

## Chapter 8B Security Futures Products

### GENERAL

#### 8B01. SCOPE OF CHAPTER

This chapter is limited in application to the clearance of Security Futures Products ("SFPs") effected on a Marketplace apart from the Chicago Mercantile Exchange where the underlying interest is a single equity security or a narrow-based index. The procedures for clearing, delivery, settlement and other matters not specifically covered herein shall be governed by the Rules of the Exchange.

For purposes of Chapter 8B, the term Marketplace shall mean an organized venue, apart from Chicago Mercantile Exchange Inc., for the trade of securities, commodities or derivative instruments including, but not limited to, futures, options, options on futures or Security Futures Products.

#### 8B02. CONDITIONS TO CLEAR SECURITY FUTURES PRODUCTS

The Chicago Mercantile Exchange Clearing House will clear transactions in Security Futures Products effected on a Marketplace apart from the Chicago Mercantile Exchange subject to the execution of a clearing agreement between the Marketplace and the Clearing House, which agreement shall, among other things: (a) govern the business relationship between such Marketplace and the CME in respect of the listing of, and clearance of transactions in, Security Futures Products, (b) provide for appropriate indemnification by the Marketplace of the CME, its officers, and directors, and (c) provide that the CME shall cease clearing Security Futures Products for the Marketplace and the clearing agreement shall terminate if: (i) the Marketplace no longer meets all legal and regulatory requirements necessary to list and trade Security Futures Products; (ii) the Marketplace terminates the trading of all Security Futures Products; or (iii) the Marketplace is in violation, in any material respect, of the clearing agreement.

### INTERPRETATION TO RULE 8B02 CONDITIONS TO CLEAR SECURITY FUTURES PRODUCTS

The Clearing House will clear transactions effected on the Marketplace only if such Marketplace has received all necessary regulatory authorization to trade the particular types of contracts subject to such transactions.

#### 8B03. GENERAL RIGHTS AND OBLIGATIONS

Each buyer and seller of a SFP shall have the rights and obligations provided in the Rules. In the case of Security Futures Products traded on a Marketplace apart from Chicago Mercantile Exchange but cleared by the Clearing House per the provisions of Rule 8B02, each buyer and seller of a SFP shall have the rights and obligations provided in the applicable rules, by-laws or regulations governing trade on such Marketplace.

#### 8B04. PARTNER CLEARINGHOUSES

1. The Clearing House may agree with a Partner Clearinghouse to open one or more omnibus accounts for such Partner Clearinghouse for the purpose of facilitating trade in Security Futures Products. The terms of such an arrangement shall be set forth in a separate written agreement, which shall provide, *inter alia*, that the Partner Clearinghouse shall be a Clearing Member in respect of the omnibus account(s) for purposes of the 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).
2. Neither the Clearing House nor Partner Clearinghouse, in respect of SFP transactions, shall be required to (a) post risk margin with the other; (b) make payment or post any deposit to the other party's guaranty fund or clearing fund; or (c) make up or contribute to the restoration of any loss suffered by the other party as a result of a default to such other

party by such other party's clearing members.

3. The Clearing House shall assume all obligations, as specified in the Rules, to Clearing Members clearing SFP transactions through the Clearing House. Similarly, Partner Clearinghouse(s) shall be bound by their respective rules and by-laws to parties clearing SFP transactions through the facilities of the Partner Clearinghouse. However, the Clearing House shall not assume any direct obligations to parties clearing SFP transactions through the facilities of its Partner Clearinghouse(s). Similarly, Partner Clearinghouse(s) shall not assume any direct obligations to parties clearing SFP transactions through the facilities of the Clearing House.

## **8B05. TRANSFERS WITH PARTNER CLEARINGHOUSES**

### **A. Clearing Members**

Trades or positions may be transferred from accounts carried at CME to accounts carried at a Partner Clearinghouse; or, from accounts carried at a Partner Clearinghouse to accounts carried at CME. Such transfers shall be made by the Transferring Clearing Member to the Accepting Clearing Member. Such transfers must be made at the daily settlement value per Rule 813.F.

The Transferring Clearing Member with respect to a trade executed on a Marketplace and cleared by CME shall have the same responsibilities to the Clearing House for such trade as for any other trade made, or position carried, on CME until the trade is transferred to a Partner Clearinghouse.

