



12-107

TO: Clearing Firms
Back Office Managers

FROM: CME Clearing

SUBJECT: **IMPORTANT: CME Clearing Collateral Diversification Requirements**

DATE: March 9, 2012

As per the normal review of acceptable collateral and limits, CME Clearing is making the below changes regarding expansion and diversification requirements of collateral composition used by clearing member firms to meet performance bond requirements.

Collateral accepted by CME Clearing will be categorized as noted below. Effective with the RTH cycle on Friday, April 13, 2012, clearing member firms are permitted to meet a maximum of 40% core performance bond requirements with each of Category 2 and Category 3 assets. Also, Category 3 assets have a hard dollar limit of \$3 billion per clearing member firm across settlement accounts. Category 1 assets have no requirement type limits. Please refer to the website link below for details on individual asset type limits and product class restrictions.

Clearing member firms that do not use assets in Category 3 should contact the Financial Unit for utilization of assets in Category 2 according to a 40% limit for U.S. Government Agencies, Mortgage Backed Securities, and TLGP, as well as a 40% limit for IEF5 and Letters of Credit.

Additionally, CME Clearing will no longer differentiate utilization of assets for reserve performance bond requirements. The core performance bond requirement will envelope requirements previously categorized as reserve performance bond requirements. The reserve requirement will be phased out beginning with the RTH on Friday, April 13, 2012. There is no change to CME Clearing's policy for concentration performance bond requirements. Each clearing member firm will be subject to core performance bond requirements and concentration performance bond requirements as applicable.

Category 1 Assets:

- U.S. Cash
- U.S. Treasuries
- IEF2 Money Market Fund Program (limits and diversification requirements within IEF2 program remain in effect)

Category 2 Assets:

- U.S. Government Agencies
- Select Mortgage Backed Securities
- TLGP
- IEF5 Specialized Cash Program
- Letters of Credit

Category 3 Assets*:

- Physical Gold
- Select U.S. Equities from the S&P 500
- IEF4 Specialized Collateral Program**
- Select Foreign Sovereign Debt - Canada, France, Germany, Sweden, UK

Please call CME Clearing for availability of Foreign Cash deposits.

**Note: The maximum allowable limit for utilization of Category 3 Assets will be the lesser of a) 40 % of core margin requirements and concentration requirements per origin and asset account or b) \$3 billion per Clearing Member Firm across all settlement accounts.*

***Note: Although CME Clearing is operationally ready to support the new IEF4 collateral acceptance structure, final legal documentation with custodians is pending.*

Please refer to the website <http://www.cmegroup.com/clearing/financial-and-collateral-management/> for further detail regarding acceptable collateral, haircuts, and limits. For questions about requirements, please call Risk Management hotline at 312-634-3888 and questions about collateral can be directed to the Financial Unit hotline at 312-207-2594.