), (ii) closing out such Clearing Member's open positions in cleared contracts and stock loans (collectively referred to in this Interpretation and Policy as "Open Positions") and (iii) closing out exercised or matured cleared contracts to which such Clearing Member was a party either as the exercising Clearing Member or as the assigned Clearing Member (collectively referred to in this Interpretation and Policy as "Exercised/Matured Contracts"), the Corporation may elect to use one or more private auctions to liquidate all or any part of such Collateral, Open Positions and/or Exercised/Matured Contracts, as determined by the Board of Directors, the Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation. As used in this interpretation, the term "private auction" means an auction open to bidders invited by the Corporation pursuant to this interpretation and with respect to which bidders submit confidential bids. If such determination is made by the Executive Chairman, Chief Executive Officer, or Chief Operating Officer of the Corporation, the Board of Directors shall be notified as soon as practicable of the determination. The option to elect a private auction process is discretionary; the Corporation may use other procedures as provided for or permitted in the By-Laws and Rules to liquidate a suspended Clearing Member's Collateral, Open Positions and/or Exercised/Matured Contracts if the Corporation decides that circumstances warrant. The Corporation shall provide prompt notice to the Risk Committee (or other committee of the Board of Directors to which the auction oversight function is delegated) whenever a private auction is expected to be conducted.

*Amended March 6, 2014; April 26, 2017; February 15, 2019*

(b) The Corporation shall conduct each auction within the general framework as approved by the Risk Committee and described in this Interpretation and Policy. Each auction will be structured to provide an orderly and robust procedure for liquidating Collateral, Open Positions and/or Exercised/Matured Contracts consistent with the By-Laws and Rules of the Corporation. The Corporation shall consult with the Risk Committee (or other committee of the Board of Directors to which such function is delegated) regarding the structuring and administration of each individual auction, and may work with such advisors as the Corporation deems necessary and appropriate to assist the Corporation in respect of such matters.

*Amended March 6, 2014*

(c) The Corporation will invite all Clearing Members to apply to become pre-qualified auction bidders. Any Clearing Member may be included in the pool of pre-qualified auction bidders by completing required auction documentation in advance. By posting notices on the Corporation's website from time to time, the Corporation will also invite non-Clearing Members to apply to become pre-qualified auction bidders. In order for a non-Clearing Member to be pre-qualified as an auction bidder, the non-Clearing Member must (i) actively trade in the asset class in which it proposes to submit bids, (ii) actively trade in markets cleared by the Corporation, (iii) be sponsored by, and submit its bids through, a Clearing Member that has agreed to guarantee and settle any accepted bid made by such non-Clearing Member and (iv) complete required auction documentation in advance. The Corporation will endeavor to maintain a pool of pre-qualified auction bidders by periodically reviewing such bidders and their qualifications. The Corporation will promptly notify any pre-qualified auction bidder removed from the pool of pre-qualified auction bidders.

(d) With respect to each particular auction, the Corporation shall review pre-qualified auction bidders that seek to participate in the auction on an objective basis and take into consideration criteria including a bidder's (and/or, in the case of a non Clearing-Member bidder, its sponsor Clearing Member's) financial strength, demonstrated activity in the products being auctioned and qualification to clear transactions in the asset class in which it proposes to submit bids before inviting a bidder to participate in the auction. Such review is intended to ensure that each selected bidder, should it be a winner in the auction, would be financially able to make payment for and assume the obligations of the Collateral and other positions it acquires and be able to manage the risk thereof and/or trade out of such positions without creating unnecessary further risk to the Corporation. The Corporation shall endeavor to maximize the effectiveness of the auction process by, among other things, exercising its discretion on a case-by-case basis to fix the number of bidders to be selected for each auction at a level large enough to create robust, efficient auctions that will generate competitive bids but not so large as to create unnecessary delay and jeopardize the confidentiality of positions in the suspended Clearing Member's portfolio and thereby discourage potential bidders from participating competitively in the auction. The Corporation will promptly notify all pre-qualified auction bidders selected to become bidders for a particular auction by electronic or telephonic communication. Each selected bidder may, but will not be required to, submit a bid in the auction.

(e) The Corporation shall have discretion to auction the suspended Clearing Member's Collateral, Open Positions and/or Exercised/Matured Contracts as a single portfolio or as multiple discrete portfolios based on, for example, product type or asset class. The Corporation shall also have discretion to require bidders to post collateral or other deposits in advance of the auction and the submission of bids shall be in accordance with the procedures and timeframes established by the Corporation from time to time. The Corporation and the bidders shall exchange auction information in a secure and confidential manner as specified by the Corporation. At the conclusion of the auction, the Corporation shall, in its discretion, determine the prevailing bid(s) and whether to accept or reject such bid(s); provided, however, that, in the event that accepting the prevailing bid(s) would result in a loss chargeable against the Clearing Fund, any decision by the Corporation to accept such bid(s) shall require review and approval by the Risk Committee (or other committee of the Board of Directors to which such function is delegated) or the Board of Directors. The Corporation shall provide prompt notice to the winning bidder that its bid has been selected and shall thereafter provide notice to the losing bidders that their bids have not been selected, in each case by electronic or telephonic communication. If the auction is successful, the Corporation shall facilitate the transfer of the suspended Clearing Member's Collateral, Open Positions and/or Exercised/Matured Contracts to the winning bidder(s) with the intention of completing settlement processing of the auctioned portfolio(s) no later than the first business day after the bids are accepted by the Corporation.

*Amended March 16, 2014*

(f) The Corporation shall have discretion to select the best bid submitted for any portfolio in an auction, based on the totality of the circumstances, and no bid shall be binding on the Corporation unless accepted by it. Unless the Corporation determines otherwise with respect to any particular auction, the Corporation retains the right, in its discretion, to reject any or all bids submitted for any or all portfolios in an auction. Such bids may be rejected if, for example, the bids are unreasonably far from the market values of the Collateral, Open Positions and/or Exercised/Matured Contracts being auctioned as determined by the Corporation based upon current market data and theoretical pricing models or if the Corporation determines that the rules of the auction have been breached or other circumstances cause the Corporation to conclude that the bids have been tainted by unfairness or illegality. Notwithstanding the foregoing, the Corporation shall have no authority to reject any bid or bids once settlement has been effected through payment and delivery of the auctioned property and assumption of auctioned obligations. To the extent that the Corporation rejects all bids submitted for some or all of the portfolios in an auction, the Corporation shall take such steps to liquidate the Collateral, Open Positions and/or Exercised/Matured Contracts that were the subject of the rejected bids in the most orderly manner practicable, which may include the holding of another private auction.

(g) Clearing Members agree that the private auction process described above is a commercially reasonable method of liquidating a suspended Clearing Member's Collateral and closing out such Clearing Member's open positions, including for purposes of Section 9-610 of the Uniform Commercial Code to the extent such Section is applicable to the private auction process. Clearing Members recognize that their positions may lose value quickly and that a prompt and efficient auction may be the best method for an orderly liquidation and preservation of value. Clearing Members agree that notice of a private auction to a suspended Clearing Member is not required under the auction process or under Section 9-611 of the Uniform Commercial Code, but if notice is given, Clearing Members agree that it is commercially reasonable under Section 9-611 of the Uniform Commercial Code for the notice to be given at or prior to the time that bidders are provided information regarding the auction.

*Adopted August 27, 2012*

**.03** See Rule 1106(e)(2) for a description of the alternative private auction process by which OCC may close out a suspended Clearing Member's open positions in OTC options and related positions and margin assets in certain circumstances.

*Adopted December 14, 2012*

**.04** For the avoidance of doubt, for purposes of this Chapter XI of the Rules, when mark-to-market payments are owed with respect to stock loan (borrow) positions maintained in a Clearing Member's customers' account, proceeds of margin and unsegregated long positions, and all other amounts credited to the Liquidating Settlement Account in respect of the customers' account, may be used to satisfy the mark-to-market obligations arising from the stock loan (borrow) positions in such customers' account, notwithstanding that such mark-to-market payments may settle in another account as provided for in Rules 2201(a) and 2201A(a).

*Adopted January 9, 2013*

## **RULE 1105 - Pending Transactions and Variation Payments**

Notwithstanding any other provision of the By-Laws and Rules, the Corporation shall have no obligation to accept any confirmed trade of a suspended Clearing Member that was effected after the time at which the Clearing Member was suspended. In the event a confirmed trade of a suspended Clearing Member is rejected by the Corporation, such transaction shall be closed by the other party thereto in accordance with the Exchange Rules of the Exchange on which the transaction was effected, or, in the case of a confirmed trade in OTC options, as provided in any agreement between the parties. Confirmed trades of a suspended Clearing Member that are accepted by the Corporation shall be treated in the following manner:

*Amended October 29, 1991, Amended May 31, 2001, Amended August 20, 2001; May 16, 2002; March 20, 2009; December 14, 2012*

(a) Premiums on closing sale transactions in options or BOUNDS which have the effect of closing out segregated long positions in the customers' account and the firm non-lien account shall be deposited by the Corporation in a "customers' settlement account" and "firm non-lien settlement account," respectively, for remittance to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law.

*Amended August 20, 2001.*

(b) Premiums on closing sale transactions in options or BOUNDS and variation payments received on positions or transactions in security futures in each Market-Maker's account (other than a Market-Maker's account that is a firm lien account) shall be held in such account, pending the closing out of all open positions and transactions in such account, for application in accordance with the provisions of Section 3 of Article VI of the By-Laws applicable to such Market-Maker's account.

*Amended October 29, 1991, Amended August 20, 2001; September 22, 2003; March 9, 2004.*

(c) Premiums on closing sale transactions in options or BOUNDS which have the effect of closing out unsegregated long positions in the customers' account or the firm non-lien account, or long positions in any firm lien account (including a proprietary Market-Maker account or proprietary futures professional account), and variation payments received on positions or transactions in security futures in such accounts, shall be credited by the Corporation to the Liquidating Settlement Account.

*Amended January 19, 1994, Amended August 20, 2001; March 9, 2004.*

(d) Premiums on closing sale transactions in options or BOUNDS and variation payments received on positions or transactions in security futures in a customers' lien account shall be held in such account, pending the closing out of all open positions and transactions in such account, for application in accordance with the provisions of Section 3 of Article VI of the By-Laws applicable to such portfolio margining account.

*Adopted July 14, 2005.*

(e) Premiums payable on opening or closing purchase transactions in options or BOUNDS and variation payments payable on positions or transactions in security futures in any account shall be withdrawn by the Corporation from the Liquidating Settlement Account; provided, however, that (i) any such payments payable in respect of a Market-Maker's account or a customers' lien account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account; (ii) any such payments payable in respect of the segregated futures account shall first be withdrawn from the suspended Clearing Member's Segregated Liquidating Settlement Account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account; and (iii) any such payments payable in respect of the internal non-proprietary cross-margining account shall first be withdrawn from the suspended Clearing Member's Internal Non-Proprietary Cross-Margining Liquidating Settlement Account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account.

*Amended October 29, 1991, Amended August 20, 2001; March 9, 2004; October 8, 2004; July 14, 2005.*

(f) Premiums received on opening writing transactions in options or BOUNDS shall be credited by the Corporation to the Liquidating Settlement Account.

*Amended October 29, 1991, Amended August 20, 2001.*

(g) All variation payments received on positions or transactions in futures in the segregated futures account shall be credited to the Segregated Liquidating Settlement Account. All variation payments received on positions or transactions in futures in the internal non-proprietary cross-margining account shall be credited to the Internal Non-Proprietary Cross-Margining Liquidating Settlement Account.

*Adopted August 20, 2001. Amended March 9, 2004; October 8, 2004.*

#### ***... Interpretations and Policies:***

**.01** If a Clearing Member fails to make premium settlement for an account on any day on which it is obligated to make settlement in respect of a pending closing purchase transaction in any series in the account, the Corporation will deem the pending closing transaction first to have closed out any short positions in such series in the account in respect of which no specific or escrow deposit had been made (collectively, "uncovered short positions") to the extent of the lesser of (i) the number of cleared securities in such uncovered short positions or (ii) the number of cleared securities in the pending closing transaction. If the number of

cleared securities involved in any such transaction exceeds the number of cleared securities held in uncovered short positions in the account, the Corporation will deem the transaction to be an opening purchase transaction to the extent of the excess even if such transaction is reported to the Corporation as a closing purchase transaction and short positions in the same series covered by specific or escrow deposits (collectively, "covered short positions") are carried in the account. In such an event, the Corporation will maintain the covered short positions, subject to the instructions of the Clearing Member or its representative, in accordance with the provisions of Rule 1106(b).  
*Adopted May 31, 2001.*

## **RULE 1106 - Open Positions**

### *(a) Long Positions in Options and BOUNDS.*

Open long positions in options and BOUNDS of a suspended Clearing Member in all accounts, as updated to reflect pending transactions that have been accepted by the Corporation, shall be closed by the Corporation in the most orderly manner practicable, including, but not limited to, a private auction. The net proceeds from the closing of such positions shall be disposed of in accordance with Rule 1105, in the same manner as premiums on closing writing transactions accepted by the Corporation after a Clearing Member's suspension. Notwithstanding the foregoing:

*Amended August 20, 2001; October 28, 2011.*

(1) the Corporation may in its discretion exercise, in whole or in part, any unsegregated long position of a suspended Clearing Member in options; and  
*Amended August 26, 1996, March 29, 1999, August 23, 2012*

(2) if an option carried in a segregated long position of a suspended Clearing Member has not been closed out prior to its expiration date, and the exercise price thereof is below (in the case of a call) or above (in the case of a put) the closing price of the underlying security, as defined for the purposes of Rule 805, by (i) \$.01 or more in the case of a stock option contract, or (ii) the interval or intervals established in accordance with the applicable Chapter of the Rules (or, if no such intervals shall have been established, such interval or intervals as the Corporation shall in its discretion select) in the case of an option other than a stock option, the option shall be exercised for the account of the suspended Clearing Member on its expiration date.  
*Amended December 17, 2004; September 26, 2006; January 16, 2008; August 23, 2012*

If an option is exercised pursuant to this Rule 1106(a), or if a BOUND has expired but not been settled, the exercised option, or expired BOUND shall, unless the Corporation stipulates otherwise, be closed in accordance with Rule 1107 (or in accordance with a Rule applicable to such option or BOUND that replaces Rule 1107), provided that any gain or loss sustained by the assigned Clearing Member shall be credited or charged, as the case may be, to the account that would have been credited with the net proceeds from the closing of such option or BOUND had it been closed rather than exercised or allowed to expire. The suspended Clearing Member or its representative shall be notified as promptly as possible of any closing or exercise of long positions pursuant to this Rule.

*Amended September 30, 1977; April 18, 1980, August 26, 1996, March 29, 1999, Amended May 31, 2001, Amended August 20, 2001.*

### *(b) Short Positions in Options and BOUNDS.*

(1) Except as hereinafter provided, open short positions in options or BOUNDS of a suspended Clearing Member in all accounts, other than a segregated futures account or an internal non-proprietary cross-margining account as updated to reflect pending

transactions that have been accepted by the Corporation, shall be closed by the Corporation in the most orderly manner practicable, including, but not limited to, a private auction. Amounts payable in settlement of closing purchase transactions in options effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable in settlement of closing purchase transactions and in respect of any dividend equivalent obligation in a Market-Maker's account or a customers' lien account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. The suspended Clearing Member or its representative shall be notified as promptly as possible of any closing or transfer of short positions pursuant to this Rule.

*Amended August 26, 1996, March 29, 1999, Amended August 20, 2001; October 8, 2004; July 14, 2005; October 28, 2011.*

(2) Notwithstanding the foregoing provisions of this Rule 1106(b), open short positions in option contracts and BOUNDS in respect of which one or more specific or escrow deposits have been made (collectively, "covered short positions") may be maintained by the Corporation or may be closed out, in the Corporation's discretion, provided that if prior to a decision by the Corporation to close out such positions the suspended Clearing Member or its representative shall instruct the Corporation to transfer any such short position to another Clearing Member, and the transferee Clearing Member is willing to accept such transfer and the margin requirements of Chapter VI of the Rules in respect of the customers' account of the Clearing Member in respect of which the deposit is made are met after giving effect to such transfer, the Corporation may comply with such instruction, and any specific deposit or escrow deposit held by the Corporation in respect thereof and not assigned to the transferee Clearing Member shall be released by the Corporation to the suspended Clearing Member or its representative. The Corporation may, in its discretion, postpone acceptance of any transfer instruction tendered for the account of a suspended Clearing Member pending receipt of satisfactory evidence of the authority of the person tendering such instruction and such additional documentation regarding the transfer as the Corporation shall require. If a covered short position is not closed out or transferred and thereafter expires without having been assigned an exercise, the Corporation shall release any specific deposit or escrow deposit held by the Corporation in respect thereof to the suspended Clearing Member or its representative. If an exercise shall be assigned to a covered short position, the exercise shall be settled in accordance with the applicable provisions of the Rules, including those of Rule 1107 or a provision of the Rules that is specified in the Rules as replacing or supplementing Rule 1107 with respect to particular classes of options. If an exercise notice assigned to a covered short position is for a number of contracts which is less than the number of contracts included in such short position, the Corporation shall allocate the assignment as among contracts covered by specific deposits and contracts covered by escrow deposits receipts by random selection or another allocation method which the Corporation deems fair and equitable in the circumstances. The Corporation shall give prompt notice of any allocation made hereunder to the suspended Clearing Member or its representative.

*Amended January 28, 1976; February 3, 1978; January 28, 1994, January 31, 1994, August 26, 1996, August 26, 1996, March 29, 1999, May 31, 2001; October 13, 2016*

(3) If the Corporation closes out any covered short position, the Corporation may take possession of all or a portion of the securities and/or cash making up the specific deposit or escrow deposit covering such short position for the purpose of reimbursing itself for costs incurred in connection with such close-out (or may in lieu thereof accept security for such costs furnished by the suspended clearing member or its representative), and any portion of any such specific deposit or escrow deposit held by the Corporation after such reimbursement shall be released by the Corporation to the suspended Clearing Member

or its representative.

*Amended August 26, 1996; October 13, 2016*

*(c) Long and Short Positions in Futures.*

Open long and short futures positions of a suspended Clearing Member in all accounts, as updated to reflect pending transactions that have been accepted by the Corporation, shall be closed by the Corporation in the most orderly manner practicable, including, but not limited to, a private auction. The net variation payment due from or to the Corporation from the closing of such positions shall be paid or disposed of in accordance with the provisions of Rule 1105. If a physically-settled stock future has reached maturity without being closed, the delivery or payment obligations resulting therefrom shall, unless the Corporation specifies otherwise, be closed in accordance with Rule 1107, provided that any gain or loss sustained by the Clearing Member shall be credited or charged, as the case may be, to the account that would have been credited or charged with any gain or loss if such contract had been closed rather than allowed to mature. The suspended Clearing Member or its representative shall be notified as promptly as possible of any closing or transfer of short positions pursuant to this Rule.

*Adopted August 20, 2001. Amended May 16, 2002; October 28, 2011.*

*(d) Closing of Positions by Offset*

If the Corporation elects or is required pursuant to this Rule to close both long positions and short positions in the same series of cleared contract carried by a suspended Clearing Member, the Corporation may, in lieu of closing such positions through closing transactions on an Exchange, offset such positions against each other, reducing each position by the same number of contracts; provided, that (i) futures or futures options or commodity options in the segregated futures account may be offset only against other futures, futures options or commodity options in that account, and (ii) positions in the internal non-proprietary cross-margining account may be offset only against other positions in that account. If the Corporation closes positions in any series of cleared contracts by offset pursuant to the foregoing sentence, the Corporation shall notify the suspended Clearing Member or its representative thereof, and such positions shall be deemed to have been closed at a price equal to (i) in the case of options or BOUNDS, the marking price (determined in accordance with Rule 601 or Rule 602, as applicable) for such series on the date when the positions were offset, and (ii) in the case of futures, the settlement price for such series on the date when the positions were offset.

*Amended June 5, 1979; March 1, 1991, January 28, 1994, March 29, 1999, Amended August 20, 2001; May 16, 2002; March 9, 2004; October 8, 2004; February 15, 2006; March 20, 2009.*

*(e) Exceptions.*

(1) Notwithstanding the preceding provisions of this Rule, if the Executive Chairman, Chief Executive Officer, or Chief Operating Officer shall determine in his discretion, taking into account the size and nature of a suspended Clearing Member's positions, the market conditions prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances as such officer deems relevant, that the closing out of some or all of the suspended Clearing Member's unsegregated long positions or short positions in options or BOUNDS, or long or short positions in futures, would not be in the best interests of the Corporation, other Clearing Members, or the general public, such positions need not be closed out, provided that any determination made pursuant to this paragraph shall be reported to the Board of Directors within 24 hours. This paragraph shall not apply to positions of any suspended Clearing Member as to which an application for a protective decree may be filed under Section 5(a)(3) of the Securities Investor Protection Act of 1970, as amended, except upon a determination by the Executive Chairman, Chief Executive Officer, or Chief Operating Officer in his discretion, taking into account the circumstances enumerated in the preceding sentence, that the closing out of the suspended Clearing Member's open positions in accordance with the other



provisions of this Rule would likely result in a loss to the Corporation (after application of such Clearing Member's margin and Clearing Fund deposits but before any proportionate charge to the Clearing Fund deposits of other Clearing Members).

*Amended April 7, 1994, December 10, 1997, August 20, 2001, May 16, 2002; December 14, 2012; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(2) The Corporation may conduct a private auction in accordance with the procedures summarized below (an "OTC Options Auction") to close out open positions in OTC index options and related positions in other cleared contracts and margin assets (including any securities underlying a stock loan or borrow position in which the Corporation has a security interest but not the stock loan or borrow positions themselves) that the Corporation determines in its discretion are hedging, or are hedged by, positions in OTC index options as determined in the discretion of the Corporation ("hedge positions"). The Corporation intends that these OTC Options Auction procedures will be invoked only in unusual circumstances where the Corporation determines in its discretion that it is not feasible in light of the circumstances existing at the time to close out such positions through any of the other means provided under this Chapter XI of the Rules. The summary of the OTC Options Auction procedures set forth in this Rule 1106(e)(2) is subject to the specific procedures set forth in a document entitled "OTC Options Auction Procedures," which is incorporated herein by reference and which is available from the Corporation upon request and posted on the Corporation's website.

*Adopted December 14, 2012*

(A) All non-suspended OTC Index Option Clearing Members ("Participants") are required to participate in the OTC Options Auction by submitting competitive bids for all or a portion of the suspended Clearing Member's portfolio of OTC Index Options and hedge positions. Each Participant shall be subject to a minimum participation level based on the proportion such Participant's risk margin requirement (calculated as the sum of the average daily margin requirement, consisting of the amount of margin held by the Corporation with respect to an OTC Index Option Clearing Member's accounts eligible to hold OTC positions ("OTC Eligible Accounts") in excess of the net asset value of the positions held in such OTC Eligible Accounts, for each OTC Index Option Clearing Member for the previous month across all positions in all OTC Eligible Accounts of such Clearing Member) represents in relation to the total amount of such margin posted by all Participants. The Corporation shall rank the submitted bids from best to worst and the auction portfolio shall be allocated among the bidding Participants accordingly until the entire auction portfolio is exhausted. The bid price that is sufficient to clear the entire auction portfolio shall be the single price to be used for all winning bids (the "Clearing Price").

*Adopted December 14, 2012*

(B) In the event the Clearing Price is set by an outlier bid, as determined by the Corporation, the Corporation may choose an alternative clearing price that clears at least 80% of the auction portfolio. The remaining auction portfolio shall then be re-auctioned pursuant to the OTC Auction Procedures.

*Adopted December 14, 2012*

(C) If the liquidation of the suspended Clearing Member's business with the Corporation pursuant to this Chapter XI results in a deficiency that would result in a proportionate charge against the Clearing Fund contributions of all other Clearing Members pursuant to Rule 1006, then each Participant that failed to purchase or assume a percentage of the auction portfolio at least equal to its minimum participation level shall be subject to a priority charge ("Priority Charge") against such Participant's Clearing Fund contribution. The amount of the Priority Charge shall be determined in accordance with a formula set forth in the OTC Options Auction Procedures; provided that the Priority Charge shall not exceed the amount of the Clearing Member's required Clearing Fund deposit at the time the Priority Charge is made. If a deficiency remains after application of such Priority Charges, the Corporation shall then make a proportionate charge against the Clearing Fund contributions of all Clearing Members, including Participants, pursuant to Rule 1006; provided, however, that if a Participant notifies the Corporation within the specified

time following such proportionate charge that it will terminate its status as a Clearing Member as permitted, and in satisfaction of the conditions imposed, under Rule 1006(h), then the amount of any Priority Charge to which such Participant was subject shall be treated as if it had been a part of the proportionate charge and shall not be construed to increase the maximum liability of the Participant to make additional contributions to the Clearing Fund pursuant to Rule 1006(h).

*Adopted December 14, 2012*

*(f) Protective Action.*

If the Executive Chairman, Chief Executive Officer, or Chief Operating Officer shall (i) determine that the Corporation is unable, for any reason, to close out in a prompt and orderly fashion any unsegregated long positions or short positions in options or BOUNDS, or long or short positions in futures, or to liquidate any margin deposits of a suspended Clearing Member, or (ii) elect pursuant to Rule 1106(e) not to close out any such positions or pursuant to Rule 1104(b) not to liquidate any such margin deposits, such officer may authorize the execution from time to time for the account of the Corporation, solely for the purpose of reducing the risk to the Corporation resulting from the continued maintenance of such positions or the continued holding of such margin deposits, of hedging transactions, including, without limitation, the purchase or sale of underlying interests or interests deemed similar thereto or option contracts or futures contracts on any such underlying or similar interests. Such officer may delegate to specified officers or agents of the Corporation the authority to determine, within such guidelines, if any, as such officer shall prescribe, the nature and timing of such hedging transactions. Any authorization of hedging transactions shall be reported to the Board of Directors within 24 hours, and any such transactions that are executed shall be reported to the Risk Committee on a daily basis. Any costs or expenses, including losses, sustained by the Corporation in connection with transactions effected for its account pursuant to this paragraph shall be charged to the Liquidating Settlement Account of the suspended Clearing Member, and any gains realized on such transactions shall be credited to such Liquidating Settlement Account; provided, however, that (i) costs, expenses, and gains allocable to the hedging of positions in a Market-Maker's account or a customers' lien account shall be charged or credited, as the case may be, to that account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account; (ii) costs, expenses, and gains allocable to the hedging of positions in a segregated futures account shall be charged or credited, as the case may be, to the Segregated Liquidating Settlement Account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account, and (iii) costs, expenses and gains allocable to the hedging of positions in an internal non-proprietary cross-margining account shall be charged or credited, as the case may be, to the Internal Non-Proprietary Cross-Margining Liquidating Settlement Account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account. Reasonable allocations of costs, expenses, and gains among accounts made by the Corporation for the purpose of implementing the proviso to the preceding sentence shall be binding on the Clearing Member and any persons claiming through the Clearing Member and their respective successors and assigns.

*Adopted September 30, 1977; amended April 18, 1980; January 7, 1991, December 10, 1997, August 20, 2001, May 16, 2002, March 9, 2004, October 8, 2004; July 14, 2005; July 19, 2006; December 9, 2011; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

(g) Funds in the Liquidating Settlement Account of a suspended Clearing Member may be used to satisfy any shortfall in respect of the Proprietary and Non-Proprietary X-M Liquidating Accounts of such Clearing Member, including any shortfall arising from losses allocated to the Corporation pursuant to Rule 707.

*Adopted September 26, 1989, amended November 26, 1991.*

*Amended June 1, 1975; June 5, 1979; July 19, 1983; October 21, 1983, May 26, 1988; April 11, 1989, August 17, 1989.*

### **...Interpretations and Policies:**

**.01** See Interpretation and Policy .02 following Rule 1104 for a description of the private auction process by which OCC may close out a suspended Clearing Member's open positions in cleared contracts generally. See Rule 1106(e)(2) for a description of the alternative private auction process by which OCC may close out a suspended Clearing Member's open positions in OTC options, related positions and margin assets in certain circumstances.

*Adopted December 14, 2012*

**.02** See Interpretation and Policy .02 following Rule 1104 for a description of the private auction process by which OCC may close out a suspended Clearing Member's open positions in cleared contracts generally.

*Adopted August 27, 2012*

## **RULE 1107 - Exercised or Matured Contracts**

(a) Unless the Corporation stipulates otherwise in a particular case, exercised option contracts to which a suspended Clearing Member is party (either as the exercising Clearing Member or as the assigned Clearing Member) and matured, physically-settled futures to which such Clearing Member is a party shall be disposed of as follows:

*Amended April 4, 1977; February 3, 1978; January 28, 1994, Amended August 20, 2001; March 25, 2009.*

(1) Exercised option contracts and matured, physically-settled stock futures for which the correspondent clearing corporation is obligated to effect settlement shall be settled in the ordinary course. If the suspended Clearing Member was the assigned Clearing Member in respect of any such exercised option contract, and the exercise notice was allocated by the suspended Clearing Member, or is allocated by the Corporation pursuant to the following provisions of this Rule, to a short position for which a specific deposit or an escrow deposit has been made, then (i) in the case of a call option contract, the Corporation shall obtain delivery of the underlying securities deposited in respect thereof from the depository and shall promptly liquidate such underlying securities, or (ii) in the case of a put option contract, the Corporation shall make a demand on the depository for payment out of the deposited property of the aggregate exercise price plus all applicable commissions and other charges.

*Adopted February 3, 1978.*

*Amended January 28, 1994, August 26, 1996; September 26, 1996; Amended August 20, 2001; October 19, 2001; July 31, 2017*

(2) If the suspended Clearing Member was the assigned Clearing Member in respect of an exercised option contract (other than an exercised contract for which settlement is made pursuant to clause (1) above), and the exercise was allocated by the suspended Clearing Member, or is allocated by the Corporation pursuant to the provisions of paragraph (b) of this Rule, to a short position for which a specific deposit or an escrow deposit has been made, then (i) in the case of a call option contract on an individual security, the Corporation shall obtain delivery of the underlying securities deposited in respect thereof from the depository and shall make delivery of the underlying securities so obtained to the Exercising Clearing Member for the account of the suspended Clearing Member, or (ii) in the case of a put option contract on an individual security, the Corporation shall make a demand on the depository for payment out of the deposited property of the aggregate exercise price plus all applicable commissions and other charges, and pay such amount upon receipt (less applicable commissions and other charges) to the Exercising Clearing Member for the account of the suspended Clearing Member. If an exercise is assigned to

a short position for which a specific deposit or an escrow deposit has been made, and the Corporation fails to receive delivery or payment, as applicable, from the depository prior to the exercise settlement date, the Corporation may, at its election, either (i) effect timely settlement with the Exercising Clearing Member notwithstanding such failure or (ii) direct that the exercised option contract(s) be closed out by the exercising Clearing Member pursuant to clause (6) below. If delivery or payment is subsequently received, the Corporation shall be entitled to reimburse itself for the cost of effecting settlement with the exercising Clearing Member or compensating the Clearing Member for the difference between the exercise price and the close-out price, as applicable, out of the proceeds of the deposited securities or out of the amount paid, as the case may be, and shall be obligated to pay over any excess to the suspended Clearing Member or its representative.

*Adopted February 3, 1978; amended April 18, 1980, January 28, 1994, August 26, 1996, March 29, 1999, Amended May 31, 2001.*

(3) Exercised foreign currency option contracts for which a bank is obligated to effect settlement for the account of a suspended Clearing Member under the settlement procedure described in Rule 1606A shall be settled in the ordinary course.

