CME Group | **Advisory Notice**

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

ADVISORY #: 20-486

SUBJECT: Modification to Sizing Calculations for Base and IRS Guaranty Funds

DATE: December 17, 2020

Effective January 27, 2021, CME Clearing will enact a revision to the methodology used in calculating the appropriate size of the Base Guaranty Fund and IRS Guaranty Fund ("the Guaranty Funds") that are required pursuant to amendments to the Commodity Futures Trading Commission ("CFTC") regulations. These amendments have a compliance date of January 27, 2021.[1] More specifically, the CFTC adopted amendments to CFTC Regulation 39.11(c)(2)(i)(A) that require CME to size the Guaranty Funds as a function of the calculated stress testing loss (consistent with current practices) less the "portion of the margin amount on deposit (including initial margin and any add-ons) that is required." Consequently, CME will no longer use margin collateral on hand (including excess) to calculate each clearing member's stress shortfall and in turn, size the Guaranty Funds per the amendments to CFTC regulations. From January 27, 2021 onward, CME will use the required margin that is on deposit instead.

Consistent with current practices and CFTC Regulation 39.33(a)(1), the Guaranty Funds will continue to be sized to enable CME to meet its financial obligations to its clearing members notwithstanding a default by the two clearing members creating the largest combined financial exposure to CME in extreme but plausible market conditions – i.e., Cover 2 standard.

No other changes will be made to the stress testing methodology used for sizing the Guaranty Funds.

Should you have any questions, please contact CME Clearing Risk Management at Clearing.RiskManagement@cmegroup.com or 312-648-3888.

---

[1] *See* 85 FR 4800.