

Advisory Notice

Clearing House

TO: Clearing Member Firms,
Chief Financial Officers,
Back Office Managers

FROM: Clearing House Department

DATE: January 24, 2005

ADVISORY #: 05-18

SUBJECT: **Concentration Margining Program Changes on Friday, January 28, 2005**

The CME will implement changes to the concentration margining program on **Friday, January 28, 2005**. These changes will simplify the concentration margining program making it easier for firms to estimate the impacts of position changes on their concentration margin requirements while also adding an additional concentration margin tier of 10%.

Below is an outline of the concentration margining program and the changes that will be implemented.

- On a daily basis, all clearing member portfolios will continue to conduct daily stress tests to evaluate whether firms will be subject to concentration margins. The stress tests will still be performed in the equity and interest rate markets at 150% of the current performance bond requirements. For example, the current S&P 500 requirement is 64 points (\$16,000). The stress test would include looking at a hypothetical S&P 500 market increase of 96 points (150% of 64 points) and a decrease of 96 points. There will be no changes to this aspect of the current concentration margining program.
- If a clearing member's potential losses under a stress testing scenario exceed the thresholds listed below, 10% or 25% increases will be applied depending on which thresholds are exceeded.

Stress Test Thresholds*

	Current	New	
Excess ANC Threshold	1 X Excess ANC	1 X Excess ANC	2 X Excess ANC
Absolute Threshold	\$500 million	\$500 million	\$1 billion
High Pay Threshold	Average of 3 highest pays	Average of 3 highest pays	Average of 3 highest pays
% Increase in Requirements	25%	10%	25%

* Concentration applies when the stress test loss is (> Excess ANC Threshold OR > Absolute Threshold) AND > High Pay Threshold.

- The 10% and 25% increases will simply be a scale-up of the firm's net requirements. The current system recalculates requirements based on 25% increases in scan ranges which could result in concentration margin requirements in excess of 25% of requirements, especially for portfolios with options. The new program will eliminate that possibility.
- Concentration margins will continue to be based on net positions and only CME equity and interest rate products are included in the program. There will be no changes to these aspects of the current concentration margining program.

If you have any questions regarding these changes, please contact the Risk Management Department at 312/648-3888.