*Adopted January 28, 1994. Amended August 23, 2012*

(4) If the suspended Clearing Member was a Paying Clearing Member (as defined in Rule 1605(b)) in respect of an exercised foreign currency option contract, any amount due to the Corporation from the suspended Clearing Member shall be paid from the Liquidating Settlement Account of the suspended Clearing Member.

*Amended January 28, 1994, May 7, 2004, August 23, 2012*

(5) All other exercised option contracts and matured, physically-settled futures to which the suspended Clearing Member was a party shall be closed through the buy-in and sell-out procedures provided in the Rules or in such other manner as the Corporation determines to be the most orderly manner practicable in the circumstances, including, but not limited to, a private auction. All losses (including damages chargeable against the suspended Clearing Member in the absence of a buy-in or sell-out) and gains resulting from the application of such procedures shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that (i) all such losses in a Market-Maker's account or a customers' lien account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account; (ii) all such losses in a segregated futures account shall first be paid from the Segregated Liquidating Settlement Account to the extent permitted by applicable law and to the extent that there are funds available in such account, and only the amount of any deficit shall be paid from the Liquidating Settlement Account; and (iii) all such losses in an internal non-proprietary cross-margining account shall be first paid from the Internal Non-Proprietary Cross-Margining Liquidating Settlement Account to the extent permitted by applicable law and to the extent that there are funds available in such account, and only the amount of any deficit shall be paid from the Liquidating Settlement Account.

*Amended February 3, 1978; April 18, 1980; January 28, 1994, Amended August 20, 2001; March 9, 2004; October 8, 2004; July 14, 2005; March 25, 2009; August 23, 2012; August 27, 2012*

(b) If the Corporation is unable to determine, promptly upon the suspension of a Clearing Member whether an exercise assigned to the suspended Clearing Member in respect of a call option contract was allocated by the suspended Clearing Member to a short position for which a

specific deposit or an escrow deposit has been made, the Corporation shall itself allocate the exercise, by random selection or another method which the Corporation deems fair and equitable in the circumstances, among the option contracts comprising the short position to which the exercise was assigned. The Corporation shall give prompt notice of any allocation made hereunder to the suspended Clearing Member or its representative. Any allocation made by the Corporation pursuant to this Rule 1107 shall supersede any contrary allocation made by the suspended Clearing Member and shall be binding as between the Corporation and the customers of such Clearing Member notwithstanding any contrary advice or confirmation which may have been delivered to such customers by the suspended Clearing Member.

*Adopted February 3, 1978; amended April 18, 1980; July 19, 1983; December 12, 1986, January 28, 1994, August 26, 1996.*

(c) If the Corporation incurs an obligation to a designated clearing corporation as a result of exercised option contracts carried in an account of a suspended Clearing Member to which the suspended Clearing Member is a party either as the exercising Clearing Member or as the assigned Clearing Member, the Corporation may use the funds of the suspended Clearing Member that are subject to the control of the Corporation for application in respect of such account to satisfy such obligation.

*Adopted January 28, 1994.*

*Amended April 4, 1977; February 3, 1978; April 18, 1980; July 19, 1983; December 12, 1986.*

### **...Interpretations and Policies**

.01 See Interpretation and Policy .02 following Rule 1104 for a description of the private auction process by which OCC may close out exercised option contracts and matured, physically-settled futures to which the suspended Clearing Member was a party.

## **RULE 1108 - Amounts Payable to the Corporation**

The Corporation shall be entitled promptly to recover from a suspended Clearing Member any amount payable in such Clearing Member's Liquidating Settlement Account with the Corporation upon completion of liquidation of such Clearing Member in accordance with these Rules, including all amounts payable as a result of the Corporation's expenses in connection therewith.

## **RULE 1109 - Clearing Member Claims**

All claims upon the Liquidating Settlement Account of a suspended Clearing Member by other Clearing Members resulting from losses incurred when closing pending transactions or buying in or selling out exercised option contracts or matured, physically-settled stock futures in accordance with this Chapter XI shall be filed with the Corporation in such form as it shall prescribe. Such claims shall be paid as follows:

*Amended August 20, 2001.*

(a) Claims for losses incurred when closing pending transactions with a suspended Clearing Member that are rejected for clearance shall be subordinate to all other claims upon the Liquidating Settlement Account. The Corporation shall pay such claims, to the extent funds are available, from the Liquidating Settlement Account of the suspended Clearing Member only after payment of all other applicable claims, and such claims shall not constitute a claim upon the Clearing Fund contributions of other Clearing Members.

(b) Claims for losses incurred on buy-ins or sell-outs shall be senior to all other claims upon the Liquidating Settlement Account. If a buy-in or sell-out does not occur by the close of the first full business day following the issuance of the notice of suspension, the claim thereon shall be limited to the amount that would have been recoverable if the buy-in had been made at the highest price, or the

sell-out at lowest price, at which the underlying security traded in the primary market on such day.

## **RULE 1110 - Right of Appeal**

A Clearing Member suspended pursuant to this Chapter shall be entitled, upon request, to a written statement of the grounds for its suspension and shall have the right to appeal its suspension in accordance with the following procedure:

*(a) Procedure for Appeal.*

A suspended Clearing Member may appeal its suspension by filing a written notice of appeal with the Secretary of the Clearing Corporation within five days after the date of the suspension.

*(b) Consideration of Appeals.* Appeals shall be considered and decided by an appeals panel appointed by the Executive Chairman, composed of two officers or employees of the Corporation and one director. Appeals shall be heard as promptly as possible, and in no event more than fourteen days after the filing of the notice of appeal. The appellant shall be notified of the time, place and date of the hearing not less than three days in advance of such date. At the hearing, the appellant shall be afforded an opportunity to be heard and to present evidence in its own behalf, and may, if it so desires, be represented by counsel. As promptly as possible after the hearing, the panel shall, by the vote of a majority of its members, affirm or reverse the suspension. The appellant shall be notified in writing of the panel's decision; and if the decision shall have been to affirm the suspension, the appellant shall be given a written statement of the grounds therefor.

*Amended March 6, 2014; February 15, 2019*

*(c) Review by the Board of Directors.*

Any decision by an appeals panel to affirm a suspension shall be reviewable by the Board of Directors on its own motion or on written demand by the appellant filed with the Secretary of the Clearing Corporation within five days after receipt of notice of the panel's decision. The Board of Directors may, in its discretion, afford the appellant a further opportunity to be heard or to present evidence. The appellant shall be notified in writing of the decision of the Board of Directors; and if the decision shall have been to affirm the suspension, the appellant shall be given a written statement of the grounds therefor.

*(d) Effect of Appeal.*

The filing of an appeal pursuant to this Rule shall not impair the validity or stay the effect of the suspension appealed from. The reversal of a suspension shall not invalidate any acts of the Corporation taken prior to such reversal pursuant to such suspension, and the rights of any person which may arise out of any such acts shall not be affected by the reversal of such suspension.

*(e) Record.*

A verbatim record shall be kept of any hearing held pursuant hereto. The cost of the transcript may, in the discretion of the body holding the hearing, be charged in whole or in part to the suspended Clearing Member in the event that the suspension is finally affirmed.

*Adopted February 11, 1976.*

## RULE 1111 – Voluntary Tear-Ups and Partial Tear-Ups

- (a) (i) The Corporation may notify Clearing Members and provide an opportunity for Clearing Members to voluntarily agree to have positions of a Clearing Member or, with the consent of customers of such Clearing Member, to agree to have each such customer's position, extinguished by the Corporation (a "**Voluntary Tear-Up**") at any time following the suspension or default of a Clearing Member and after the Corporation has attempted one or more auctions pursuant to Rule 1104 or Rule 1106, and after the Corporation has determined that, notwithstanding the availability of any resources remaining under Rules 707, 1001, 1011, 1104 through 1107, 2210 and 2211, the Corporation may not have sufficient resources to satisfy its obligations and liabilities as a result of such default. The Corporation will issue a notice (a "**Voluntary Tear-Up Notice**") informing all non-defaulting Clearing Members of the opportunity to participate in a Voluntary Tear-Up. Terms for Voluntary Tear-Ups shall be set forth in the Voluntary Tear-Up Notice and shall include, without limitation, the following:

- (x) no Clearing Member, or customers of a Clearing Member, shall be obliged to participate in a Voluntary Tear-Up; and
- (y) the Corporation shall have full discretion whether or not to accept a particular Voluntary Tear-Up offer.

*Adopted August 23, 2018*

- (ii) If the Corporation successfully recovers from a suspended or defaulted Clearing Member (or from the estate of a suspended or defaulted Clearing Member) and the amount of such recovery exceeds the amount the Corporation received in voluntary payments, the Corporation shall compensate from such remaining amounts of the recovery the non-defaulting Clearing Members and non-defaulting customers that voluntarily extinguished open positions in the amount of losses, costs or fees directly resulting from the Voluntary Tear-Up, but only after the Corporation has fully compensated non-defaulting Clearing Members that made voluntary payments in the amount of such voluntary payments and only to the extent that such losses, costs and fees can reasonably be determined by the Corporation. If the remaining amount of any such recovery is less than the amount of losses, costs and fees incurred by non-defaulting Clearing Members and non-defaulting customers participated in the Voluntary Tear-Up, then each such non-defaulting Clearing Member and non-defaulting customer shall be compensated pro rata according to the relative size of its incurred losses, costs and fees from the Voluntary Tear-Ups.

*Adopted August 23, 2018*

- (b) If Clearing Member or customer positions of a defaulted Clearing Member remain open ("**Remaining Open Positions**") after the Corporation has attempted one or more auctions pursuant to Rule 1104 or Rule 1106 and after the Corporation has accounted for any positions voluntarily extinguished in accordance with subparagraph (a), and the Corporation determines that, notwithstanding the availability of any resources remaining under Rules 707, 1001, 1009, 1104 through 1107, 2210 and 2211, the Corporation may not have sufficient resources to satisfy its obligations and liabilities as a result of such default, the Board of Directors of the Corporation may elect to extinguish (i) the Remaining Open Positions, and/or (ii) any related open positions deemed necessary to mitigate further disruptions to the markets affected by the Remaining Open Positions ("**Related Open Positions**"), through a partial tear-up process ("**Partial Tear-Up**"). The Corporation will notify the staff of the SEC and the CFTC of a determination that Partial Tear-Up will apply.

*Adopted August 23, 2018*

(c) The Risk Committee shall determine the appropriate scope of each Voluntary Tear-Up under subpart (a) of this Rule and Partial Tear-Up under subpart (b) of this Rule. Each determination of the Risk Committee made for purposes of this Rule 1111 shall (i) be based upon then-existing facts and circumstances, (ii) be in furtherance of the integrity of the Corporation and the stability of the financial system, and (iii) take into consideration the legitimate interests of Clearing Members and market participants.

*Adopted August 23, 2018*

(d) For a Partial Tear-Up under subpart (b) of this Rule, the Corporation will issue a notice (a **"Partial Tear-Up Notice"**) identifying:

- (i) The Remaining Open Positions and any Related Open Positions;
- (ii) With respect to each other Clearing Member, the open positions of such Clearing Member and its customers (if any) that will be subject to Partial Tear-Up (the **"Tear-Up Positions"**);
- (iii) The termination price (the **"Partial Tear-Up Price"**) for each Tear-Up Position; and
- (iv) The date and time as of which Partial Tear-Up will occur, as determined by the Risk Committee (the **"Partial Tear-Up Time"**).

*Adopted August 23, 2018*

(e) For a Partial Tear-Up under subpart (b) of this Rule, the Corporation will determine and designate the Tear-Up Positions pursuant to the following methodology:

- (i) With respect to Remaining Open Positions, the Corporation will designate Tear-Up Positions in the identical Cleared Contracts and Cleared Securities (on the opposite side of the market) and in an aggregate amount equal to that of the Remaining Open Positions. The Corporation will designate Tear-Up Positions in a particular Cleared Contract or Cleared Security only for non-defaulted Clearing Members that have an open position in such Cleared Contract or Cleared Security, whether for their Clearing Member accounts and/or customer accounts, as follows: the Corporation shall designate Tear-Up Positions in the non-defaulted Clearing Member accounts and their customer accounts with open positions in the relevant Cleared Contracts and Cleared Securities in such accounts, on a pro rata basis (provided that solely to the extent such pro rata determination would result in creation of a Tear-Up Position which is a fraction of a Cleared Contract or Cleared Security, the Corporation will reallocate such fractional position among non-defaulted Clearing Members on a random basis to avoid such result). With respect to a Tear-Up Position designated in a customer account of a Clearing Member, the Tear-Up Position shall be allocated on a pro rata basis by the Clearing Member across any customers that have open positions in such Cleared Contract or Cleared Security in such account (for any listed option positions being extinguished, allocation across customer accounts should occur in accordance with such Clearing Member's procedures for allocating exercises and assignments).

*Adopted August 23, 2018*

- (ii) With respect to Related Open Positions, a Partial Tear-Up would involve extinguishment of all open positions in those Cleared Contracts and Cleared Securities identified by the Risk Committee as within the appropriate scope of the



Partial Tear-Up pursuant to this Rule 1111.  
*Adopted August 23, 2018*

- (iii) Upon and with effect from the Partial Tear-Up Time, every Tear-Up Position shall be automatically terminated at the Partial Tear-Up Price, without the need for any further step by any party to such Cleared Contract or Cleared Security. Upon such termination, either the Corporation or the relevant Clearing Member, as the case may be, shall be obligated to pay to the other the applicable Partial Tear-Up Price; provided however, that if the Corporation, in its discretion, determines that the resources referenced in subpart (b) of this Rule are inadequate to pay the applicable Partial Tear-Up Price for each position being extinguished in the Partial Tear-Up, the Corporation shall be obligated to pay each relevant Clearing Member a pro rata amount of the applicable Partial Tear-Up Price based on the amount of such resources remaining, and notwithstanding subpart (h) of this Rule the relevant Clearing Member shall have a claim against the Corporation for the value of the difference between the pro rata amount received and the Partial Tear-Up Price. Upon the termination of a Tear-Up Position, the corresponding open position shall be deemed terminated at the Partial Tear-Up Price. Such claim against the Corporation shall be unsecured. With regard to amounts recovered from a suspended or defaulted Clearing Member (or from the estate of a suspended or defaulted Clearing Member) Rules 1011(b) and 1111(a)(ii) shall continue to apply.

*Adopted August 23, 2018*

- (f) For a Partial Tear-Up under subpart (b) of this Rule, in determining the Partial Tear-Up Price for each Tear-Up Position, the Corporation shall exercise its discretion, acting in good faith and in a commercially reasonable manner, in adopting methods of valuation expected to produce reasonably accurate substitutes for the values that would have been obtained from the relevant market if it were operating normally, including but not limited to the use of pricing models to determine a value for a cleared contract based on the market price of the underlying interest or the market prices of its components. In determining a Partial Tear-Up Price, the Corporation may consider the same information set forth in subpart (c) of Section 27, Article VI of the By-Laws for determining a close-out amount.

*Adopted August 23, 2018*

- (g) Notwithstanding any provision of this Rule 1111, to the extent that the losses, costs and fees imposed upon non-defaulting Clearing Members and their customers directly resulting from a Partial Tear-Up reasonably can be determined by the Corporation, the Board of Directors may elect to re-allocate such losses, costs and fees among all non-defaulting Clearing Members through a special charge to all non-defaulting Clearing Members in an amount corresponding to each such non-defaulting Clearing Member's proportionate share of the variable amount of the Clearing Fund at the time such Partial Tear-Up is conducted.

*Adopted August 23, 2018*

- (h) No action or omission by the Corporation pursuant to and in accordance with this Rule 1111 shall constitute a default by the Corporation.

*Adopted August 23, 2018*

## **Chapter XII - Disciplinary Proceedings**

### **RULE 1201 - Sanctions**

(a) The Corporation may censure, suspend, expel or limit the activities, functions or operations of any Clearing Member for any violation of the By-Laws and Rules or its agreements with the Corporation. The Corporation may, in addition to or in lieu of such sanctions, impose a fine on any Clearing Member for any violation of the By-Laws or Rules or procedures of or its agreements with the Corporation or the correspondent clearing corporation, or for any neglect or refusal by such person to comply with any applicable order or direction of the Corporation or the correspondent clearing corporation, or for any error, delay or other conduct embarrassing the operations of the Corporation, or for not providing adequate personnel or facilities for its transactions with the Corporation or the correspondent clearing corporation.

*Amended May 28, 1982; October 19, 2001; April 25, 2012.*

(b) Minor Rule Violation Plan. In lieu of commencing a disciplinary proceeding pursuant to Rule 1201(a), the Corporation may, subject to the requirements set forth herein, impose a fine not to exceed \$2,500, on any Clearing Member with respect to any violation of the By-Laws and Rules of the Corporation that is designated in the By-Laws or Rules as a "minor rule violation." Any such minor rule violation shall be deemed a "minor rule violation" and this Rule 1201(b) shall be deemed a "plan" within the meaning of Rule 19d-1(c)(2) under the Securities Exchange Act of 1934, as amended. Any fine imposed by the Corporation for a minor rule violation that is not contested as described below shall be reported by the Corporation to the Securities and Exchange Commission on a quarterly basis, except as otherwise required by the Securities and Exchange Commission or by any other regulatory authority. Any Clearing Member against whom a fine for a minor rule violation is imposed shall be served with a written statement, prepared by the Corporation, setting forth: (i) the provision of the By-Laws or Rules the violation of which constitutes such minor rule violation, (ii) the act or omission constituting such minor rule violation, and (iii) the fine imposed for such minor rule violation. Any Clearing Member that receives the written statement described above with respect to a minor rule violation may provide written notice to the Corporation, not later than 10 business days from the date of the written statement that the Clearing Member wishes to appeal the minor rule violation. The failure of a Clearing Member to provide timely notice that it wishes to appeal a minor rule violation shall constitute a waiver of the Clearing Member's right to an appeal. Upon receipt of a notice that a Clearing Member wishes to appeal the violation, the Corporation shall begin a disciplinary proceeding in accordance with Rule 1202. The issuance of a fine for a minor rule violation for which a Clearing Member does not contest the fine shall not be deemed to be an admission by the Clearing Member of the facts set forth in the written statement describing the minor rule violation.

*Adopted April 25, 2012.*

#### **... Interpretations and Policies:**

**.01** A decision to suspend or expel a Clearing Member pursuant to this Chapter XII shall constitute a suspension or expulsion from a self-regulatory organization and therefore be grounds for summary suspension under Rule 1102.

*Adopted May 18, 2012.*

### **RULE 1202 - Procedures**

(a) Before any sanction (other than a sanction for a minor rule violation) is imposed, the Corporation shall furnish the person against whom the sanction is sought to be imposed ("Respondent") with a concise written statement of the charges against the Respondent. The Respondent shall have fifteen days after the service of such statement to file with the Secretary of the Corporation a written answer thereto. The answer shall admit or deny each allegation contained in the statement of charges and may also contain any defense which the Respondent

wishes to submit. Allegations contained in the statement of charges which are not denied in the answer shall be deemed to have been admitted. Any defense not raised in the answer shall be deemed to have been waived. If an answer is not filed within the time prescribed above or any extension thereof granted pursuant to paragraph (c) of this Rule 1202, the Corporation shall furnish to the Respondent a final request for an answer, specifying a time prior to which an answer must be filed and a sanction which will be imposed if an answer is not filed within that time. If an answer is not filed prior to the time so specified, the charges against the Respondent shall be deemed to have been admitted, and the sanction specified in the final request shall be imposed without further proceedings and the Respondent shall be notified thereof in writing. If an answer is timely filed, the Secretary of the Corporation shall (unless the Respondent and the Corporation shall have stipulated to the imposition of an agreed sanction) schedule an early hearing before a Disciplinary Committee composed of the Vice Chairman of the Board of Directors (or such other director as the Board of Directors shall designate in his place), who will act as Chairman of the Committee, and two other directors appointed by the Chairman of the Committee. The Respondent shall be given not less than three days advance notice of the place and time of such hearing. At the hearing, the Respondent shall be afforded the opportunity to be heard and to present evidence in his behalf and may be represented by counsel. A verbatim record of the hearing shall be prepared and the cost of the transcript may, in the discretion of the Disciplinary Committee, be charged in whole or in part to the Respondent in the event any sanction is imposed on the Respondent. As soon as practicable after the conclusion of the hearing, the Disciplinary Committee shall furnish the Respondent and the Board of Directors with a written statement of its decision. If the decision shall have been to impose a disciplinary sanction, the written statement shall set forth (i) any act or practice in which the Respondent has been found to have engaged, or which the Respondent has been found to have omitted; (ii) the specific provisions of the statutory rules of the Corporation which any such act, practice or omission has been deemed to violate; and (iii) the sanction imposed and the reasons therefor. *Amended February 11, 1976; January 19, 1978; May 28, 1982; April 25, 2012.*

(b) In the event that a Disciplinary Committee censures, fines, suspends, expels or limits the activities, functions or operations of any Respondent, any affected person may apply for review to the Board of Directors, by written motion filed with the Secretary of the Corporation within five business days after issuance of the Disciplinary Committee's written statement of its decision. The granting of any such motion shall be within the sole discretion of the Board of Directors. In addition, the Board of Directors may determine to review any such action by a Disciplinary Committee on its own motion. Review by the Board of Directors shall be on the basis of the written record of the proceedings in which the sanction was imposed, but the Board of Directors may, in its discretion, afford the Respondent a further opportunity to be heard or to present evidence. A verbatim record shall be kept of any such further proceedings. Based upon such review, the Board of Directors may affirm, reverse or modify, in whole or in part, the decision of the Disciplinary Committee. The Respondent shall be notified in writing of the decision of the Board of Directors and if the decision shall have been to affirm or modify the imposition of any disciplinary sanction, the Respondent shall be given a written statement setting forth (i) any act or practice in which the Respondent has been found to have engaged, or which the Respondent has been found to have omitted; (ii) the specific provisions of the statutory rules of the Corporation which any such act, practice or omission has been deemed to violate; and (iii) the sanction imposed and the reasons therefor.

*Amended February 11, 1976; May 28, 1982.*

(c) Any time limit set forth in this Rule 1202 may be extended by the Secretary of the Corporation or by the body having jurisdiction over the matter in respect of which the time limit is imposed.

*Amended February 11, 1976; May 28, 1982.*

(d) Any action taken by a Disciplinary Committee hereunder shall be deemed to be final upon expiration of the time provided for the filing of a motion for review, or any extension thereof granted pursuant to paragraph (c) hereof; or, if a motion for review is timely filed, when the Respondent is notified of the denial of the motion or the decision of the Board of Directors on

review, as the case may be. When any sanction imposed hereunder becomes final, (i) the Corporation shall notify the Respondent in writing that the imposition thereof may be subject to review by the appropriate regulatory agency for the Respondent pursuant to Section 19(d)(2) of the Securities Exchange Act of 1934, as amended, and the rules and regulations of such appropriate regulatory agency thereunder or, (ii) in the case of disciplinary proceedings concerning solely the Respondent's activities as a futures commission merchant, the Corporation shall notify the Respondent in writing that the imposition thereof may be subject to review by the appropriate regulatory agency for the Respondent pursuant to the provisions of Section 8c of the Commodity Exchange Act; with respect to Non-U.S. Clearing Members, such review shall lie solely with the Securities and Exchange Commission. Notwithstanding the foregoing, if the Board of Directors shall determine on its own motion to review any action by a Disciplinary Committee hereunder, such action shall not be deemed final until the Respondent is notified of the decision of the Board of Directors on review.

*Adopted February 11, 1976; amended January 19, 1978; May 28, 1982; May 16, 2002.*

(e) The summary suspension of a Clearing Member pursuant to Chapter XI of the Rules shall not be deemed to be a "sanction" within the meaning of this Rule 1202, and the provisions of this Rule shall be inapplicable to any such summary suspension.

*Adopted February 11, 1976; amended May 28, 1982.*

## **RULE 1203 - Discipline by Other Self-Regulatory Organizations**

Nothing in this Chapter XII shall affect the right of any self-regulatory organization to discipline its members pursuant to the provisions of its rules for a violation of the By-Laws and Rules of the Corporation.

*Amended May 12, 1983.*

\* \* \*

## **Chapter XIII – Futures, Futures Options and Commodity Options**

### **Introduction**

The Rules in this Chapter are applicable only to futures, futures options and commodity options other than commodity options that are cash-settled options, binary options or range options. In addition, the Rules in Chapters I through XII are also applicable to futures, futures options and commodity options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of futures, futures options or commodity options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Article supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in this Chapter. Rules applicable to commodity option contracts that are binary options or range options are set forth in Chapter XV, and Rules applicable to commodity options that are cash-settled options (other than binary options or range options) are set forth in Chapter XVIII.

*Adopted August 20, 2001. Amended May 16, 2002; August 1, 2003; May 10, 2004; October 26, 2005; March 20, 2009.*

## **RULE 1301 – Variation and Other Settlements Payments**

(a) At each settlement time for variation payments as set forth below, the Corporation shall determine the amount of the variation payment to be paid or received by buyers and sellers in respect of each outstanding contract in each series of futures. The amount of the variation payment for each such contract shall be equal to the relevant unit of trading (in the case of stock futures, physically-settled commodity futures, cash-settled foreign currency futures, and other cash-settled futures for which there is a unit of trading) or multiplier (in the case of index futures, variance futures, interest rate futures, or other cash-settled futures for which there is no unit of trading) multiplied by: (i) in the case of a contract that was opened since the most recent variation settlement, the current interim settlement price less the contract price at which such contract was opened (as such price may have been modified pursuant to Rule 1301A in the case of a contract that is part of a Price Differential Spread); (ii) in the case of a contract that was closed since the most recent settlement of variation payments was effected, the contract price at which such contract was closed less the previous interim settlement price, (iii) in the case of a contract that was neither opened nor closed since the most recent variation settlement, the current interim settlement price less the previous interim settlement price, and (iv) in the case of a contract that was both opened and closed since the most recent variation settlement, the contract price at which such contract was closed less the contract price at which it was opened (as such price may have been modified pursuant to Rule 1301A in the case of a contract that is part of a Price Differential Spread). If the result of the foregoing calculation is positive, the variation payment shall be owed by the Clearing Member that is, or represents, the seller to the Corporation, and by the Corporation to the Clearing Member that is, or represents, the buyer (subject to any rounding adjustment in the case of a contract that is part of a Price Differential Spread). If the result is negative, the variation payment shall be owed by the Clearing Member that is, or represents, the buyer to the Corporation, and by the Corporation to the Clearing Member that is, or represents, the seller (subject to any rounding adjustment in the case of a contract that is part of a Price Differential Spread).

*Adopted August 20, 2001. Amended May 16, 2002; August 1, 2003, May 10, 2004; October 3, 2006; January 24, 2008; March 25, 2009; June 24, 2011.*

(b) Settlement of variation payments, including final variation payments, shall be effected in accordance with Chapter V of the Rules on each business day at the settlement time for option premiums. Prior to each settlement time for such variation payments, the Corporation shall notify, in accordance with Chapter V of the Rules, each Clearing Member of the amount of the variation payments to be made or received by such Clearing Member. The Corporation and the Clearing Members shall make any required variation payments as provided in Chapter V of the Rules.

*Adopted August 20, 2001.*

(c) Intra-day variation settlements with respect to some or all classes of futures may be effected from time to time or regularly on each business day as determined by the Corporation. The Corporation shall notify affected Security Futures Clearing Members of any intra-day variation settlements and shall specify the settlement time for such settlements.

*Adopted August 20, 2001. Amended May 16, 2002.*

(d) Except as set forth in Interpretation and Policy .02 to this Rule 1301, on the business day following the maturity date of a series of futures: (i) the Corporation shall determine the final variation payment to be made on each contract in such series in accordance with the procedures specified in paragraph (a) above except that the final settlement price shall be used in place of an interim settlement price determined in accordance with Section 6(a) of Article XII of the By-Laws and (ii) settlement of the final variation payments shall be effected in accordance with Chapter V of the Rules at the settlement time for option premiums

*Adopted August 20, 2001. Amended May 16, 2002; January 24, 2008; October 22, 2010.*

(e) A Clearing Member must receive approval from the Corporation to engage in clearing of futures contracts for which variation payments are made in any currency other than U.S. dollars.

The Clearing Member must establish one or more accounts at a Clearing Bank designated by the Corporation for purposes of effecting payment in respect of each account with the Corporation in which the Clearing Member clears transactions in such futures contracts and must authorize the Corporation to draft each such bank account. Such authorization to draft may not be revoked except on five business days' prior written notice to the Corporation. In respect of the clearing of such contracts, the definition of "business day" set forth in Article I of the By-Laws shall not apply, and instead such term shall have such meaning as is designated by the Corporation in its procedures. If a Clearing Member or its non-U.S. dollar Clearing Bank fails for any reason to make funds available on a timely basis (as determined by the Corporation in its discretion) to satisfy a non-U.S. dollar variation payment due to the Corporation on any business day, in addition to the authority to take all other actions specified in the By-Laws and Rules, the Corporation shall have the authority to withdraw from the applicable U.S. dollar bank account of the Clearing Member an equivalent amount, as determined by the Corporation in its discretion, in U.S. dollars, along with an amount equal to any costs incurred by the Corporation in connection with such failure, and the Clearing Member shall be deemed to have satisfied its non-U.S. dollar payment obligation; provided, however, the Corporation may also fine or take other disciplinary action against a Clearing Member with respect to such failure. If the Corporation determines in its sole discretion that it is unable, for any reason, to make a variation payment due to a Clearing Member in non-U.S. dollars on any business day, the Corporation may satisfy such non-U.S. dollar payment obligation by paying an equivalent amount, as determined by the Corporation in its discretion, of U.S. dollars to such Clearing Member.

*Adopted October 22, 2010. Amended November 18, 2011.*

#### **...Interpretations and Policies:**

**.01** The Corporation has determined that it will not require intra-day variation payments on futures on a daily basis in the ordinary course. The Corporation reserves the right, however, to require such payments from time to time when in the discretion of the Corporation there are circumstances making such payments appropriate, including without limitation breach of any threshold set by the Corporation or during times of extreme market volatility.

*Adopted August 20, 2001. Amended May 16, 2002; April 25, 2012.*

**.02** For certain non-U.S. dollar settled futures designated by the Corporation, settlement of variation payments, including initial and final variation payments, shall be completed at the settlement time (specified by the Corporation in its procedures) on the *second* business day following the trading day on which the settlement price is determined.

*Adopted October 22, 2010.*

## **RULE 1301A - Price Differential Spreads**

(a) A "Price Differential Spread" is a pair of confirmed trades resulting from a type of order where the party placing the order seeks to simultaneously buy and sell futures contracts on the same underlying interest but with different contract months (each such transaction referred to as a "leg" of the Price Differential Spread), provided that the price at which contracts are bought in one leg less the price at which contracts are sold in the other leg (the "price differential") is no greater than the limit specified by such party. The party placing the order may choose to (i) record the contract prices of both legs of a Price Differential Spread at the prices at which the contracts are confirmed on the Exchange ("Spread Engine Prices"), or (ii) record the contract price of the contracts with the nearer contract month (the leg in which such contracts are bought or sold referred to as the "front leg") at the Exchange-reported closing price for such contracts on the trading day immediately preceding the day on which such contracts are executed, and record the contract price of the contracts with the more distant contract month (the leg in which such contracts are bought or sold referred to as the "back leg") at (A) the contract price of the front leg plus the price differential, if the front leg is the sale of futures contracts, or (B) the contract price of

the front leg less the price differential, if the front leg is the purchase of futures contracts ("Spread Settle Prices").

