CME Group | Advisory Notice

TO: Clearing Firms; Back Office Managers; CME Optimizer Users; CME CORE Users

FROM: CME Clearing

DATE: 9/7/2021

ADVISORY #: 21-309

SUBJECT: **CME OTC IRS Margin Model Parameter Change**

CME Clearing has undertaken a regular review of the targeted volatility used in risk factor simulations for its interest rate swaps' ("IRS") margin computation, as well as the liquidity and concentration model parameters for IRS contracts, and will introduce parameter changes as highlighted below. These changes will be available for testing in New Release environment as of September 8, 2021, with changes taking effect on September 13, 2021.

i) Following the recalibration of the targeted volatility used in its margin computations in Aug 2020 (see advisory #20-301), CME Clearing will adjust the targeted volatility across all risk factors by approximately 5%. CME Clearing expects a slight decrease in margin requirements for the majority of production portfolios based on this adjustment.

ii) CME Clearing will also update the liquidity and concentration model parameters for Interest Rate Swap contracts denominated in 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 and concentration add-on levels used in margin computations where appropriate. The most recent liquidity survey shows noticeable changes in the calibrated liquidity and concentration model parameters for MXN denominated swaps. The calibration is expected to have an overall impact to liquidity and concentration add-ons of approximately 5% of the total margin for portfolios above approx., 20M+ aggregated DV01 in local currency.

Note that portfolio level impacts due to the above changes will vary depending on the risk profile of each individual portfolio.

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

Regards,

CME Clearing