

12-136

TO: Clearing Member Firms
FROM: CME Clearing
DATE: March 28, 2012
SUBJECT: **REVISED** Initial Requirements for Non-Hedge Cleared Swaps Customers

Effective Monday May 7, 2012, the CFTC is requiring the use of “initial to maintenance ratios” for non-hedge customer positions in cleared swaps. These will work in a manner exactly analogous to the way they have long worked for futures.

So for example, suppose a non-hedge (“spec”) customer holds positions at your FCM in CME’s cleared interest-rate swaps, and the minimum initial margin (“performance bond”) requirement for that customer is calculated by CME Clearing as \$1,000,000. Suppose further that the initial to maintenance ratio for IRS is set by CME Clearing as 1.10.

This means that the “maintenance” requirement level that you must assess for the customer is \$1,000,000 and the “initial” requirement level is \$1,100,000. (1.10 times the maintenance level.)

On the first day that the non-hedge customer holds CME-cleared IRS positions at your FCM, the higher “initial” requirement level applies. Thereafter, as long as the customer has enough collateral on deposit to meet the lower “maintenance” requirement, no margin call need be issued. But if on any particular day the customer’s collateral level falls below the maintenance level, then the higher “initial” requirement level applies, and the customer must deposit collateral to come back up to that higher level.

Exactly as with any other parameter of the margin calculation process, CME Clearing will publish advisory notices detailing what the initial to maintenance ratios will be for each swaps asset class.

Every night, CME Clearing provides FCM’s with datafiles showing the margin requirement levels for each customer’s portfolio. These datafiles have now been enhanced to show both the maintenance and the initial requirement levels. For record layouts, please see: <http://www.cmegroup.com/clearing/files/PBRequirementsDatafiles.pdf>

Note that the datafiles will show the higher initial requirement level for all accounts, since CME Clearing will not know which accounts are hedge and which are not. If the account is not hedge, the firm must read and use both the maintenance and initial requirement levels, and apply the normal logic to determine which requirement level applies and whether a deficit exists. If the account is hedge, then you need to read only the maintenance requirement level.

If you wish to calculate the requirement levels yourself, the initial to maintenance ratios are published in machine-readable form in the various risk parameter files.

In the New Release testing environment, the change will take effect for interest-rate swaps on Wednesday, April 18. For CDS and FX, the change will be made in New Release on Friday April 6. And again, as noted above, the change takes effect in production for all swap products on Monday, May 7.

For more information, please contact CME Clearing at 312-648-3888.

Technical details

For CDS and FX:

The initial to maintenance ratio is on the **OVPT** combined commodity in the end-of-day CDS risk parameter files available on the Firm FTP Server in the **pub/cmd/cmf** directory. For example, the file **cds.risk.cmf.20120320.s.xml.zip** contains the CDS risk parameter file for March 20. A corresponding New Release file would be in **pub/cmd** and is named **cds.nr.risk.20120320.s.xml.zip**.

To find the ratio, search for the **ccDef** element further containing the element **<cc>OVPT</cc>**. The initial to maintenance ratio can then be read from the **<adjRate>** element with rate ID **5** and base rate **2**. For example:

```
<adjRate>
  <r>5</r>
  <baseR>2</baseR>
  <val>1.100000</val>
</adjRate>
```

For FX, the process is exactly analogous, except that there is a combined commodity, and hence an initial to maintenance ratio, for each currency pair. The files will be in the **pub/span/fx** directory. The production file for March 20 would be named **cme.fx.risk.20120320.s.xml.zip**, and the corresponding New Release file would be named **cme.fx.NR.risk.20120320.s.xml.zip**.

For IRS:

The risk parameter files are located on the Firm FTP Server in the **pub/irs** directory. The initial to maintenance ratios are provided in the file **IRS_IM_Ratio.csv**. The corresponding New Release file would be **IRS_IM_Ratio.NR.csv**. The data is provided by currency of denomination of the swaps. For example:

```
CO,Prod_Type,Cur,IM_Ratio
CME,IRS,CAD,1.10
CME,IRS,CHF,1.10
CME,IRS,EUR,1.10
CME,IRS,GBP,1.10
CME,IRS,JPY,1.10
CME,IRS,USD,1.10
```