



## Advisory Notice

Clearing House

07-47

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

FROM: Clearing House Department

SUBJECT: **Concentration Margin Changes Effective Friday, February 23, 2007**

DATE: February 20, 2007

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CME will expand its Concentration Margining Program to also include CME currency products on **Friday, February 23, 2007**, at the RTH cycle. This program allows the Clearing House to charge additional performance bond requirements when firms' potential market exposures become large relative to the financial resources available to support those exposures.

In anticipation of the inclusion of currency products in the Concentration Margining program, Report ID **CPBRT99C** and Report Name "**CONCENTRATION STRESS TEST REPORTS**" has been enhanced to display stress test results for currency products.

Below is a review of how Concentration Margins are applied:

- On a daily basis, all clearing member portfolios will be subjected to a stress test of equity, interest rate, and currency positions of an amount equal to at least 150% of the current performance bond requirements. For example, the current Euro FX futures requirement is 136 points (\$1,700). The stress test would include looking at a hypothetical Euro FX market increase of 204 points (150% of 136 points) and a decrease of 204 points.
- If a clearing member's potential losses under the stress testing scenario (less any offsetting profits from its house origin positions, if applicable) exceed the clearing member's excess adjusted net capital, the clearing member will be subject to a 10% expansion in its performance bond requirements in the product category, based on its net positions. If those potential losses exceed twice the member's excess adjusted net capital, the concentration performance bond expansion will be 25%.
- If a clearing member's potential losses under the stress testing scenario (less any offsetting profits from its house origin positions, if applicable) exceed \$500 million, the clearing member will be subject to a 10% expansion in its performance bond requirements in the product category, based on its net positions. If those losses exceed \$1 billion, the concentration performance bond expansion will be 25%.
- In cases where a clearing member that would have been subject to an expanded performance bond requirement under the two conditions described above, but where the potential losses under the stress-testing scenario are less than the average of the three largest settlement variation calls over the prior twelve months, the concentration margins will not apply.
- The collateral rules that apply to reserve performance bond requirements also apply to the expanded performance bond requirements. This means, for example, that clearing members may use stock or letters of credit to fully satisfy the expanded performance bond requirements.

If you have any questions regarding this program, please contact the Risk Management Department at 312-648-3888.