After a trade originally cleared at CME is transferred to a Partner Clearinghouse, the Transferring Clearing Member shall have no further responsibility for such trade and shall have no further responsibility to or relationship with the Accepting Clearing Member with respect to the position created by such trade.

After a trade originally cleared by a Partner Clearinghouse is transferred to CME, the Accepting Clearing Member shall have no further responsibility to or relationship with the Transferring Clearing Member of the Partner Clearinghouse with respect to the position created by the trade, and the Accepting Clearing Member shall have a position on CME and the same responsibilities to the Clearing House for such position as it would have had if the trade creating the position had been originally cleared on CME.

### **B. Other Partner Clearinghouses**

At such time as a trade cleared on CME is transferred to another Partner Clearinghouse, the Partner Clearinghouse shall be substituted for the Transferring Clearing Member with respect to the position created by such trade.

At such time as the trade originally cleared on a Partner Clearinghouse, other than CME is transferred to CME, the Partner Clearinghouse will have a position equal and opposite to such position subject to the Transfer between CME and a Partner Clearinghouse.

## **8B06. TRADE NOT TRANSFERRED BETWEEN PARTNER CLEARINGHOUSES**

If a trade originally cleared on CME is not transferred to a Partner Clearinghouse prior to the opening of trading on the next business day, the Transferring Clearing Member shall remain responsible to the CME to the full extent as with any trade.

## **ADJUSTMENTS**

### **8B10. ADJUSTMENTS TO SECURITY FUTURES PRODUCTS**

1. Determinations as to whether and how to adjust the terms of Security Futures Products to reflect events affecting underlying interests shall be made by the Clearing House based on its judgment, and in coordination with Partner Clearinghouses as appropriate, as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers of Security Futures Products on the underlying interest, the maintenance of a fair and orderly market in futures on the underlying interest, consistency of interpretation and practice, efficiency of settlement of delivery obligations arising from physically-settled Security Futures Products, and the

coordination with other clearing agencies of the clearance and settlement of transactions in the underlying security. The Clearing House may, in addition to determining adjustments to Security Futures Products on a case-by-case basis, adopt interpretations having general application to specified types of events. Every determination by the Clearing House in respect of Security Futures Products pursuant to this Rule shall be within the discretion of the Clearing House, in coordination with Partner Clearinghouses as appropriate, and shall be conclusive and binding on all investors and not

2. [subject to review]. The following paragraphs of this Rule apply to Security Futures Products based on single equity securities only. Special rules for narrow-based index futures are set out in Rule 8B11.
3. Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of Security Futures Product contracts, the unit of trading, the settlement price and the underlying security, or any of them, with respect to all outstanding Security Futures Products open for trading in the underlying security may be adjusted in accordance with this Rule. If the Clearing House does not learn, or does not learn in a timely manner, of an event for which the Clearing House would have otherwise made an adjustment, the Clearing House shall not be liable for any failure to make such adjustment or delay in making such adjustment. In making any adjustment determination, the Clearing House shall apply the factors set forth in this Rule in light of the circumstances known to it at the time such determination is made.
4. It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions or ordinary stock dividends or distributions (collectively, "ordinary distributions") by the issuer of the underlying security.
5. Subject to paragraph 3 of this Rule, it shall be the general rule that in the case of a stock dividend, stock distribution or stock split whereby one or more whole numbers of shares of the underlying security are issued with respect to each outstanding share, each SFP contract covering that underlying security shall be increased by the same number of additional SFP contracts as the number of shares issued with respect to each share of the underlying security, the last settlement price established immediately before such event shall be proportionately reduced, and the unit of trading shall remain the same.
6. Subject to paragraph 3 of this Rule, it shall be the general rule that in the case of a stock dividend, stock distribution or stock split whereby other than a whole number of shares of the underlying security is issued in respect of each outstanding share, the last settlement price established immediately before such event shall be proportionately reduced, and conversely, in the case of a reverse stock split or combination of shares, the last settlement price established immediately before such event shall be proportionately increased. Whenever the settlement price with respect to a stock future has been reduced or increased in accordance with this paragraph, the unit of trading shall be proportionately increased or reduced, as the case may be.
7. It shall be the general rule that in the case of any distribution made with respect to shares of an underlying security, other than ordinary distributions and other than distributions for which adjustments are provided in paragraphs 4 or 5 of this Rule, if the Clearing House determines that an adjustment to the terms of Security Futures Products on such underlying security is appropriate, (a) the last settlement price established immediately before such event shall be reduced by the value per share of the distributed property, in which event the unit of trading shall not be adjusted, or alternatively, (b) the unit of trading in effect immediately before such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the underlying security represented by the unit of trading in effect prior to such adjustment, in which event the settlement price shall not be adjusted. The Clearing House shall, with respect to adjustments under this paragraph or any other paragraph of this Rule, have the authority to determine the value of distributed property.

