CME's LSOC Collateral Value Report Validations
Updated February 4, 2014

This document summarizes in one convenient place, the three validations which are performed on an LSOC Collateral Value Report (CVR) submitted by a clearing firm operating in the "with excess" mode. If any of these validations fail, the report is not accepted.

1. **The Total Client Value reported cannot exceed the total value of collateral on deposit**.

   The total USD-equivalent haircutted market value reported as belonging to clients, cannot exceed the total value of collateral on hand. This validation is necessary to ensure that, if accepted, there is enough collateral on hand to give full credit to the reported value for each client.

2. **The Total Value reported cannot exceed the total value of collateral on deposit by more than a small specified percentage.**

   The total USD-equivalent haircutted market value reported, including both client value and firm-contribued value (FCV), cannot exceed the total value of collateral on hand by more than a specified percentage. This percentage is currently set to 3%. This validation catches gross order of magnitude errors in reporting firm-contributed values.

3. **The report, if accepted, cannot take the account out of LSOC compliance.**

   The reconciled amount of Firm-Contributed Value must at least cover the sum of client-specific deficits that would result if the report were accepted.

   A client-specific deficit means the amount by which the total USD-equivalent haircutted market value of collateral for that client is less than the total USD-equivalent initial margin requirement required by the Clearing House.

   "Reconciled" Firm-Contributed Value means the reported FCV, reduced as necessary to not be greater than the amount by which total value of collateral on deposit exceeds total reported client value.

Example 1:

LSOC values of $1M are reported for each of ten clients.
The initial margin requirement for each client is $0.5M.
Total value of collateral on deposit is $9,999,999.99.

The report fails the first validation, because the total value reported for clients exceeds the total value on hand.

Example 2:

LSOC values of $1M are reported for each of ten clients.
The initial margin requirement for each client is $0.5M.
Firm Contributed Value is reported as $5M.
Total value of collateral on hand is $11M.

The report fails the second validation, because the total value reported -- $15M – exceeds the total value on hand – $11M – by more than 3%.

Example 3:

Eight clients have an LSOC value reported of $1M and an IM requirement of $1M.

Client 9 has an LSOC value reported of $5M and an IM requirement of $1M.

Client 10 has an LSOC value reported of $1M and an IM requirement of $5M.

Firm Contributed Value is reported as $1M.

Collateral on deposit is $15M.

Total client value reported is $14M, which is not greater than the $15M collateral on hand, and hence the report passes the first validation.

Total value reported, including FCV, is $15M, which is not greater than 103% of the $15M collateral on hand, and hence the report passes the second validation.

Total client deficit is $4M, stemming entirely from Client 10. And this is greater than the $1M FCV. Hence the report fails the third validation. It cannot be accepted because if it were accepted, it would put the firm out of LSOC compliance.