*Adopted June 24, 2011. Amended December 14, 2012*

(b) For purposes of Rule 401(a)(2), the report of a confirmed trade in futures contracts that is part of a Price Differential Spread shall (i) include both the Spread Engine Price and the Spread Settle Price, identifying which of these two prices is to be initially recorded as the contract price; and (ii) include the Exchange-assigned identification number (the "Price Differential Spread ID") which links the two legs of a Price Differential Spread to each other. In the case where each counterparty to the trade has entered into the trade as part of its own Price Differential Spread, the confirmed trade report shall identify separately with respect to each counterparty the price to be initially recorded as the contract price and the Price Differential Spread ID.

*Adopted June 24, 2011. Amended December 14, 2012*

(c) A Clearing Member that has entered into a Price Differential Spread may, prior to such deadline as the Corporation may specify from time to time, modify the contract prices of the two legs of the Price Differential Spread as initially recorded on the Corporation's books and records by changing its initial election as between the Spread Engine Prices and the Spread Settle Prices.

*Adopted June 24, 2011.*

(d) When a Clearing Member elects to record the contract prices of both legs of a Price Differential Spread using the Spread Settle Prices, rounding the Spread Settle Prices to the nearest applicable adjustment increment in accordance with the Corporation's By-Laws and Rules for purposes of calculating the initial variation payments on the trades may result in the Clearing Member paying slightly more, or receiving slightly less, than it would have paid or received if it had elected to record the trades using the Spread Engine Prices.

*Adopted June 24, 2011.*

#### **. . . Interpretations and Policies:**

**.01** Price Differential Spread transactions are available only with respect to futures contracts within the exclusive jurisdiction of the Commodity Futures Trading Commission that are traded on designated contract markets having rules that provide for such transactions.

*Adopted June 24, 2011.*

**.02** A Clearing Member may modify contract prices only with respect to confirmed trades in futures contracts for which a Price Differential Spread ID has been reported by the Exchange.

*Adopted June 24, 2011. Amended December 14, 2012*

## **RULE 1302 - Delivery of Underlying Securities**

At maturity of a physically-settled stock future, in addition to the final variation payment (if any) required by Rule 1301(d), the Clearing Member that is, or that represents, the seller shall be obligated to deliver, and the Clearing Member that is, or that represents, the buyer shall be obligated to receive and pay for, a quantity of the underlying security equal to the unit of trading at the aggregate purchase price. Settlement of the obligations to deliver and pay for such underlying securities shall be effected in accordance with the provisions of Chapter IX of the Rules. The delivery date shall be the second business day following the maturity date of the applicable series of physically-settled stock futures except for series that are designated by the Exchange on which such series are traded for settlement on the first business day following the maturity date of the applicable series.

*Adopted August 20, 2001. Amended March 25, 2009; January 28, 2014; September 5, 2017*

## **RULE 1302A - Delivery of Underlying Metals**

(a) A Clearing Member that is, or represents, the seller in respect of a physically-settled metals future may make delivery of the underlying interest at such times prior to maturity of the futures contract as may be specified in the Exchange Rules of the Exchange on which such futures contracts are traded, provided that such Clearing Member must make delivery no later than the last business day of the delivery month for such future. The delivery process shall be initiated through the submission (or deemed submission) by such Clearing Member of a delivery intent in accordance with the Exchange Rules. A Clearing Member that is, or that represents, the buyer in respect of a physically-settled metals future shall become obligated to receive the underlying metal and pay the delivery payment amount when a delivery intent is assigned to such buyer by the Exchange. On the business day following its receipt of one or more delivery intents, the Exchange will inform the Corporation of such receipt, the identity of each Delivering Clearing Member and each Receiving Clearing Member, and the total amount payable to each Delivering Clearing Member and payable by each Receiving Clearing Member in respect of the delivery(ies) covered by such delivery intent(s). The delivery date for each physically-settled metals future in respect of which such a notice has been provided shall be the business day following receipt by the Corporation of such notice. Delivery of the underlying interest shall be effected through delivery of a vault receipt or warehouse depository receipt (which represents a proportional interest in a specified pool of vault receipts relating to all warehouse depository receipts), by the Delivering Clearing Member to the Corporation and by the Corporation to the Receiving Clearing Member through the facilities of the Exchange in accordance with Exchange Rules; provided, however, that the Corporation shall not become an endorser of any vault receipt or warehouse depository receipt or assume the responsibilities of an endorser under Exchange Rules. In respect of deliveries made prior to the date specified by the Exchange as the beginning of the transition period, vault receipts shall be in physical form. In respect of deliveries made after such date, but prior to the date specified by the Exchange as the end of the period covering the transition from physical to electronic receipts, vault receipts may be in either physical or electronic form. In respect of deliveries made after the end of such transition period, vault receipts shall be in electronic form. Warehouse depository receipts shall in all cases be in electronic form.

*Adopted March 25, 2009. Amended May 16, 2013*

(b) In connection with any delivery in settlement of a physically-settled metals future, the Delivering Clearing Member shall be deemed to have represented that all vault receipts or warehouse depository receipts (and all metals represented thereby) are owned legally and beneficially by the Delivering Clearing Member (or the seller represented by such Delivering Clearing Member), and that all vault receipts or warehouse depository receipts (and all metals represented thereby) are free and clear of all liens and encumbrances (other than for storage costs associated with the metals). The Delivering Clearing Member [hereby] grants to the Corporation, from the time the delivery intent is submitted or deemed to be submitted, a lien on all vault receipts (whether held in physical or electronic form) or warehouse depository receipts (and related proportional interest in underlying vault receipts) covered by the delivery intent as security for the Delivering Clearing Member's obligations to the Corporation, together with all metals or other assets represented thereby or described therein, all agreements and contract rights related thereto, and in each case all proceeds thereof, whether now owned or existing or hereafter arising or acquired. Unless the Corporation has provided the Exchange with notice of a default by the Delivering Clearing Member with respect to the related vault receipt (whether held in physical or electronic form) or warehouse depository receipt prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) on the related delivery date, the lien granted by such Delivering Clearing Member on such vault receipt (whether held in physical or electronic form) or warehouse depository receipt hereunder, together with all metals or other assets represented thereby or described therein, all agreements and contract rights related thereto, and in each case all proceeds thereof, shall be automatically released at such time. Without regard to any other provision of the By-Laws or Rules or of the Exchange Rules, the Corporation shall have no liability for any defect in, or alteration or forgery of, or encumbrance on, any vault receipt (whether held in physical or electronic form) or warehouse depository receipt, or for any deficiency in the



quantity or quality of, or encumbrance on, the metals represented by any such document or electronic entry; and in any such event, the buyer shall have such remedies as are provided in the Exchange Rules.

*Adopted March 25, 2009. Amended May 16, 2013*

(c) On the delivery date in respect of a physically-settled metals future, the Corporation shall effect settlement of the delivery payment amount by withdrawing such delivery payment amount from the Receiving Clearing Member's bank account established in respect of the Receiving Clearing Member's account at the Corporation in which the related long futures position is carried, and shall cause such delivery payment amount to be credited to the Delivering Clearing Member's bank account established in respect of the Delivering Clearing Member's account in which the related short futures position is carried. The Receiving Clearing Member grants to the Corporation a security interest in whatever rights it may have in any vault receipt (whether held in physical or electronic form) or warehouse receipt (and related proportional interest in underlying vault receipts) to be delivered to it pursuant to the Exchange Rules and the By-laws and Rules, together with all metals or other assets represented thereby or described therein, all agreements and contract rights related thereto, and in each case all proceeds thereof, whether now owned or existing or hereafter arising or acquired, as security for the Receiving Clearing Member's obligation to pay the delivery payment amount, and in the event that Receiving Clearing Member fails to make such payment, the Corporation shall have the rights set forth in the By-Laws and Rules including, without limitation, Rule 1308A. Unless the Corporation has provided the Exchange with notice of a default by the Receiving Clearing Member with respect to the related vault receipt (whether held in physical or electronic form) or warehouse depository receipt prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) on the related delivery date, the lien granted by such Receiving Clearing Member on such vault receipt (whether held in physical or electronic form) or warehouse depository receipt hereunder, together with all metals or other assets represented thereby or described therein, all agreements and contract rights related thereto, and in each case all proceeds thereof, shall be automatically released at such time.

*Adopted March 25, 2009. Amended July 1, 2009; May 16, 2013*

(d) In the event that the Exchange has not received a delivery intent with respect to one or more physically-settled metals futures carried in a short position in any account of a Clearing Member prior to such final deadline for submission of delivery intents as may be specified by the Exchange, the Clearing Member shall be deemed to have submitted a delivery intent in respect of each such future (and shall be deemed to be a Delivering Clearing Member), the Exchange shall simultaneously be deemed to have informed the Corporation of the submission of such delivery intent and, in the event that the Clearing Member fails to make the underlying vault receipt or warehouse depository receipt available to the Exchange for delivery, the provisions of Rule 1308A shall apply.

*Adopted March 25, 2009.*

(e) The Corporation is authorized to file financing statements describing all vault receipts and warehouse depository receipts and any related security pledged by such Clearing Member to the Corporation pursuant to clauses (b) and (c) above. In connection with such filings, each Clearing Member shall provide the Corporation with prompt prior written notice of any change in its: (i) legal name, (ii) jurisdiction of organization, (iii) chief executive office and principal place of business, or (iv) identity or corporate structure.

*Adopted May 16, 2013*

## **Rule 1302B - Delivery of Underlying Treasury Securities**

(a) A Clearing Member that is, or represents, the seller in respect of a physically-settled Treasury future may make delivery of the underlying Treasury securities on any business day of the maturity month for such physically-settled Treasury future and, in the case of a physically-settled

Treasury future for which the underlying Treasury security is a Treasury Note designated by the Exchange as "medium-term" or "short-term," on the first, second or third business day of the month following the maturity month. A Clearing Member that has not closed out a short position in a series of physically-settled Treasury futures prior to the close of trading on the last trading day for such series *must* make delivery no later than the last permissible delivery date. The delivery process shall be initiated through the submission (or deemed submission) by such Clearing Member of a delivery intent in accordance with this Rule 1302B. The delivery date for each physically-settled Treasury future in respect of which a delivery intent has been submitted (or deemed to have been submitted) shall be the second business day following such submission (or deemed submission). The Corporation shall from time to time in its discretion prescribe the times by which Clearing Members must submit delivery intents, make delivery or payment or take certain other actions required by this Rule 1302B in connection with deliveries of the underlying interests for physically-settled Treasury futures.

(b) Each Delivering Clearing Member and each Receiving Clearing Member in respect of Treasury securities shall designate, in such manner as the Corporation may prescribe, a correspondent bank where Treasury securities deliverable to such Clearing Member in settlement of physically-settled Treasury futures shall be delivered and paid for. Each Receiving Clearing Member in respect of Treasury securities shall provide to the Corporation standing banking instructions, which may be revised by means specified by the Corporation and upon such advance notice as the Corporation may specify from time to time.

(c) Deliveries of Treasury securities shall be by book-entry transfer between accounts of Clearing Members at correspondent banks designated by Clearing Members pursuant to this Chapter XIII for settlement purposes. Such deliveries shall be in accordance with Part 357 and subpart O of Part 306 of the regulations of the Department of the Treasury.

(d) By the applicable deadline on the second business day preceding the first day of a delivery month for physically-settled Treasury futures and on each business day thereafter through and including the final trading day within such delivery month, each Clearing Member that is, or represents, the buyer shall provide to the Corporation, in such format as the Corporation may prescribe, a report of all open long positions in such futures, grouped by account type and trade date.

(e) A Clearing Member intending to make delivery in respect of a short position in physically-settled Treasury futures on a particular delivery date shall tender a delivery intent by the applicable deadline on the second business day preceding such delivery date. The Corporation shall assign delivery intents in accordance with prescribed procedures to Clearing Members with open long positions in the same series of futures, and such Clearing Members shall be obligated to take delivery. Upon making such assignment, the Corporation shall furnish to each Delivering Clearing Member the names of the Receiving Clearing Members assigned to take delivery from such Delivering Clearing Member, and to each Receiving Clearing Member the names of the Delivering Clearing Members assigned to make delivery to such Receiving Clearing Member.

(f) Each Delivering Clearing Member shall prepare invoices, in the form prescribed by the Corporation, addressed to each Receiving Clearing Member assigned to take delivery from such Delivering Clearing Member. Such invoices shall: (i) identify the Treasury securities that the Delivering Clearing Member is obligated to tender to the Receiving Clearing Member, which shall be deliverable grade securities unless the Corporation has determined, pursuant to Article XII, Section 8(b) of the By-Laws to permit the delivery of non-deliverable grade Treasury securities in respect of the series of Treasury futures to which the relevant delivery intent relates; and (ii) show the delivery payment amount. Each Delivering Clearing Member shall submit such invoices to the Corporation by the applicable deadline on the business day preceding the delivery date. Upon receipt of such invoices, the Corporation shall furnish them to the Receiving Clearing Members to whom they are addressed.

(g) All deliveries and payments pursuant to this Rule 1302B shall be made at such correspondent banks designated, and in accordance with wire instructions of the Receiving Clearing Member provided, pursuant to Rule 1302B(b). By the applicable deadline on the delivery date, the Receiving Clearing Member shall make funds available, and shall notify its correspondent bank to accept the Treasury securities described in the relevant invoice and to remit immediately available funds to the account of the Delivering Clearing Member, at the Delivering Clearing Member's correspondent bank. In the event the Receiving Clearing Member does not agree with the terms of the invoice received from the Delivering Clearing Member, the Receiving Clearing Member shall notify the Delivering Clearing Member and the Corporation, and if the Delivering Clearing Member and the Receiving Clearing Member do not resolve the dispute on the delivery date, by such time as shall be specified by the Corporation from time to time, the invoice terms shall be established by the Corporation in its sole discretion.

(h) By the applicable deadline on the delivery date, the Delivering Clearing Member shall have the Treasury securities described in the relevant invoice in place at its correspondent bank, in deliverable form that is acceptable to its correspondent bank, and shall notify its correspondent bank to transfer such Treasury securities by book entry, on a delivery versus payment basis, to the account of the Receiving Clearing Member at the Receiving Clearing Member's correspondent bank. By the applicable deadline on the delivery date, the Receiving Clearing Member shall take delivery and make payment. In the case of banking holidays, the Receiving Clearing Member shall take delivery and make payment by the applicable deadline on the next business day. Settlement shall be made in immediately available funds on a delivery versus payment basis.

(i) In the event that delivery of Treasury securities in settlement of the Delivering Clearing Member's obligations cannot be accomplished because of a failure of the Federal Reserve wire, or because of a failure of either the Receiving Clearing Member's correspondent bank or the Delivering Clearing Member's correspondent bank to access the Federal Reserve wire, delivery shall be made by the applicable deadline on the next business day on which the Federal Reserve wire, or bank access to it, is operable. In the event of such failure, the Delivering Clearing Member shall remit to the Receiving Clearing Member such interest on the Treasury securities being delivered as accrues between the delivery date and the day on which such securities are actually delivered. Both the Receiving Clearing Member and the Delivering Clearing Member shall provide to the Corporation evidence in such form and by such deadline as the Corporation may specify from time to time that they gave instructions to their respective correspondent banks in accordance with this Rule 1302B and that they complied with all other provisions of this Rule 1302B.

(j) If a physically-settled Treasury future carried in a short position remains open subsequent to the close of trading on the last trading day for the relevant series of physically-settled Treasury futures, and the Corporation has not received a delivery intent with respect to such future by the applicable deadline on the second business day preceding the final permissible delivery date, the Clearing Member shall be deemed to have submitted a delivery intent in respect of each such future (and shall be deemed to be a Delivering Clearing Member), and, in the event that the Clearing Member fails to make delivery of the underlying Treasury security, the provisions of Rule 1308B shall apply.

(k) The Delivering Clearing Member and the Receiving Clearing Member in respect of one or more physically-settled Treasury futures may mutually agree to make and take delivery under terms or conditions which differ from the terms and conditions prescribed in paragraphs (a) through (j) of this Rule 1302B. In such a case, Clearing Members shall execute an Alternate Settlement Notification on the form prescribed by the Corporation identifying the physically-settled Treasury future(s) with respect to which the terms and conditions set forth in (a) through (j) shall not apply and providing such other information as shall be specified by the Corporation, and shall submit to the Corporation, in such manner and in such timeframes as the Corporation may prescribe, an executed copy of such notice. The proper delivery of an executed Alternate

Settlement Notification to the Corporation shall release the Clearing Members from their respective obligations to the Corporation and the Corporation from its obligations to the Clearing Members under the physically-settled Treasury future(s) identified on such Alternate Settlement Notification. By submitting an Alternate Settlement Notification, Clearing Members shall jointly and severally indemnify each of the Corporation and the Exchange on which the physically-settled Treasury futures identified on such Alternate Settlement Notification are traded against any claim, liability, cost or expense (including attorneys' fees) it may incur for any reason as a result of the execution, delivery or performance of such Alternate Settlement Notification or in respect of obligations under the Treasury future(s) identified on such Alternate Settlement Notification, or any breach thereof or default thereunder.

*Adopted November 20, 2009.*

***Interpretations and Policies:***

**.01** For purposes of delivery settlement pursuant to this Rule 1302B, both the Receiving Clearing Member's and Delivering Clearing Member's correspondent bank shall be a U.S. commercial bank (either Federal or State charter) that is a member of the Federal Reserve System, that maintains a terminal providing access to the Federal Reserve wire, that has agreed to act as agent for such Clearing Member in accepting delivery of Treasury securities and making payment therefor and that has capital (capital, surplus and undivided earnings) in excess of \$100 million.

**.02** Subject to the condition that all Treasury securities delivered against a single physically-settled Treasury futures contract shall be of the same issue, the delivery obligation of the Delivering Clearing Member in respect of a physically-settled Treasury future shall not require delivery of a particular issue of Treasury securities, but rather may be satisfied through delivery of Treasury securities that have a fixed principal amount and fixed semi-annual coupon payments and satisfy the criteria specified by the Exchange on which the Treasury future is traded and reflected in the Corporation's procedures.

Notwithstanding the foregoing, the Corporation shall have the right to determine that any new issue is not eligible for delivery or to further limit outstanding issues from delivery eligibility, or to permit delivery of Treasury securities not satisfying the above criteria.

The per-contract delivery payment amount for a series of physically-settled Treasury futures consists of a base settlement price, multiplied by the unit of trading and a conversion factor established by the Exchange on which such series is trading, with accrued interest added to the resulting product. The base settlement price in respect of a delivery on any date other than the final permissible delivery date for a series of physically-settled Treasury futures shall be the interim settlement price for such series on the date on which the delivery intent is submitted to the Corporation, and in respect of a delivery on the final permissible delivery date shall be the final settlement price for such series. The conversion factor is designed to adjust the base settlement price to account for the characteristics of the Treasury securities being delivered.

*Amended November 5, 2012.*

**.03** In assigning delivery intents pursuant to paragraph (e) of this Rule 1302B, the Corporation shall rely on the report submitted by each Clearing Member pursuant to paragraph (d) of this Rule 1302B, and to the extent the long positions in a series of physically-settled Treasury futures listed on such report for any account exceed the long positions open in such account as of the date of such report, and as a result the Clearing Member receives assignments of deliveries for a number of contracts exceeding the long positions held by such Clearing Member in such account, such assignments shall result in the creation of a short position in such account equal to such excess. In such event, the Clearing Member may tender a delivery intent in respect of such short position.

*Adopted July 1, 2009.*

## **RULE 1303 - Associate Clearinghouses**

(a) The Corporation may agree with an associate clearinghouse to open one or more omnibus accounts for such associate clearinghouse for the purpose of enabling its clearing members to clear trades in futures, futures options and commodity options through the facilities of the Corporation. The terms of such an arrangement shall be set forth in a separate written agreement, which shall provide, inter alia, that the associate clearinghouse shall be a Clearing Member in respect of the omnibus account(s) for purposes of the By-Laws and Rules, except to the extent otherwise provided in such agreement, and shall be primarily liable for the obligations of its clearing members in respect of trades cleared through the omnibus account(s).

*Adopted August 20, 2001. Amended May 16, 2002; October 11, 2002; March 20, 2009.*

(b) Effective on the date determined by the Corporation to be the date one year after the commencement of general trading in security futures, any Clearing Member and any affiliated entity of a Clearing Member that is itself eligible to become a Clearing Member will be prohibited from clearing futures through an associate clearinghouse without the consent of the Corporation. For purposes of this Rule 1303, an entity shall be deemed to be an affiliated entity of a Clearing Member if the Clearing Member owns, directly or indirectly, at least 50% of the equity in such entity or if at least 50% of the equity in the Clearing Member and in such entity is, directly or indirectly, under common ownership.

*Adopted August 20, 2001. Amended May 16, 2002; October 11, 2002.*

### **...Interpretation & Policies:**

**.01** If permitted in the Corporation's agreement with an associated clearinghouse, any affiliated entity of a Clearing Member may continue to clear transactions in futures through the associated clearinghouse if it is substantially larger than the Clearing Member notwithstanding provisions of paragraph (b) of this Rule.

*Adopted October 11, 2002.*

## **RULE 1304 - Acceleration of Maturity Date**

When a stock future is adjusted pursuant to Section 3 of Article XII to require the delivery upon maturity of a fixed amount of cash, the maturity date of the future will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the underlying security to a right to receive cash occurs. The final settlement price for the future will be equal to the amount of cash into which the underlying security has been converted.

*Adopted October 4, 2002. Amended July 18, 2012.*

## **RULE 1305 - Exercise Procedures for Options on Futures**

(a) Exercise notices and assignments thereof in respect of options on futures contracts that are submitted on any day other than the expiration date for such options shall be governed by the provisions of Rules 801 through 803.

*Adopted March 25, 2009.*

(b) The expiration exercise procedures set forth in Rule 805 shall apply to options on futures contracts except for paragraphs (d) and (j) thereof. The provisions of Rule 805 shall be supplemented by paragraphs (b) and (c) of this Rule.

*Adopted March 25, 2009. Amended June 17, 2013*

(c) Any Clearing Member holding an option on a futures contract shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on each expiration date, an exercise notice with respect to every expiring commodity futures option contract listed in the Clearing Member's Expiration Exercise Report that is in the money by such threshold amount as the Corporation may from time to time establish with respect to particular

classes of options, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b).

*Adopted March 25, 2009.*

(d) Notwithstanding paragraphs (a) - (c) of this rule, a futures market on which a futures option is traded may instruct the Corporation to restrict or prevent a Clearing Member holding a futures option from (1) exercising a futures option in the relevant class if such futures option is out of the money, and (2) instructing the Corporation not to exercise a futures option in the relevant class if such futures option is in the money. For the avoidance of doubt, however, the provisions of this subparagraph shall not apply to any futures option on a security future.

*Adopted: January 19, 2018*

(e) Notwithstanding paragraphs (a) - (c) of this rule, a futures market on which a futures option is traded may instruct the Corporation to automatically exercise the call option in the relevant class if it settles at exactly the option strike price. As provided in paragraphs (a) - (c) of this rule, a put option in the relevant class would not be automatically exercised if it settles at exactly the option strike price. For the avoidance of doubt, however, the provisions of this subparagraph shall not apply to any futures option on a security future.

*Adopted: January 19, 2018*

## **RULE 1306 - Requests for Offset of Futures Contracts**

A Clearing Member may submit a request for offset in respect of futures contracts with the same underlying interest but a different unit of trading, where Exchange Rules permit such offsets, in such ratios as determined by the Exchange. Requests for offsets shall be submitted and offset positions shall be adjusted according to the procedures of the Corporation as specified from time to time.

*Adopted March 25, 2009.*

## **RULE 1307 - Retendering**

In the event that a Clearing Member that holds a long position in a series of physically-settled metals futures effects a closing sale transaction in the same series of futures contracts in the same account and is assigned a delivery intent in respect of such long position, whether or not such Clearing Member has received notice of such assignment, such sale shall be treated as an opening sale, and such Clearing Member may retender the underlying interest purchased by the Clearing Member under the assigned delivery intent by submitting a delivery intent with respect to the short position created by the opening sale in accordance with Exchange Rules.

*Adopted March 25, 2009.*

## **Rule 1308A - Failure by Clearing Member to Deliver or Receive Underlying Metals**

Rule 1308A. (a) If a Delivering Clearing Member in respect of a physically-settled metals future has failed to make a deliverable vault receipt (whether held in physical or electronic form) or warehouse depositary receipt available to the Exchange for delivery in the manner prescribed by Exchange Rules and Rule 1302A, the Exchange shall notify the Corporation of such failure prior to the close of business on the business day prior to the settlement date and the Corporation may withhold payment to the Delivering Clearing Member. In addition, the Corporation shall determine and assess the damages incurred by the Receiving Clearing Member as a result of such failure, taking into account the delivery payment amount, the market price of the underlying interest,

market conditions generally and reasonable and customary transaction costs applicable to transactions in the underlying interest, and such damages shall be paid by the Corporation to the Receiving Clearing Member and the Corporation is authorized to withdraw the amount of such damages from the applicable bank account of the defaulting Delivering Clearing Member. For the avoidance of doubt, a vault receipt (whether in physical or electronic form) or a warehouse receipt shall be deemed not to be in deliverable form if such receipt is subject to any lien or encumbrance (other than the Corporation's own lien on such receipts prior to delivery or a lien for storage costs associated with the metals that has been subordinated to the Corporation's own lien as provided in the Exchange Rules).

*Adopted March 25, 2009. Amended May 16, 2013*

(b) If a Receiving Clearing Member shall refuse or fail to pay the Corporation the delivery payment amount due from such Receiving Clearing Member on the delivery date, the Corporation shall notify the Exchange of such failure by 10:00 a.m. Central Time (11:00 a.m. Eastern Time) on the delivery date and the Exchange shall withhold delivery of the vault receipts or warehouse depository receipts representing the underlying interest. In addition, the Corporation shall determine and assess the damages incurred by the Delivering Clearing Member as a result of such failure, taking into account the delivery payment amount, the market price of the underlying interest, market conditions generally and reasonable and customary transaction costs applicable to transactions in the underlying interest, and such damages shall be paid by the Corporation to the Delivering Clearing Member and the Corporation is authorized to withdraw the amount of such damages from the applicable bank account of the defaulting Receiving Clearing Member.

*Adopted March 25, 2009.*

(c) Every determination of damages by the Corporation in respect of a failure of a Delivering Clearing Member or Receiving Clearing Member pursuant to this Rule 1308A shall be within the sole discretion of the Corporation and shall be conclusive and binding on all Clearing Members and not subject to review.

*Adopted March 25, 2009. Amended July 1, 2009.*

## **Rule 1308B - Failure by Clearing Member to Deliver or Receive Underlying Treasury Securities**

(a) If a Delivering Clearing Member in respect of a physically-settled Treasury future has failed to make delivery in the manner prescribed by Rule 1302B, the Receiving Clearing Member shall notify the Corporation of such failure within sixty (60) minutes of the time the Delivering Clearing member is required to have deliverable grade Treasury securities in place at its correspondent bank pursuant to Rule 1302B(h), and the Corporation shall determine and assess the damages incurred by the Receiving Clearing Member as a result of such failure, taking into account the delivery payment amount, the market price of the underlying interest, market conditions generally and reasonable and customary transaction costs applicable to transactions in the underlying interest. Such damages shall be paid by the Corporation to the Receiving Clearing Member, and the Corporation is authorized to withdraw the amount of such damages from the applicable bank account of the defaulting Delivering Clearing Member.

(b) If a Receiving Clearing Member shall refuse or fail to pay the Delivering Clearing Member the delivery payment amount due from such Receiving Clearing Member on the delivery date, the Delivering Clearing Member shall notify the Corporation of such failure within sixty (60) minutes of the time the Receiving Clearing member is required to take delivery and make payment pursuant to Rule 1302B(g), and the Corporation shall determine and assess the damages incurred by the Delivering Clearing Member as a result of such failure, taking into account the delivery payment amount, the market price of the underlying interest, market conditions generally and reasonable and customary transaction costs applicable to transactions in the underlying interest. Such damages shall be paid by the Corporation to the Delivering Clearing Member, and the

Corporation is authorized to withdraw the amount of such damages from the applicable bank account of the defaulting Receiving Clearing Member.

(c) Every determination of damages by the Corporation in respect of a refusal or failure of a Delivering Clearing Member or Receiving Clearing Member pursuant to this Rule 1308B shall be within the sole discretion of the Corporation and shall be conclusive and binding on all Clearing Members and not subject to review.

(d) Each delivery settlement in respect of a physically-settled Treasury future shall be deemed to have been properly completed, and the obligations of the relevant Delivering Clearing Member and Receiving Clearing Member shall be deemed to have been fully discharged, unless, in the case of a refusal or failure by the Receiving Clearing Member, the Delivering Clearing Member shall have notified the Corporation of such refusal or failure, or in the case of a refusal or failure by the Delivering Clearing Member, the Receiving Clearing Member shall have notified the Corporation of such refusal or failure, in either case by the deadline specified by the Corporation pursuant to Rule 1308B(a) or Rule 1308B(b), as applicable. Notwithstanding the provisions of Rule 1308B(a) or Rule 1308B(b), the Corporation shall have no obligation to pay damages with respect to a delivery in respect of a physically-settled Treasury future deemed to have been completed pursuant to this Rule 1308B(d).

*Adopted July 1, 2009.*

## **RULE 1309 - Disciplinary Action for Failure to Deliver or Receive**

If, without good cause, a Delivering Clearing Member fails to discharge its delivery obligations under Rule 1308A or 1308B, or a Receiving Clearing Member refuses to accept or fails to pay the settlement amount for an underlying interest tendered to it pursuant to Rule 1308A or 1308B, such failure or refusal may be deemed to constitute a delay embarrassing the operations of the Corporation, and may be subject to discipline under Chapter XII of the Rules. The Chief Executive Officer or Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer of the Corporation shall have the authority to determine, subject to review as provided in Chapter XII of the Rules, whether good cause existed for any such failure to deliver or receive.

*Amended March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

### ***...Interpretations and Policies:***

**01.** As used in Rule 1309, "good cause" shall be deemed by the Corporation to include, in respect of the settlement of physically-settled Treasury futures, but not to be limited to, failure of the Federal Reserve wire or the failure of access to such wire by the correspondent bank of either the Receiving or the Delivering Clearing Member, provided settlement is made on the next business day on which such wire is operable.

*Adopted July 1, 2009.*

\* \* \*



## **Chapter XIV - Treasury Securities Options**

### **Introduction**

The rules in this Chapter are applicable only to Treasury Securities options (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to such options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of Treasury securities options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted October 14, 1982; June 16, 1989.*

### **RULE 1401 - Expiration Exercise Procedure for Treasury Securities Options**

The expiration exercise procedures set forth in Rule 805 shall be applicable to European-style Treasury securities options, except paragraph (j) thereof. For purposes of this Rule 1401, the term "closing price" as used with respect to an underlying security in Rule 805 means the price provided by the Exchange to the Corporation. Notwithstanding the foregoing, if the Exchange does not furnish a closing price or if two or more Exchanges trade Treasury securities options on the same underlying security and provide different prices for such security, the Corporation may, in its discretion, (i) fix a closing price on such basis as it deems appropriate in the circumstances or (ii) suspend the application of Rule 805(d)(2) to options contracts for which that security is the underlying security. During the term of any such suspension, Clearing Members may exercise such contracts only by giving affirmative exercise instructions in accordance with Rules 805(b) or (c).

*Amended October 18, 1995; January 23, 2013; June 17, 2013*

[Rule 1404 supplements Rule 805.]

*Adopted October 14, 1982; amended March 12, 1986, October 18, 1995.*

### **RULE 1402 - Exercise Settlement Date for Treasury Securities Options**

(a) The exercise settlement date for Treasury securities options shall be the second business day following the expiration date.