8. In the case of any event for which adjustment is not provided in any of the foregoing paragraphs of this Rule, the Clearing House may make such adjustments, if any, with respect to the Security Futures Products affected by such event as the Clearing House determines.
9. Adjustments pursuant to this Rule shall as a general rule become effective in respect of outstanding Security Futures Products on the "ex-date" established by the primary market for the underlying security.
10. It shall be the general rule that (a) all adjustments of the settlement price of an outstanding stock future shall be rounded to the nearest adjustment increment, (b) when an adjustment causes a settlement price to be equidistant between two adjustment increments, the settlement price shall be rounded up to the next highest adjustment increment, (c) all adjustments of the unit of trading shall be rounded down to eliminate any fraction, and (d) if the unit of trading is rounded down to eliminate a fraction, the adjusted settlement price shall be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the stock future resulting from the elimination of the fraction.
11. Notwithstanding the general rules set forth in paragraphs 3 through 9 of this Rule or which may be set forth as interpretations to this Rule, the Clearing House shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in paragraph 1 of this Rule, the Clearing House shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Clearing House affirmatively determines to make an exception in a particular case or group of cases.

#### **INTERPRETATION TO RULE 8B10. ADJUSTMENTS TO SECURITY FUTURES PRODUCTS**

1. (a) Cash dividends or distributions by the issuer of the underlying security that the Clearing House believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly or other regular basis, will, as a general rule, be deemed to be "ordinary distributions" within the meaning of paragraph 3 of this Rule. The Clearing House will determine on a case-by-case basis whether other dividends or distributions are "ordinary distributions" or whether they are dividends or distributions for which an adjustment should be made. (b) Stock dividends or distributions by the issuer of the underlying security that the Clearing House believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be "ordinary distributions" within the meaning of paragraph 3 of this Rule. The Clearing House will ordinarily adjust for other stock dividends and distributions. (c) Where the Clearing House determines to adjust for a cash or stock dividend or distribution, the adjustment shall be made in accordance with the applicable provisions of this Rule.
2. Adjustments will ordinarily be made for rights distributions, except as provided below in the case of certain "poison pill" rights. When an adjustment is made for a rights distribution, the unit of trading in effect immediately prior to the distribution will ordinarily be adjusted to include the number of rights distributed with respect to the number of shares or other units of the underlying security comprising the unit of trading. If, however, the Clearing House determines that the rights are due to expire before the time they could be exercised upon delivery under the futures contract, then delivery of the rights will not be required. Instead, the Clearing House will ordinarily adjust the last settlement price established before the rights expire to reflect the value, if any, of the rights as determined by the Clearing House in its sole discretion. Adjustments will not ordinarily be made to reflect the issuance of so-called "poison pill" rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, being to trade separately from the underlying security, or are redeemed, the Clearing House will determine whether an adjustment is appropriate.
3. Adjustments will not be made to reflect a tender offer or exchange offer to the holders of

the underlying security, whether such offer is made by the issuer of the underlying security or by a third person or whether the offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favorably or adversely affected by the offer or whether the offer may be deemed to be "coercive." Outstanding Security Futures Products ordinarily will be adjusted to reflect a merger, consolidation or similar event that becomes effective following the completion of a tender offer or exchange offer.

4. Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the underlying securities outstanding in the hands of the public (other than dissenters' shares) are not changed into another security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an underlying security) of new or additional debt, stock, or options, warrants or other securities convertible into or exercisable for the underlying security, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the underlying securities outstanding, or the sale by the issuer of significant capital assets.
5. When an underlying security is converted into a right to receive a fixed amount of cash, such as in a merger, outstanding Security Futures Products will be adjusted to replace such underlying security with such fixed amount of cash as the underlying interest, and the unit of trading shall remain unchanged.
6. In the case of a corporate reorganization, reincorporation or similar occurrence by the issuer of an underlying security which results in an automatic share-for-share exchange of shares in the issuer for shares in the resulting company, Security Futures Products on the underlying security will ordinarily be adjusted by replacing such underlying security with a like number of units of the shares of the resulting company. Because the securities are generally exchanged only on the books of the issuer and the resulting company, and are not generally exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original issuer, but which, as a result of the corporate transaction, represent shares in the resulting company.
7. When an underlying security is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding Security Futures Products that have been adjusted by replacing the original underlying security with the security into which the original underlying security has been converted shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, by increasing the unit of trading by the number of units of the new underlying security distributed as interest or dividends thereon.
8. Notwithstanding this Interpretation of Rule 8B10, distributions of short-term and long-term capital gains in respect of stock fund shares by the issuer thereof shall not, as a general rule, be deemed to be "ordinary dividends or distributions" within the meaning of paragraph 3 of Rule 8B10, and adjustments of the terms of Security Futures Products on such stock fund shares for such distributions shall be made in accordance with paragraph applicable provisions of Rule 8B10, unless the Clearing House determines, on a case-by-case basis, not to adjust for such a distribution.
9. In the event that a new series of Security Futures Products is introduced with a settlement price expressed in decimals and there is an outstanding series of Security Futures Products on the same underlying security with a settlement price expressed as a fraction that could be expressed in whole cents, the Clearing House may restate the settlement price of the outstanding series as its equivalent decimal price. If the settlement price for the outstanding series is a fraction that cannot be expressed in whole cents, the settlement price may not be restated as a decimal.

## **8B11. ADJUSTMENTS TO NARROW-BASED INDEX FUTURES**

1. No adjustments will ordinarily be made in the terms of narrow-based index futures in the

event that underlying securities are added to or deleted from the index group or when the relative weight of one or more underlying securities in the index is changed. However, if the Clearing House shall determine in its discretion, and in coordination with Partner Clearinghouses as appropriate, that any such addition, deletion or change causes significant discontinuity in the level of the index, the Clearing House may adjust the terms of the affected narrow-based index futures by adjusting the index multiplier with respect to such contracts or by taking such other action as the Clearing House in its discretion, and in coordination with its Partner Clearinghouses as appropriate, deems fair to both the buyers and sellers of such contracts.

2. If (a) the index multiplier for narrow-based index futures on an underlying index shall be increased or decreased, (b) the reporting authority shall change the method of calculation of an underlying index so as to create a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the constituent securities in the index, or (c) the Clearing House shall substitute one underlying index for another pursuant to paragraph 3 of this Rule, the Clearing House shall make such adjustments in the number of outstanding futures or the contract prices of such futures or other such adjustments, if any, as the Clearing House in its discretion, and in coordination with Partner Clearinghouse(s) as appropriate, deems fair to both the buyers and the sellers of such contracts.
3. In the event the Clearing House determines that (a) publication of an underlying index has been discontinued; (b) an underlying index has been replaced by another index; or (c) the composition or method of calculation of an underlying index is so materially changed since its selection as an underlying index that is deemed to be a different index, the Clearing House may substitute another index (a "successor index") as the underlying index. A successor index shall be reasonably comparable, as determined by the Corporation in its discretion, and in coordination with Partner Clearinghouse(s) as appropriate, to the original underlying index for which it is substituted. An index may be created specifically for the purpose of becoming a successor index.
4. (a) In the event the Clearing House, acting pursuant to paragraph 1 of this Section, adjusts a narrow-based index futures contract underlying a futures option, such futures option will ordinarily be adjusted to provide, upon exercise, for delivery of the futures contract as adjusted by the Clearing House. (b) In the event the Clearing House, acting pursuant to paragraph 2 of this Section, adjusts (i) the number of outstanding index futures in a series of futures underlying a futures option, (ii) the contract price of index futures underlying a futures option, or (iii) the index futures underlying a futures option in any other manner, the futures option ordinarily will be adjusted in the manner corresponding to the adjustment in the underlying futures contract (e.g., if the number of outstanding index futures in a series of futures underlying a futures option is adjusted, the number of futures options on the adjusted underlying index will be similarly adjusted; if the contract price of the underlying index future is adjusted, the exercise price of the futures options will be similarly adjusted, etc.

