

12-353

DATE: August 14, 2012
TO: Clearing Member Firms and Clearing Technology Providers
FROM: CME Clearing
SUBJECT: **Customer Gross Margining Update and Timelines**

This Clearing Advisory details new reporting requirements and timelines for clearing firms stemming from CFTC regulations going into effect on November 8, 2012. Customer Gross Margining (CGM) will apply both to products which are under the futures regulatory regime and to products which are classified as cleared swaps for regulatory purposes. The original CME Group Clearing Advisory regarding CGM was published on March 29, 2012, and is Advisory Number 12-139.

There are three key dates that firms should keep in mind relating to Customer Gross Margining, as explained below: **Tuesday September 4, 2012** – the date on which CME will begin accepting daily CGM datafiles from firms; **Monday October 8, 2012** – the date by which all firms **must** be submitting daily CGM datafiles; and **Monday November 5, 2012**, when CME will go live with Customer Gross Margining (four days prior to the November 8 deadline.)

Preliminary Customer Gross Margining Testing

CME Group is performing preliminary testing now, using either SPAN position files or CGM FIXML files that contain CME Group positions that have been extracted from firms' databases, and that represent the full spectrum of customer positions as they relate to CME Clearing. If your firm would like to get a preliminary view of how overall margins will look beginning on November 5, 2012, you can submit either a SPAN file or the new CGM FIXML file or files to us for review, and we will break down the projected new requirements for your firm and provide them to you.

Note that for this test to be productive, you will have to submit Production position data for review, and only include accounts that relate to CME Clearing (essentially using PCS logic, but with the caveat that accounts that are margined together on your books should be reported as single accounts that represent positions held in CME Clearing). Do not submit mirrored accounts, suspense accounts, etc.

As early as September 4, 2012, CME Clearing will begin accepting CGM files as they will be processed on November 5, 2012. That is, you will be able to send a file to your Secure FTP Server "Incoming" directory each day, and the file will be picked up and processed, and results will be sent back to you via csv files. The file naming convention is as follows:

FileType.CMF.FileNumber.xml where

- FileType = "**CGM**"

- CMF = Clearing Firm ID (note this is not the Trade Management Firm (TMF) ID that is used for trades submitted to Clearing; it is the overall Clearing ID that is used to group all of your TMF IDs together).
- FileNumber = "01," "02," etc. If you only submit one file for all of your business each day, then the file will always have "01" in the file name. If, for some reason, you need to send multiple files to your Incoming directory to report the full breadth of your business, then each file should be named per the convention (but named the same way each day). CME Clearing needs to know if you intend to send more than one file to cover all of your business.

So, if your Clearing Firm ID is "ABC," then your CGM file name, if you send only one file, will be CGM.ABC.01.xml. If you were to send two files each day to fully describe your business, the file names would be CGM.ABC.01.xml and CGM.ABC.02.xml.

Mandatory testing will begin on October 8, 2012, and continue through the live date. You must certify that you can send in accurate data that can be consumed by the CME Clearing system and processed, to be considered certified.

File Submission Deadlines

The deadline for submission of the end-of-day CGM datafile is **8:00pm Chicago time**. Firms should strive, however, to submit earlier, and ideally will submit by the 7:30pm Chicago deadline for PCS.

Note that intraday submissions are **not** required for CME.

Reporting for Customer Gross Margining

Customer Gross Margining will require a significant change in how derivatives clearing organizations (DCOs) calculate performance bond (initial margin) requirements for customer positions. Specifically, under CFTC Regulation 39.13(g)(8)(i), DCOs will be required to set a firm's minimum performance bond level as the sum of requirements calculated for each individual customer account.

This new method of customer gross margining will require CME Clearing and some other DCOs to switch from the "modified customer gross margining method" which has long been used. Under the existing method, clearing firms categorize individual customer account positions according to the degree to which risk offsets exist, and report this data twice daily (as the "spreads" information included in the PCS submission used to determine open interest). The new method will assure that client account risk offsets will be applied only for the benefit of each individual customer account.

The key operational implication of Customer Gross Margining is that the DCO must know positions for all customers. For interest rate swaps (IRS) and credit default swaps (CDS), CME Clearing already keeps positions customer by customer. For certain other cleared swaps and for futures, however, customer positions are held in the clearing system in position accounts which typically commingle positions of many individual customers.

For customer positions in futures and in these other types of cleared swaps, therefore, clearing firms must submit a data file, to identify positions by individual customer, so that CME Clearing may calculate margins customer by customer. The file must be submitted for only the end-of-day settlement cycle at this time. We are referring to this file as the **Customer Gross Margin file**, or simply the **CGM file**.

The industry has selected FIXML as a standard format for the CGM file. The format is highly analogous to the FIXML PCS format widely in use. The “firm number” in the file should be provided in exactly the same manner as is currently used for trade submissions and the account ID will identify the individual customer account. Where multiple customer accounts have the same owner, the account ID may be provided as the “related master” account which ties all the detail accounts together.

For positions in expiring options: clearing firms differ in the timing of when they process final exercises and assignments in books. Clearing firms have a choice, therefore, in how these positions are represented in the CGM file: either prior to final E&A processing, or after such processing.

Omnibus accounts and position reporting

For futures, the Customer Gross Margining mandate does not require any changes in how clearing firms handle omnibus accounts. Firms may continue to hold omnibus accounts on their books, and these may be fully disclosed, partially disclosed, or entirely non-disclosed.

