Quick Facts on Margins at CME Clearing

JULY 2011

Margins are just one of the risk management tools CME Clearing uses to provide security to the market and individual market participants. Margins are basically “performance bonds,” good-faith financial deposits that guarantee the performance of derivatives contracts. The following information provides more detail on margin policies for listed futures products.

1. Margin changes are routine in CME Group markets.
   Margin levels are set to cover roughly 99 percent of the possible price moves for a position in a trading day or multiple trading days.
   When daily price moves become more volatile, a clearing provider such as CME Clearing typically raises margins to account for the increased risk. This change could be triggered by such things as:
   • Supply/demand shifts;
   • Changes in fiscal policy;
   • Major geopolitical events; or
   • Natural disasters.
   When daily price moves become less volatile, margins typically go down because the risk of the position also decreases.
   For example, silver market volatility resulted in 11 margin increases in the last year, while copper market volatility pushed margins down twice during the same period.
2. **Margins are set based on volatility, not price.**

CME Group’s approach is to adjust margins frequently, setting them lower in less volatile periods, and higher in more volatile environments.

Though margin changes may coincide with price increases or decreases, margins are not changed as the result of particular market prices. Moreover, margins are not set to dampen or heighten volatility, but rather to provide the clearing house and clearing member firms with additional layers of financial resources to lessen the impact of price swings.

For example, in early March 2011, crude oil margins were raised two times over six days, representing a 33 percent margin increase overall. Following these margin changes, prices continued to trend upward within a $10 range over the next month even though margins were not raised further.

In setting margins, we look at three different kinds of volatility:

- **Historical volatility** — price changes from one day’s close to another;
- **Intraday volatility** — price changes within a market session, regardless of whether there are price changes from close to close; and
- **Implied volatility** — forward-looking measure of potential volatility, derived from analysis in the options markets.

In addition, we also review such factors as liquidity, seasonality, concentration, current and anticipated market conditions and other relevant information in establishing appropriate margin levels.

---

**Figure 1**

Margins vs. Volatility in Silver, April 14 – May 16, 2011

Silver margins were raised when market volatility exceeded margin levels.
3. **Margins are part of CME Clearing’s neutral risk management practices; they are not intended to move the market one way or another.**

CME Clearing is a neutral participant in financial markets – it is our goal to protect the market, whichever way it moves.

We do not have an interest in moving the market one way or the other. However, we do make sure that every market participant contributes enough margin to cover the most likely price moves each day.

Along with more than 50 other global exchanges and regulatory agencies, we use the CME Standard Portfolio Analysis of Risk (SPAN) to assess a portfolio’s risk.

This means that other participants in the market can replicate our margin assessments as well.

4. **There are two different kinds of margin levels, initial and maintenance, and changes for both are usually announced 24 hours in advance.**

CME Clearing determines “initial margin,” which is the margin that market participants must pay when they initiate a position with a clearing firm.

The clearing house also determines “maintenance margin,” the level at which market participants must maintain their margin over time.

This is similar to when you sign up for a checking or savings account. A bank will typically require a minimum initial deposit with a certain balance required for as long as your account is open.

CME Clearing typically changes margins after a market closes in order to have a full view of that trading day’s market liquidity. And, the company usually provides at least 24 hours’ notice before implementing margin changes in order to give market participants time to assess the impact on their position and make arrangements for funding.
**Additional Resources**

Understanding Margin Changes by Kim Taylor, President, CME Clearing
Subscribe to margin change announcements
Current margin levels
Historical margins

---

**About CME Clearing**

CME Clearing is one of the world’s leading central clearing providers, offering clearing and settlement services for exchange-traded contracts, as well as for over-the-counter (OTC) derivatives transactions through CME ClearPort.

As of March 31, 2011, CME Clearing offered a financial safeguards package of approximately $8 billion and managed collateral deposits of over $100 billion.

By acting as the counterparty to every trade, CME Clearing substantially mitigates counterparty credit risk, meaning that for every trade completed on CME Group exchanges or submitted for OTC clearing, CME Clearing guarantees the financial soundness of both parties. In processing approximately 14 million trades each day, CME Clearing settles accounts, clears trades, collects and maintains performance bonds/margins, regulates delivery and reports data to guarantee the performance of every contract.