*Amended January 23, 2013*

(b) The Chief Executive Officer, Chief Operating Officer, or the delegate of any such officer, may extend or postpone any exercise settlement date for Treasury securities options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

*Amended January 23, 2016; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

### **RULE 1403 - Exercise Settlement of Treasury Securities Options**

(a) Every Treasury Securities Clearing Member either (i) shall be and shall remain a participant in the Government Securities Division ("GSD") of the Fixed Income Clearing Corporation ("FICC") or (ii) shall designate a GSD participant as its representative to submit trade information into FICC's real-time trade matching system as specified in this Rule. In the event a Treasury

Securities Clearing Member has designated such a representative, such Clearing Member shall notify the Corporation of the designation or any changes thereto in advance of the effective date thereof with such notice being provided in accordance with the procedures specified by the Corporation from time to time. Under no circumstances will the Corporation be liable or have any obligation to such representative, and by making such designation the Clearing Member agrees to be bound by, and to indemnify, defend, hold and save harmless the Corporation from any claims, demands, actions or lawsuits of any kind whatsoever arising in any way from, any action taken or any delay or failure to take action by its designated representative in submitting trade information as provided for in this Rule.

*Adopted January 23, 2013*

(b) Prior to the time specified by the Corporation with respect to each expiration date for Treasury securities options, the Corporation shall determine, as to each account of each Treasury Securities Clearing Member, the number of exercised and assigned option contracts of each series of Treasury securities options expiring on such date and make available to each such Treasury Securities Clearing Member an Exercise Settlement Report reflecting the quantity of each issue of Treasury securities to be delivered by, or received from, such Clearing Member, the Clearing Member to which the Clearing Member must deliver such issue or make payment, as applicable, and the amount payable against delivery of the underlying Treasury security, which shall be the aggregate exercise price increased by the amount of accrued interest (if any) up to but not including the exercise settlement date (regardless of the date on which settlement is made) and multiplied by the number of contracts to be settled. Such Exercise Settlement Reports shall include the name of the representative designated by the Treasury Securities Clearing Member pursuant to Rule 1403(a), if applicable, and shall serve in lieu of the Delivery Advices otherwise required to be made available under the Rules.

*Adopted January 23, 2013. Amended June 17, 2013*

(c) Prior to the time specified by the Corporation on the first business day following the expiration date for Treasury securities options, each Treasury Securities Clearing Member, or its representative, that has been notified pursuant to Rule 1403(a) that it is obligated to make or receive delivery with respect to a Treasury securities option shall submit trade information to the real time trade matching system of FICC in order to effect settlement pursuant to the rules of FICC in accordance with the Clearing Member's obligations set forth in the Exercise Settlement Report. Once a trade has been successfully matched at FICC, the Corporation shall have no further obligation to guarantee or effect settlement, provided however that the Delivering Clearing Member and the Receiving Clearing Member shall not be relieved of any settlement obligations they may have to FICC or each other.

*Amended January 23, 2013*

(d) If a trade required to be completed pursuant to this Rule has not been successfully matched at FICC, the Delivering Clearing Member and the Receiving Clearing Member shall notify the Corporation in such manner and within such time on the first business day following the expiration date as the Corporation shall specify. If the Corporation has not received such notification by the specified deadline, regardless of whether settlement actually occurs, any obligation of the Corporation to guarantee or effect settlement shall be extinguished as of such deadline (unless such obligation has already been extinguished pursuant to Rule 1403(b)), provided however that the Delivering Clearing Member and the Receiving Clearing Member shall not be relieved of any settlement obligations they may have to FICC or one another.

*Adopted January 23, 2013*

[Rule 1406 replaces Rule 901 and, together with Rule 1405, replaces Rule 902.]

*Adopted October 14, 1982; amended March 12, 1986; January 29, 1991.*

***...Interpretations and Policies:***

**.01** The Corporation may perform the operations described in Rule 1403(b) and make available Exercise Settlement Reports on a day other than that specified in Rule 1403(b) if necessary or desirable because of holidays or unforeseen circumstances.

*Adopted October 14, 1982, Amended January 29, 1991; January 23, 2013*

**RULE 1404 - Failure to Match**

(a) If the Corporation, pursuant to Rule 1403(d), receives timely notice of a failure to match a trade, the affected Clearing Members shall attempt to resolve any such failure so that settlement may still occur through FICC by such time on the second business day following the expiration date as the Corporation shall specify. If by such deadline the failure has not been resolved and the trade has still not been successfully matched at FICC, the Delivering Clearing Member and the Receiving Clearing Member shall notify the Corporation in such manner and within such time on the second business day following the expiration date as the Corporation shall specify. If the Corporation has not received such notification by the specified deadline, regardless of whether settlement actually occurs, any obligation of the Corporation to guarantee or effect settlement shall be extinguished as of such deadline (unless such obligation has already been extinguished pursuant to Rule 1403(b)), provided however that the Delivering Clearing Member and the Receiving Clearing Member shall not be relieved of any settlement obligations they may have to FICC or one another.

*Adopted January 23, 2013*

(b) If the Corporation receives notification of a failure to match pursuant to Rule 1404(a), the Corporation shall determine and assess the damages incurred by the Receiving Clearing Member, if any, as a result of such failure. In the event the Receiving Clearing Member has responded to the failure by purchasing the underlying Treasury security it would have received, it shall as promptly as possible on the day of execution notify the Corporation and the Delivering Clearing Member, in such manner as the Corporation shall specify, of the quantity purchased and the price paid. In determining and assessing the damages incurred by the Receiving Clearing Member as a result of the failure to match, the Corporation shall take into account the settlement amount, the market price of the underlying Treasury security, the quantity purchased and price paid reported by the Receiving Clearing Member (if applicable), market conditions generally and reasonable and customary transaction costs applicable to transactions in the underlying Treasury security. Such damages shall be paid by the Corporation to the Receiving Clearing Member and the Corporation is authorized to withdraw the amount of such damages from the applicable bank account of the Delivering Clearing Member.

*Adopted January 23, 2013*

(c) If the Corporation receives notification of a failure to match pursuant to Rule 1404(a), the Corporation shall determine and assess the damages incurred by the Delivering Clearing Member, if any, as a result of such failure. In the event the Delivering Clearing Member responds to the failure by selling the underlying Treasury security it would have delivered, it shall as promptly as possible on the day of execution notify the Corporation and the Receiving Clearing Member, in such manner as the Corporation may specify, of the quantity sold and the price received. In determining and assessing the damages incurred by the Delivering Clearing Member as a result of the failure to match, the Corporation shall take into account the settlement amount, the market price of the underlying Treasury security, the quantity sold and price received reported by the Delivering Clearing Member (if applicable), market conditions generally and reasonable and customary transaction costs applicable to transactions in the underlying Treasury security. Such damages shall be paid by the Corporation to the Delivering Clearing Member and the Corporation is authorized to withdraw the amount of such damages from the applicable bank account of the Receiving Clearing Member.

*Adopted January 23, 2013*

(d) The obligation of the Corporation to guarantee or effect settlement, as well as the settlement obligations between the Delivering Clearing Member and the Receiving Clearing Member, shall be extinguished upon the Corporation's payment of damages pursuant to Rule 1404(b) or Rule 1404 (c) (unless such obligation has already been extinguished pursuant to Rule 1403(b)). Every determination of damages by the Corporation in respect of a failure to match pursuant to this Rule 1404 shall be within the sole discretion of the Corporation and shall be conclusive and binding on all Clearing Members and not subject to review.

*Adopted January 23, 2013*

#### ***Interpretations and Policies...***

.01 A Delivering Clearing Member and/or Receiving Clearing Member's failure to pay damages pursuant to Rule 1404(b) or Rule 1404(c) shall constitute an event of "default" with respect to such Clearing Member.

*Adopted January 23, 2013*

[Rule 1409 replaces Rule 910.]

*Adopted October 14, 1982.*

[Rule 1410 replaces Rule 911.]

*Adopted October 14, 1982.*

### **RULE 1405 - Disciplinary Action for Failure to Match**

If a Delivering Clearing Member or a Receiving Clearing Member fails, without good cause, to timely submit accurate trade information to the real time trade matching system of FICC under Rule 1403, and the Corporation receives notice pursuant to Rule 1404(a) that the failure has not been resolved and the trade has not been successfully matched, such failure shall be deemed to constitute a delay embarrassing the operations of the Corporation, and shall be subject to discipline under Chapter XII of the Rules. The Chief Executive Officer, Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer shall have the authority to determine, subject to review as provided in Chapter XII of the Rules, whether good cause existed for any such failure to deliver or receive.

*Adopted October 14, 1982, amended December 10, 1997; January 23, 2013; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

#### ***...Interpretations and Policies:***

01. As used in Rule 1405, "good cause" shall be deemed by the Corporation to include, but not to be limited to, failure of FICC's real-time matching system or the failure of access to such system by either the Receiving or the Delivering Clearing Member, provided settlement is made on the next business day on which such system is operable.

*Adopted October 14, 1982. Amended January 23, 2013*

## **Chapter XV – Binary Options; Range Options**

### **Introduction**

The Rules in this Chapter are applicable only to binary options and/or range options (as defined in the By-Laws), including commodity options that are binary options or range options. In addition, the Rules in Chapters I through XII are also applicable to binary options and/or range

options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of binary options and/or range options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007; June 23, 2008; March 20, 2009.*

## **RULE 1501 - Automatic Exercise of Binary Options**

(a) In the case of a credit default option, a Clearing Member shall automatically be deemed to have exercised such option on any business day on which confirmation of a credit event is received by the Corporation before the event confirmation deadline. An event confirmation in respect of a credit default option received after such deadline shall be deemed to have been received by the Corporation on the following business day; provided, however, that an event confirmation received after the event confirmation deadline on the business day before the last scheduled trading day and before the expiration time on the expiration date will be deemed to have been received on the expiration date. If an event confirmation in respect of a credit default option is received after the event confirmation deadline on the expiration date and before the expiration time, the Corporation may extend the exercise settlement date pursuant to Rule 1503(d).

*Adopted June 6, 2007; March 20, 2009.*

(b) In the case of a credit default basket option, a Clearing Member shall automatically be deemed to have exercised such option on any business day on which confirmation of a credit event is received by the Corporation with respect to a particular reference entity before the event confirmation deadline. An event confirmation in respect of a credit default basket option received after such deadline shall be deemed to have been received by the Corporation on the following business day; provided, however, that an event confirmation received after the event confirmation deadline on the business day before the last scheduled trading day and before the expiration time on the expiration date will be deemed to have been received on the expiration date. If an event confirmation in respect of a credit default basket option is received after the event confirmation deadline on the expiration date and before the expiration time, the Corporation may extend the exercise settlement date pursuant to Rule 1503(d). A multiple-payout credit default basket option shall be deemed to be exercised each time a credit event is confirmed in accordance with this paragraph (b) with respect to a different reference entity; provided, however, that a credit event may be confirmed only once with respect to any single reference entity. A single-payout credit default basket option will be deemed to be exercised only the first time that a credit event is confirmed in accordance with this paragraph (b) with respect to a reference entity and cannot be exercised with respect to any other reference entity thereafter.

*Adopted August 20, 2007. Amended March 20, 2009.*

(c) A Clearing Member shall automatically be deemed to have exercised an event option other than a credit default option or credit default basket option on any business day on which an event confirmation is received by the Corporation before the event confirmation deadline. An event confirmation in respect of an event option other than a credit default option or credit default basket option received after such deadline shall be deemed to have been received by the Corporation on the following business day; provided, however, that an event confirmation received after the event confirmation deadline on the expiration date and before the expiration time will be deemed to have been received on the expiration date. If an event confirmation in respect of an event option other than a credit default option or credit default basket option is received after the event confirmation deadline on the expiration date and before the expiration time, the Corporation may extend the exercise settlement date pursuant to Rule 1503(d).

*Adopted March 20, 2009.*

(d) In the case of a binary option other than an event option, a Clearing Member shall automatically be deemed to have exercised, immediately prior to the expiration time on each expiration date, every expiring option whose underlying interest value, when measured against its exercise price, has satisfied the criteria for exercise as specified in the Exchange Rules of the listing Exchange.

*Adopted November 30, 2007; March 20, 2009.*

[Rule 1501 supplements Rule 805 and replaces Rule 802.]

## **RULE 1501A - Expiration Exercise Procedures for Range Options**

(a) The expiration exercise procedures set forth in Rule 805 shall apply to range option contracts except as provided in paragraph (b) of this Rule.

*Amended June 17, 2013*

(b) A Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on each expiration date, an exercise notice with respect to every expiring range option contract listed in the Clearing Member's Expiration Exercise Report, other than a flexibly structured range option contract, that has an exercise settlement value of \$1.00 or more per contract, or such other amount as the Corporation may establish on not less than 30 days prior notice to all Clearing Members, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b).

(c) An exercise notice in respect of a range option that is deemed to have been properly and irrevocably tendered to the Corporation in accordance with the Rules shall be accepted by the Corporation on the date of tender.

*Adopted June 23, 2008.*

[Rule 1501A supplements Rules 805.]

## **RULE 1502 - Assignment and Allocation of Binary Option Exercises**

Following the automatic exercise of binary options in any series, the exercises shall be assigned and allocated to all open short positions in such series of options. The Corporation shall make available to each Clearing Member on the business day following the date of exercise a report or reports reflecting all automatic exercises of binary options in the accounts of such Clearing Member effected on such date, and all assignments of exercises to short positions in the accounts of such Clearing Member.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007.*

[Rule 1502 replaces Rules 803 and 804.]

## **RULE 1502A - Assignment and Allocation of Range Option Exercises**

Exercises accepted by the Corporation in respect of range option contracts shall be assigned and allocated in accordance with Rules 803 and 804, except that Delivery Advices shall not be made available by the Corporation for exercises of range option contracts. In lieu thereof, on the business day immediately following the expiration date, the Corporation shall make available to each Clearing Member a report reflecting all exercises of range options in the accounts of such Clearing Member effected on the expiration date, and all assignments of obligations relating to exercises of range options in the accounts of other Clearing Members to short positions in the

accounts of such Clearing Member.  
*Adopted June 23, 2008.*

[Rule 1502A supplements Rules 803 and 804.]

### **RULE 1503 - Exercise Settlement Date for Event Options and Range Options**

(a) The exercise settlement date for a credit default option or credit default basket option shall be the second business day following the date on which the option is deemed to have been exercised; provided, however, that in the case of an option that is deemed to have been exercised on the expiration date, the exercise settlement date shall be the business day following the expiration date.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007; September 5, 2017*

(b) The exercise settlement date for an event option other than a credit default option or credit default basket option shall be the business day immediately following the date on which the option is deemed to have been exercised.

*Adopted November 30, 2007. Amended March 20, 2009.*

(c) The exercise settlement date for a range option or a binary option other than any binary option described in paragraphs (a) and (b) above shall be the business day following such option's expiration date.

*Adopted June 6, 2007. Amended November 30, 2007; June 23, 2008; March 20, 2009.*

(d) The Corporation may extend or postpone any exercise settlement date for range options or binary options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

[Rule 1503, together with Rule 1504, replaces Rule 902.]

### **RULE 1504 - Settlement of Binary Option Exercises and Range Option Exercises**

(a) Exercised binary options and short positions in such options to which exercises have been assigned shall be settled through the payment of the exercise settlement amount by the Corporation to the holder of the option and by the writer of the option to the Corporation.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007.*

(b) On each exercise settlement date for binary options, at or before such time as the Corporation may specify, the Corporation shall:

*Amended November 30, 2007.*

(1) Determine, as to each account of each Clearing Member, the number of exercised and assigned option contracts of each series of binary options for which the current business day is the exercise settlement date.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007.*

(2) Net the exercise settlement amounts to be paid by the Clearing Member against the exercise settlement amounts to be paid to the Clearing Member to obtain a single net settlement amount for binary option exercises with respect to each account of each Clearing Member.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007.*

(3) Make available to each Clearing Member the results of all netting procedures specified in these Rules that are applicable to such account (including the netting described in this Rule

1504).

*Amended June 23, 2008.*

(c) At or before the settlement time on each exercise settlement date for binary options, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

*Amended November 30, 2007; June 24, 2011.*

(d) Subject to Rule 505, at or before the settlement time on each exercise settlement date for binary options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007; June 24, 2011.*

(e) Solely for purposes of Rule 601, exercised and assigned binary options shall be deemed settled as of the opening of business on the exercise settlement date. No margin shall be required and no margin credit shall be given in respect of such options on such date.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007.*

(f) The foregoing provisions of this Rule shall also apply to the settlement of range option exercises and the margin requirement with respect to exercised and assigned range options.

*Adopted June 23, 2008.*

[Rule 1504 replaces Chapter IX of the Rules and supplements Rules 502 and 607.]

## **RULE 1505 - Suspension of Clearing Members - Exercised Contracts**

Exercised binary options or range options to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 1504 provided that the net settlement amount in respect of such contracts shall be paid from or credited to the Liquidating Settlement Account or, in the case of binary options or range options that are commodity options, the Segregated Liquidating Settlement Account of such Clearing Member pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1504 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or that have exercised binary options or range options that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007; June 23, 2008; March 20, 2009; August 23, 2012*

[Rule 1505 supplements Rule 1104 and Rule 1107(b) and replaces Rule 1107(a) and (c).]

## **RULE 1506 - Deposits in Lieu of Margin Prohibited**

The Corporation will not accept deposits in lieu of margin with respect to range options or binary options on any underlying interest, and none of Rule 610T, Rule 610, 610A, Rule 610B, Rule 610C nor Rule 613 shall apply to binary options or range options.



*Adopted June 6, 2007. Amended August 20, 2007; November 30, 2007; June 23, 2008; July 23, 2008; December 31, 2008; October 13, 2016*

[Rule 1506 replaces Rules 610T, 610 610A, 610B, 610C and 613.]

## **RULE 1507- Acceleration of Expiration Date**

(a) If an event option other than a credit default basket option is deemed to have been exercised on any day prior to the expiration date, the expiration date will be accelerated to fall on the date of exercise.

*Adopted June 6, 2007. Amended March 20, 2009.*

(b) If a multiple payout credit default basket option has been automatically exercised with respect to every reference entity underlying such option prior to the expiration date, the expiration date will be accelerated to fall on the date on which an automatic exercise has occurred with respect to the last reference entity.

*Adopted August 20, 2007.*

(c) If a single payout credit default basket option has been automatically exercised with respect to any reference entity underlying such option prior to the expiration date, the expiration date will be accelerated to fall on the date on which such automatic exercise has occurred.

*Adopted August 20, 2007*

(d) In the case of a binary option other than an event option, if the Corporation determines in its discretion that the underlying interest value of such option has become fixed prior to the expiration of the option, such value will be treated as the final underlying interest value and the expiration date of the option will ordinarily be accelerated to fall on or shortly after the date determined by the Corporation to be the date on which such value became fixed.

*Adopted November 30, 2007. Amended March 20, 2009.*

## **Chapter XVI - Foreign Currency Options**

### **Introduction**

### **THE RULES IN THIS CHAPTER ARE INOPERATIVE UNTIL FURTHER NOTICE BY THE CORPORATION.**

The rules in this Chapter are applicable only to options where either the trading currency (*i.e.*, the premium currency or the exercise currency) or the underlying interest is a foreign currency (as defined in the By-Laws). The rules in Chapters I through XII are also applicable to such options, in some cases supplemented by one or more rules in this chapter, except for rules that have been replaced in respect of foreign currency options by one or more rules in this chapter and except where the context otherwise requires. Whenever a rule in this chapter supplements or, for purposes of this chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the rule in this chapter.

*Adopted November 24, 1982. Amended November 1, 1994; March 18, 2004.*

## **RULE 1601 - Deposit of Foreign Currency Prohibited**

Rules 610, 610A, 610B and 610C shall not apply to foreign currency options.

[Rule 1601 replaces Rules 610, 610A, 610B and 610C.]

*Adopted November 24, 1982; Amended August 28, 1985, August 26, 1996; October 13, 2016*

## **RULE 1602 - Assignment and Allocation of Foreign Currency Option Exercise Notices to Foreign Currency Clearing Members**

Exercise notices accepted by the Corporation shall be assigned and allocated in accordance with Rules 803 and 804 except that Delivery Advices shall not be made available by the Corporation for exercises of foreign currency option contracts. In lieu thereof, the Corporation shall make available reports reflecting the number of exercised and assigned foreign currency option contracts and the gross and net currency pairs, as defined in Rule 1605(a)(2) - (3), for each underlying foreign currency.

*Adopted November 24, 1982; Amended December 12, 1986, January 29, 1991, May 7, 2004.*

### **...Interpretations and Policies:**

**.01** The Corporation may designate the Sunday following an expiration date for foreign currency options as a business day for purposes of making available a report reflecting the exercise and assignment of options that were exercised on the expiration date.

*Adopted October 3, 1986; amended March 16, 1987, January 29, 1991, October 15, 1998, May 7, 2004.*

## **RULE 1603 - Expiration Exercise Procedure for Foreign Currency Options**

The expiration exercise procedures set forth in Rule 805 shall be utilized in connection with foreign currency option contracts, except that:

*Amended July 14, 1993, November 2, 1995; June 17, 2013*

(a) the provisions of subparagraph (d)(2) of Rule 805 shall not apply to foreign currency option contracts unless and until the Board of Directors on not less than 30 days prior written notice to all Foreign Currency Clearing Members: (i) designates an expiration date from and after which such provisions shall apply to foreign currency option contracts, and (ii) specifies price intervals applicable to foreign currency option contracts for the purposes of clauses (i) and (ii) of said subparagraph;

*Amended October 18, 1995.*

(b) the term "closing price," as used in subparagraph (d)(2) of Rule 805 with respect to any underlying currency, shall mean the marking price for such underlying currency as defined in the By-Laws.

*Amended February 28, 1991, November 1, 1994, October 18, 1995; February 15, 2006.*

[Rule 1603 supplements Rule 805 and Rule 806.]

*Adopted November 24, 1982; amended December 12, 1986, July 14, 1993.*

## **RULE 1604 - Exercise Settlement Date for Foreign Currency Options**

(a) Subject to paragraph (b) of this Rule 1604, the exercise settlement date for foreign currency options shall be the fourth business day after the day on which an exercise notice with respect to such option was properly submitted to the Corporation pursuant to Rule 801; provided, however, that the Corporation may specify a later exercise settlement date whenever necessary or appropriate to reflect the occurrence of bank holidays in any country where foreign currency is to be delivered or received by the Corporation or in any country in which a correspondent bank of the Corporation is located. The Corporation shall notify Foreign Currency Clearing Members of such later exercise settlement date in such time and manner as the Corporation deems

practicable under the circumstances.  
*Amended November 2, 1995.*

(b) The Chief Executive Officer, Chief Operating Officer, or delegate of such officer may advance or postpone any exercise settlement date for foreign currency options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

*Adopted November 24, 1982; amended November 21, 1983; October 3, 1986, May 7, 2004; March 6, 2014; September 16, 2016; February 15, 2019*

***...Interpretations and Policies:***

**.01** For purposes of determining the exercise settlement date in respect of foreign currency options that are exercised on an expiration date in respect of such options (regardless of whether the options expire on that expiration date), the Corporation may designate the Sunday following the expiration date as a business day. The Corporation shall notify Foreign Currency Clearing Members of any such designations in such time and manner as the Corporation deems practicable under the circumstances.

*Adopted October 3, 1986, amended November 2, 1995, October 15, 1998.*

## **RULE 1605 - Determination of Exercise Settlement Obligations with Respect to Foreign Currency Options**

(a) On the business day following the proper tender to the Corporation of an exercise notice in respect of a foreign currency option, the Corporation shall:

(1) Determine, as to each account of each Foreign Currency Clearing Member, the number of exercised and assigned option contracts of each series of foreign currency options for which exercise notices were properly tendered.

(2) Determine, as to each Clearing Member across all accounts: (i) the aggregate amount of each underlying foreign currency to be delivered and the aggregate U.S. dollar amount to be received in payment for such currency; and (ii) the aggregate amount of each underlying foreign currency to be received and the aggregate U.S. dollar amount to be paid for such currency. Each calculation under (i) and (ii) shall be referred to as a "gross currency pair."

(3) To the extent that a Clearing Member is obligated both to receive and deliver the same underlying foreign currency, net the gross currency pairs to determine a single amount of each underlying currency to be delivered or received and an amount of U.S. dollars to be paid or received for such underlying currency. Each remaining currency pair shall be referred to as a "net currency pair."

(4) Make available to each Foreign Currency Clearing Member a report reflecting the number of exercised and assigned foreign currency option contracts and the gross and net currency pairs for each underlying foreign currency.

(5) Notwithstanding any other provision of the By-Laws and Rules, from and after the time such report is made available to a Foreign Currency Clearing Member, the exercise settlement obligations of such Clearing Member with respect to exercised and assigned foreign currency options shall be deemed to be in the firm account of such Clearing Member.

(b) By a specified time prior to the exercise settlement date, the Clearing Member may identify in an instruction to the Corporation all or any portion of a gross currency pair that such Clearing Member desires to settle on a delivery versus payment ("DVP") basis in accordance with Rule 1606A. If the submitted instruction meets such criteria for acceptance as the Corporation may establish from time to time, the Corporation will communicate its acceptance to the Clearing Member. The Corporation will recalculate the net currency pairs determined under paragraph (a)

of this Rule 1605 omitting the amount, if any, of each underlying foreign currency and the associated U.S. dollar amount(s) which will be settled on a DVP basis. All remaining net currency pairs will be settled on a "Regular Way" basis pursuant to Rule 1606. The net U.S. dollar amount payable or receivable in respect of exercises or assignments of foreign currency options to be settled on a Regular Way basis shall be referred to as a "Payment Amount," the Clearing Member entitled to receive such amount shall be referred to as a "Collecting Clearing Member" and the Clearing Member obligated to pay such amount shall be referred to as a "Paying Clearing Member."

(c) By a specified time prior to the exercise settlement date, the Corporation shall make available to each Clearing Member a report reflecting the updated netting performed by the Corporation pursuant to clause (b) above and any other information as deemed appropriate by the Corporation.

*Adopted May 7, 2004.*

**. . . Interpretations and Policies:**

**.01** Where a single Clearing Member has been assigned more than one Clearing Member number in OCC's clearing system, settlement obligations will not be aggregated or netted across the separate numbers.

*Adopted May 7, 2004.*

**.02** In the event that, for whatever reason, settlement obligations with respect to any currency pair that arise from different exercise and assignment dates will settle on the same date, those settlements obligations will be aggregated and netted to the same extent as if they had arisen from exercises and assignments on the same date.

*Adopted May 7, 2004.*

## **RULE 1606 - Regular Way Exercise Settlement of Foreign Currency Options**

(a) To the extent that the settlement rights and obligations of a Clearing Member are netted out pursuant to Rule 1605, such rights and obligations shall be deemed to have been fully satisfied at the settlement time on the exercise settlement date. The Clearing Member's remaining rights and obligations in respect of exercised or assigned positions in foreign currency options shall be deemed to be satisfied at the time delivery and payment are completed pursuant to the Rules of this Chapter.

(b) Prior to the time specified by the Corporation on the business day following the date on which the Corporation issues a report under Rule 1605, the Corporation shall, subject to the provisions of Rule 607, withdraw the Payment Amount from the bank account of each Paying Clearing Member. In such manner as the Corporation determines, the Corporation will allocate among Clearing Members that have paid in U.S. dollars a portion of any income earned on such amounts during the interim between the Corporation's receipt thereof and the exercise settlement date.

(c) Prior to such time as the Corporation shall prescribe following the issuance of a report under Rule 1605, each Delivering Clearing Member delivering a foreign currency identified by the Corporation as requiring a delivery guarantee shall cause a bank acting on its behalf to guarantee, using a method approved by the Corporation, that such designated foreign currency shown in such report (as updated to reflect any amounts to be settled on a DVP basis) as deliverable by such Clearing Member will be delivered on the exercise settlement date to the bank account designated by the Corporation. If the Clearing Member that is obligated to provide such guarantee fails to do so prior to the applicable deadline, the Corporation may, in its discretion, permit the Clearing Member to provide such guarantee at a later date and the Corporation may, in the interim and in advance of the exercise settlement date, borrow the foreign currency. If the Corporation borrows such foreign currency, the Clearing Member who

failed to guarantee delivery shall be obligated to pay an amount to the Corporation equal to any fees, interest or other charges incurred by the Corporation in connection with such borrowings and the Corporation may withdraw such amount from the Clearing Member's bank account. A Delivering Clearing Member shall have a continuing obligation to guarantee delivery until one of the following occurs: (i) the delivery is guaranteed, (ii) a buy-in of the currency has been executed pursuant to Rule 1608, or (iii) the Corporation otherwise directs.

(d) Subject to prior receipt of any Payment Amount owing from each Receiving Clearing Member in payment for foreign currency receivable by such Clearing Member, the Corporation will deliver such currency on the exercise settlement date to the bank account properly designated by the Clearing Member for that purpose in accordance with the Corporation's procedures.

(e) At the time prescribed by the Corporation on the exercise settlement date, the Corporation shall pay to each Collecting Clearing Member any Payment Amount owing to such Clearing Member in payment for foreign currency deliverable by the Clearing Member. Such payment shall be made to a bank account properly designated by the Clearing Member for that purpose in accordance with the procedures of the Corporation. Notwithstanding the foregoing, if a Collecting Clearing Member that is also a Delivering Clearing Member fails either to provide any delivery guarantee required under paragraph (c) of this Rule on a timely basis or to make delivery on the exercise settlement date, the Corporation may withhold, and may apply against the margin payable by such Clearing Member by reason of such failure to deliver, or may pledge to secure the borrowings referred to in paragraph (c) of this Rule, all or any portion of the Payment Amount as determined by the Corporation in its discretion.

*Adopted May 7, 2004.*

#### **. . . Interpretations and Policies:**

**.01** A Delivering Clearing Member is obligated not only to make delivery on the exercise settlement date, but also to guarantee delivery within prescribed time-frames in advance of the exercise settlement date, if such a guarantee is required pursuant to paragraph (c) of this Rule. If a delivery that is required to be guaranteed is not guaranteed on a timely basis, the Corporation will immediately instruct its bank to borrow the deliverable currency and the Delivering Clearing Member will be obligated to reimburse the Corporation for its borrowing costs whether or not the Clearing Member in fact makes delivery on the exercise settlement date. If a Delivering Clearing Member fails to provide any required guarantee of delivery on a timely basis, it will not be deemed to have met its delivery obligations until (i) delivery is actually made (ii) after having been guaranteed on the immediately preceding foreign business day.

*Amended November 1, 1994, May 7, 2004.*

**.02** The Corporation will prescribe deadlines for delivery of currencies on the exercise settlement date. Ordinarily, a timely guarantee of delivery via international bank wire should ensure timely delivery. However, even if delivery is guaranteed on a timely basis, the risk of nondelivery remains with the Delivering Clearing Member. If, for any reason, a Clearing Member's bank fails to deliver good funds to the Corporation's bank prior to the applicable deadline on the exercise settlement date, the Delivering Clearing Member will be liable for interest and related charges and will run the risk of being bought in notwithstanding any prior guarantee of delivery.

*Adopted December 14, 1982; amended November 21, 1983; January 26, 1984; August 29, 1984, November 1, 1994, May 7, 2004.*

## **RULE 1606A - DVP Exercise Settlement of Foreign Currency Options**

(a) To the extent that a Delivering or Receiving Clearing Member has submitted to the Corporation one or more DVP instructions and such DVP instructions have been accepted by the Corporation, the settlement rights and obligations identified in such DVP instructions will be settled pursuant to this Rule 1606A. A DVP instruction shall constitute an instruction from the Clearing Member to a bank acting on its behalf directing the Clearing Member's bank to

guarantee to the Corporation's bank, delivery and payment on the exercise settlement date in immediately available funds of either (i) a designated amount of underlying foreign currency against a specified U.S. dollar amount, or (ii) a specified U.S. dollar amount against a designated amount of the underlying foreign currency.

