CME Group | Advisory Notice

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

FROM: CME Clearing

ADVISORY #: 22-460

DATE: December 5, 2022

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

As previously notified, CME Clearing is making parameter enhancements to its OTC IRS margin model. CME Clearing will be incorporating the changes in our production environment on December 12, 2022 (pending all relevant regulatory review periods). This change has been available in UAT environment since October 28, 2022, and the corresponding advisory with details of the enhancements can be found at: <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2022/10/Chadv22-416.pdf>

In conjunction with the above enhancements, CME Clearing 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>. As a reminder, Clearing Members participating in portfolio margining are required to implement Optimizer version 18 by December 12, 2022.

Additionally, CME Clearing has undertaken a regular review of the targeted volatility used in risk factor simulations for its IRS products' margin computation for USD, GBP and EUR, and will introduce parameter changes as highlighted below. The below changes will be available for testing in new release environment as of December 7, 2022, with changes also taking effect in the production environment on December 12, 2022. These parameter changes will increase the target volatility for IRS contracts denominated in USD, GBP and EUR currencies. All the above markets have observed relatively higher moves in recent months and thus, the target volatility levels (i.e., volatility floors) for these currencies will be increased. Given the volatility levels in these markets are still at elevated levels driven by the recent interest rate moves, CME Clearing does not expect significant impacts to production portfolios as a result of the target volatility increases.

CME CORE's production applications will begin to 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 enhancements. Note that CME CORE utilizes prior day settlement prices 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.

If you have questions, please contact the IRS Risk team at IRSQuantRisk@cmegroup.com.

Regards,

CME Clearing