



Advisory Notice

Clearing House

12-490

TO: Clearing Member Firms

FROM: CME Clearing

SUBJECT: **CDS Liquidity Margin Methodology Change in New Release**

DATE: November 9, 2012

Please be advised that on November 15, 2012, and in the New Release testing environment only, CME Clearing will implement a new method for evaluating liquidity risk in the margin methodology for CDX Index Credit Default Swap contracts. (There are no changes to the methodology used in production at this time.)

The changes are related to the Concentration component of the Liquidity margin methodology. In the new methodology, the liquidity risk is a function of the spread DV01 and is floored to the DST (Duration Series Tenor) profile of each series/tenor combination.

In conjunction with this update to the CDS margin methodology, CME Clearing will be releasing a new version 561 of the CDS margining software. The software will allow replication of the CDS margin requirements in the New Release testing environment only, beginning Thursday November 15.

The new version 561 of the software will be **required** to calculate CDS margins using CDS New Release risk parameter files beginning on November 15. The new version of the software should **not** be used for production margining at this time.

Please contact the CME Clearing Risk Hotline at clearing.riskmanagement@cmegroup.com or 312-648-3888 for more information.