

## Advisory Notice

Clearing House

SPAN 08-171

TO: Clearing Member Firms  
SPAN Users

FROM: CME Clearing

SUBJECT: CME Group Plans to Start Using Super-Intercommodity Spreading in SPAN® Risk Parameter Files Starting 8/18/2008.

DATE: July 31, 2008

Effective August 18, 2008 CME Group plans to begin using a feature of SPAN® called **super-intercommodity spreading** in SPAN risk parameter files for CBOT-CME. It will initially be used to calculate margin requirements for such products as options on crush spreads, options on Eurodollar calendar spreads etc.

Although this feature has been part of SPAN for some time, and has been supported in PC-SPAN®, this will be the first time it has been used in SPAN files created by CME Group. It has however been in use for several years by NYBOT (now IntercontinentalExchange Inc.). For details please see SPAN advisory #: 04-12 from November 5, 2004, SUBJECT: **NYBOT and Margining Options on Futures Calendar Spreads in SPAN®** <http://www.cmegroup.com/tools-information/lookups/cmearchive/clearing/10536.html>.

### Super-intercommodity spreading

In SPAN we define **groups** of spreads, with the specific spreads in each group processed sequentially according to their assigned priority number. Until now, the three groups used in CME Group SPAN files have been **intracommodity spreads**, **intercommodity spreads**, and **interexchange spreads**:

- **Intracommodity spreads** (also called intermonth spreads) are delta-based spreads in which all legs are contained within the same combined commodity. In SPAN, the scanning process provides perfect credits for calendar spread positions within the same combined commodity. **Intracommodity spreads** are typically used to take away some of that perfect credit (by assessing a charge) for products where the scanning process is too generous.
- **Intercommodity spreads** are evaluated after all intracommodity spreads have been processed, using only position delta left over from intracommodity spreading, and are used to provide credits for offsetting positions between related products within the same exchange or clearing organization.
- **Interexchange spreads** are evaluated after all normal intercommodity spreads have been processed, using only position delta left over after intercommodity processing. They are used to provide credits for offsetting positions on different exchanges or clearing organizations, typically

in the absence of any formal cross-margining or risk-sharing agreement between those two organizations.

**Super-intercommodity spreads** are just like any normal intracommodity or intercommodity spread. The difference is that the spreads in this group are evaluated **first -- before** any normal intracommodity spreads are processed.

Because these spreads are evaluated first, they will use up position delta which, if not used up, could have resulted in other, more expensive spreads being formed.

### How Super-Intercommodity Spreads Are Represented in the SPAN File

On the type 6 (intercommodity spread) records in the expanded-format SPAN file, byte 110 identifies the **Spread Group**, with blank meaning normal intercommodity spreads, and **S** identifying super-intercommodity spreads.

CME Group will provide the type 6 records for the super-intercommodity spreads in the SPAN file, before all type 6 records for normal intercommodity spreads. These will be defined as using intercommodity spread methods 01 or 20 -- in other words the legs of the spread could reference overall intercommodity tiers (entire BFCCs) or specific intercommodity spread tiers.

Other than being defined as being in the super-intercommodity spreads group there is nothing special about these intercommodity spreads. They could be method 01 or 20, tiered intercommodity spreads for which a credit is calculated using the weighted-futures-price-risk method, **exactly analogous** to the tiered intercommodity spreads present since November 2003 in the CBOT-CME combined SPAN files.

### Evaluation of Super-Intercommodity Spreads

**Super intercommodity spreads** are evaluated **before** any intracommodity spreads are processed.

The actual evaluation process is identical to that for any tiered intercommodity spreads. For each such spread, you determine whether remaining delta for the particular intercommodity spread tiers referenced in the spread definition, is sufficient to form any spreads, and if so, how many such spreads. If any spreads can be formed, then for each leg:

- You determine the amount of delta which has been consumed by the spread for this leg.
- You multiply the delta consumed by the spread, times the weighted price risk for that leg, times the credit rate for that leg, yielding the particular credit realized by this spread for this leg.
- You remove delta consumed by the spread, from the delta period comprising this leg, from the specific intercommodity spread tier comprising this leg, from the overall intercommodity spread tier for this, and from the intracommodity spread tier containing this leg.

This is standard SPAN functionality, operating exactly as for any tiered intercommodity spread.

### Test files

Test files with super-intercommodity spreads defined are available at CME Group FTP site at <ftp://ftp.cmegroup.com/pub/span/data/cme/test/swapstream/span/> (please use files from 7/30/08 or later).

### For more information

For further information about super-intercommodity spreading in SPAN and PC-SPAN, please contact Dmitry Glinberg at CME Group, 312-648-8680, [Dmitriy.Glinberg@cmegroup.com](mailto:Dmitriy.Glinberg@cmegroup.com)