

TO: Clearing Member Firms  
Back Office Managers  
CME Optimizer Users  
CME CORE Users  
Margin Managers

FROM: CME Clearing

DATE: 10/28/2022

ADVISORY #: 22-416

**SUBJECT: Risk Factor Enhancements for USD Curves in CME Clearing's OTC IRS Margin Model and the Addition of Treasury and SOFR options Available for Portfolio Margining with OTC IRS**

CME Clearing is making the following enhancements to its OTC IRS margin services. All changes outlined in this advisory are currently available for testing in CME's New Release environment, and will take effect in the production environment on Monday, December 12, 2022, pending regulatory approval. Below is a description of the changes.

- I. Risk Factor Enhancements for USD Swaps: CME Clearing will establish interest rate curve risk factors using the spread curves between the USD OTC curves (i.e. LIBOR 1M, LIBOR 3M, LIBOR 6M, BSBY 1M, BSBY 3M and FedFunds OIS ) and SOFR OIS curve, as opposed to using USD OTC curves as risk factors. Given that the underlying risk dynamics driving USD OTC curves and SOFR OIS curves are highly correlated, synchronizing the common elements across the risk factors will produce a better representation of historical shocks. This enhancement is only implemented for USD Swaps. These changes are expected to have a relatively minor impact to overall margin amounts; however, firms are encouraged to test portfolios ahead of the change.
- II. Portfolio Margin Enhancements: to continue to provide margin efficiencies to OTC IRS clients, and as part of the LIBOR transition roadmap, CME is expanding its portfolio margin program offering for IRS products to include Options on Treasury Futures and Options on SOFR Futures. Below is the complete list of Clearing Codes which will be added in the portfolio margining program:
  - U.S. Treasury Quarterly and Serial Options, Clearing Codes: 17, 21, 25, 26, UBE, TN
  - SOFR Quarterly, Serial, Some Mid-curve and Serial Mid-curve Options, Clearing Codes: SR3, S0, S2, S3, S4, S5
- III. ISDA Fallback Pricing Protocol and CME fallback conversion procedure for Options on Eurodollar Futures:

Given the USD LIBOR cessation after June 30, 2023, and CME's proposal for fallback conversion of Eurodollar contracts on April 14, 2023, CME will incorporate the ISDA pricing protocol and fallback conversion pricing for initial margining of options on ED Futures for any options with underlying futures expiring after June 30, 2023. CME Clearing will capture any additional residual basis risk observed from daily market quotes as well as potential liquidation costs via the liquidity framework.

CME CORE's New Release test and production environments will calculate initial margins using the enhancements as described above consistent with the dates in this advisory. Please note the CME CORE margin calculator methodology will reflect the enhancements in production when CME Clearing implements the change. In general, CME CORE utilizes prior day settlement to calculate initial margin and, as a result, on the day CME Clearing implements the enhancements in production, CME CORE will reference the margin model with updates inconsistent with the prior day's risk data.

In conjunction with the above enhancements, CME has made available the Optimizer software version 18 for testing and the corresponding advisory can be found at <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2022/09/Chadv22-379.pdf>.

If you have questions, please contact IRS Risk team at [IRSQuantRisk@cmegroup.com](mailto:IRSQuantRisk@cmegroup.com).

Regards,  
CME Clearing