Bunched Orders under CFTC Rule 1.73(a)(2)(v)

Frequently Asked Questions

1. **What is a bunched order?** A bunched order is an order executed by an account manager on behalf of its customers where such orders are allocated on a post-trade basis to individual customers. The bunched order is initially cleared by an initial clearing firm. After the account manager submits allocation information, such allocated portions of the bunched order trade are given up to be cleared by an ultimate clearing firm that carries account(s) for the account manager's underlying customer(s).

2. **Does Rule 1.73(a)(2)(v) apply to futures or to cleared swaps?** Rule 1.73(a)(2)(v) applies to both futures and cleared swaps.

3. **To what firms does Rule 1.73 apply?** Rule 1.73 applies to CFTC-registered FCMs that are clearing members of a Derivatives Clearing Organization ("DCO") clearing those products for which the clearing organization is registered with the CFTC as a DCO.

4. **Who is an "account manager"?** An "account manager" is one who is permitted to post-trade allocate under CFTC rules. See, in particular, Rule 1.35(b)(5).

5. **Who is the "initial clearing firm"?** For futures, the initial clearing firm is the executing broker (or its clearing firm). For cleared swaps, the initial clearing firm is the firm designated to clear the bunched order.

6. **What type of risk limits does the initial clearing firm need to set with respect to a bunched order?** The initial clearing firm has flexibility in the types of limits that it sets for bunched orders. Such types of limits include, but are not limited to, limits based on order size, position size, price limits, volume limits, or other risk-based factors. The initial clearing firm may set different types of limits for futures (e.g., max order size) and cleared swaps (e.g., initial margin limit).

7. **Does the initial clearing firm need to have an agreement with the account manager?** There is no requirement under the rule that the initial clearing firm enter into an agreement with the account manager. However, an agreement between the account manager and the initial clearing firm may be beneficial with respect to the clearing of bunched swap transactions. Such an agreement could address the financial and other terms upon which an initial clearing firm will agree to function in such capacity.

8. **In what type of account will the bunched order be cleared?** The bunched order will be initially cleared by the initial clearing firm in a processing account for the account manager and will be held in the customer segregated, secured, or cleared swaps range, as applicable.

9. **Does the ultimate clearing firm need to have an agreement with the account manager?** Yes. The rule requires that the ultimate clearing firm enter into an agreement with the account manager with respect to the limits set for such customers by the ultimate clearing firm. See Rule 1.73(a)(2)(v)(B).

10. **What happens if there is no agreement between the ultimate clearing firm and the account manager?** If there is no agreement between the ultimate clearing firm and the account manager to satisfy the requirements of Rule 1.73(a)(2)(v)(B), account manager will not be permitted to execute

bunched order transactions on behalf of its customers where such orders are allocated on a post-trade basis to individual customers.

11. **Is there an industry standard template agreement between the account manager and the ultimate clearing firm?** Yes. The Futures Industry Association has published an industry standard template agreement entitled CFTC Rule 1.73(a)(2)(v)(B) Customer Limit Screening Agreement.

12. **What type of risk limit does the ultimate clearing firm have to set with respect to each underlying customer account?** The ultimate clearing firm has flexibility in the types of limits that it sets for the underlying customer accounts. Such types of limits include, but are not limited to, limits based on order size, position size, price limits, volume limits, or other risk-based factors. The ultimate clearing firm may set different types of limits for futures (e.g., max order size) and cleared swaps (e.g., initial margin limit).

13. **How will the ultimate clearing firm communicate limits to the account manager?** There is no standard or required method by which an ultimate clearing firm must communicate limits to account managers. Each ultimate clearing firm will determine the method by which it will communicate limits to account managers. Such methods include, but are not limited to, as an attachment to the CFTC Rule 1.73(a)(2)(v)(B) Customer Limit Screening Agreement, by email, or as a posting on an account website.

14. **Can the account manager screen for more stringent limits than those required by the ultimate clearing firm?** Yes. The account manager may screen orders for its customers for limits that are more stringent than those set by the ultimate clearing firm.

15. **Does the ultimate clearing firm need to communicate customer limits to the initial clearing firm?** No. There is no requirement under the rule for the ultimate clearing firm to communicate limits to the initial clearing firm. Likewise, there is no requirement that the initial clearing firm screen for limits set by the ultimate clearing firm.

16. **When is the rule effective?** Rule 1.73(a)(2)(v) becomes effective on June 1, 2013. A request for an extension of time for compliance with this rule is expected to be submitted to the CFTC.