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FROM: CME Clearing

ADVISORY #: 23-345

DATE: November 16, 2023

SUBJECT: CME OTC IRS Margin Model Parameter Changes

CME Clearing has reviewed the volatility floor parameters used in USD risk factor simulations in its margin computation for interest rate swaps ("IRS") contracts, as well as interest rate futures and options that are eligible for portfolio margining. Following this review, CME Clearing has determined it will introduce volatility floor parameter changes to align with current interest rate volatility across the term structure. The impact to production portfolios is varied and dependent upon the risk profile for each individual portfolio, however CME Clearing expects a decrease in margin requirements for the majority of production portfolios, as the aggregate margin across all portfolios is expected to decrease by approximately 2%.

Additionally, CME Clearing will be updating the liquidity and concentration model parameters for IRS contracts denominated in USD, CLP, and COP, and options on treasury futures. CME Clearing surveys market participants on a bi-annual 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 model parameters used in margin computations, where appropriate. The most recent survey shows noticeable changes, which will be reflected in the re-calibrated liquidity and concentration model parameters for USD, CLP, and COP denominated swaps and options on treasury futures. While the overall impact from changes to the liquidity and concentration model parameters for USD, CLP, and COP contracts are expected to be immaterial on a percentage basis, please note that the impact to relevant IRS contracts' production portfolios is varied and dependent upon the risk profile for each individual portfolio.

These changes will be available for testing in the New Release environment on Friday, November 17, 2023, and will be implemented in production on Wednesday, November 22, 2023.

If you have questions or need assistance in assessing the impact of these changes, please contact the IRS Risk team at IRSQuantRisk@cme.com.

Regards,

CME Clearing