CME Group | Advisory Notice

TO: Clearing Member Firms

FROM: CME Clearing

DATE: October 21, 2016

ADVISORY #: 16-440

SUBJECT: **REMINDER: CDS Transfers Migration to FEC+, October 24, 2016**

As a final reminder, CME will migrate transfers for Credit Default Swaps (CDS) to FECPlus in Production effective **Monday, October 24, 2016**.

All unmatched CDS Transfers in FEC Classic Production will be deleted at EOD on Friday, October 21, 2016 and will not be recreated in FECPlus.

With this migration, there are a few operational changes, as well as new features. We would like to highlight two features listed below:

- **CSV Transfer Upload** - A new feature will allow Transfers to be uploaded via .csv file into the FECPlus UI. We hope that this will make uploading multiple transfers at once easier- **Available in Prod mid-November**.
- **Initial Payment Calculation Change** – we are changing how FEC+ calculates the upfront fee on transfer trades to align the CDS transfer process with the interest rate swap (IRS) transfer process- **Available in Prod starting Monday November 14, 2016**.

Here is the full list of changes with complete descriptions, which includes those mentioned above:

Supported Browsers
As outlined on our website, and in previous advisories, the only browsers officially supported by CME are IE 11 and Google Chrome 36+. Some of the UI features related to Transfers may not work in older browser versions. We recommend upgrading to one of our supported browser versions as soon as possible. More information on our supported browsers is available here:
http://www.cmegroup.com/tools-information/supported-browsers.html

Allocate/claim match model remains
- The two parties involved can decide who will enter the transfer, and who will claim. If no accord can be reached, the Seller of the transfer will enter the transfer, while the other party will claim.
- For bulk transfers, the firm that currently holds the positions will enter the transfers.

Changes to the Allocate/Claim Trade API
- There were some changes made to the allocate/claim API for transfers (only). The new transfer API specifications can be downloaded from CME Group Website here:
  http://www.cmegroup.com/clearing/files/allocate-claim-match-model-overview.pdf

Additional Changes/Features
- Transfer trades posted into FECPlus via API message in error will not be editable. Firms are required to delete those error trades from FEC Plus and re-add them.

- The Auto Transfer button in FECPlus will be used for creating offsetting transfers from existing trades in FECPlus. Please note that, this will apply to matched prior-day CDS trades and to any matched CDS Transfer. Top-day CDS trades can be Voided and re-submitted.
- A new feature will allow Transfers to be uploaded via .csv file into the FECPlus UI.
- Auto-Accept features will be extended to apply to CDS transfers, including Auto-Accept Rules and same-CMF Auto-Accept.

Transfer Reason Codes

With this migration, the list of Transfer Reason Codes has been reduced. Below is a list of the 13 valid Transfer Reason Codes that are supported by CME Clearing, 11 of which can be assigned by firms, with the other 2 being system-generated only

Code	Description
A	Exchange approved transfers between accounts with different beneficial ownership
B	For correcting Rule 527 mis-clears
C	Transfer between accounts in which the underlying beneficial ownership is identical
E	Transfer to correct, an error in assignment of account (in-house) or customer/house origin error or firm-to-firm clerical error in clearing a trade
J	For rule 770 transfers
M	Transfer for portfolio margining purposes
N	Transfer of positions to a newly approved clearing firm
P	Fungible Transfers and Delivery Transfers (system generated, cannot be submitted by firms)
T	Transfer due to the merger of two or more clearing firms
V	Auto-transfer Offset (system generated, cannot be submitted by firms)
W	Transfer due to withdrawal of a clearing firm
X	For transferring new or offsetting Singapore Exchange executed positions between local firms
Y	Cross Exchange Transfer (OCC)

Initial Payment Calculation Change

Previously, for CDS transfers, FEC would calculate an upfront fee on the transfer based upon the trade price and original trade date that the user specified on the transfer trade. Users could also specify an upfront fee to move with the transfer. This might have led to money movements that transfer parties did not intend to make with one another. Additionally, CDS clients wanted better alignment between the CDS & IRS transfer process in terms of allowing clients to move transfers with variation margin. Doing so would prevent clients from having to double-fund variation margin at their FCMs. The FEC process for supporting this was extremely manual and relied upon the FCMs to complete and input the proper calculations. We're hoping to make this calculation more straightforward with this release into FEC+.

For any prior-day CDS transfer, on which an Initial Payment is not specified, FECPlus will calculate the Initial Payment automatically and will now include the trade's Variation Margin, as well as price alignment interest (PAI).

Here's a quick example to help explain what this functionality means –
Client A has a trade cleared at Clearing Member Firm 1 and wishes to transfer the trade to Clearing Member Firm 2. Up until now, the client has paid or received daily variation margin and PAI on this trade. Let's say that as of the current date, the client has paid variation margin equaling +$1,000.00.

In the vanilla scenario, if the client transfers the trade from Clearing Member Firm 1 to Clearing Member Firm 2, the client will end up needing to pay Clearing Member Firm 1 +$1,000.00 only to receive that money plus any additional variation margin back from Clearing Member Firm 2. Additionally, the client would exchange a PAI cash flow with Clearing Member Firm 1. Previously, in order to prevent this cash flow movement, Clearing Member Firm 1 would need to manually calculate the reversing cash flow to offset both the variation margin payment and the PAI cash flow and input this cash flow on the transfer trade in FEC.

Now, with this new functionality, FEC+ will automatically calculate the proper cash flow that needs to happen in order to offset the variation margin and PAI payment to Clearing Firm 1. In the example above, FEC+ would calculate a +$1,000 payment plus PAI on the offsetting trade to offset the client's variation margin & PAI payment to Clearing Firm 1. FEC would also do the same on the onsetting trade, however the cash flows would be in the opposite direction. The end result of this is that the client will be able to easily continue making daily variation margin and PAI cash flow exchanges with its new clearing firm without any cash flow hassle.

The formula that will be used in the calculation is as follows:

$$\text{Initial Payment} = -(\text{Variation Margin} + \text{PAI Amount} + \text{Coupon Amount (1)})$$

(1)Coupon Amount to be considered only if the CDS Transfer occurs the day before Coupon Payment

The executing side of the Transfer will have the ability to amend the Initial Payment on the CDS Transfer after the transfer has been submitted, but only until the transfer has been accepted, after which no change to the Initial Payment can be made.

The new Initial Payment calculation change will take effect **Monday, November 14, 2016** in Production. Testing for this new calculation will begin **Thursday, November 3, 2016** in the New Release test environment. In the meantime, the regular Initial Payment calculation will be automatically applied to CDS Transfers, but users may specify a different Initial Payment value instead.

For more information, please contact CME Clearing at ccs@cmegroup.com or via phone at Chicago (312) 207 2525 | London (44) 203 379 3198 | Singapore (65) 6593 5591