(b) A Clearing Member may submit DVP instructions to settle all or, subject to certain constraints incorporated in the procedures of the Corporation, any part of the gross settlement obligations shown in the report issued pursuant to Rule 1605(a). Notwithstanding the foregoing, under no circumstances may a Clearing Member submit DVP instructions for the delivery or receipt, on any exercise settlement date, of an amount of currency greater than the gross quantity shown as deliverable or receivable by the Clearing Member on that date.

(c) DVP settlement shall occur through a series of actions to be taken by the Corporation, the Corporation's bank, the Clearing Member and the Clearing Member's bank as specified in procedures promulgated by the Corporation. If the Clearing Member or its bank at any time fail to take the actions required to be taken under such procedures or the Clearing Member's bank rejects the Clearing Member's DVP instructions, the Corporation may revoke its acceptance of the DVP instructions. If a Clearing Member fails to meet its cash settlement obligations to the Corporation, the Corporation may revoke its acceptance of any or all outstanding DVP instructions. If the Corporation revokes its acceptance of a DVP instruction, the Corporation will adjust the Clearing Member's settlement obligations under Rule 1606 and the settlement obligations will be treated as a Regular Way settlement.

(d) The settlement obligations to the Corporation of a Clearing Member that elects to effect settlement pursuant to this Rule 1606A shall be deemed to be discharged at the earlier of (i) the time when such Clearing Member's bank irrevocably pays or delivers currency to the Corporation's bank on behalf of such Clearing Member for the account of the Corporation in accordance with the terms of the applicable DVP instruction, or (ii) the time when the Corporation's bank irrevocably credits such currency (free of any obligation of the Corporation to pay for or repay such currency, but whether or not irrevocably paid by such Clearing Member's bank to the Corporation's bank) to the account of the Corporation.

*Adopted May 7, 2004.*

## **RULE 1607 - Correspondent Banks**

**T**he Corporation and each Foreign Currency Clearing Member shall establish and maintain banking arrangements permitting the delivery and receipt of each currency in settlement of foreign currency option exercises in accordance with these Rules and such procedures as the Corporation shall from time to time prescribe. Such procedures may require or permit currencies to be delivered through multi-currency accounts maintained at banks outside the country of origin, in which event requirements in the Rules that currencies be delivered "in the country of origin" shall be deemed to be satisfied by delivery through such multi-currency accounts. Banking arrangements maintained by Clearing Members in accordance with this Rule shall be subject to approval by the Corporation.

[Rule 1607 replaces Rules 913-916.]

*Adopted November 24, 1982; amended November 21, 1983; August 29, 1984, November 1, 1994.*

### ***...Interpretations and Policies:***

**.01** (a) With respect to euros and ECUs, the Corporation shall designate the country of origin for the purposes of requirements in the Rules that foreign currencies be delivered to the Corporation "at the Corporation's correspondent bank in the country of origin." Unless and until the Corporation shall direct otherwise the country of origin for euros shall be Germany and the

country of origin for ECUS shall be Belgium.  
*Amended November 1, 1994, December 10, 1998.*

(b) Each Foreign Currency Clearing Member must establish and maintain banking relationships permitting the receipt of ECUs (until the EMU Transition Date) and euros (after the EMU Transition Date) at a bank approved by the Corporation that maintains accounts (including multi-currency accounts) denominated in such currency. Requirements in the Rules that the Corporation deliver ECUs or euros to the Clearing Member's correspondent bank "in the country of origin" shall be deemed to be met if the Corporation makes delivery to such an account, regardless of the location of the bank at which the account is maintained.  
*Adopted February 20, 1986, amended November 1, 1994, December 10, 1998.*

## **RULE 1608 - Failure to Deliver**

(a) If the Clearing Member required to make a delivery of currency under Rule 1606 shall fail either to guarantee or to complete such delivery within the time periods and in the manner prescribed pursuant to Rule 1606, the Corporation may (1) borrow currency in accordance with Rule 1606(c) in order to meet its delivery obligation under Rule 1606(d), or (2) direct Clearing Members that are Receiving Clearing Members with respect to the same or a greater amount of such currency on the same exercise settlement date to buy in the undelivered currency promptly (and in no event more than two foreign business days after notice by the Corporation) for the account and liability of the Corporation; provided, however, that the Corporation may direct that the execution of any such buy-in be deferred if the Corporation has reason to believe that other arrangements adequate for the protection of the Corporation and Receiving Clearing Members have been made. If the Corporation borrows currency to make delivery to a Receiving Clearing Member pursuant to Rule 1606(c), and the Delivering Clearing Member fails either (i) to make delivery within five foreign business days after the exercise settlement date, or (ii) to guarantee such delivery one foreign business day in advance, the Corporation shall promptly (and in no event more than seven foreign business days after the exercise settlement date) buy in the currency for the account and liability of the Delivering Clearing Member; provided, however, that (i) the Corporation may defer such buy-in if it has reason to believe that the Delivering Clearing Member will deliver the currency and/or other arrangements adequate for the Corporation's protection have been made, and (ii) the Corporation may, in lieu of executing such a buy-in, retransmit to the Delivering Clearing Member any buy-in executed for the account and liability of the Corporation by the party from whom the Corporation borrowed the deliverable currency. No advance notice need be given of any buy-in executed pursuant to this Rule, but the party executing such a buy-in shall immediately, after execution thereof, give written notice to the Delivering Clearing Member and, in the case of a buy-in executed by a Receiving Clearing Member, the Corporation as to the amount of currency purchased and the price paid. A Receiving Clearing Member that executes a buy-in pursuant to this Rule must be prepared to defend the timing of the buy-in and the price at which the buy-in is executed relative to the current market at the time of the transaction.

*Amended November 1, 1994.*

(b) If a buy-in has been completed by a Receiving Clearing Member, upon receipt of notice thereof, the Corporation shall promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the following business day, pay the Receiving Clearing Member the price paid on such buy-in. Where a buy-in has been effected either by a Receiving Clearing Member or by the Corporation, or where a buy-in has been retransmitted by the Corporation, the Delivering Clearing Member shall promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the following business day, pay the Corporation the price paid on such buy-in.

(c) If a Delivering Clearing Member shall fail either to guarantee or to complete a delivery of currency within the time periods and in the manner prescribed pursuant to Rule 1606(c), such Delivering Clearing Member shall be obligated to pay the Corporation the imputed interest loss resulting from such late guarantee or delivery and the Corporation shall be authorized to withdraw

such amount from the Delivering Clearing Member's bank account. If the Corporation shall fail to deliver to a Receiving Clearing Member the currency receivable by such Clearing Member on the exercise settlement date, the Corporation shall be obligated to pay to the Receiving Clearing Member, promptly after delivery is made, the imputed interest loss resulting from such late delivery. The term "imputed interest loss" shall mean an amount determined by the Corporation approximating the interest which would have been derived had the currency to be delivered been invested in the country of origin from the exercise settlement date until the day the Corporation or the Receiving Clearing Member (as the case may be) receives the currency through delivery or buy-in, or such other amount as is determined by the Corporation. Notwithstanding the foregoing, if the Corporation borrows undelivered currency, the Delivering Clearing Member shall not be obligated to pay imputed interest losses for any day on which such Clearing Member is obligated to pay fees, interest, or other charges pursuant to Rule 1606(c).

*Amended November 1, 1994.*

(d) The failure of a Receiving Clearing Member to execute a buy-in within the times specified in this Rule 1608 shall not affect the contract rights of the parties, except that the Corporation may limit the amount which it is obligated to pay pursuant to subparagraph (b) hereto to the highest amount it would have been required to pay if the buy-in had been issued and executed on a timely basis.

[Rule 1608 replaces Rule 910.]

*Adopted November 24, 1982; amended December 14, 1982; May 11, 1983; July 7, 1983; November 21, 1983; January 26, 1984.*

## **RULE 1609 - Failure to Pay**

(a) If a Receiving Clearing Member who is also a Paying Clearing Member shall refuse or fail beyond the close of business on the business day specified in Rule 1606(b) to pay the Corporation the settlement amount payable by such Clearing Member on such business day, the Corporation shall ordinarily direct one or more Delivering Clearing Members to sell out the currency for which settlement was to have been made. No advance notice need be given of any such sell-out, but a Delivering Clearing Member executing such a sell-out shall immediately give written notice to the Corporation as to the amount of currency sold and the price received. If any such sell-out is executed by a Delivering Clearing Member, the Delivering Clearing Member shall be obligated to pay to the Corporation in immediately available funds, promptly and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the business day following the sell-out, the price at which such currency was sold out. The Delivering Clearing Member must be prepared to defend the timing of any sell-out and the price at which the sell-out is executed relative to the current market at the time of the transaction.

*Amended November 1, 1994.*

(b) In extraordinary circumstances, the Corporation may, in its sole discretion, determine not to direct a sell-out in the circumstances contemplated by subsection (a) of this Rule. In such event, (i) the Corporation shall have power to pledge and repledge the currency for which settlement was to have been made to secure borrowings by the Corporation, until such time as the applicable settlement amount shall have been paid in full; (ii) the Corporation may at any time cause such currency to be sold out and the proceeds to be applied against such settlement amount; and (iii) the delinquent Clearing Member shall be obligated to pay the Corporation any fees, interest or other charges incurred by the Corporation in borrowing funds to enable the Corporation to meet its settlement obligations notwithstanding the Clearing Member's default; and the Corporation shall be authorized to withdraw such amounts from the delinquent Clearing Member's bank account.

*Amended November 7, 1991, November 1, 1994.*

[Rule 1609 replaces Rule 911.]

*Adopted November 24, 1982; amended May 11, 1983; November 21, 1983; August 29, 1984.*



## **RULE 1610 - Disciplinary Action for Failure to Deliver or Pay**

If, without good cause, a Delivering Clearing Member fails to discharge its guarantee or delivery obligations under Rule 1606, or a Paying Clearing Member fails to pay the settlement amount due pursuant to Rule 1606, such failure shall be deemed to constitute a delay embarrassing the operations of the Corporation, and shall subject the Clearing Member to discipline under Chapter XII of the Rules. The Chief Executive Officer, Chief Operating Officer, or, if it is not feasible for the Chief Executive Officer or Chief Operating Officer to take such action, then a Designated Officer shall have the authority to determine, subject to review as provided in Chapter XII of the Rules, whether good cause existed for any such failure to deliver or pay.

*Adopted November 24, 1982; amended May 11, 1983; November 21, 1983, December 10, 1997; March 6, 2014; September 16, 2016; April 26, 2017; February 15, 2019*

### ***...Interpretations and Policies:***

**.01** As used in Rule 1610, "good cause" shall be deemed by the Corporation to include, but not to be limited to, imposition of government restrictions precluding the delivery of currency, failure of an international bank wire or the failure of access to such wire by the bank acting for the Receiving Clearing Member, the Delivering Clearing Member or the Corporation, provided settlement is made on the next business day on which delivery can be made and such wire is operable.

*Adopted November 24, 1982; amended August 29, 1984, November 1, 1994.*

## **Chapter XVII - Yield-Based Treasury Options**

### **Introduction**

The Rules in this Chapter are applicable only to yield-based Treasury options (as defined in the By-Laws). Certain yield-based Treasury options may be referred to in Exchange rules as "interest rate option contracts." In addition, the Rules in Chapters I through XII are also applicable to yield-based Treasury options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of such options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted June 16, 1989.*

## **RULE 1701 - Deposit of Underlying Treasury Securities Prohibited**

Rules 610T, 610A and 610B shall not apply to yield-based Treasury options.

[Rule 1701 replaces Rules 610, 610T, 610A and 610B.]

*Adopted June 16, 1989. Amended August 26, 1996; October 13, 2016*

## **RULE 1702 - Expiration Exercise Procedure for Yield-Based Treasury Options**

Yield-based Treasury option contracts are European-style options and may therefore be exercised only on the expiration date. The expiration exercise procedures set forth in Rule 805 shall apply to such contracts except that the provisions of subparagraph (d)(2) of Rule 805 shall not apply to such options, and each Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on the expiration

date, an exercise notice with respect to each option contract for which the aggregate exercise price is below (in the case of a call) or exceeds (in the case of a put) the aggregate settlement value of the underlying yield by at least \$1 per yield-based Treasury option contract.

*Amended October 18, 1995, March 11, 1996. June 17, 2013*

[Rule 1702 supplements Rule 805 and replaces Rules 803 and 804.]

*Adopted June 16, 1989.*

## **RULE 1703 - Exercise Settlement Date for Yield-Based Treasury Options**

The exercise settlement date for exercised yield-based Treasury options shall be the business day following the expiration date. The Board of Directors may extend or postpone any exercise settlement date whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

[Rule 1703, together with Rule 1704, replaces Rule 902.]

*Adopted June 16, 1989.*

## **RULE 1704 - Settlement of Yield-Based Treasury Option Exercises**

(a) Exercised yield-based Treasury options and short positions in such options to which exercise notices have been assigned shall be settled through the payment by the Corporation to the Clearing Member or to the Corporation by the Clearing Member (as the case may be) of the exercise settlement amount (as defined in Section 1 of Article XVI of the By-Laws) in respect of each such option as hereinafter provided.

(1) In the case of an exercised call option contract: (i) if the aggregate settlement value is greater than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the exercising Clearing Member and shall be paid by the assigned Clearing Member to the Corporation; and (ii) if the aggregate settlement value is less than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the assigned Clearing Member, and shall be paid by the exercising Clearing Member to the Corporation.

(2) In the case of an exercised put option contract: (i) if the aggregate settlement value is less than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the exercising Clearing Member and shall be paid by the assigned Clearing Member to the Corporation; and (ii) if the aggregate settlement value is greater than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the assigned Clearing Member and shall be paid by the exercising Clearing Member to the Corporation.

(b) Prior to 7:00 A.M. Central Time (8:00 A.M. Eastern Time) on each exercise settlement date for yield-based Treasury security options, the Corporation shall:

*Amended January 29, 1991.*

(1) Determine, as to each account of each Clearing Member, the number of exercised and assigned option contracts of each series of yield-based Treasury options for which the current business day is the exercise settlement date.

(2) Net the exercise settlement amounts to be paid by the Clearing Member against the exercise settlement amounts to be paid to the Clearing Member to

obtain a single net settlement amount for yield-based Treasury option exercises with respect to each account of each Clearing Member.

(3) Make available to each Clearing Member a report showing the results of the netting described herein.

*Amended January 29, 1991.*

(c) At or before the settlement time on each exercise settlement date for yield-based Treasury options, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

*Amended June 24, 2011.*

(d) Subject to Rule 505, at or before the settlement time on each exercise settlement date for yield-based Treasury options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium or other amount due to the Corporation) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such amount.

[Rule 1704 replaces Rule 101E.(3) and Chapter IX of the Rules and supplements Rules 502 and 607.]

*Adopted June 16, 1989. Amended June 24, 2011.*

## **RULE 1705 - Suspension of Clearing Members-Exercised Contracts**

Exercised yield-based Treasury option contracts to which a suspended Clearing Member is a party (either as the exercising Clearing Member or as the assigned Clearing Member) shall be settled in accordance with Rule 1704 provided that the net settlement amount in respect of such contracts shall be paid from or credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1704 with all Clearing Members that have been assigned an exercise notice filed by a suspended Clearing Member or that have filed exercise notices that were assigned to a suspended Clearing Member without regard to such suspension.

[Rule 1705 supplements Rule 1104 and replaces Rule 1107.]

*Adopted June 16, 1989. Amended August 23, 2012*

\* \* \*

## **Chapter XVIII - Index Options and Certain Other Cash-Settled Options**

### **Introduction**

The Rules in this Chapter are applicable only to cash-settled options that are not specifically addressed elsewhere in the By-Laws and Rules, including index options (as defined in the By-Laws and which also include OTC index options) and cash-settled commodity options other than those that are binary options or range options (which are governed by the provisions of Article XIV of the By-Laws and Chapter XV of the Rules). The provisions of Chapter XIII of the Rules, other than Rule 1303, are not applicable to cash-settled commodity options. The Rules in Chapters I through XII are also applicable to cash-settled options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of such options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted February 4, 1983. Amended March 20, 2009; December 14, 2012*

### **RULE 1801 - RESERVED**

### **RULE 1802 - Exercise of Cash-Settled Options Other than on Expiration Date**

(a) American-style cash-settled option contracts may be exercised in accordance with Rule 801, except that American-style delayed start option contracts may only be exercised after such option contracts have a set exercise price. An exercise notice in respect of a cash-settled option that is properly tendered to the Corporation in accordance with Rule 801 shall be accepted by the Corporation on the date of tender.

*Amended November 28, 2007; March 20, 2009.*

(b) In the event that the current underlying interest value of the index or other interest underlying any series of capped cash-settled options equals or exceeds the cap price (in the case of a series of calls) or equals or is less than the cap price (in the case of a series of puts) on any trading day prior to the expiration date of such series (such day being referred to hereinafter as the "cap price day"), the Exchange on which such series of capped options was traded shall cause all trading in such series to cease after the close of trading on the cap price day and shall notify the Corporation, prior to such time on the following business day (or, if the cap price day is the business day prior to the expiration date, on the expiration date) as the Corporation may from time to time specify, that the current underlying interest value in respect of such series equaled, exceeded or became less than the cap price of such series, as applicable, on the cap price day and that trading in the series has ceased. All contracts (including contracts created in opening purchase transactions on the cap price day, but excluding contracts that were subject to closing writing transactions on the cap price day) in the series referred to in the notice shall automatically be exercised on the business day following the cap price day (or, if the cap price day is the business day prior to the expiration date, on the expiration date). The Corporation shall accept such exercises on the day on which the exercises are effected.

*Amended March 20, 2009; June 17, 2013*

[Rule 1802 supplements Rule 801 and, together with Rule 1804, replaces Rule 802.]

*Adopted October 28, 1991.*

## **RULE 1803 - Assignment and Allocation of Cash-Settled Option Exercises**

(a) Exercises accepted by the Corporation in respect of cash-settled option contracts shall be assigned and allocated in accordance with Rules 803 and 804 except as provided in paragraph (b) of this Rule and except that Delivery Advices shall not be made available by the Corporation for exercises of such option contracts. In lieu thereof, the Corporation shall make available to each Index Clearing Member information with respect to exercises and assignments of cash-settled option contracts as provided in paragraph (c) of this Rule.

*Amended January 29, 1991; October 28, 1991; March 20, 2009; December 14, 2012*

(b) Following the automatic exercise of the capped cash-settled option contracts in any series of capped cash-settled options, the exercises shall be assigned and allocated to all open short positions (including all short positions established in an opening writing transaction on the trading day preceding the day of the automatic exercise, but excluding short positions that were subject to closing purchase transactions on such day) in such series of options. Subject to the provisions of the By-Laws, the Corporation shall assign such obligations at or before 7:00 A.M. Chicago Time (8:00 A.M. Eastern Time) on the business day following the date of the automatic exercise. Rule 804 shall apply to allocations of automatic exercises of capped options.

*Adopted October 28, 1991. Amended March 20, 2009.*

(c) On each business day, the Corporation shall make available to each Index Clearing Member information reflecting:

*Amended December 2014*

(1) all exercises effected by such Clearing Member with respect to cash-settled option contracts and accepted by the Corporation on the preceding business day (or, in the case of the business day following an expiration date, on such expiration date), and all exercises effected by other Index Clearing Members and accepted by the Corporation on such day with respect to cash-settled option contracts that were assigned by the Corporation to an account of such Clearing Member;

*Amended January 29, 1991, October 28, 1991; March 20, 2009..*

(2) all automatic exercises of capped options in the accounts of such Clearing Member effected on the preceding business day, and all assignments of obligations relating to exercises on such day of capped options in the accounts of other Index Clearing Members to short positions in the accounts of such Clearing Member.

*Adopted October 28, 1991.*

[Rule 1803 supplements Rules 803 and 804.]

*Adopted February 4, 1983.*

## **RULE 1804 - Expiration Exercise Procedure for Cash-Settled Options**

(a) The expiration exercise procedures set forth in Rule 805 shall apply to cash-settled option contracts except as provided in paragraphs (b) and (c) of this Rule.

*Amended October 18, 1995; April 16, 2004; March 20, 2009; June 17, 2013*

(b) A Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on each expiration date, an exercise notice with respect to every expiring cash-settled option contract identified in the Clearing Member's Expiration Exercise Report, other than a flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, short term index option contract or OTC index option contract, that has an exercise settlement value of \$1.00 or more per contract, or such other amount as the Corporation may from time to time establish on

not less than 30 days prior notice to all Index Clearing Members, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b).

*Adopted February 22, 1993. Amended October 18, 1995; April 16, 2004; March 20, 2009; December 14, 2012*

(c) A Clearing Member shall be automatically deemed to have exercised, immediately prior to the expiration time on each expiration date, every expiring OTC index option contract, flexibly structured index option contract, quarterly index option contract, monthly index option contract, weekly index option contract, and short term index option contract identified in the Clearing Member's Expiration Exercise Report that has an exercise settlement amount of \$0.01 or more per contract in the case of OTC index option contracts and \$1.00 or more per contract in the case of all other types of index option contracts, or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members.

*Adopted February 22, 1993. Amended February 23, 1993, November 1, 1994, October 18, 1995; April 16, 2004; July 12, 2005; June 23, 2006; March 20, 2009; November 9, 2010; December 14, 2012; June 17, 2013*

(d) An exercise notice in respect of a cash-settled option that is deemed to have been properly and irrevocably tendered to the Corporation in accordance with Rules 805, as applicable, shall be accepted by the Corporation on the date of tender.

*Adopted October 28, 1991, Amended February 22, 1993, October 18, 1995; March 20, 2009.*

[Rule 1804 supplements Rules 805 and, together with Rule 1802, replaces Rule 802.]

*Amended October 18, 1995.*

### ***...Interpretations and Policies***

**.01** Except in the case of options that are subject to automatic exercise, the exercise thresholds provided for in this Rule 1804 and elsewhere in the Rules are part of the administrative procedures established by the Corporation to expedite its processing of exercises of expiring options by Clearing Members, and are not intended to dictate to Clearing Members which positions in the customers' account should or must be exercised.

*Adopted February 22, 1993.*

*Adopted February 4, 1983. Amended August 28, 1985; March 27, 1987; April 16, 2004; July 12, 2005.*

**.02** The foregoing expiration exercise procedures are modified by the provisions of Article XVII, Section 4 of the By-Laws under the special circumstances referred to therein relating to the unavailability or inaccuracy of the current value for an underlying interest.

*Adopted April 16, 2004; March 20, 2009; June 17, 2013*

**.03** The Corporation has determined that, for purposes of paragraph (c) of this Rule 1804, an OTC index option will be automatically exercised at expiration if the exercise settlement amount is any positive amount.

*Adopted December 14, 2012*

## **RULE 1805 - Exercise Settlement Date for Cash-Settled Options**

The exercise settlement date for an exercised cash-settled option shall be the business day following the day on which an exercise with respect to such option is accepted by the Corporation. The Board of Directors may extend or postpone any exercise settlement date for such options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

*Amended July 9, 1991; October 28, 1991; March 20, 2009.*

[Rule 1805, together with Rule 1806, replaces Rule 902.]  
*Adopted February 4, 1983.*

## **RULE 1806 - Settlement of Cash-Settled Option Exercises**

(a) Exercised cash-settled options and short positions in such options to which exercises have been assigned shall be settled through the payment by the Corporation to the Clearing Member or to the Corporation by the Clearing Member (as the case may be) of the exercise settlement amount in respect of each such option as hereinafter provided.

*Amended October 28, 1991; March 20, 2009.*

(1) In the case of an exercised cash-settled call option contract: (i) if the aggregate current underlying interest value is greater than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the Exercising Clearing Member and shall be paid by the Assigned Clearing Member to the Corporation; and (ii) if the aggregate current index value is less than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the Assigned Clearing Member, and shall be paid by the Exercising Clearing Member to the Corporation.

*Amended October 28, 1991; March 20, 2009.*

(2) In the case of an exercised cash-settled put option contract: (i) if the aggregate current index value is less than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the Exercising Clearing Member and shall be paid by the Assigned Clearing Member to the Corporation; and (ii) if the aggregate current index value is greater than the aggregate exercise price, the exercise settlement amount shall be paid by the Corporation to the Assigned Clearing Member and shall be paid by the Exercising Clearing Member to the Corporation.

*Amended October 28, 1991; March 20, 2009.*

(b) On each exercise settlement date for cash-settled options, at or before such time as the Corporation may specify, the Corporation shall:

*Amended March 20, 2009.*

(1) Determine, as to each account of each Index Clearing Member, the number of exercised and assigned option contracts of each series of cash-settled options for which the current business day is the exercise settlement date.

*Amended March 20, 2009.*

(2) Net the exercise settlement amounts to be paid by the Clearing Member against the exercise settlement amounts to be paid to the Clearing Member to obtain a single net settlement amount for cash-settled option exercises with respect to each account of each Index Clearing Member.

*Amended March 20, 2009.*

(3) Make available to each Index Clearing Member a report showing the results of the netting described herein.

*Amended January 29, 1991.*

(c) At or before the settlement time on each exercise settlement date for cash-settled options, each Index Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be

due from the Corporation to the Clearing Member in the same or any other account.  
*Amended March 20, 2009; June 24, 2011.*

(d) Subject to Rule 505 at or before the settlement time on each exercise settlement date for cash-settled options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such amount.  
*Amended March 20, 2009; June 24, 2011.*

(e) Solely for purposes of Rules 601 and 602, exercised and assigned cash-settled option contracts shall be deemed settled as of the opening of business on the exercise settlement date. No margin shall be required and no margin credit shall be given in respect of such contracts on such date.  
*March 20, 2009.*

[Rule 1806 replaces Chapter IX of the Rules and supplements Rules 502 and 607.]  
*Amended October 28, 1991.*  
*Adopted February 4, 1983.*

## **RULE 1807 - Suspension of Clearing Members - Exercised Contracts**

(a) Exercised cash-settled option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 1806 provided that the net settlement amount in respect of such contracts shall be paid from or credited to the Liquidating Settlement Account or, in the case of cash-settled commodity options, the Segregated Liquidating Settlement Account, of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1806 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or that have exercised cash-settled option contracts that were assigned to a suspended Assigned Clearing Member without regard to such suspension.  
*Amended May 31, 2001; March 20, 2009; August 23, 2012*

(b) If an exercise is assigned to a short index option position for which an escrow deposit has been made, and the Corporation fails to receive payment from the depository prior to the exercise settlement date, the Corporation shall effect timely settlement with the Exercising Clearing Member notwithstanding such failure. If payment is subsequently received, the Corporation shall be entitled to reimburse itself for the cost of effecting settlement with the Exercising Clearing Member out of the amount paid, and shall be obligated to pay over any excess to the suspended Clearing Member or its representative.  
*Adopted May 31, 2001.*

[Rule 1807 supplements Rule 1104 and Rule 1107(b) and replaces Rule 1107(a) and (c).]  
*Adopted February 4, 1983; amended October 31, 1986; March 4, 1987,*  
*Amended May 31, 2001.*

## **RULE 1808 - Reserved**

Reserved.



## ***Chapter XIX - Reserved***

Reserved.

## ***Chapter XX - Reserved***

Reserved.

## ***Chapter XXI - [Reserved]***

## ***Chapter XXII - Stock Loan/Hedge Program***

### **Introduction**

The Rules in this Chapter are applicable only to the Stock Loan/Hedge Program. In addition, the Rules in Chapters I through XII are also applicable to the Stock Loan/Hedge Program, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of the Stock Loan/Hedge Program by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted July 15, 1993.*

### **RULE 2201 - Instructions to the Corporation**

(a) In respect of stock loan and stock borrow transactions which are intended for inclusion in the Stock Loan/Hedge Program and stock loan and stock borrow positions resulting from such transactions, a Hedge Clearing Member shall provide standing instructions to the Corporation with respect to matters identified by the Corporation from time to time, including but not limited to (i) the account number of each account with the Depository in which stock loan and stock borrow transactions are to be effected, (ii) the default account with the Corporation, which may be any of the Hedge Clearing Member's accounts or sub-accounts thereof that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws, to which new stock loan positions and stock borrow positions are to be allocated in the absence of executable instructions of the Clearing Member to allocate the positions to a different account, (iii) the account with the Corporation (which may be the Clearing Member's firm account or its combined Market-Makers' account) from and to which mark-to-market payments are to be made, and (iv) the Collateral requirement that will be applicable to the stock loan positions of the Hedge Clearing Member (expressed as a percentage of the mark-to-market value of the Eligible Stocks that are the subject of the stock loan positions, which percentage may be set at 100% or 102%). The Corporation may also permit a Hedge Clearing Member to provide standing instructions with respect to other aspects of the Clearing Member's participation in the Stock Loan/Hedge Program. A Hedge Clearing Member may revise its standing instructions, subject to the Corporation's notice requirements as in effect from time to time.

*Amended October 16, 2002; May 21, 2003; December 1, 2008; January 23, 2009; December 26, 2012*

(b) A Hedge Clearing Member may give the Corporation specific instructions from time to time which are contrary to its standing instructions with respect to the account (or sub-account thereof) to which a particular stock loan or stock borrow position (either a new position or an existing position which the Hedge Clearing Member wishes to transfer to a different account) is to be allocated. With respect to a new position, in the absence of such specific instructions, or if the specific instruction is invalid for any reason, the position will be allocated to the Hedge Clearing

Member's default account.

*Adopted June 11, 1998. Amended December 26, 2012*

**. . . Interpretations and Policies:**

**.01** At any time on any business day prior to the deadline specified by the Corporation, an eligible Hedge Clearing Member may transfer all or any portion of an existing stock loan or stock borrow position (including positions resulting from that day's activity) among its accounts by submitting an appropriate transfer instruction to the Corporation that designates the accounts and/or sub-accounts from and to which the positions shall be transferred. If a Hedge Clearing Member's request for transfer exceeds the number of stock loan or stock borrow shares available in the account from which the shares will be transferred, then the transfer instruction will be rejected.

*Adopted July 7, 2005. Amended January 23, 2009; December 26, 2012*

**.02** Returns of shares shall be reflected in the Hedge Clearing Member's account or sub-account designated on a delivery order submitted by the Depository. If there are insufficient shares in the designated account to fulfill the return instruction, or if there is no account designated in the Depository delivery order, the excess shares to be returned shall be taken from the Clearing Member's default account. If there are insufficient shares in the default account to fulfill the return instruction, the remaining shares shall be rejected and the return instruction will be void to that extent.

*Adopted July 7, 2005. Amended January 23, 2009; December 26, 2012*

## **RULE 2202 - Initiation of Stock Loans**

(a) A stock loan which is intended for inclusion in the Stock Loan/Hedge Program shall be initiated by an instruction from a Hedge Clearing Member to the Depository, in a form specified by the Depository and approved by the Corporation, to transfer a specified number of shares of a specified Eligible Stock from the account of such Hedge Clearing Member to the account of a specified second Hedge Clearing Member against the transfer of a specified settlement price from the account of the second Hedge Clearing Member to the account of the first Hedge Clearing Member. In order to identify such transfers as constituting a stock loan transaction intended for inclusion in the Stock Loan/Hedge Program, the instruction shall use the appropriate "reason code," as provided by the Depository. Any stock loan so initiated shall be complete as between the Hedge Clearing Members when the Depository has made final entries on its books reflecting transfers made in accordance with such instruction.

