Clearing Advisory Notice

DATE: October 20, 2020

TO: Clearing Member Firms

FROM: CME Clearing

ADVISORY #: 20-404

SUBJECT: **Implementation in CME's SPAN® Risk Framework of New Categories to Reflect CFTC Regulatory Revisions**

On January 27, 2021, the CFTC will adopt revised Regulation 39.13(g)(8)(ii) relating to customer margining. The revisions affect long-standing practices for classifying client accounts for margining purposes. The relevant Federal Register release can be found at https://www.cftc.gov/sites/default/files/2020/01/2020-01065a.pdf.

Revised Regulation 39.13(g)(8)(ii) eliminates the existing reference to "hedge" positions, which serve as a baseline for determining whether an account is considered a hedger or a speculator. These categorizations in turn drive whether a client account qualifies for the maintenance performance bond level or the higher initial performance bond requirement level. Under the revised regulation, clearing members must determine whether an account has a "heightened risk profile" or not. Accounts which the clearing member determines present a heightened risk profile will be subject to the higher initial requirement level. Accounts which the clearing member determines do not present a heightened risk profile will be subject to the maintenance requirement level.

In order to comport its practices and the obligations of clearing members with the revised CFTC regulations, CME Clearing has recently adopted rule changes which similarly take effect on January 27, 2021. The CME rule filing can be found at: https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2020/9/20-405_1.pdf.

Clearing members must comply with the revised CFTC regulations and revised CME rules no later than January 27, 2021. Firms need not wait until that date, however, to implement changes, and in fact may do so at any time.

Exactly as today, CME Clearing will provide the "Initial to Maintenance Ratio" greater than 1.00 for accounts with a heightened risk profile ("HRP") and will provide 1.00 (meaning no distinction between initial and maintenance requirement levels) for accounts with a non-heightened risk profile ("NHRP").

To minimize the technical impact of this change, and to allow firms to switch to the new classifications as they are ready, CME is enhancing the definition of existing values in its daily SPAN files. In particular, the initial to maintenance ratio that is specified for spec accounts, is being redefined as being applicable either to spec accounts or, if the firm has switched, to accounts with heightened risk profiles, and the ratio that is defined for hedge accounts is being redefined as being applicable either to hedge accounts or to accounts that do not have a heightened risk profile.

The initial to maintenance ratios are provided on the type “3” record in the positional (“PA2”) format that is widely used by clearing firms. The record layout is provided at: https://www.cmegroup.com/confluence/display/pubspan/Type+3+-+Expanded

As you can see, in this document, the text has been updated to indicate that the four bytes in position 73-76 now contain the Initial to Maintenance Ratio applicable to this combined commodity, for either Hedge or NHRP accounts, and the four bytes at 77-80 now contain the I/M ratio for either Spec or HRP accounts.

Similarly, when creating position files in the expanded-format to be loaded to PC-SPAN, **or when creating Customer Gross Margining (CGM) Position files to be submitted to CME,** firms may begin using the existing **S** account type value to refer either to spec accounts or to accounts with a heightened risk profile, and the existing **H** account type value to refer either to hedge accounts or to accounts with a non-heightened risk profile. Account type **O** will mean an omnibus account with a heightened risk profile, and account type **Q** will mean an omnibus account with a non-heightened risk profile.

Exactly as the process works currently, firms may specify for the account as a whole that the account either has or does not have a heightened risk profile, but then may override this specification for particular parts of the portfolio. For example, an account may have a heightened risk profile for energy products but not for agricultural products.

We will publish additional information shortly regarding the impact of this change to how portfolio account types are specified in CME CORE (Clearing Online Risk Engine) and CME’s deployable margin software.

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