## SETTLEMENT

### **8B20. UNAVAILABILITY OR INACCURACY OF FINAL SETTLEMENT PRICE**

1. If the Clearing House shall determine, in coordination with Partner Clearinghouse(s) as appropriate, that the primary market(s) for the underlying security in respect of a maturing stock future, or one or more component securities of the underlying index in respect of a maturing narrow-based index future, did not open or remain open for trading at or before the time when the final settlement price for such futures would ordinarily be determined, or that the price or other value used to determine the final settlement price is unreported or otherwise unavailable, then, in addition to any other actions that the Clearing House may be entitled to take under the Rules, the Clearing House shall be empowered to do any or all of the following with respect to maturing futures affected by such event ("affected futures"):

- (a) The Clearing House may suspend the time for making the final variation payment with respect to affected futures and, in the case of physically-settled Security Futures Products, may postpone the delivery date. At such time as the Clearing House determines that the required price or other value is available or the Clearing House has fixed the final settlement price pursuant to subparagraph (a) or (b) of this Section, the Clearing House shall fix a new date for making the final variation payment and may fix a new delivery date for physically-settled Security Futures Products.
  - (b) The Clearing House may fix the final settlement price for affected futures, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to buyers and sellers of affected futures, the maintenance of a fair and orderly market in such futures, and consistency of interpretation and practice. Without limiting the generality of the foregoing, the Clearing House may, if it deems such action appropriate for the protection of investors and the public interest, fix the final settlement price on the basis of the reported price of the underlying security or reported level of the underlying index at the close of regular trading hours (as determined by the Clearing House) on the last preceding trading day for which a closing stock price or index level was reported by the reporting authority.
2. The Clearing House may fix the final settlement price for affected futures using the opening prices of the relevant security or securities when the primary market(s) reopen. In that case, the date for making the final variation payment for the affected futures shall be postponed until the business day next following the day on which the final settlement price is fixed; and, in the case of physically-settled Security Futures Products, the delivery date shall also be postponed accordingly.
  3. Every determination of the Clearing House pursuant to this Section shall be within the discretion of the Clearing House, in coordination with Partner Clearinghouses as appropriate, and shall be conclusive and binding on all investors and not subject to review. Unless the Clearing House directs otherwise, the price of an underlying security and the current index value of an underlying index as initially reported by the relevant Marketplace or other reporting authority shall be conclusively presumed to be accurate and shall be deemed final for the purpose of determining settlement prices and the final settlement price, even if such price or value is subsequently revised or determined to have been inaccurate.

#### **INTERPRETATION TO 8B20. UNAVAILABILITY OR INACCURACY OF FINAL SETTLEMENT PRICE**

The Clearing House will not adjust officially reported stock prices or current index values for final settlement purposes, even if those prices or values are subsequently found to have been erroneous, except in extraordinary circumstances. Such circumstances might be found to exist where, for example, the closing price or current index value as initially reported is clearly erroneous and inconsistent with prices or values reported earlier in the same trading day, and a corrected closing price or current index value is promptly announced by the reporting authority. In no event will a completed settlement be adjusted due to errors in officially reported stock prices or current index values.

#### **8B21. DETERMINATION OF FINAL SETTLEMENT PRICE**

The method for determining the final settlement price for a series of Security Futures Products shall be as specified in the rules of the Marketplace on which the contract is traded; provided, however, that in the event of any conflict between such Marketplace rules and the Rules of the CME, the Rules of the CME shall control. The final settlement price may be based upon the price or level of the underlying interest at the close of trading on the maturity date of a security future or at the opening of trading on the following business day. It may also be based upon an average of prices or levels during an appropriate period of time. Final settlement prices are subject to adjustment by the Clearing House in accordance with the Rules.

**INTERPRETATION TO 8B21. DETERMINATION  
OF FINAL SETTLEMENT PRICE**

Notwithstanding the provisions of this Rule 8B21, no Marketplace may specify a method for determining a final settlement price that is inconsistent with applicable regulations of the Commodity Futures Trading Commission or Securities and Exchange Commission such as, for example, regulations requiring that the final settlement prices for certain security futures contracts must be based upon opening prices.

(End Chapter 8-B)