CME Group | Advisory Notice

TO: Clearing Member Firms; PC-SPAN Users; CME SPAN licensees

FROM: CME Clearing

DATE: January 16, 2019

ADVISORY #: 19-024

SUBJECT: CME SPAN Software Update Now Available (Version 4.5.609)

PC-SPAN version 4.5 build 609 is now available for download in the CME CORE download center. See installation instructions below. This version contains no alterations to the margin model.

This advisory:
- Describes SPAN 609 enhancements;
- Describes bookkeeping uses cases for users maintaining different account types within the same portfolio for initial margin calculations;
- Describes the enhancement within the context of using SPAN software;
- Describes SPAN account type override logic; and
- Describes account type override impacts to Omnibus accounts.

SPAN 609 Enhancements
This version of SPAN software allows for the specification of different account types within the same portfolio for initial margin calculation. The primary purpose of this enhancement is to allow different treatment of hedge versus spec for different contracts within the portfolio, or different treatment of member versus spec.

The effect of allowing different account types within the same portfolio for initial margin calculations is in the application of the "initial to maintenance" ratios (the "I/M ratio"). CME Clearing specifies the I/M ratio as 1.0 for member and hedge accounts for all products, and a value greater than 1.0 for spec accounts, with the precise value different for different products.

The result is that the initial risk requirement level is equal to the maintenance requirement level for all combined commodities where the account is defined as member or hedge. The initial risk requirement level is greater than the maintenance requirement level for all combined commodities where the account is defined as spec.

SPAN software prior to this enhancement treated all commodities within a portfolio with the same applied I/M ratio. For a spec portfolio containing hedge positions in one combined commodity, for example corn, here is the applied initial margin behavior before the enhancement:

	Maintenance	Initial
Corn	720	792
S&P 500	27,000	29,700
Total*	27,720	30,492

*1 long Dec 2018 corn future, and 1 long Dec 2018 full-sized S&P 500 future:

With the new feature in SPAN 609, the account type is defined for each combined commodity. In this case corn is defined as account type hedge. Here is the applied margin behavior for the same account after the enhancement:

	Maintenance	Initial
Corn	720	**720**
S&P 500	27,000	29,700
Total*	27,720	30,420

A full list of all enhancements made in SPAN 609 can be found in release notes here.

Example Use Cases

- Example 1: a client has positions in wheat, corn, treasuries, currencies and equities. The client is a *bona fide* hedger for their wheat and corn positions, but not for all the others. SPAN 609 allows this client to define the account type as Spec (S) but can further define the account type as hedge (H) for wheat and hedge (H) for corn.

- Example 2: a client has positions in gold at COMEX, where the account holder type is member (M), wheat positions at CBOT, where the account qualifies as account type hedge (H), and positions in EuroDollar at CME, where the account qualifies as account type spec (S). SPAN 609 allows this client to define the account as spec (S) overall, and then specify it is a member (M) for the gold positions, and hedge (H) for wheat.

Using SPAN 609 Account Type Enhancement
To take advantage of this new feature, users can simply specify the account type override for particular combined commodities within the portfolio when loading portfolios via either an XML-format position file or an "expanded" format position file.

If using the XML-format position file, users can include an optional **acctType** element immediately after the cc element within the **ccPort** element. For example:
    <ccPort>
    <cc>C</cc>
    <acctType>H</acctType>
    <currency>USD</currency>

If using the expanded-format position file, users can include the optional account type value in currently unused byte 58 of the type "3" position record, for any or all positions for a given combined commodity.

CME recognizes that clearing firms have different methods in their bookkeeping systems by which they specify account type, that some methods may not guarantee that all positions in the

combined commodity are coded the same, and that precise ordering of positions in the file may vary.

SPAN Account Type Override Logic
PC-SPAN will adopt the following general rules:

- If any positions in the combined commodity are specified as member, treat the entire combined commodity as member (because membership status can never be defined at a level lower than a combined commodity.)

- If none of the positions in the combined commodity are specified as member, but some are hedge and some are spec, treat the combined commodity as hedge (because positions in a combined commodity are all on the same ultimate underlying.)

- CME's SPAN risk parameter files contain scanning-based intercommodity spreads whereby the risk of a set of closely related products is aggregated together into one of the combined commodities of the set. For the purpose of the margin calculation, if any part of the set qualifies for hedge or member treatment, firms may code the entire set as hedge or member, respectively.

Account Type Override Impacts to Omnibus Accounts

Generically, customer accounts may be considered normal customer accounts or omnibus accounts. In this context, an omnibus account is an account that may have subaccounts and for which naked positions (positions that are not contained in defined subaccounts) are margined naked.

The valid account types for normal customer accounts are member, hedge, or spec (M, H or S, respectively). The valid account types for omnibus accounts are omnibus hedge or omnibus spec (Q and O, respectively).

If the account is a normal account, users can override an account type with one of the other types for normal accounts. If the account is one of the two omnibus types, users can override the account type with the other omnibus type. Users cannot override a normal type with an omnibus type, and vice versa.

Rulebook References
Nothing contained herein conflicts with or modifies in any way the following rules:

JAC Margins Handbook
Chapter 2, Section - Hedge Accounts -
http://www.jacfutures.com/jac/MarginHandBookWord.aspx

CME Rules
Chapter 5, Rule 559 - http://www.cmegroup.com/content/dam/cmegroup/rulebook/CME/I/5/5.pdf

POSITION LIMITS AND EXEMPTIONS
559.A. Bona Fide Hedging Positions

559.B. Risk Management Positions

Chapter 9, Rule 930.I. -
http://www.cmegroup.com/content/dam/cmegroup/rulebook/CME/I/9/9.pdf

930.I. Hedge Positions
Clearing members shall have reasonable support to classify positions as bona-fide hedge and risk management positions, as defined by Rule 559, that are afforded hedge performance bond rates.

Installation instructions
1) Create a CME login ID (if you do not already have one) via the CME CORE login screen: https://cmecore.cmegroup.com/
2) Click on the "Need to Register" link and provide the required information.
3) Receive your CME Login ID. Please reach to **EASE.AtYourService@cmegroup.com** with any questions about creating a CME Login ID.
4) Navigate to the Download Center → Software.
   a. PC-SPAN and SPAN Risk Manager software are available to all users under the "PC SPAN (Free)" and "SPAN Risk Manager (Free)" sections, respectively.
   b. Click the list to the current desktop version (32 bit) to install.* The 64 bit version is not intended for desktop usage.
*Note: For best results, uninstall prior versions of PC-SPAN software before installing 609.

Please reach out to CME CORE team at cme.core@cmegroup.com or 312-580-5353 with any questions.