CME Group | Advisory Notice

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

ADVISORY #: 24-302

SUBJECT: Modifications to Concentration Margin Program

DATE: October 10, 2024

As background, CME Clearing maintains a Clearing Member-level concentration margin program ("Concentration Margin Program") for futures and options which is designed to capture the concentration risk of liquidating Clearing Member-level portfolios, both in absolute stress loss terms (i.e., "Absolute Stress Loss Concentration Margin") and relative to a Clearing Member's adjusted net capital ("ANC"). Each portfolio (e.g., house and customer segregated account) is subject to a stress test (per asset class[1]) and then compared to predetermined absolute stress loss thresholds (i.e., $1.5B to $7B) and relative Clearing Member ANC thresholds (i.e., 1X to 5.0X) to determine if margin under the Concentration Margin Program is charged.[2]

The SPAN 2 framework similarly contains liquidity and concentration risk components that are designed to capture the costs to liquidate a portfolio, but in the SPAN 2 framework these costs are evaluated at the individual portfolio level (e.g., individual customer account).

To enhance the approach for estimating the costs to liquidate portfolios containing products that have migrated to the SPAN 2 framework, CME Clearing is implementing, subject to necessary regulatory reviews, modifications to the Absolute Stress Loss Concentration Margin for all asset classes containing products margined in the SPAN 2 framework (inclusive of equity products, energy products, and all future migrations[3]). For equity and energy products, these modifications will be effective on the date of migration of equity products to the SPAN 2 framework for each Clearing Member.

The modifications to the Absolute Stress Loss Concentration Margin are as follows:

- For Clearing Members' house accounts, the Absolute Stress Loss Concentration Margin will no longer apply to asset classes containing products margined under the SPAN 2 framework, since the liquidity and concentration risk components of the SPAN 2 framework are designed to appropriately capture the costs previously captured by the Absolute Stress Loss Concentration Margin charge at the Clearing Member house account level.

- For Clearing Members' customer accounts (e.g., customer segregated), the Absolute Stress Loss Concentration Margin charge for asset classes containing products margined in the SPAN 2 framework will be adjusted down, with a floor of $0, by the amount of margin calculated within the

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[1] The asset classes are defined currently as equities, energy, interest rates, cryptocurrencies, FX, metals, and agriculture.
[2] For more information on the current program, please refer to this advisory.
[3] More specifically, when a future asset class is migrated to the SPAN 2 framework (e.g. metals) subject to necessary regulatory reviews, the effective date of these modifications will be on the date of migration of metals products to the SPAN 2 framework for each Clearing Member.

liquidity and concentration risk components of the SPAN 2 framework across all individual customer accounts.

For the avoidance of doubt, the ANC-based thresholds of the Concentration Margin Program for both house and customer accounts will continue to operate as they do today.

Should you have any questions, including questions on the impacts of these changes, please contact Clearing Risk Management: **clearing.riskmanagement@cmegroup.com**
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