*Adopted June 11, 1998.*

(b) Upon receipt of information reported to the Corporation from the Depository showing a completed stock loan, the Corporation shall (subject to Rule 2210(a)) accept such stock loan as a Stock Loan, unless the Corporation determines that a stock loan is not in accordance with the By-Laws and Rules or that one or both account numbers are invalid for Stock Loans, or that the information provided by the Depository contains unresolved errors or omissions, in which case the Corporation shall reject such stock loan. Upon the Corporation's acceptance of a stock loan, the following shall automatically occur: (i) the stock loan contract negotiated between the lending Hedge Clearing Member and the borrowing Hedge Clearing Member that initiated the Stock Loan shall be extinguished and replaced in its entirety by (1) a congruent contract between the lending Hedge Clearing Member, as stock lender, and the Corporation, as stock borrower, and (2) an identical congruent contract between the Corporation, as stock lender, and the borrowing Hedge Clearing Member, as stock borrower, (ii) such pair of contracts shall constitute the Stock Loan, (iii) the initial deliveries of Loaned Stock against the settlement price in respect of each such contract shall be deemed to have been made, (iv) the lending Hedge Clearing Member shall be the Lending Clearing Member and the borrowing Hedge Clearing Member shall be the Borrowing Clearing Member in respect of such Stock Loan for all purposes of the Rules, and (v) the terms of the original stock loan (other than terms that establish congruence) and the representations, warranties and covenants made by each of the parties to the original stock loan under the Master

Securities Loan Agreement or any other agreements with respect to the original stock loan shall (1) to the extent that they are inconsistent with the By-Laws and Rules of the Corporation, be eliminated from the pair of congruent contracts constituting the Stock Loan and replaced by applicable By-Laws and Rules of the Corporation, and (2) to the extent that they are not inconsistent with the By-Laws and Rules of the Corporation, remain in effect as between such parties to the original stock loan, but shall not impose any additional obligations on the Corporation. A stock loan contract which is rejected by the Corporation shall remain effective as between the initiating Hedge Clearing Members but shall have no further effect as regards the Corporation. For purposes of the foregoing, a replacement stock loan contract shall be "congruent" to the stock loan contract replaced if and only if the contracts agree with respect to the identity of the Eligible Stock that is to be lent, the number of shares that are to be lent and the settlement price.

*Adopted June 11, 1998. Amended May 21, 2003; December 26, 2012; May 24, 2018*

(c) Subject only to the provisions of paragraph (e) of this Rule and such obligations in respect of the Collateral as the Lending Clearing Member may have by agreement with the person for whose account the Loaned Stock is held, the Lending Clearing Member may use or invest the Collateral as it may deem fit at its own risk and for its own account and shall retain any income and profits therefrom and bear all losses therefrom. The sole obligation of the Lending Clearing Member in respect of the Collateral shall be to act as agent for the Corporation in repaying an amount equal to the Collateral (as adjusted from time to time by mark-to-market payments made pursuant to Rule 2204) to the Borrowing Clearing Member, or in otherwise disposing of the Collateral in such other manner as the Corporation may direct in the event that the Borrowing Clearing Member has been suspended pursuant to Chapter XI of the rules, if and when the Stock Loan is terminated as provided in the Rules.

*Amended June 11, 1998.*

(d) Until such time as a Stock Loan is terminated as provided in the Rules, the Borrowing Clearing Member shall have all incidents of ownership of the Loaned Stock, including without limitation the right to transfer the Loaned Stock to others; provided, however, that (1) the Borrowing Clearing Member shall be obligated to make mark-to-market payments to the Corporation and receive mark-to-market payments from the Corporation with respect to the Loaned Stock as provided in Rule 2204; and (2) the Borrowing Clearing Member shall be obligated with respect to all dividends and distributions pertaining to the Loaned Stock as set forth in Rule 2206.

*Amended June 11, 1998.*

(e) Each lending of Loaned Stock by a Lending Clearing Member, and each borrowing of Loaned Stock by a Borrowing Clearing Member, shall constitute a representation and covenant by the Clearing Member to the Corporation that its participation in such lending or borrowing is in compliance, and will comply, with all applicable laws and regulations, including without limitation Rule 15c3-3 and all other applicable rules and regulations of the Securities and Exchange Commission, any applicable provisions of Regulation T of the Board of Governors of the Federal Reserve System, and the rules of the Financial Industry Regulatory Authority and any other regulatory or self-regulatory organization to which the Clearing Member is subject.

*Adopted July 15, 1993. Amended June 11, 1998; January 23, 2009.*

(f) Hedge Clearing Members shall be prohibited from initiating stock loans intended for inclusion in the Stock Loan/Hedge Program that involve the lending of any Eligible Stock issued by such Hedge Clearing Member or any Member Affiliate of such Hedge Clearing Member.

*Adopted December 16, 2019*

#### **. . . Interpretations and Policies:**

**.01** The Corporation makes available to each Hedge Clearing Member, during a business day, updated position information that reflects current stock loan and borrow activity, including new

positions, transfers of positions, reclaim notifications, and returns.  
*Adopted December 26, 2012. Amended May 24, 2018*

## **RULE 2203 - Margin Deposited with Corporation**

Each Hedge Clearing Member shall be required to maintain margin with the Corporation in respect of its stock loan positions and stock borrow positions. The amount of margin assets required to be deposited shall be as determined pursuant to Rule 601.

*Adopted July 15, 1993, amended June 11, 1998; February 15, 2006; December 26, 2012*

## **RULE 2204 - Mark-To-Market Payments**

(a) In order to adjust the amount of the Collateral securing a Stock Loan for changes in the market value of the Eligible Stock that is the subject of the Stock Loan, Borrowing and Lending Clearing Members shall be required to make mark-to-market payments to the Corporation, and the Corporation shall be required to make mark-to-market payments to such Clearing Members, on each business day with respect to each Stock Loan until such Loan has been repaid by the Borrowing Clearing Member in accordance with the Rules. The amount of any mark-to-market payment to be made on any business day shall represent the increase or decrease, as applicable, in the value of the stock loan position and stock borrow position relating to such Stock Loan. The increase or decrease in value of a stock borrow position shall be deemed to be equal to: (i) in the case of a stock borrow position that was established on the preceding business day, the result of subtracting the marking price on such day from the settlement price; and (ii) in the case of any other stock borrow position, the result of subtracting the marking price on the preceding business day from the marking price on the second preceding business day. The increase or decrease in value of a stock loan position shall be deemed to be equal to: (1) in the case of a stock loan position that was established on the preceding business day, the result of subtracting the settlement price from the marking price on such day; and (2) in the case of any other stock loan position, the result of subtracting the marking price on the second preceding business day from the marking price on the preceding business day. No mark-to-market payment shall be required in respect of any stock loan or stock borrow position on and after the business day following the day on which such position was extinguished.

*Amended June 11, 1998.*

(b) On each business day, the Corporation shall net the mark-to-market payments, if any, owed by and to each Hedge Clearing Member in respect of its stock loan and borrow positions resulting from Stock Loans. At or before the settlement time on each business day, each Hedge Clearing Member shall be obligated to pay to the Corporation any net mark-to-market payment amount owed to the Corporation in respect of such positions carried in the Clearing Member's accounts, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of the account identified by the Clearing Member as its account from and to which mark-to-market payments are to be made an amount equal to such net amount, provided that the Corporation may, but shall not be required to, offset against any such net amount any credit balance which may be due from the Corporation in the same account.

*Amended June 11, 1998; January 23, 2009; June 24, 2011.*

(c) Subject to RULE 505, at or before the settlement time on each business day, the Corporation shall be obligated to deposit in the designated bank account of each Hedge Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) any net mark-to-market payment amount owed by the Corporation to the Hedge Clearing Member on such day in respect of its stock loan and stock borrow positions resulting from Stock Loans. From and after such time, full settlement shall be deemed to have been made in respect of mark-to-market payments for such day, and the Corporation shall

have no further obligation in respect thereof.

*Adopted July 15, 1993. Amended June 11, 1998; January 23, 2009; June 24, 2011.*

## **RULE 2205 - Daily Reports**

Prior to such time on each business day as the Corporation may from time to time establish, the Corporation shall make available to each Hedge Clearing Member one or more reports listing all stock loan positions and stock borrow positions resulting from Stock Loans carried by the Clearing Member. A Hedge Clearing Member must have adequate policies and procedures in place to perform a reconciliation of its stock loan position balances between the records of the Hedge Clearing Member and any report or reports provided by the Corporation at least once per stock loan business day and resolve any discrepancies based on such report(s) for a given stock loan business day by 9:30 A.M. Central Time on the following stock loan business day.

*Adopted July 15, 1993 - Amended June 11, 1998; January 23, 2009; April 28, 2017*

## **RULE 2206 - Dividends and Distributions**

(a) The Lending Clearing Member shall be entitled to receive all dividends and distributions made on or in respect of Loaned Stock the record dates for which are during the term of the Stock Loan of such Loaned Stock, to the full extent it would have been so entitled if the Stock Loan had not been made, and the Borrowing Clearing Member shall be obligated to pay or deliver all such dividends and distributions. Such dividends and distributions shall include, but not be limited to: (i) all property, (ii) all cash dividends and distributions, (iii) all stock dividends, (iv) all securities received as a result of split-ups of the Loaned Stock and distributions in respect thereof, (v) all rights to purchase additional securities, and any cash or other considerations paid or provided by the issuer of such security in exchange for any vote, consent or the taking of any similar action in respect of such security (regardless whether the record date for such vote, consent or other action falls during the term of the Stock Loan). Each cash dividend or distribution shall be paid by the Borrowing Clearing Member directly to the Lending Clearing Member promptly following the payment date of such cash dividend or distribution. Non-cash dividends and distributions received by the Borrowing Clearing Member shall be added to the Loaned Stock, shall be considered such for all purposes, and shall be delivered to the Corporation by the Borrowing Clearing Member and by the Corporation to the Lending Clearing Member upon any termination of the Stock Loan.

*Amended January 23, 2009.*

(b) If a Borrowing Clearing Member fails to pay a cash dividend or distribution in respect of Loaned Stock to the Lending Clearing Member promptly following the payment date for such cash dividend or distribution, the Lending Clearing Member may so notify the Corporation. Following its confirmation that a cash dividend or distribution was in fact made in respect of the Loaned Stock, the Corporation shall withdraw the amount of the cash dividend or distribution from the Borrowing Clearing Member's bank account established in respect of the account in which the stock borrow position resulting from the Stock Loan is maintained and pay such amount to the Lending Clearing Member.

*Adopted July 15, 1993.*

## **RULE 2207 - Indemnification by Borrowing Clearing Member**

The Borrowing Clearing Member in respect of a Stock Loan agrees to indemnify, defend, hold and save harmless the Corporation and the Lending Clearing Member from any claims, actions, demands, or lawsuits of any kind whatsoever arising in any way out of any use that the Borrowing Clearing Member makes of the Loaned Stock.

*Adopted July 15, 1993, amended June 11, 1998.*

## **RULE 2208 - Settlement Date**

(a) The termination of a Stock Loan, or any portion thereof, may be initiated by either (i) the Borrowing Clearing Member by giving the Depository instructions (including the appropriate "reason code") to transfer a specified quantity of the Loaned Stock to the specified account of the Lending Clearing Member at the Depository, against payment of the settlement price in respect thereof (which shall be specified in such instructions) by the Lending Clearing Member to the specified account of the Borrowing Clearing Member at the Depository, or (ii) the Lending Clearing Member, by giving an irrevocable notice to the Borrowing Clearing Member, in such manner as the Corporation may specify from time to time and prior to a time established by the Corporation from time to time, that the Lending Clearing Member is terminating the Stock Loan, or a portion thereof, and specifying in such notice the number of shares of the Loaned Stock in respect of which the Lending Clearing Member is terminating the Stock Loan (the quantity of the Loaned Stock that the Borrowing Clearing Member wishes to return or that the Lending Clearing Member wishes to recall shall be referred to herein as the "Specified Quantity"). The settlement date for any such termination shall be the earlier of: (1) the date on which the Borrowing Clearing Member initiates the termination or (2) the date that is two stock loan business days after the date on which the Lending Clearing Member initiates the termination. The fact that a Lending Clearing Member has initiated the termination of a Stock Loan, or a portion thereof, shall not preclude the Borrowing Clearing Member from terminating such Stock Loan, or a portion thereof, before the date that would otherwise have been the settlement date.

*Amended June 7, 1995, June 11, 1998; May 17, 2012; September 5, 2017*

(b) If the Lending Clearing Member initiated the termination of a Stock Loan, or a portion thereof, then on the settlement date the Borrowing Clearing Member shall, prior to a time established by the Corporation from time to time, give the Depository instructions (including the appropriate "reason code") to transfer a quantity of the Loaned Stock equal to or greater than the Specified Quantity, but not greater than the total amount of the Loaned Stock then in the Lending Clearing Member's stock loan position with respect to the Borrowing Clearing Member, to the appropriate account of the Lending Clearing Member at the Depository, against payment of the settlement price in respect thereof (which shall be specified in such instructions) by the Lending Clearing Member to the specified account of the Borrowing Clearing Member at the Depository.

*Adopted June 11, 1998.*

(c) Notwithstanding that the Lending Clearing Member or the Borrowing Clearing Member initiated the termination of a Stock Loan, the actions of the Borrowing Clearing Member on the settlement date to cause the Depository to transfer the Loaned Stock to the account of the Lending Clearing Member and the settlement price to the account of the borrowing Clearing Member shall be undertaken as the Corporation's agent, and the Corporation shall have the authority to instruct the Borrowing Clearing Member to proceed in another manner in the event that the Lending Clearing Member has been suspended pursuant to Chapter XI of the Rules.

*Adopted June 11, 1998.*

(d) Notwithstanding that the Lending Clearing Member or the Borrowing Clearing Member has initiated the termination of a Stock Loan, the Lending Clearing Member and the Borrowing Clearing Member shall continue to make and receive daily mark-to-market payments in accordance with Rule 2204, and to deposit margin with the Corporation in accordance with Rule 2203, up to and including the date on which settlement of the termination of the Stock Loan is actually accomplished.

*Amended June 11, 1998.*

*Adopted July 15, 1993.*

(e)(1) Notwithstanding any other provision of the By-Laws or Rules, and subject to such requirements and limitations described in this Rule 2208, a Hedge Clearing Member may submit a written request to the Corporation to effect one or more position adjustments to terminate by

offset all or some of its Matched-Book Positions if the following conditions are met:  
*Adopted March 15, 2016*

(i) the requesting Hedge Clearing Member, its Matched-Book Lending Clearing Member, and its Matched-Book Borrowing Clearing Member have furnished to the Corporation their written agreement to (A) the termination by offset of such Matched-Book Positions maintained in the requesting Hedge Clearing Member's account and (B) the Corporation's re-matching the stock borrow position for the same number of shares in the same Eligible Stock maintained in a designated account of the Matched-Book Borrowing Clearing Member against the stock loan position for the same number of shares in the same Eligible Stock maintained in a designated account of the Matched-Book Lending Clearing Member;

*Adopted March 15, 2016*

(ii) The written agreement furnished by the requesting Hedge Clearing Member, the Matched-Book Borrowing Clearing Member, and the Matched-Book Lending Clearing Member must be in a form satisfactory to the Corporation in its sole discretion; and

*Adopted March 15, 2016*

(iii) The written request to terminate by offset and to re-match stock loan and borrow positions may be for less than the total number of shares of the Eligible Stock that is the subject of the stock loan and borrow positions maintained, as applicable, by the requesting Hedge Clearing Member, the Matched-Book Borrowing Clearing Member, and Matched-Book Lending Clearing Member, but must be for an equal number of shares.

*Adopted March 15, 2016*

(2) In the event the Corporation, in its sole discretion, approves the requested termination by offset and re-matching of positions, the requesting Hedge Clearing Member, the Matched-Book Borrowing Clearing Member, and the Matched-Book Lending Clearing Member are not required to issue instructions to the Depository in accordance with Rules 2202(a) and 2208(a) to terminate such stock loan and stock borrow positions maintained in the Stock Loan/Hedge Program or to initiate new stock loan transactions for inclusion in the Stock Loan/Hedge Program.

*Adopted March 15, 2016*

(3) From and after the time the Corporation has completed the requested position adjustments to terminate by offset and re-match the Matched-Book Positions maintained in the requesting Hedge Clearing Member's account as set forth in Rule 2209(h), the requesting Hedge Clearing Member shall have no further obligation under the By-Laws and Rules with respect to such positions.

*Adopted March 15, 2016*

(4) From and after the time the Corporation has completed the termination by offset and re-matching as set forth in Rule 2209(h), the Borrowing Clearing Member with re-matched stock borrow positions remains obligated as a Borrowing Clearing Member and the Lending Clearing Member with re-matched stock loan positions remains obligated as a Lending Clearing Member with respect to the re-matched positions as specified in the By-Laws and Rules applicable to the Stock Loan/Hedge Program.

*Adopted March 15, 2016*

(5) Upon notification that the Corporation has completed the termination by offset and re-matching of stock loan and borrow positions as set forth in Rule 2209(h), the requesting Hedge Clearing Member and the Borrowing Clearing Member and Lending Clearing Member with re-matched stock loan and borrow positions shall make any necessary bookkeeping entries at the Depository necessitated by the termination by offset and re-matching.

*Adopted March 15, 2016*

## **RULE 2209 - Settlement**

(a) Termination of a Stock Loan, or a portion thereof, shall be complete when (i) (A) the Depository has made final entries on its books showing the transfer to the Lending Clearing Member's account of the amount of Loaned Stock specified in the Borrowing Clearing Member's transfer instructions and the transfer of the settlement price in respect thereof to the Borrowing Clearing Member's account and the Corporation has been effectively notified of such entries or (B) the Lending Clearing Member and the Borrowing Clearing Member have certified to the Corporation in such manner as the Corporation shall from time to time prescribe that the Stock Loan (or designated portion thereof) has been terminated between the Clearing Members and any transfer of the settlement price has occurred between the Clearing Members, and (ii) the records of the Corporation reflect the termination of such Stock Loan. From and after the time when termination of a Stock Loan, or a portion thereof, is complete in accordance with this Rule, the Corporation shall be discharged from its obligations as borrower to the Lending Clearing Member and lender to the Borrowing Clearing Member, and the Corporation shall have no further obligation in respect of the terminated Stock Loan, or such portion.

*Amended February 20, 1996, June 11, 1998; May 17, 2012; April 28, 2017*

(b) If the Lending Clearing Member initiates the termination of a Stock Loan and the Lending Clearing Member does not receive the Specified Quantity in its designated account with the Depository on the settlement date at or before such time (the "Settlement Time") as may be specified by the Corporation from time to time, the Borrowing Clearing Member shall nevertheless be entitled to receive from the Lending Clearing Member the settlement price in respect of the number of shares (if any) of the Loaned Stock actually transferred by the Borrowing Clearing Member to the Lending Clearing Member, and the termination of the Stock Loan shall be complete at the time thereafter:

*Amended June 7, 1995, June 11, 1998; May 17, 2012.*

(1) when the Borrowing Clearing Member has caused the quantity of the Loaned Stock necessary to complete the return of the Specified Quantity (the "Delinquent Quantity") to be transferred to the Lending Clearing Member's designated account at the Depository, and the Lending Clearing Member has caused the settlement price in respect of the Delinquent Quantity to be transferred to the account of the Borrowing Clearing Member at the Depository; or

*Amended June 11, 1998; May 17, 2012.*

(2) when the Lending Clearing Member has executed such buy-in prior to actually receiving the Delinquent Quantity in its designated account at the Depository from the Borrowing Clearing Member.

*Amended June 11, 1998; May 17, 2012.*

The Lending Clearing Member may execute a buy-in of the Delinquent Quantity pursuant to this paragraph at any time after the Settlement Time on the settlement date, provided that the Lending Clearing Member has not actually received the Delinquent Quantity in its designated account with the Depository from the Borrowing Clearing Member prior to executing the buy-in. After execution of a buy-in, the Lending Clearing Member shall immediately give written notice to the Corporation and the Borrowing Clearing Member of such buy-in, including the quantity of the Loaned Stock purchased (which shall not be greater than, and should ordinarily be equal to, the Delinquent Quantity) and the price paid (including any transactional costs, fees or interest incurred in connection with such buy-in, the "Buy-In Costs"). Such notice shall be in a form specified by the Corporation from time to time. The Lending Clearing Member shall execute the buy-in in a commercially reasonable manner and must be prepared to defend the timing of the buy-in and the Buy-In Costs. Any objections by the Borrowing Clearing Member with respect to the timeliness of the buy-in and the reasonableness of the Buy-In Costs shall be matters to be resolved as between the Lending Clearing Member and the Borrowing Clearing Member, and the



Corporation shall have no responsibility in respect thereof.  
*Amended June 7, 1995; June 11, 1998; May 17, 2012.*

(c) If a buy-in has been completed by a Lending Clearing Member pursuant to paragraph (b), the Corporation shall (i) determine the difference between the amount of Collateral held by the Lending Clearing Member in respect of the bought-in Loaned Stock and the Buy-In Costs, (ii) pay such amount to or collect such amount from, as applicable, the account of the Lending Clearing Member in which the stock loan position was carried, and (iii) collect such amount from or pay such amount to, as applicable, the account of the Borrowing Clearing Member in which the stock borrow position was carried. Such collection and payment having been made, the stock loan position of the Lending Clearing Member and the stock borrow position of the Borrowing Clearing Member in respect of the bought-in Loaned Stock shall be extinguished, and the Corporation shall have no further obligation in respect thereof.  
*Amended June 11, 1998; May 17, 2012.*

(d) Notwithstanding the preceding provisions of this Rule, if the Lending Clearing Member is unable to complete the buy-in or if, for any reason, effecting a buy-in is not permitted, the Corporation, in its discretion and upon notice to the Lending Clearing Member, may fix a cash settlement value for the quantity of the Loaned Stock not returned to the Lending Clearing Member. The value fixed by the Corporation shall be final and not subject to review. The Corporation shall (i) determine the difference between the amount of Collateral held by the Lending Clearing Member in respect of such quantity of the Loaned Stock and the cash settlement value fixed by the Corporation, (ii) pay such amount to or collect such amount from, as applicable, the account of the Lending Clearing Member in which the stock loan position was carried, and (iii) collect such amount from or pay such amount to, as applicable, the account of the Borrowing Clearing Member in which the stock borrow position was carried. Such collection and payment having been made, the stock loan position of the Lending Clearing Member and the stock borrow position of the Borrowing Clearing Member in respect of such quantity of the Loaned Stock shall be extinguished, and the Corporation shall have no further obligation in respect thereof. These payments shall be made through the Corporation's daily cash settlement system and may be netted against other cash settlements due to or from the same account in accordance with the By-Laws and Rules.  
*Adopted May 17, 2012.*

(e) Notwithstanding any other provision of the By-Laws or Rules, from and after the time at which a buy-in is executed pursuant to paragraph (b) of this Rule or a cash settlement value is determined pursuant to paragraph (d) of this Rule, the Borrowing Clearing Member shall have no further obligation to deliver to the Corporation, and the Corporation shall have no further obligation to deliver to the Lending Clearing Member, a quantity of the Loaned Stock equal to the number of shares bought in or cash-settled, the Corporation shall have no further right to receive from the Lending Clearing Member, and the Borrowing Clearing Member shall have no further right to receive from the Corporation, the Collateral in respect of a quantity of the Loaned Stock equal to the number of shares bought in or cash-settled, and no delivery of Loaned Stock by the Borrowing Clearing Member to the Lending Clearing Member shall constitute a return of any of the Loaned Stock in respect of which a buy-in is executed or a cash settlement value is determined.  
*Amended June 11, 1998; May 17, 2012.*

(f) If the Borrowing Clearing Member initiates the termination of a Stock Loan and the Borrowing Clearing Member does not receive in its specified account with the Depository, at or before the Settlement Time on the settlement date, the full settlement price in respect of the Specified Quantity of Loaned Stock, the Borrowing Clearing Member shall nevertheless deliver to the Lending Clearing Member the number of shares (if any) of the Loaned Stock in respect of which the settlement price has actually been transferred by the Lending Clearing Member to the Borrowing Clearing Member. The portion of the Specified Quantity of Loaned Stock remaining in the Borrowing Clearing Member's possession shall be referred to herein as the "Remaining

Quantity.” The termination of the Stock Loan shall be complete at the time thereafter:  
*Adopted May 17, 2012.*

(1) when the Lending Clearing Member has caused the settlement price in respect of the Remaining Quantity to be transferred to the Borrowing Clearing Member's designated account at the Depository, and the Borrowing Clearing Member has caused the Remaining Quantity to be transferred to the specified account of the Lending Clearing Member at the Depository; or  
*Adopted May 17, 2012.*

(2) when the Borrowing Clearing Member has executed a sell-out prior to actually receiving the settlement price in respect of the Remaining Quantity in its specified account at the Depository from the Lending Clearing Member.  
*Adopted May 17, 2012.*

The Borrowing Clearing Member may execute a sell-out of the Remaining Quantity pursuant to this paragraph at any time after the Settlement Time on the settlement date, provided that the Borrowing Clearing Member has not actually received the settlement price in respect of the Remaining Quantity in its specified account with the Depository from the Lending Clearing Member prior to executing the sell-out. After execution of a sell-out, the Borrowing Clearing Member shall immediately give written notice to the Corporation and the Lending Clearing Member of such sell-out, including the quantity of the Loaned Stock sold (which shall not be greater than the Remaining Quantity), the price received, and any transactional costs, fees or interest incurred in connection with such sell-out (such transactional costs, fees and interest, the “Sell-Out Costs”). The Borrowing Clearing Member shall execute the sell-out in a commercially reasonable manner and must be prepared to defend the timing of the sell-out, the sell-out price and the Sell-Out Costs. Any objections by the Lending Clearing Member with respect to the timeliness of the sell-out and the reasonableness of the sell-out price and the Sell-Out Costs shall be matters to be resolved as between the Lending Clearing Member and the Borrowing Clearing Member, and the Corporation shall have no responsibility in respect thereof.  
*Adopted May 17, 2012.*

(g) If a sell-out has been completed by a Borrowing Clearing Member pursuant to paragraph (f), the Corporation shall (i) subtract the Sell-Out Costs from the price received on such sell-out, and determine the difference between the remaining amount and the settlement price owed to the Borrowing Clearing Member in respect of the sold-out Loaned Stock, (ii) pay such amount to or collect such amount from, as applicable, the account of the Borrowing Clearing Member in which the stock borrow position was carried, and (iii) collect such amount from or pay such amount to, as applicable, the account of the Lending Clearing Member in which the stock loan position was carried. Such collection and payment having been made, the stock loan position of the Lending Clearing Member and the stock borrow position of the Borrowing Clearing Member in respect of the sold-out Loaned Stock shall be extinguished, and the Corporation shall have no further obligation in respect thereof.  
*Adopted May 17, 2012.*

(h) In the event of a termination by offset and re-match of a stock loan under Rule 2208(e), such termination by offset and re-match shall be complete upon the Corporation completing all position adjustments in the accounts of the requesting Hedge Clearing Member, the Matched-Book Borrowing Clearing Member, and the Matched-Book Lending Clearing Member in accordance with Rule 2208(e) and the earlier of (i) communicating confirmation of the transaction either in the form of direct written communications with the requesting Hedge Clearing Member, the Matched-Book Borrowing Clearing Member and the Matched-Book Lending Clearing Member or (ii) when systems reports are produced and provided to the Clearing Members reflecting the transaction.  
*Adopted March 15, 2016*

(i) Anything else herein to the contrary notwithstanding, the Corporation shall not be held liable for any Clearing Member's failure to comply with its responsibilities and obligations under the federal and state securities laws, including, but not limited to, Regulation SHO, or any applicable rules of

any exchange or self-regulatory organization.  
*Adopted May 17, 2012.*

**. . . Interpretations and Policies:**

**.01** If two Hedge Clearing Members complete a transfer of stock from one to the other which is reported to the Corporation by the Depository with a "reason code" indicating that the transfer was intended to effect the termination of a Stock Loan, but the records of the Corporation do not reflect the existence of a Stock Loan which is consistent with the quantity of stock shown in the reported transfer, the Corporation will reflect on its records the termination of so much of any Stock Loan that exists on the records of the Corporation and that is consistent (in terms of the Eligible Stock, the identity of the Lending Clearing Member and the identity of the Borrowing Clearing Member) with the reported transfer. The Corporation will reject the remainder of any such reported transfer. Any such rejected transfer shall remain effective as between the two Hedge Clearing Members, but the Corporation shall have no responsibility in respect thereof. The records of the Corporation shall be dispositive as between the Corporation and each of the two Hedge Clearing Members with respect to any such event.

*Adopted June 11, 1998.*

## **RULE 2210 - Suspension of Hedge Clearing Members - Pending and Open Stock Loans**

(a) If the Depository suspends a Hedge Clearing Member prior to the time at which the Corporation would have otherwise accepted a stock loan to which the Hedge Clearing Member is a party as a Stock Loan, then, notwithstanding any other provision of the By-Laws and Rules, the Corporation shall have no obligation to accept, and shall not accept, the stock loan. In all other circumstances, the Corporation shall accept any stock loan which satisfies the requirements set forth in Rule 2202(b), even if the Corporation has suspended a Clearing Member which is a party to the stock loan prior to the time at which the Corporation accepts the stock loan as a Stock Loan.

*Amended June 11, 1998.*

(b) Open stock loan and borrow positions resulting from Stock Loans of a suspended Hedge Clearing Member shall, except as hereinafter provided, be terminated in accordance with the provisions of Rule 2211, Rule 2212, or in such other manner as the Corporation determines to be the most orderly manner practicable in the circumstances, including, but not limited to, a private auction. Any net proceeds from the termination of such stock loan and borrow positions in the accounts of the suspended Clearing Member shall be credited by the Corporation to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. Any net amounts payable in respect of the termination of such stock loan and borrow positions in any of the accounts of the suspended Clearing Member shall be withdrawn by the Corporation from the Clearing Member's Liquidating Settlement Account. The suspended Clearing Member or its representative shall be notified as promptly as possible of any termination of stock loan and borrow positions pursuant to this Rule.

*Amended August 29, 1995, June 11, 1998; January 23, 2009, August 27, 2012; April 28, 2017*

(c) Notwithstanding the preceding provisions of this Rule, the Corporation may exercise the authority described in Rules 1106(d) and 1106(e) in respect of open stock loan and borrow positions. For purposes of applying such paragraphs to open stock loan and borrow positions, references to "positions," "unsegregated long positions or short positions," and "underlying interests" therein shall be deemed to be references to "stock loan and borrow positions," "stock loan positions or stock borrow positions," and "Eligible Stock," respectively.

*Adopted July 15, 1993.*

### ***...Interpretations and Policies***

.01 See Interpretation and Policy .02 following Rule 1104 for a description of the private auction process by which OCC may close out a suspended Clearing Member's open positions in stock loan and/or borrow positions resulting from Stock Loans.

