

CME Securities Clearing CA-1 – EXHIBIT L

Exhibit Request:

Attach as Exhibit L a description of the measures or procedures employed by registrant to provide for the safeguarding of securities and funds in its custody or control. Identify any instances within the past year in which the described security measures or safeguards failed to prevent any unauthorized access to securities or funds in possession of registrant and any measures taken to prevent a recurrence of any such incident.

Response:

With exception of initial margin and the Guaranty Fund, the Registrant does not maintain custody of or otherwise safeguard Members’¹ or Users’ (“Participants”) securities or cash in clearing transactions and only in limited circumstances exercises control of such securities or cash. When the Registrant novates a transaction between two Participants, it acts as central counterparty and thus becomes the seller to the buyer and buyer to the seller. Barring a Participant Default, the Registrant’s trade settlement obligations remain matched. For any business day involving settlement of outright cash obligations, the seller transmits such obligations to the Registrant Delivery vs Payment (“DVP”) at which time the Registrant immediately delivers said obligations to the buyer DVP.

With respect to Clear to Deliver Transactions, collateral is transferred to the Registrant from the designated Securities Settlement Bank acting on behalf of the seller (cash borrower) then delivered onward from the Registrant to the Securities Settlement Bank designated to act on behalf of the buyer (cash lender). The Registrant delivers to the cash borrower the cash the Registrant received from the original cash lender.

In the case of Clear to Hold Transactions, the Registrant delivers securities to a collateral account at a Securities Settlement Bank in the name of the original cash lender. In Clear to Hold Transactions, the Securities Settlement Bank, not the Registrant, holds custody of the securities collateralizing the cash loan. Members and Users engaged in a Clear to Hold Transaction that are cash lenders must establish a collateral account in their respective name, for exclusive benefit, at the Corporation’s Securities Settlement Bank. For a Clear to Hold Transaction, a cash lender shall not remove collateral from its collateral account at the Securities Settlement Bank except as otherwise permitted under CMESC Rules. With respect to Clear to Hold Transactions, the Registrant delivers securities to a collateral account at a Securities Settlement Bank. The Securities Settlement Bank, not the Registrant, custodies the securities collateralizing the Repo Transaction.

For transactions novated to and guaranteed by the Registrant, the Participant must post initial margin as required by the Registrant. For Repo Transactions and Cash Treasury Transactions, the Registrant collects any required initial margin and holds it in an account at the Registrant’s Bank in an account in the Registrant’s name, except in cases where Participants post Haircut Collateral with respect to Clear to Hold Transactions and such Haircut Collateral is held by the

¹ Capitalized terms used in this exhibit shall have the meanings set out in the Rules, unless otherwise indicated.

Securities Settlement Bank. Participants provide the Registrant a first priority and unencumbered security interest and lien against the initial margin collateral posted by them. In the event of a Participant Default, the Registrant retains initial margin that is designed to meet at least a 99% coverage standard and may be used in a Participant Default to meet its outstanding obligations. With respect to a Repo Transaction, should any securities delivered to collateralize the transaction prove insufficient to meet such obligation in full, the Registrant retains initial margin in an amount that is designed to meet at least a 99% coverage standard.

The Guaranty Fund encompasses assets contributed by Members that serve to address the costs that may be incurred, in excess of initial margin, in the event a Participant becomes insolvent or fails to fulfill its contractual obligations to the Registrant (i.e., Default). The Registrant will maintain the Guaranty Fund in an amount at least equal to the largest theoretical loss to the Registrant resulting from the Default of two Member Families. Each Member's Required Guaranty Fund Contribution will be required following approval of their application but prior to clearing any transactions with the Registrant. All securities and cash associated with the Guaranty Fund will be held in the Registrant's accounts at a designated Bank.

Collateral and funds posted to satisfy initial margin obligations to CMESC for the Independent User, Supported User, and Member account types are held separately on CMESC's books. Such holdings may be recorded as granularly as by CUSIP provided that the Participant submits all necessary information for the User account types on a daily basis to CMESC attributing the collateral posted, including CUSIP (where relevant). Broadly, collateral deposited by a Member on behalf of a User shall be treated by the Registrant as belonging to the User. In particular, while both the Independent User and/or its Member may deposit funds to the Independent User account, the funds posted to CMESC for satisfying the Independent User's initial margin obligations are treated as belonging solely to the specified Independent User. Similarly, the funds posted by a Member to CMESC for satisfying the Supported Users' initial margin obligations are treated as belonging to the Supported Users. Under the Supported User model, if a Member provides access to multiple Supported Users, the Member may establish one account for meeting initial margin obligations across all of its Supported Users and one account for meeting the settlement variation obligations across all its Supported Users. The associated collateral and funds may be held by the Registrant in omnibus accounts at designated Banks and segregated by account type. Under both User account types, initial margin funds and collateral held associated with a given individual User may only be used for that User's benefit (e.g., the funds of User A may not be used to offset obligations of User B, a Member, or CMESC).

The Registrant believes that it has in place adequate safeguards to protect initial margin and Guaranty Fund assets posted to it by its Participants in its control. The Registrant may also invest cash deposited by Participants' to meet initial margin and Guaranty Fund obligations, either partially or wholly, in U.S. Treasury securities. Interest earned on said cash investments will accrue to the Registrant.

The Registrant believes that it is adequately organized and that its Rules are designed to safeguard securities and funds in its custody or control or for which it is responsible, as required by the Securities Exchange Act. As discussed above, the Registrant maintains the Guaranty Fund applicable to all Members that require deposits in cash or U.S. Treasury securities. The

(As of 12.13.24)

Guaranty Fund is used solely to protect the clearing agency, Members, and Users from Member and User Defaults.