

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers
Margin Managers

FROM: CME Clearing

ADVISORY #: 20-301

DATE: August 3, 2020

SUBJECT: CME OTC IRS Margin Model Parameter Change

CME Clearing has undertaken a review of the targeted volatility used in risk factor simulations for its interest rate swaps' ("IRS") margin computation, as well as the liquidity parameters for IRS as highlighted below. These changes will be available for testing in New Release environment as of August 4, 2020, with a production date of August 10, 2020.

- (i) As referenced in advisory [#20-164](#), CME Clearing had increased the target volatility used in its margin computations. Given the recent reduction of volatility from the peak levels observed in Q1 and Q2 of this year, CME Clearing will be scaling down the target volatility by approximately 5% across risk factors.
- (ii) CME Clearing will be increasing the target volatility for IRS contracts denominated in BRL currency. BRL markets had observed relatively higher moves in April, and hence the target volatility levels for BRL currency were not adjusted in April 2020 along with other currencies. The adjustments are designed to ensure the levels are in line with the values used for other currencies. Given the volatility levels in BRL markets are still at elevated levels driven by the moves in Q2, CME Clearing does not expect significant impacts to production portfolios based on this adjustment.
- (iii) In addition, CME Clearing will also be updating liquidity parameters for IRS contracts denominated in USD, BRL and MXN. CME Clearing surveys market participants on a regular basis to provide estimated bid-ask costs in stressed market conditions for IRS packages for different tenors, strategies and DV01. These survey results are used to calibrate liquidity add-on levels used in margin computations. CME Clearing surveys market participants on a bi-annual basis and recalibrates where estimated liquidity costs change or otherwise as appropriate. The most recent liquidity survey conducted in Q2 2020 shows noticeable changes in liquidity parameters for USD, MXN, BRL currencies. For these three currencies, the overall impact to liquidity add-ons is approximately 10% of the total margins for portfolios with aggregated DV01 above 10M+, 7M+ and 500K+ DV01 respectively in each local currency. Note that the impact on

the portfolio with the above changes could vary depending on the risk profile for each individual account.

If you have questions, please contact IRS Risk team at IRSQuantRisk@cmegroup.com or by phone on 312.338.7712.

Regards,
CME Clearing