The CGM file format supports all three of these possibilities. If you provide an omnibus account with no detail subaccounts, this is the “entirely non-disclosed” case. If you provide an omnibus account with detail accounts, and the sum of the detail account positions is equal to the omnibus account positions, then the omnibus account is fully disclosed. If you provide detail accounts, but the sum of the positions in detail accounts is less than the positions in the omnibus account, then the omnibus account is partially disclosed.

For Customer Gross Margining, the calculation of the margin requirement for an omnibus account will follow long-established practices. First, normal portfolio margin requirements are calculated for each disclosed subaccount. The remaining non-disclosed positions are considered “naked”, and are margined without recognizing any risk offsets. The total requirement for the omnibus account, then, is the sum of the portfolio requirements for the disclosed subaccounts, and the naked requirements for the non-disclosed positions.

For more information please contact CME Clearing’s Risk Department at 312-648-3888. Note that CME Group stands ready to assist with technical details, and will visit firms or software providers on-site to assist in any way possible, if needed.

Technical Details

Customer Gross Margining Position Submission via FIXML

```
<PosMntReq                                // position maintenance request message
  ReqID="123456789"                          // unique record ID
  TxnTyp="4"                                  // position specification
  AdjTyp="4"                                  // customer-specific submission
  Actn="1"                                    // new submission
  BizDt="2012-02-06"                          // clearing business date
  SetSesID="EOD"                              // settlement cycle (end-of-day)
  TxnTm="2012-02-06T18:23:49">             // submission time
```

```
<Pty ID="CME" R="21"/>                       // clearing organization
<Pty ID="111" R="4"/>                         // clearing member firm ID
<Pty ID="NYMEX" R="22"/>                     // firm exchange
<Pty ID="111" R="1"/>                         // trade mgmt firm ID
```

```

<Pty ID="ABC12345" R="24"> // customer account
  <Sub ID="1" Typ="26"/> // customer origin
  <Sub ID="ACCT NAME" Typ="5"/> // account name
  <Sub ID="H" Typ="41"/> // customer account type
  <Sub ID="OMNIACCT" Typ="42"/> // omnibus account, if relevant
</Pty>

```

```

<Instrmt // contract data
  Exch="NYMEX"
  ID="CL"
  SecTyp="FUT"
  MMY="201203"/>

```

```

<Qty Typ="TQ" Long="4250" Short="1243"/> // long and/or short quantity
</PosMntReq>

```

Notes on the party specifications:

For CME Group, the clearing member firm ID (party role 4) is optional, and may be omitted. OCC and NYPC require it, however.

The account name is as specified on the firm's books and is optional for the purposes of customer gross margin reporting. If not reporting the account name, please do not include this Party block.

The customer account type indicates whether the account is member, hedge, spec or omnibus (M, H, S, O). If not provided, the default is spec.

If the account is a disclosed subaccount of an omnibus account, the "omnibus account" role specifies that omnibus account. It should not be provided for detail accounts that are **not** disclosed subaccounts of an omnibus account.

There is variability across the CCP's in the usage of the "position account" role (role number 38) in FIXML. (CCP's use the term "position account" in the same manner, but differ in how the value is assigned.) For the sake of discussion, we'll denote this as the "CME usage" and the "ICE usage".

For CME:

Position account is a value, typically three or four alphanumeric bytes, which clearing firms typically do not know and do not use. It is provided by CME on output back to the firm, but again, firms typically do not know and do not use it.

CME derives the position account from the following submitted data: (a) the trade management firm ID; (b) the product; (c) the customer account and origin code.

Note that the origin is submitted as a sub role of the customer account.

For ICE:

Position account is a single byte, roughly corresponding to the origin and regulatory class of the account and product. It is a required part of the submission.

For ICE, then, the origin is **not** provided as a sub role of the customer account.

So the party submission for ICE would look something like this:

```
<Pty ID="ICE" R="21"/> // clearing organization
<Pty ID="111" R="4"/> // clearing member firm ID
<Pty ID="ICE" R="22"/> // firm exchange
<Pty ID="111" R="1"/> // trade mgmt firm ID
<Pty ID="C" R="38"> // position account
<Pty ID="ABC12345" R="24"> // customer account
  <Sub ID="ACCT NAME" Typ="5"/> // account name
  <Sub ID="H" Typ="41" // customer account type
  <Sub ID="OMNIACCT" Typ="42"/> // omnibus account, if relevant
</Pty>
```

Note that position account may be submitted for CME, but if so, it **must** correspond to the CME usage, not the ICE usage.

Notes on the instrument block

The instrument block usage is standard. The example above shows how it looks for a future. Here's an example of how it would look for a vanilla option on future, where underlying need not be specified:

```
<Instrmt
  Exch="NYMEX"
  ID="LC"
  SecTyp="OOF"
  PutCall="1"
  StrkPx="32.75"
  MMY="201203"/>
```

For an option, such as a flexible option, where the underlying must be explicitly enumerated, the "Undly" sub element must be included:

```
<Instrmt
  Exch="CME"
  ID="XP"
  SecTyp="OOF"
  PutCall="1"
  StrkPx="32.75"
  MMY="20120327">
  <Undly
    Exch="CME"
    ID="SP"
    SecTyp="FUT"
    MMY="201412"/>
</Instrmt>
```

The **Src** attribute is optional, and may be provided, as: **Src="H"**, indicating that the value is the clearing product code.

Again, nothing different from existing usage.