*Adopted August 27, 2012*

## **RULE 2211 - Suspension of Hedge Clearing Members - Buy-In and Sell-out Procedures**

If a Hedge Clearing Member shall be suspended by the Corporation, the Corporation may direct the Lending Clearing Member or the Borrowing Clearing Member, as applicable, or, in the Corporation's discretion, may instruct an independent broker, to buy in or sell out, as applicable, the Loaned Stock with respect to each open stock borrow or loan position of the suspended Hedge Clearing Member that originated through the Stock Loan/Hedge Program. Such buy in or sell out must be executed by the Lending Clearing Member or Borrowing Clearing Member by the close of the stock loan business day after the receipt of such instruction by the Corporation. Failure to execute such buy in or sell out, and provide notification of such action by close of the stock loan business day after the receipt of such instruction by the Corporation, will result in the Corporation terminating the Stock Loan and effecting Settlement based upon the Marking Price used at the close of business on the stock loan business day after the original instruction was made by the Corporation. The buy-in, sell-out or cash settlement process shall be effected in accordance with the applicable procedures set forth in Rule 2209, provided that (i) in the case where the Corporation instructs an independent broker to execute a buy-in, the Corporation shall return the bought-in Loaned Stock to the Lending Clearing Member against the payment of settlement price in respect thereof by the Lending Clearing Member, (ii) in the case where the Corporation instructs an independent broker to execute a sell-out, the Corporation shall recall the Loaned Stock from the Borrowing Clearing Member for purpose of the sell-out and transfer the sale proceeds to the Borrowing Clearing Member, and (iii) any amount to be credited to or collected from the suspended Clearing Member shall be credited to or withdrawn from the suspended Clearing Member's Liquidating Settlement Account. The Clearing Member executing the buy-in or sell-out, as applicable, must be prepared to defend the reasonableness of the price, transactional costs or cash settlement value, provided that in the case where the Corporation instructs an independent broker to execute a buy-in or sell-out, every determination by the Corporation with respect to any such related matter shall be within the sole discretion of the Corporation and shall be conclusive and binding on all Clearing Members and not subject to review. A Clearing Member may demonstrate that the price or cash settlement value associated with a buy-in or sell-out is reasonable by demonstrating that the price or cash settlement value fell within the trading range of the Eligible Stock on the date of the buy-in or sell-out. The Corporation has the authority to withdraw the value of any difference between the price reported by the Clearing Member executing the buy-in or sell-out, as applicable, and the price the Corporation, in its sole discretion, determines to be reasonable. This price determined by the Corporation shall be binding and conclusive. Anything else herein to the contrary notwithstanding, the Corporation shall not be held liable for any Clearing Member's failure to comply with its responsibilities and obligations under the federal and state securities laws, including, but not limited to, Regulation SHO, or any applicable rules of any exchange or self-regulatory organization.

*Adopted July 15, 1993 - Amended May 17, 2012; April 28, 2017*

## **RULE 2212 - Suspension of Hedge Clearing Members – Re-Matching in Suspension**

(a) In the event that a suspended Hedge Clearing Member has Matched-Book Positions within the Stock Loan/Hedge Program, the Corporation will, upon notice to affected Hedge Clearing Members, close out the suspended Hedge Clearing Member's Matched-Book Positions to the greatest extent possible by (i) the termination by offset of stock loan and stock borrow positions

that are Matched-Book Positions in the suspended Hedge Clearing Member's account(s) and (ii) the Corporation's re-matching of stock borrow positions for the same number of shares in the same Eligible Stock maintained in a designated account of a Matched-Book Borrowing Clearing Member against a stock loan position for the same number of shares in the same Eligible Stock maintained in a designated account of a Matched-Book Lending Clearing Member.

*Adopted April 28, 2017*

(b) The Matched-Book Borrowing Clearing Member and Matched-Book Lending Clearing Member are not required to issue instructions to the Depository in accordance with Rules 2202(a) and 2208(a) to terminate such stock loan and stock borrow positions maintained in the Stock Loan/Hedge Program or to initiate new stock loan transactions for inclusion in the Stock Loan/Hedge Program.

*Adopted April 28, 2017*

(c) The Corporation shall make reasonable efforts to re-match Matched-Book Borrowing Clearing Members with Matched-Book Lending Clearing Members that maintain between them current executed Master Securities Loan Agreements based on information provided by Hedge Clearing Members to the Corporation on an ongoing basis. The Corporation shall be entitled to rely on, and shall have no responsibility to verify in any manner, the Master Securities Loan Agreement records provided by Hedge Clearing Members and on record as of the time of re-matching.

*Adopted April 28, 2017*

(d) The termination by offset and re-matching of positions pursuant to this Rule 2212 shall be done by the Corporation using a matching algorithm in which the Matched-Book Positions of the suspended Hedge Clearing Member are first terminated by offset and affected Matched-Book Borrowing Clearing Members and Matched-Book Lending Clearing Members are re-matched in the following order of priority:

*Adopted April 28, 2017*

- (1) The Corporation will first select the largest stock loan or stock borrow position in a given Eligible Stock from the suspended Hedge Clearing Member's Matched-Book Positions.

*Adopted April 28, 2017*

- (2) The stock loan or stock borrow positions selected in paragraph (d)(1) above are then re-matched with the largest available stock borrow or stock loan positions, as applicable, for the selected Eligible Stock for which a Master Securities Loan Agreement exists between a Matched-Book Borrowing Clearing Member and a Matched-Book Lending Clearing Member.

*Adopted April 28, 2017*

- (3) The Corporation will repeat the re-matching process as described in paragraphs (d)(1) – (2) above until all potential re-matching between Matched-Book Borrowing Clearing Members and Matched-Book Lending Clearing Members with Master Securities Loan Agreements is completed.

*Adopted April 28, 2017*

- (4) After re-matching among lenders and borrowers with existing Master Securities Loan Agreements, the re-matching process will be repeated for all remaining Matched-Book Positions for which Master Securities Loan Agreements do not exist between the Matched-Book Borrowing Clearing Members and Matched-Book Lending Clearing Members. Positions will be selected for re-matching in order of priority based on largest outstanding position size.

*Adopted April 28, 2017*

(e) In the event a Borrowing Clearing Member and Lending Clearing Member are re-matched pursuant to this Rule 2212, the re-matched positions will be governed by the pre-defined terms and instructions established by the Lending Clearing Member pursuant to Rule 2201. Any change

in Collateral requirements arising from the re-matching of stock loan or stock borrow positions pursuant to this Rule 2212 shall be included in the calculation of the mark-to-market payment obligations as provided in Rule 2204 on the stock loan business day following the completion of the positions adjustments as set forth in Rule 2212(f).

*Adopted April 28, 2017*

(f) The termination by offset and re-matching of positions pursuant to this Rule 2212 shall be complete upon the Corporation completing all position adjustments in the accounts of the suspended Hedge Clearing Member and the Borrowing Clearing Members and Lending Clearing Members with re-matched positions and the applicable systems reports are produced and provided to the Clearing Members reflecting the completion of the transaction.

*Adopted April 28, 2017*

(g) From and after the time the Corporation has completed the position adjustments to terminate by offset and re-match Matched-Book Positions maintained in the suspended Hedge Clearing Member's account as set forth in 2212(f), the suspended Hedge Clearing Member shall have no further obligation under the By-Laws and Rules with respect to such positions.

*Adopted April 28, 2017*

(h) From and after the time the Corporation has completed the termination by off-set and re-matching as set forth in Rule 2212(f) a Borrowing Clearing Member with re-matched stock borrow positions remains obligated as a Borrowing Clearing Member and a Lending Clearing Member with re-matched stock loan positions remains obligated as a Lending Clearing Member as specified in the By-Laws and Rules applicable to the Stock Loan/Hedge Program.

*Adopted April 28, 2017*

(i) Upon notification that the Corporation has completed the termination by offset and re-matching of stock loan and borrow positions as set forth in Rule 2212(f), the suspended Hedge Clearing Member and Borrowing Clearing Members and Lending Clearing Members with re-matched stock loan and borrow positions shall promptly make any necessary bookkeeping entries at the Depository necessitated by the re-matching.

*Adopted April 28, 2017*

(j) Borrowing Clearing Members and Lending Clearing Members that have been re-matched shall work in good faith to reestablish any terms, representations, warranties and covenants not governed by the By-Laws and Rules or to terminate the re-matched stock loan or borrow positions in the ordinary course pursuant to Rule 2208 as soon as reasonably practicable.

*Adopted April 28, 2017*

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## **CHAPTER XXIIA – Market Loan Program**

### **Introduction**

The Rules in this Chapter are applicable only to the Market Loan Program. In addition, the Rules in Chapters I through XII are also applicable to the Market Loan Program, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of the Market Loan Program by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted January 23, 2009.*

## **RULE 2201A - Instructions to the Corporation**

(a) In respect of stock loan and stock borrow transactions originated through a Loan Market and stock loan and stock borrow positions resulting from such transactions, a Market Loan Clearing Member shall provide standing instructions to the Corporation with respect to matters identified by the Corporation from time to time, including but not limited to (i) the account number of each account with the Depository in which such stock loan and stock borrow transactions are to be effected, (ii) the default account with the Corporation, which may be any of the Market Loan Clearing Member's accounts or sub-accounts thereof that are eligible under Article XXI, Section 5, Interpretation .01 of the By-Laws, to which new stock loan and stock borrow positions are to be allocated in the absence of executable instructions of the Clearing Member to allocate the positions to a different account, and (iii) the account with the Corporation (which may be the Market Loan Clearing Member's firm account or its combined Market-Makers' account) from and to which mark-to-market payments, dividend equivalent payments and rebate payments are to be made. The Corporation may also permit a Market Loan Clearing Member to provide standing instructions with respect to other aspects of the Clearing Member's participation in the Market Loan Program. A Market Loan Clearing Member may revise its standing instructions, subject to the Corporation's notice requirements as in effect from time to time.

*Adopted January 23, 2009. Amended December 26, 2012*

(b) A Market Loan Clearing Member may give the Corporation specific instructions from time to time which are contrary to its standing instructions with respect to the account (or sub-account thereof) to which a particular stock loan or stock borrow position (either a new position or an existing position which the Clearing Member wishes to transfer to a different account) is to be allocated. With respect to a new position, in the absence of such specific instructions, or if the specific instruction is invalid for any reason, the position will be allocated to the Market Loan Clearing Member's default account.

*Adopted January 23, 2009. Amended December 26, 2012*

### **. . . Interpretations and Policies:**

**.01** At any time on any business day prior to the deadline specified by the Corporation, an eligible Market Loan Clearing Member may transfer all or any portion of an existing stock loan or stock borrow position (including positions resulting from that day's activity) among its accounts by submitting an appropriate transfer instruction to the Corporation that designates the accounts and/or sub-accounts from and to which the positions shall be transferred. If a Market Loan Clearing Member's request for transfer exceeds the number of stock loan or stock borrow shares available in the account from which the shares will be transferred, then the transfer instruction will be rejected.

*Adopted January 23, 2009. Amended December 26, 2012*

**.02** In respect of stock loan and stock borrow positions resulting from Market Loans, returns of shares shall be reflected in the Market Loan Clearing Member's account or sub-account designated on a delivery order submitted by the Depository. If there are insufficient shares in the designated account to fulfill the return instruction, or if there is no account designated in the Depository delivery order, the excess shares to be returned shall be taken from the Clearing Member's default account. If there are insufficient shares in the default account to fulfill the return instruction, the remaining shares shall be rejected and the return instruction will be void to that extent.

*Adopted January 23, 2009. Amended December 26, 2012*

## **RULE 2202A - Initiation of Market Loans**

(a)(i) A stock loan which is intended for inclusion in the Market Loan Program is initiated when a lender is matched with a borrower through a Loan Platform and the Loan Market sends details of the matched transaction to the Corporation. If the matched transaction passes the Corporation's

validation process (designed to detect errors in data submitted), the Corporation shall create and send to the Depository a pair of delivery orders – one order instructing the Depository to transfer a specified number of shares of a specified Eligible Stock from a Market Loan Clearing Member to the Corporation's account against transfer of Collateral from the Corporation's account to such Clearing Member, and the other order instructing the Depository to simultaneously transfer such Eligible Stock from the Corporation's account to a second Market Loan Clearing Member against the transfer of Collateral from such second Clearing Member to the Corporation's account.

*Adopted January 23, 2009.*

(ii) A Loan Market may instruct the Corporation to disregard a previously reported matched transaction that is pending settlement at the Depository. In accordance with such instruction, the Corporation shall create and send appropriate instructions to the Depository to cancel the previously issued delivery orders. Upon confirmation that the Depository has processed such cancellation instructions, the related matched transaction shall be deemed null and void and given no effect and the Corporation shall have no obligation to any Market Loan Clearing Member in acting pursuant to a Loan Market's instruction to disregard a previously reported transaction.

*Adopted March 25, 2010.*

(b) Upon receipt of information reported to the Corporation from the Depository showing a completed stock loan that purportedly originated through the Market Loan Program, the Corporation shall (subject to Rule 2210A) accept such stock loans as Market Loans, unless the Corporation determines that a stock loan is not in accordance with the By-Laws and Rules, or that one or both account numbers are invalid for Market Loans, or that the information provided by the Depository contains unresolved errors or omissions, in which case the Corporation shall reject such stock loan. Upon the Corporation's acceptance of a Market Loan, the following shall automatically occur: (i) the matched stock loan transaction submitted by the Loan Market that initiated the Market Loan shall be extinguished and replaced in its entirety by (1) a congruent contract between the lending Market Loan Clearing Member, as stock lender, and the Corporation, as stock borrower, and (2) an identical congruent contract between the Corporation, as stock lender, and the borrowing Market Loan Clearing Member, as stock borrower, (ii) such pair of contracts shall constitute the Market Loan, (iii) the lending Market Loan Clearing Member shall be the Lending Clearing Member and the borrowing Market Loan Clearing Member shall be the Borrowing Clearing Member in respect of such Market Loan for all purposes of the By-Laws and Rules, and (iv) the Corporation shall create the stock loan position and the stock borrow position in accordance with Article XXIA, Section 2 of the By-Laws. For purposes of the foregoing, a replacement stock loan contract shall be "congruent" to the stock loan contract replaced if and only if the contracts agree with respect to the identity of the Eligible Stock that is to be lent, the number of shares that are to be lent, the Collateral requirement, the rebate rate and the settlement price.

*Adopted January 23, 2009. Amended May 24, 2018*

(c) On each stock loan business day, any stock loan transactions originated through a Loan Market that fail to pass the validation process referred to in paragraph (a) of this Rule or are rejected by the Corporation as described in paragraph (b) of this Rule shall be rejected by the Corporation and shall have no further effect as regards the Corporation.

*Adopted January 23, 2009. Amended May 24, 2018*

(d) Subject only to the provisions of paragraph (f) of this Rule and such obligations in respect of the Collateral as the Lending Clearing Member may have by agreement with the person for whose account the Loaned Stock is held, the Lending Clearing Member may use or invest the Collateral as it may deem fit at its own risk and for its own account and shall retain any income and profits therefrom and bear all losses therefrom. The sole obligations of the Lending Clearing Member in respect of the Collateral shall be (i) repaying an amount equal to the Collateral (as adjusted from time to time by mark-to-market payments made pursuant to Rule 2204A) as instructed by the Corporation, or otherwise disposing of the Collateral in such other manner as the Corporation may direct, if and when the Market Loan is terminated as provided in the Rules;



and (ii) making periodic rebate payments to the Corporation (in the case of a Market Loan with a positive rebate) in accordance with Rule 2206A.

*Adopted January 23, 2009.*

(e) Until such time as a Market Loan is terminated as provided in the Rules, the Borrowing Clearing Member shall have all incidents of ownership of the Loaned Stock, including without limitation the right to transfer the Loaned Stock to others; provided, however, that (i) the Borrowing Clearing Member shall be obligated to make mark-to-market payments to the Corporation and receive mark-to-market payments from the Corporation with respect to the Loaned Stock as provided in Rule 2204A; and (ii) the Borrowing Clearing Member shall be obligated to make all dividend equivalent payments and all periodic rebate payments to the Corporation (in the case of a Market Loan with a negative rebate) pertaining to the Loaned Stock in accordance with Rule 2206A.

*Adopted January 23, 2009.*

(f) Each lending of Loaned Stock by a Lending Clearing Member, and each borrowing of Loaned Stock by a Borrowing Clearing Member, shall constitute a representation and covenant by the Clearing Member to the Corporation that its participation in such lending or borrowing is in compliance, and will continue to comply, with all applicable laws and regulations including without limitation Rule 15c3-3 and all other applicable rules and regulations of the Securities and Exchange Commission, any applicable provisions of Regulation T of the Board of Governors of the Federal Reserve System, and the rules of the Financial Industry Regulatory Association and any other regulatory or self-regulatory organization to which the Clearing Member is subject.

*Adopted January 23, 2009.*

(g) Market Loan Clearing Members shall be prohibited from initiating stock loans intended for inclusion in the Market Loan Program that involve the lending of any Eligible Stock issued by such Market Loan Clearing Member or any Member Affiliate of such Market Loan Clearing Member.

*Adopted December 16, 2019*

#### **. . . Interpretations and Policies:**

.01 The Corporation makes available to each Market Loan Clearing Member, during a business day, updated position information that reflects current stock loan and borrow activity, including new positions, transfers of positions, returns and cancels.

*Adopted December 26, 2012. Amended May 24, 2018*

### **RULE 2203A - Margin Deposited with the Corporation**

Each Market Loan Clearing Member shall be required to maintain margin with the Corporation in respect of its stock loan and stock borrow positions resulting from Market Loans, including any dividend equivalent payments and accrued rebate payments that the Clearing Member is obligated to make in accordance with the Rules. The amount of margin assets required to be deposited shall be as determined pursuant to Rule 601.

*Adopted January 23, 2009.*

### **RULE 2204A - Mark-To-Market Payments**

(a) In order to adjust the amount of the Collateral securing a Market Loan for changes in the market value of the Eligible Stock that is the subject of the Market Loan, Borrowing and Lending Clearing Members shall be required to make mark-to-market payments to the Corporation, and the Corporation shall be required to make mark-to-market payments to such Clearing Members, on each business day with respect to each Market Loan until such loan has been terminated in accordance with the Rules. The amount of any mark-to-market payment to be made on any business day shall represent the increase or decrease, as applicable, in the value of the stock

loan position and stock borrow position relating to such Market Loan. The increase or decrease in value of a stock borrow position shall be deemed to be equal to: (i) in the case of a stock borrow position that was established on the preceding business day, the result of subtracting the marking price on such day from the settlement price; and (ii) in the case of any other stock borrow position, the result of subtracting the marking price on the preceding business day from the marking price on the second preceding business day, in each case multiplied by a percentage specified by the relevant Loan Market. The increase or decrease in value of a stock loan position shall be deemed to be equal to: (1) in the case of a stock loan position that was established on the preceding business day, the result of subtracting the settlement price from the marking price on such day; and (2) in the case of any other stock loan position, the result of subtracting the marking price on the second preceding business day from the marking price on the preceding business day, in each case multiplied by a percentage specified by the relevant Loan Market. No mark-to-market payment shall be required in respect of any stock loan or stock borrow position on and after the business day following the day on which such position was extinguished.

*Adopted January 23, 2009.*

(b) On each business day, the Corporation shall net the mark-to-market payments, if any, owed by and to each Market Loan Clearing Member in respect of its stock loan and borrow positions resulting from Market Loans. At or before the settlement time on each business day, each Market Loan Clearing Member shall be obligated to pay to the Corporation any net mark-to-market payment amount owed to the Corporation in respect of such positions carried in the Market Loan Clearing Member's accounts, and the Corporation shall be authorized to withdraw from the Market Loan Clearing Member's bank account established in respect of the account from and to which mark-to-market payments are to be made an amount equal to such net amount, provided that the Corporation may, but shall not be required to, offset against any such net amount any credit balance which may be due from the Corporation in the same account.

*Adopted January 23, 2009. Amended June 24, 2011.*

(c) Subject to Rule 505, at or before the settlement time on each business day, the Corporation shall be obligated to deposit in the designated bank account established in respect of each account of each Market Loan Clearing Member (provided the Market Loan Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) any net mark-to-market payment amount owed by the Corporation to the Market Loan Clearing Member on such day in respect of its stock loan and borrow positions resulting from Market Loans. From and after such time, full settlement shall be deemed to have been made in respect of mark-to-market payments for such day, and the Corporation shall have no further obligation in respect thereof.

*Adopted January 23, 2009. Amended June 24, 2011.*

## **RULE 2205A - Daily Reports**

Prior to such time on each business day as the Corporation may from time to time establish, the Corporation shall make available to each Market Loan Clearing Member one or more reports listing all stock loan positions and stock borrow positions resulting from Stock Loans carried by the Clearing Member. A Market Loan Clearing Member must have adequate policies and procedures in place to perform a reconciliation of its stock loan position balances between the records of the Market Loan Clearing Member and any report or reports provided by the Corporation at least once per stock loan business day and resolve any discrepancies based on such report(s) for a given stock loan business day by 9:30 A.M. Central Time on the following stock loan business day.

*Adopted January 23, 2009; Amended April 28, 2017*

## **RULE 2206A - Dividends and Distributions; Rebates**

(a) (i) Subject to the provisions of paragraph (a)(ii) of this Rule, the Lending Clearing Member shall be entitled to receive all dividends and distributions made in respect of Loaned Stock on the record dates that occur during the term of a Market Loan, to the full extent it would have been so entitled if the Market Loan had not been made, and the Borrowing Clearing Member shall be obligated to pay or deliver all such dividends and distributions. Such dividends and distributions shall include, but not be limited to: cash and all other property; stock dividends; securities received as a result of split-ups of the Loaned Stock and distributions in respect thereof; interest payments; all rights to purchase additional securities; and any cash or other considerations paid or provided by the issuer of such security in exchange for any vote, consent or the taking of any similar action in respect of such security (regardless whether the record date for such vote, consent or other action falls during the term of the Market Loan).

*Adopted January 23, 2009.*

(ii) Dividend equivalent payments shall be effected primarily through the facilities of the Depository, utilizing its Dividend Service. However, dividend equivalent payments in respect of a Market Loan shall be effected through the Corporation's cash settlement system on the business day following the expected dividend or distribution payment date if (1) the Loan Market has advised the Corporation that the dividend or distribution for such Market Loan is not tracked by the Depository's Dividend Service or (2) the Corporation, in its discretion, has determined to remove a Market Loan from the Depository's Dividend Service and/or void and nullify any obligation to effect dividend equivalent payments through the Depository's facilities. Notwithstanding the preceding provisions of this Rule, the Corporation shall guarantee a dividend equivalent payment only to the extent that the Corporation has collected margin equal to such dividend equivalent payment from the responsible Borrowing Clearing Member(s) prior to the time that any such Borrowing Clearing Member defaults. The amount of margin that the Corporation collects in respect of dividend equivalent payments shall be solely based on calculations provided by the Loan Market. The Corporation shall have no responsibility to verify the accuracy of the Loan Market's calculations and shall not be liable to Clearing Members for any errors in such calculations. In the event that the Loan Market subsequently confirms that dividend equivalent payments were not distributed on the expected payment date, the Loan Market shall instruct the Corporation to reverse the payments.

*Adopted January 23, 2009. Amended September 28, 2009; March 25, 2010.*

(iii) If the Corporation determines that the non-cash dividends and distributions received by the Borrowing Clearing Member are legally transferable and the transfers can be effected through the Depository, then such non-cash dividends and distributions shall be added to the Loaned Stock (as reflected by appropriate adjustments to the Corporation's records), shall be considered such for all purposes, and shall be delivered to the Corporation by the Borrowing Clearing Member and by the Corporation to the Lending Clearing Member upon any termination of the Market Loan. Every such determination by the Corporation shall be within the sole discretion of the Corporation and shall be conclusive and binding on all Clearing Members and not subject to review. In the event that the Loan Market determines in its discretion to fix a cash settlement value with respect to any non-cash dividends and/or distributions that are not added to the Loaned Stock as provided in the preceding sentence, the Loan Market may instruct the Corporation to effect collection and payment of such cash settlement as provided in paragraph (b)(ii) of this Rule.

*Adopted January 23, 2009.*

(b) On a monthly basis, or at such more frequent intervals as may be specified by the Corporation, the Corporation shall effect collection and payment of rebate payments as instructed by a Loan Market from Market Loan Clearing Members, provided that the Corporation shall guarantee the payment of accrued rebate payments only up to the amount for which the Corporation has collected margin from the responsible Market Loan Clearing Member(s) prior to the specified settlement date. The Loan Market shall be solely responsible for calculating, in respect of Market Loans originated through such Loan Market, the amount of rebate payments

that each Market Loan Clearing Member is entitled to receive or obligated to pay on each settlement date. The Corporation shall have no responsibility to verify the accuracy of the Loan Market's calculations and shall not be liable to Clearing Members for any errors in such calculations. In the event the Corporation suspends a Clearing Member, the Corporation shall be entitled to settle rebate payments with respect to such suspended Clearing Member at an earlier settlement time to be determined by the Corporation in its discretion.

*Adopted January 23, 2009.*

**. . . Interpretations and Policies:**

**.01** With respect to a non-cash dividend or distribution that is not added to the Loaned Stock and for which the Loan Market does not fix a cash settlement value pursuant to the provisions of paragraph (b)(iii) of this Rule, the Lending Clearing Member would receive the benefit of such dividend or distribution only if it recalls the Loaned Stock in time to receive the dividend or distribution directly.

*Adopted January 23, 2009.*

## **RULE 2207A - Erroneous Transactions**

(a) If a Market Loan Clearing Member believes that a Market Loan was executed on the Clearing Member's behalf in error or that a material term of such Market Loan is erroneous, the Clearing Member should contact the relevant Loan Market and seek to have such transaction voided in accordance with the terms of such Loan Market's error transaction correction policy. Every determination as to whether a Market Loan was entered into in error shall be within the sole discretion of the relevant Loan Market and shall not be subject to review by the Corporation.

*Adopted January 23, 2009.*

(b) In the event that the Loan Market determines to void a Market Loan, it shall notify the Corporation and the Corporation shall instruct the Depository to return the Loaned Stock to the Lending Clearing Member and the Collateral to the Borrowing Clearing Member. Upon confirmation that the Depository has effected the returns as instructed, the Corporation shall extinguish in its records the stock loan position of the Lending Clearing Member and the stock borrow position of the Borrowing Clearing Member in respect of the voided Market Loan.

**. . . Interpretations and Policies:**

**.01** The Corporation's role with respect to Market Loans requires it to act on information that it receives from a Loan Market and from the Depository, including, without limitation, information regarding the identities of lenders and borrowers, dividend equivalent payment amounts, rebate rates, status of transactions submitted to the Depository, etc. The Corporation shall not be liable to Clearing Members for any acts or omissions taken or made in reliance on such information.

*Adopted January 23, 2009.*

## **RULE 2208A - Indemnification by Borrowing Clearing Member**

The Borrowing Clearing Member in respect of a Market Loan agrees to indemnify, defend, hold and save harmless the Corporation from any claims, actions, demands, or lawsuits of any kind whatsoever arising in any way out of any use that the Borrowing Clearing Member makes of the Loaned Stock.

*Adopted January 23, 2009.*

## **RULE 2209A - Termination of Market Loans**

(a) The termination of a Market Loan, or any portion thereof, may be initiated by (i) the Borrowing Clearing Member, by giving a return notice to the relevant Loan Market indicating its intention to return a specified quantity of the Loaned Stock, or (ii) the Lending Clearing Member, by giving a recall notice to the relevant Loan Market calling for the return of a specified quantity of the Loaned Stock.

*Adopted January 23, 2009.*

(1) Upon matching a return request with an open stock loan position, or a recall request with an open stock borrow position, the Loan Market shall send details of the matched return/recall transaction to the Corporation. If a matched return/recall transaction passes the Corporation's validation process, the Corporation shall create and send to the Depository a pair of delivery orders – one order instructing the Depository to transfer a specific quantity of the Loaned Stock from the Borrowing Clearing Member to the Corporation's account against transfer of the settlement price in respect thereof from the Corporation's account to the Borrowing Clearing Member, and the other order instructing the Depository to simultaneously transfer such Loaned Stock from the Corporation's account to the Lending Clearing Member against the transfer of the settlement price in respect thereof from the Lending Clearing Member to the Corporation's account.

*Adopted January 23, 2009 - Amended May 17, 2012.*

(2) Upon receipt of the end of the day stock loan activity file from the Depository showing that return/recall delivery orders have been completed, the Corporation shall treat those Market Loans as terminated and reduce the respective Clearing Members' open stock loan and stock borrow positions accordingly. The termination of a Market Loan shall be deemed to be complete when the records of the Corporation accurately reflect the termination of such Market Loan.

*Adopted January 23, 2009 – Amended April 28, 2017*

(3) On each stock loan business day, any return/recall transactions originated through a Loan Market that are not settled by the Depository and confirmed by the Corporation shall have no further effect as to the Corporation; provided, however, that the Loan Market shall resubmit to the Corporation any return/recall transaction that was not completed, and the Corporation in turn shall resubmit its instructions to the Depository on the next stock loan business day. If (i) a recall transaction fails to settle by the Settlement Time on the second stock loan business day following the day that the transaction was first submitted, or (ii) a return transaction fails to settle by the Settlement Time on the stock loan business day on which it was submitted, the Lending Clearing Member or the Borrowing Clearing Member, as applicable, may initiate at any time thereafter the "buy-in" or "sell-out" process, as applicable, set forth in paragraphs (b) and (c) of this Rule, respectively. For purposes of clause (ii) of the preceding sentence, a return transaction submitted after a cutoff time specified by the Loan Market shall be deemed to have been submitted on the following stock loan business day.

*Adopted January 23, 2009. Amended May 17, 2012; September 5, 2017*

(b) *Buy-In.* (1) Where the Borrowing Clearing Member fails to return the specified quantity of Loaned Stock, the Lending Clearing Member may execute a buy-in of the Loaned Stock. After execution of a buy-in, the Lending Clearing Member shall immediately give written notice to the Loan Market of such buy-in. After receipt of such notice, the Loan Market shall immediately give written notice to the Borrowing Clearing Member and the Corporation of such buy-in, including the quantity of the Loaned Stock purchased (which shall not be greater than, and should ordinarily be equal to, the quantity of the Loaned Stock that the Borrowing Clearing Member has failed to return to the Lending Clearing Member) and the price paid (including any transactional costs, fees or interest incurred in connection with such buy-in, the "Buy-In Costs"). The Loan Market shall also provide the Corporation with such other information as it may reasonably require with respect to the executed buy-in. The Lending Clearing Member shall execute the buy-in in a commercially reasonable manner and must be prepared to defend the timing of the buy-in and

the Buy-In Costs. Any objections by the Borrowing Clearing Member with respect to the timeliness of the buy-in and the reasonableness of the Buy-In Costs shall be matters to be resolved by the Loan Market, and the Corporation shall have no responsibility in respect thereof. *Adopted January 23, 2009. Amended May 17, 2012.*

(2) If a buy-in has been completed by a Lending Clearing Member pursuant to subparagraph (b)(1) above, the Corporation shall (i) determine the difference between the amount of Collateral held by the Lending Clearing Member in respect of the bought-in Loaned Stock and the Buy-In Costs, (ii) pay such amount to or collect such amount from, as applicable, the account of the Lending Clearing Member in which the stock loan position was carried, and (iii) collect such amount from or pay such amount to, as applicable, the account of the Borrowing Clearing Member in which the stock borrow position was carried.

*Adopted January 23, 2009. Amended May 17, 2012.*

(3) Notwithstanding the preceding provisions of this Rule, if the Lending Clearing Member is unable to complete the buy-in or if, for any reason, effecting a buy-in is not permitted, the Corporation, in its discretion and upon notice to the Lending Clearing Member, may fix a cash settlement value for the quantity of the Loaned Stock not returned to the Lending Clearing Member. The value fixed by the Corporation shall be final and not subject to review. The Corporation shall (i) determine the difference between the amount of Collateral held by the Lending Clearing Member in respect of such quantity of the Loaned Stock and the cash settlement value fixed by the Corporation, (ii) pay such amount to or collect such amount from, as applicable, the account of the Lending Clearing Member in which the stock loan position was carried, and (iii) collect such amount from or pay such amount to, as applicable, the account of the Borrowing Clearing Member in which the stock borrow position was carried. These payments shall be made through the Corporation's daily cash settlement system and may be netted against other cash settlements due to or from the same account in accordance with the By-Laws and Rules.

