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FIRM NEWS

Stephen Morris Shares Thoughts on CME Grace Period Clarification

December 6, 2024

Financial Markets and Funds Partner Stephen Morris spoke with *Risk.net* regarding new guidance from the Chicago Mercantile Exchange (CME) clarifying the meaning of a longstanding CME rule, 930.K. The clarification follows fines imposed by CME on four CME clearing members for including unconditional grace periods in client contracts, which CME viewed as impermissibly restricting clearing member discretion to liquidate accounts not in compliance with applicable margin requirements. The new guidance is intended to create a level the negotiation playing field among clearing members and their clients, though it may introduce challenges as well, since existing agreements may need renegotiation.

Regarding the fines, Steve stated, “This was a classic case of regulation by enforcement. It was very uneven, and the unevenness was exacerbated by the fact that the 'ask' that the targeted FCMs were having to go out to their clients with was really onerous.”

Steve noted that complicating matters was that FCMs were facing threats from clients to move their business elsewhere unless contractual grace periods were maintained, leaving them caught between the risk of losing clients and the risk of CME enforcement actions. “It was actually putting a real lid on expanding business with existing clients and signing on new clients. What they were asking the CME to do was just publish an advisory notice to the whole industry saying: 'You are not allowed to agree to grace periods without conditions.'”

“New CME guidance to drive tighter margin call management,” *Risk.net*, December 3, 2024

**Subscription may be required for article access.*

See also Steve's advisory on the CME guidance, "CME's Financial and Regulatory Surveillance Department Issues Long-Awaited Guidance."

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