

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

DATE: October 24, 2017

ADVISORY #: 17-406

SUBJECT: OTC FX Margin Model Enhancements

In anticipation of launching clearing support for OTC FX Options, CME will be enhancing its existing Historical Value at Risk (HVaR) based performance bond model for OTC FX to cover the additional risk factors presented by the clearing of OTC FX Options and will margin existing OTC FX and OTC FX Options on a portfolio basis.

The enhancements to the FX Margin Model will be implemented in the production environment effective October 30th and will initially apply to cleared OTC FX transactions during the end of day margin cycle.

Summary of enhancements:

The proposed enhancements will change the margin components from the current scaled HVaR model to be a linear sum of components including the current scaled HVaR, a Stressed Value at Risk (SVaR), a valuation uncertainty margin (VUM) and a liquidity/concentration add-on. "SVaR" is a special case of the historical simulation which allows for large historical moves or extreme yet plausible scenarios to persist in the margin computations with a chosen weighting. This SVaR component aids further in mitigating pro-cyclicality in the margins. "VUM" is a component that accounts for pricing uncertainty during periods of stress. The "Liquidity/Concentration" component is designed to capture costs associated with hedging and auctioning relatively large portfolios during periods of extreme stress.

Please reach out to your sales representative or the clearing risk management team if you have any questions.

Risk Management Team Email: clearing.riskmanagement@cmegroup.com