*Adopted January 23, 2009. Amended May 17, 2012.*

(4) Notwithstanding any other provision of the By-Laws or Rules, from and after the time that a buy-in is executed pursuant to subparagraph (b)(1) of this Rule or a cash settlement value is determined pursuant to subparagraph (b)(3) of this Rule, the Borrowing Clearing Member shall have no further right or obligation to deliver to the Corporation the Loaned Stock, and no delivery of Loaned Stock by the Borrowing Clearing Member shall satisfy the obligation of the Borrowing Clearing Member under this paragraph (b).

*Adopted January 23, 2009. Amended May 17, 2012.*

(c). *Sell-Out.* (1) Where the Lending Clearing Member fails to pay the settlement price in respect of the Loaned Stock, the Borrowing Clearing Member may execute a sell-out of the Loaned Stock. After execution of a sell-out, the Borrowing Clearing Member shall immediately give written notice to the Loan Market of such sell-out. After receipt of such notice, the Loan Market shall immediately give written notice to the Lending Clearing Member and the Corporation of such sell-out, including the quantity of the Loaned Stock sold (which shall not be greater than the quantity of the Loan Stock in respect of which the Lending Clearing Member has failed to return the settlement price to the Borrowing Clearing Member), the price received, and any transactional costs, fees or interest incurred in connection with such sell-out (such transactional costs, fees and interest, the "Sell-Out Costs"). The Loan Market shall also provide the Corporation with such other information as it may reasonably require with respect to the executed sell-out. The Borrowing Clearing Member shall execute the sell-out in a commercially reasonable manner and must be prepared to defend the timing of the sell-out, the sell-out price and the Sell-Out Costs. Any objections by the Lending Clearing Member with respect to the timeliness of the sell-out and the reasonableness of the sell-out price and/or the Sell-out Costs shall be matters to be resolved by the Loan Market, and the Corporation shall have no responsibility in respect thereof.

*Adopted January 23, 2009. Amended May 17, 2012.*

(2) If a sell-out has been completed by a Borrowing Clearing Member pursuant to subparagraph (c)(1), the Corporation shall (i) subtract the Sell-Out Costs from the price received on such sell-out, and determine the difference between the remaining amount and the settlement price owed to the Borrowing Clearing Member in respect of the sold-out Loaned Stock, (ii) pay such amount to or collect such amount from, as applicable, the account of the Borrowing Clearing Member in which the stock borrow position was carried, and (iii) collect such amount from or pay such amount to, as applicable, the account of the Lending Clearing Member in which the stock borrow position was carried.

*Adopted January 23, 2009. Amended May 17, 2012.*

(d) The relevant Loan Market may issue return/recall instructions to the Corporation to terminate all or a portion of the outstanding Market Loans carried in the account(s) of a Market Loan Clearing Member. If any such termination fails to settle on the specified termination date, the relevant Loan Market may direct the Lending Clearing Member or the Borrowing Clearing Member, as applicable, to initiate the buy-in or sell-out process described in this Rule, as applicable, in accordance with any instructions the Loan Market may provide. The Corporation may also at any time terminate the outstanding Market Loans relating to one or more particular Eligible Stocks upon a determination by the Corporation, in its sole discretion, that such action is warranted by reason of the lack of substantial volume in such Market Loans, the impending termination of business on the part of the Corporation, the inability of the Corporation from time to time to maintain in effect satisfactory arrangements with the Depository, or other circumstances in which the Corporation in its sole discretion determines that such action is necessary or appropriate for the protection of the Corporation, its Clearing Members or the public. For Market Loans terminated at the election of the Corporation, the Corporation shall provide written notice thereof to all affected Market Loan Clearing Members specifying the date on which such termination is to become effective, which date shall be a stock loan business day at least two stock loan business days after the date of such notice. If any such termination fails to settle on the specified termination date, the relevant Market Loan Clearing Members may initiate on the morning of the next stock loan business day the "buy-in" or "sell-out" process described in this Rule, as applicable.

*Adopted January 23, 2009. Amended May 17, 2012; September 5, 2017*

(e) From and after the time when termination of a Market Loan, or a portion thereof, is completed in accordance with this Rule, the Corporation shall extinguish the stock loan position of the Lending Clearing Member and the stock borrow position of the Borrowing Clearing Member in respect of the terminated Market Loan, or such portion thereof. The Corporation shall be discharged from its obligations as borrower to the Lending Clearing Member and lender to the Borrowing Clearing Member, and shall have no further obligation in respect of the terminated Market Loan, or such portion thereof.

*Adopted January 23, 2009.*

(f) Notwithstanding that the termination of a Market Loan, or a portion thereof, has been initiated, the Lending Clearing Member and the Borrowing Clearing Member shall continue to make and receive daily mark-to-market payments, dividend equivalent payments and rebate payments and to deposit margins with the Corporation, all in accordance with the Rules, up to and including the date on which settlement of the termination of the Market Loan is completed.

*Adopted January 23, 2009.*

(g) Anything else herein to the contrary notwithstanding, the Corporation shall not be held liable for any Clearing Member's failure to comply with its responsibilities and obligations under the federal and state securities laws, including, but not limited to, Regulation SHO, or any applicable rules of the relevant Loan Market or any exchange or self-regulatory organization.

*Adopted May 17, 2012.*

## **RULE 2210A - Suspension of Market Loan Clearing Members – Pending and Open Market Loans**

(a) If the Corporation, a Loan Market or the Depository suspends a Market Loan Clearing Member prior to the time at which the Corporation otherwise would have accepted a stock loan to which the suspended Clearing Member is a party as a Market Loan, then, notwithstanding any other provision of the By-Laws and Rules, the Corporation shall have no obligation to accept, and shall not accept, the stock loan. In such situation, the Corporation shall notify the Depository and the Loan Market that the Corporation has rejected such stock loan as a Market Loan.

*Adopted January 23, 2009.*

(b) If a Market Loan Clearing Member is suspended by the Corporation, a Loan Market or the Depository, open stock loan and borrow positions of such Clearing Member that originated through the Market Loan Program shall, except as hereinafter provided, be terminated in accordance with the provisions of Rule 2211A or in such other manner as the Corporation determines to be the most orderly manner practicable in the circumstances, including, but not limited to, a private auction. Any net proceeds from the termination of such stock loan and borrow positions in any of the accounts of the suspended Clearing Member (including any net dividend equivalent payments and/or rebate payments that the suspended Clearing Member is entitled to receive in accordance with the Rules) shall be credited by the Corporation to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. Any net amounts payable in respect of the termination of such stock loan and borrow positions (including any net dividend equivalent payments and/or rebate payments that the suspended Clearing Member is obligated to pay in accordance with the Rules) in any of the accounts of the suspended Clearing Member shall be withdrawn by the Corporation from the Clearing Member's Liquidating Settlement Account. The suspended Clearing Member or its representative shall be notified as promptly as possible of any termination of stock loan and borrow positions pursuant to this Rule.

*Adopted January 23, 2009.*

(c) Notwithstanding the preceding provisions of this Rule, the Corporation may exercise the authority described in Rules 1106(d) and 1106(e) in respect of open stock loan and borrow positions resulting from Market Loans. For purposes of applying such paragraphs to open stock loan and borrow positions, references to "positions," "unsegregated long positions or short positions," and "underlying interests" therein shall be deemed to be references to "stock loan and borrow positions," "stock loan positions or stock borrow positions," and "Eligible Stock," respectively.

*Adopted January 23, 2009.*

### ***...Interpretations and Policies***

.01 See Interpretation and Policy .02 following Rule 1104 for a description of the private auction process by which OCC may close out a suspended Clearing Member' open positions in stock loan and/or borrow positions that originated through the Market Loan Program.

*Adopted August 27, 2012*

## **RULE 2211A - Suspension of Market Loan Clearing Members – Buy-In and Sell-Out Procedures**

If a Market Loan Clearing Member shall be suspended by the Corporation, the Corporation may direct the Lending Clearing Member or the Borrowing Clearing Member, as applicable, or, in the Corporation's discretion, may instruct an independent broker (such broker shall be a Market Loan Clearing Member) to buy in or sell out, as applicable, the Loaned Stock with respect to each open stock borrow or loan position of the suspended Clearing Member that originated through the Market Loan Program. Such buy in or sell out must be executed by the Lending Clearing Member



or Borrowing Clearing Member by the close of the stock loan business day after the receipt of such instruction by the Corporation. Failure to execute such buy in or sell out, and provide notification of such action by close of the stock loan business day after the receipt of such instruction by the Corporation, will result in the Corporation terminating the Stock Loan and effecting Settlement based upon the Marking Price used at the close of business on the stock loan business day after the original instruction was made by the Corporation. The buy-in or sell-out shall be effected in accordance with the applicable procedures set forth in Rule 2209A, provided that (i) in the case where the Corporation instructs an independent broker to execute a buy-in, the Corporation shall return the bought-in Loaned Stock to the Lending Clearing Member against the payment of settlement price in respect thereof by the Lending Clearing Member, (ii) in the case where the Corporation instructs an independent broker to execute a sell-out, the Corporation shall recall the Loaned Stock from the Borrowing Clearing Member for purpose of the sell-out and transfer the sale proceeds to the Borrowing Clearing Member, and (iii) any amount to be credited to or collected from the suspended Clearing Member shall be credited to or withdrawn from the suspended Clearing Member's Liquidating Settlement Account. The Clearing Member executing the buy-in or sell-out, as applicable, shall be prepared to defend the reasonableness of the price, the transactional costs or cash settlement value, provided that in the case where the Corporation instructs an independent broker to execute a buy-in or sell-out, every determination by the Corporation with respect to any such related matter shall be within the sole discretion of the Corporation and shall be conclusive and binding on all Clearing Members and not subject to review. A Clearing Member may demonstrate that the price or cash settlement value associated with a buy-in or sell-out is reasonable by demonstrating that the price or cash settlement value fell within the trading range of the Eligible Stock on the date of the buy-in or sell-out. The Corporation has the authority to withdraw the value of any difference between the price reported by the Clearing Member executing the buy-in or sell-out, as applicable, and the price the Corporation, in its sole discretion, determines to be reasonable. This price determined by the Corporation shall be binding and conclusive. Anything else herein to the contrary notwithstanding, the Corporation shall not be held liable for any Clearing Member's failure to comply with its responsibilities and obligations under the federal and state securities laws, including, but not limited to, Regulation SHO, or any applicable rules of the relevant Loan Market or any exchange or self-regulatory organization.

*Adopted January 23, 2009 – Amended May 17, 2016; April 28, 2017*

\* \* \*

## ***Chapter XXIII - Cash-Settled Foreign Currency Options***

### **Introduction**

The Rules in this Chapter are applicable only to cash-settled options where either the trading currency or underlying security is a foreign currency (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to cash-settled foreign currency options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of cash-settled foreign currency options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted January 19, 1994, amended November 1, 1994.*

## **RULE 2301 - Deposits in Lieu of Margin Prohibited**

Rules 610T, 610, 610A and 610B shall not apply to cash-settled foreign currency options.

*Amended August 26, 1996; October 13, 2016*

[Rule 2301 replaces Rules 610T, 610, 610A and 610B.]

*Adopted January 10, 1994, Amended August 26, 1996; October 13, 2016*

## **RULE 2302 - Exercise Procedure**

(a) The expiration exercise procedures set forth in Rule 805 shall apply to cash-settled foreign currency option contracts except as provided in paragraph (b) of this Rule.

*Amended October 18, 1995; December 13, 2006; June 17, 2013*

(b) A Cash-Settled Foreign Currency Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time on each expiration date, an exercise notice with respect to every expiring cash-settled foreign currency option contract listed in the report made available to the Clearing Member pursuant to Rule 805 that has an exercise settlement amount of \$1.00 or more, or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Cash-Settled Foreign Currency Clearing Members, unless the Clearing Member shall have duly instructed the Corporation, in accordance with Rule 805(b), to exercise none, or fewer than all, of such contracts. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Rule 805(b).

*Adopted December 13, 2006.*

(c) An exercise notice in respect of a cash-settled foreign currency option that is deemed to have been properly and irrevocably tendered to the Corporation in accordance with Rule 805 shall be accepted by the Corporation on the date of tender.

*Amended October 18, 1995.*

[Rule 2302 replaces Rule 802 and supplements Rule 805.]

*Adopted January 10, 1994. Amended October 18, 1995; December 13, 2006.*

### **...Interpretations and Policies**

**.01** Except in the case of options that are subject to automatic exercise, the exercise thresholds provided for in this Rule 2302 and elsewhere in the Rules are part of the administrative procedures established by the Corporation to expedite its processing of exercises of expiring options by Clearing Members, and are not intended to dictate to Clearing Members which positions in the customers' account should or must be exercised.

*Adopted December 13, 2006.*

**.02** The foregoing expiration exercise procedures are modified by the provisions of Article XXII, Section 4 of the By-Laws under the special circumstances referred to therein relating to the unavailability or inaccuracy of the spot price for the currency underlying any cash-settled foreign currency options.

*Adopted December 13, 2006. Amended June 17, 2013*

## **RULE 2303 - Assignment and Allocation of Cash-Settled Foreign Currency Option Exercises**

(a) Following the exercise of any series of cash-settled foreign currency options, the exercises shall automatically be assigned and allocated to all open short positions (including all short positions established in an opening writing transaction on the expiration date, but excluding short positions that were subject to closing purchase transactions on such date) in such series of options.

(b) On the business day immediately following the expiration date, the Corporation shall make available to each Cash-Settled Foreign Currency Clearing Member an Exercise and Assignment Activity Report reflecting all exercises of cash-settled foreign currency options in the accounts of such Clearing Member effected on the expiration date, and all assignments of obligations relating to exercises of cash-settled foreign currency options in the accounts of other Cash-Settled Foreign Currency Clearing Members to short positions in the accounts of such Clearing Member.

[Rule 2303 replaces Rules 803 and 804.]

*Adopted January 19, 1994.*

## **RULE 2304 - Exercise Settlement Date for Cash-Settled Foreign Currency Options**

The exercise settlement date for an exercised cash-settled foreign currency option shall be the business day immediately following the expiration date. The Board of Directors may extend or postpone any exercise settlement date for cash-settled foreign currency options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

*Adopted January 19, 1994.*

## **RULE 2305 - Settlement of Cash-Settled Foreign Currency Option Exercises**

(a) With respect to exercised cash-settled foreign currency options and short positions in cash-settled foreign currency options to which exercises have been assigned, the exercise settlement amount shall be paid by the Corporation to the Exercising Clearing Member and shall be paid by the Assigned Clearing Member to the Corporation.

(b) Prior to 7:00 A.M. Central Time (8:00 A.M. Eastern Time) on each exercise settlement date for cash-settled foreign currency options, the Corporation shall:

(1) Determine, as to each account of each Cash-Settled Foreign Currency Clearing Member, the number of exercised and assigned option contracts of each series of cash-settled foreign currency options for which the current business day is the exercise settlement date.

(2) Net the exercise settlement amounts to be paid by the Clearing Member against the exercise settlement amounts to be paid to the Clearing Member to obtain a single net settlement amount for cash-settled foreign currency option exercises with respect to each account of each Clearing Member.

(3) Make available to each Clearing Member a report showing the results of the netting described herein.

(c) At or before the settlement time on each exercise settlement date for cash-settled foreign currency options, each Cash-Settled Foreign Currency Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to

be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same account or any other account.

*Amended June 24, 2011.*

(d) Subject to Rule 505, at or before the settlement time on each exercise settlement date for cash-settled foreign currency options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day.

*Amended June 24, 2011.*

(e) Solely for purposes of Rules 601 and 602, exercised and assigned cash-settled foreign currency options shall be deemed settled as of the opening of business on the exercise settlement date. No margin shall be required and no margin credit shall be given in respect of such options on such date.

[Rule 2305 replaces Chapter IX of the Rules and supplements Rules 502 and 607.]

*Adopted January 19, 1994.*

## **Rule 2306 - Suspension of Clearing Member -- Exercised Contracts**

Exercised cash-settled foreign currency option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 2305 provided that the net settlement amount in respect of such contracts shall be paid from or credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 2305 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or for whom exercised cash-settled foreign currency option contracts were assigned to a suspended Assigned Clearing Member without regard to such suspension.

[Rule 2306 supplements Rule 1104 and replaces Rule 1107.]

*Adopted January 19, 1994; August 23, 2012*

## ***Chapter XXIV - [Reserved]***

## ***Chapter XXV - BOUNDS***

### **Introduction**

The Rules in this Chapter are applicable only to BOUNDS (as defined in the By-Laws). In addition, the Rules in Chapters I through VII and IX through XII are also applicable to BOUNDS, in some cases supplemented by one or more Rules in this Chapter except for Rules that have been replaced in respect of BOUNDS by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in other Chapters, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted August 26, 1996.*

## **RULE 2501 - Dividend Equivalents**

(a) Subject to the provisions of the By-Laws and Rules, the holder of a single BOUND contract shall be entitled to receive, and the writer of a single BOUND contract shall be obligated to pay or deliver, (i) in the case of any cash dividend or other cash distribution to shareholders of the underlying security, a cash dividend equivalent equal to the amount of such cash dividend or distribution on the number of shares of the security underlying such BOUND contract, and (ii) in the case of any non-cash distribution made to shareholders of the underlying security, a non-cash dividend equivalent consisting of securities or other property equivalent to the securities or other property distributed on the number of shares of the security underlying such BOUND contract; provided, however, that certain non-cash distributions will ordinarily not result in a dividend equivalent and will instead be reflected in an adjustment to the unit of trading of the underlying security covered by the BOUND in accordance with Section 4 of Article XXIV of the By-Laws. The right of a holder of a BOUND contract to receive, and the obligation of a writer of a BOUND contract to pay or deliver, a dividend equivalent shall be determined based upon the position of such person as a holder or writer as of the close of trading on the business day preceding the ex dividend date for such dividend equivalent. When a series of BOUNDS expires on or prior to the business day preceding an ex dividend date for BOUNDS of the same class, holders of BOUND contracts in such series shall not be entitled to receive, and writers of BOUND contracts of such series shall not be obligated to pay or deliver, such dividend equivalent.

(b) Prior to 7:00 A.M. Central Time (8:00 A.M. Eastern Time) on each dividend payable day for a class of BOUNDS, the Corporation shall issue to each Clearing Member having a position in such class of BOUNDS a report setting forth: (1) the number of contracts of such class held in a long position and the number of contracts of such class held in a short position in each account of the Clearing Member, (2) the amount of any cash dividend equivalent for such class of BOUNDS payable on such day and a description of the securities or other property, and the quantity thereof, to be included in any non-cash dividend equivalent for such class of BOUNDS on such day, and (3) the net amount of cash, securities or other property due to or from such Clearing Member in respect of such dividend equivalents in each account on such dividend payable date. Cash dividend equivalents shall be settled in accordance with paragraphs (c) and (d) hereof. Non-cash dividend equivalents shall be settled in accordance with paragraph (e) hereof.

(c) At or before the settlement time on each dividend payable date for a particular class of BOUNDS, each Clearing Member shall be obligated to pay to the Corporation any net cash dividend equivalent amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net dividend equivalent amount, provided that the Corporation may, but is not required to, offset against any such net dividend equivalent amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

*Amended June 24, 2011.*

(d) Subject to Rule 505, at or before the settlement time on each dividend payable date for a particular class of BOUNDS, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules, and has deposited the full amount of any net daily premium due to the Corporation under Rule 502 and any other amount due to the Corporation) the net cash dividend equivalent amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day. From and after such time, full settlement shall be deemed to have been made in respect of dividend equivalents, and the Corporation shall have no further obligation in respect thereof. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for

such amount.

*Amended June 24, 2011.*

(e) In the event that a dividend equivalent in respect of any class of BOUNDS is to be settled through the delivery and receipt of property other than cash, the Corporation will issue instructions to each Clearing Member having a position in such class of BOUNDS specifying the procedures by which such delivery and receipt are to be effected. Unless the Corporation directs otherwise, dividend equivalents to be settled through the delivery of securities will be settled through correspondent clearing corporations in the same general manner as deliveries of underlying securities in accordance with Rule 2503.

(f) The Corporation shall determine the amount of each dividend equivalent based upon the information received by it from published sources of information with respect to dividends and other distributions on the underlying security. The Corporation shall have no responsibility for the accuracy of such information, and dividend equivalents ordinarily will not be adjusted to correct errors resulting from the inaccuracy of such information once settlement of a dividend equivalent has been completed.

*Adopted August 26, 1996.*

## **RULE 2502 - Settlement Date for BOUNDS**

The settlement date for a BOUND contract shall be the second business day following the expiration date. Notwithstanding the foregoing, the Corporation may extend or postpone any cash settlement date or any delivery date for any class of BOUNDS whenever, in its opinion, such action is required in the public interest or for the protection of investors.

*Adopted August 26, 1996. Amended September 5, 2017*

## **RULE 2503 - Expiration Settlement for BOUNDS**

(a) Following the close of trading on the business day preceding the expiration date for a series of BOUNDS, the Corporation shall determine whether such series of BOUNDS are to be settled in cash or by delivery of the underlying securities. If the Closing Price of the underlying security is greater than the strike price of the BOUND, the BOUND shall be settled in cash in accordance with paragraph (b) of this Rule 2503. If the Closing Price of the underlying security at expiration of the BOUND contract is less than or equal to the strike price of the BOUND, the BOUND shall be settled by delivery of the underlying security in accordance with paragraph (c) of this Rule 2503.

### **(b) Cash Settlements**

(1) Cash settlements in respect of expiring BOUNDS contracts shall be effected through payment as provided in this paragraph (b) by the Corporation to the Clearing Member or to the Corporation by the Clearing Member (as the case may be) of the cash settlement amount for such BOUNDS.

(2) Prior to 7:00 A.M. Central Time (8:00 A.M. Eastern Time) on each settlement date for BOUNDS, the Corporation shall:

(i) Determine, as to each account of each Clearing Member, the number of BOUNDS of each series of BOUNDS for which the current business day is the cash settlement date.

(ii) Determine the cash settlement amount for each BOUND contract, which shall be equal to the strike price times the unit of trading and shall be payable (A) to the Corporation by Clearing Members having short positions in such series and (B) by the

Corporation to Clearing Members having long positions in such series.

(iii) Net the settlement amounts to be paid by the Clearing Member against the cash settlement amounts to be paid to the Clearing Member to obtain a single net settlement amount for expiring BOUND contracts with respect to each account of each Clearing Member.

(iv) Issue to each Clearing Member a report showing the results of the steps described herein.

(3) At or before the settlement time on each cash settlement date for BOUNDS, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in subparagraph (2) of this paragraph for such date, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same account.  
*Amended June 24, 2011.*

(4) Subject to Rule 505, at or prior to the settlement time on each cash settlement date for BOUNDS, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502 and any other amount due to the Corporation) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in subparagraph (2) of this paragraph for such day. From and after such time, full settlement shall be deemed to have been made in respect of such BOUND contracts, and the Corporation shall have no further obligation in respect thereof. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such net settlement amount.

*Amended June 24, 2011.*

*(c) Settlement by Delivery*

(1) Settlements by delivery in respect of expiring BOUNDS contracts shall be effected through delivery of the underlying security as provided in this paragraph (c).

(2) Prior to 7:00 A.M. Central Time (8:00 A.M. Eastern Time) on the delivery date for a series of expiring BOUNDS, the Corporation shall:

(i) Determine, as to each account of each Clearing Member, the number of BOUNDS of each series of BOUNDS for which the current business day is the delivery date.

(ii) Determine the number of shares of the underlying security to be delivered in respect of each BOUND contract, which shall be equal to the unit of trading and shall be deliverable (A) by Clearing Members having short positions in such series and (B) to Clearing Members having long positions in such series.

(iii) Net the shares to be delivered by the Clearing Member against the shares to be delivered to the Clearing Member to obtain a single net amount of shares to be delivered to or received by the Clearing Member. In the case of delivery rights and obligations that are eliminated as a result of such netting, full settlement shall be deemed to have been made at the opening of business of the Corporation on the delivery date.

(iv) Issue to each Clearing Member a report showing the results of the netting described herein.

(3) Unless the Corporation specifies otherwise as provided in subparagraph (4) below, settlements in respect of expired BOUND contracts that are to be settled by delivery of the underlying securities shall be reported by the Corporation to the correspondent clearing corporation on the first business day following the expiration date. If a settlement is not rejected by the correspondent clearing corporation prior to the close of business on the business day preceding the delivery date, full settlement shall be deemed to have been made in respect of such BOUND at the opening of business of the Corporation on the delivery date; provided, however, that if the Corporation takes action with respect to such settlement pursuant to subparagraph (4) hereof, settlement shall be made in accordance with the provisions of subparagraph (4). From and after the time when settlement is deemed to have been made in respect of any BOUND contract pursuant to this subparagraph (3), the Corporation shall have no further obligation in respect thereof, and the rights and obligations of the Receiving Clearing Member and the Delivering Clearing Member in respect of such delivery shall be determined by the rules and procedures of the correspondent clearing corporation.

*Amended October 19, 2001.*

(4) The Corporation may specify by appropriate notice to the Delivering and Receiving Clearing Members at any time prior to the opening of business on the delivery date that a delivery obligation in respect of an expiring BOUND contract is not to be settled through the correspondent clearing corporation. In such event, delivery shall be effected directly between Clearing Members in accordance with an appropriate Delivery Advice issued to them by the Corporation and identifying the Clearing Member to or from which delivery is to be made or received. Delivery shall be effected in accordance with Rules 902 through 910A and Rule 912, and the provisions of those Rules shall apply as if the delivery obligation had arisen from the assignment to the Writing Clearing Member of an exercise notice in respect of a call option contract; provided, however, that the receiving Clearing Member shall have no obligation to pay any purchase price or settlement amount to the Delivering Clearing Member in respect of the delivery, and Rules 902 through 910A and Rule 912 shall be interpreted accordingly. For purposes of those Rules, the term "exercise settlement date" shall be deemed to mean the delivery date and "the day on which an exercise notice is properly tendered to the Corporation" shall be deemed to mean the business day preceding the expiration date of a BOUND.

*Amended October 19, 2001.*

(5) When a BOUND contract expires prior to an "ex" date (as fixed by the primary market for the underlying security) for any distribution, whether or not an adjustment is required to be made pursuant to the By-Laws, Clearing Members effecting settlement in respect of expiring BOUND contracts pursuant to this Rule shall have such rights and obligations in respect of such distribution as may be provided under the rules and procedures of the correspondent clearing corporation; provided, however, that the Board of Directors of the Corporation



may in its discretion direct that additional adjustments be made as between Receiving and Delivering Clearing Members to prevent inequities in respect of any distribution.

*Amended October 19, 2001.*

[Rule 2503 replaces paragraphs (b) through (e) of Rule 901 and supplements the other Rules in Chapter IX. Rule 911 shall have no application to BOUNDS.]

*Adopted August 26, 1996. Amended March 16, 2004.*

\* \* \*

## ***Chapter XXVI - Deleted***

Deleted

\* \* \*

## ***Chapter XXVII - Packaged Spread Options***

### **Introduction**

The Rules in this Chapter are applicable only to packaged spread options (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to packaged spread options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of packaged spreads by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

*Adopted September 24, 1997.*

### **RULE 2701 - Deposits in Lieu of Margin Prohibited**

Rules 610T, 610, 610A and 610B shall not apply to packaged spread options.

[Rule 2701 replaces Rules 610T, 610, 610A and 610B.]

*Adopted September 24, 1997 – Amended October 13, 2016*

### **RULE 2702 - Exercise Procedure**

(a) The expiration exercise procedures set forth in Rule 805 shall apply to packaged spread option contracts except that (i) options deemed to have been exercised pursuant to subparagraph (d)(2) of Rule 805 shall be those packaged spread options for which the exercise settlement amount will be \$1.00 or more per option contract (regardless of the account in which the contract is carried), or such other amount as the Corporation may from time to time establish on not less than 30 days prior written notice to all Index Clearing Members, and (ii) the term “closing price” as used elsewhere in Rule 805(e) shall be deemed to mean the current index value used by the Corporation in calculating the exercise settlement amount, or the exercise settlement amount itself, as the context requires. If such value or amount is unavailable at the time a report is issued

in accordance with Rule 805(a), the Corporation may determine not to fix a value or amount for purposes of such report, in which case options may be exercised only through submission of an exercise instruction in accordance with Rule 805(b). Rule 805(i) does not apply to packaged spread options.

*Amended June 17, 2013*

(b) An exercise notice in respect of a packaged spread option that is deemed to have been properly and irrevocably tendered to the Corporation in accordance with Rule 805 shall be accepted by the Corporation on the date of tender.

[Rule 2702 supplements Rule 805 and, together with Rule 1802, replaces Rule 802.]

*Adopted September 24, 1997.*

### ***...Interpretations and Policies***

.01 The exercise thresholds provided for in this Rule 2702(b)(2) are part of the administrative procedures established by the Corporation to expedite its processing of exercises of expiring options by Clearing Members, and are not intended to dictate to Clearing Members which positions in the customers' account should or must be exercised.

*Adopted September 24, 1997.*

## **RULE 2703 - Assignment and Allocation of Packaged Spread Option Exercises**

(a) Exercises accepted by the Corporation in respect of packaged spread option contracts shall be assigned and allocated in accordance with Rules 803 and 804, except that Delivery Advices shall not be made available by the Corporation for exercises of packaged spread option contracts. In lieu thereof, the Corporation shall make available Exercise and Assignment Activity Reports as provided in paragraph (b) of this Rule.

(b) On the business day immediately following the expiration date, the Corporation shall make available to each Packaged Spread Option Clearing Member an Exercise and Assignment Activity Report reflecting all exercises of packaged spread options in the accounts of such Clearing Member effected on the expiration date, and all assignments of obligations relating to exercises of packaged spread options in the accounts of other Packaged Spread Option Clearing Members to short positions in the accounts of such Clearing Member.

[Rule 2703 replaces Rules 803 and 804.]

*Adopted September 24, 1997.*

## **RULE 2704 - Exercise Settlement Date for Packaged Spread Options**

The exercise settlement date for an exercised packaged spread option shall be the business day immediately following the expiration date. The Board of Directors may extend or postpone any exercise settlement date for packaged spread options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

[Rule 2704, together with Rule 2705, replaces Rule 902.]

*Adopted September 24, 1997.*

## **RULE 2705 - Settlement of Packaged Spread Option Exercises**

(a) Exercised packaged spread options and short positions in packaged spread options to which exercises have been assigned shall be settled through the payment by the Corporation to the Clearing Member or to the Corporation by the Clearing Member (as the case may be) of an

exercise settlement amount in respect of each such option, which shall be calculated by the Corporation using a settlement value furnished to the Corporation for that purpose by the Exchange on which such option is traded.

(b) Each exercise settlement amounts determined under paragraph (a) of this Rule shall be paid by the Corporation to the Exercising Clearing Member and by the Assigned Clearing Member to the Corporation in accordance with the provisions of Rule 1806(b) through (e), interpreting the terms "index options" and "option contracts" as used therein to include packaged spread options.

[Rule 2705 replaces Chapter IX of the Rules and supplements Rules 502 and 607.]

*Adopted September 24, 1997.*

## **RULE 2706 - Suspension of Clearing Members-Exercised Contracts**

Exercised packaged spread option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 2705 provided that the net settlement amount in respect of such contracts shall be paid from or credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 2705 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or that have exercised packaged spread contracts that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

[Rule 2706 supplements Rule 1104 and replaces Rule 1107.]

*Adopted September 24, 1997. Amended August 23, 2012*

*Revised: January 24, 2020*