

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

ADVISORY #: 18-264

SUBJECT: **Implementation of the Stress Shortfall Margin Add-on**

DATE: June 29, 2018

Effective July 2, 2018, and pending all relevant CFTC regulatory review periods, CME Clearing will adopt a new margin component for the Base clearing service called the Stress Shortfall Margin Add-on, hereafter referred to as the Stress Add-on. This supplement to current margin requirements more appropriately increases collateral from the subset of clearing firms bringing the largest risks to CME Clearing, while promoting stability in the size of the guaranty fund.

The Stress Add-On will result in clearing member firms incurring a stress shortfall¹ greater than a predefined threshold, initially \$1 billion, being charged 30 percent of the amount by which their shortfall exceeds this threshold in the form of the Stress Add-on. Any such charge incurred will be called and collected as additional margin pursuant to CME Clearing's standard margin collection processes. We do not anticipate any changes to CME Clearing's operational procedures to account for the implementation of the Stress Add-on.

The parameters set out above, the \$1 billion threshold and 30 percent fraction, are subject to change, as appropriate, based on shifting market conditions. Any revisions to the Stress Add-on will be communicated to the market via a Clearing House Advisory Notice.

Should you have any questions, please contact Matt Waldis (matthew.waldis@cmegroup.com; (212) 299-2148) or Abby Perry (abby.perry@cmegroup.com; (312)-338-2462).

¹ Stress shortfall is calculated as stress loss less available collateral, the same calculation used to size the guaranty fund