

TO: Clearing Member Firms; Risk Managers

FROM: CME Clearing

DATE: June 28, 2012

ADVISORY #: 12-268

SUBJECT: **LSOC Customer Swap Collateral Reporting**

This advisory explains the details of FCM collateral value reporting to CME Clearing under the CFTC's Part 22 "LSOC" regulations. It updates and extends Clearing Advisory 12-139, published on March 29, regarding reporting requirements for Customer Gross Margining and LSOC.

LSOC, which is short for Legally Segregated Operationally Commingled, is a new CFTC regulatory regime which must take effect by no later than Thursday, November 8, 2012. CME Clearing plans to launch its LSOC rules and operational requirements on Monday, November 5, 2012. LSOC applies at that time to positions and collateral for customer cleared swaps. It does **not** apply to futures unless futures clear in the customer cleared swaps origin pursuant to DCO rules for portfolio margining of futures versus swaps.

Under LSOC, derivatives clearing organizations (DCOs) must provide their FCM clearing members with a means of identifying ownership interests in the value of collateral that the FCM has posted with the DCO to meet initial margin requirements of customers' cleared swaps. To put it simply, the FCM reports to the DCO the breakdown of the total collateral value into amounts owned by or attributable to individual customers.

Another term used in LSOC is the "firm buffer". This represents the collateral provided by the FCM itself into the pool of collateral available to meet the customer margin requirement. It is part of the total segregation pool, but is not owned by or attributable to any customer.

FCMs will provide this collateral value reporting to CME Clearing via the submission of a simple datafile. For each customer, and for each guarantee fund for which that customer holds cleared positions, the FCM will report the **market value** and the **haircutted market value** of collateral provided by the FCM to CME Clearing, owned by or attributable to that customer. CME Clearing currently supports three guarantee funds for cleared swaps – the interest rate swap fund, the credit default swap fund, and the futures fund which includes other swaps such as FX, metals and commodities.

The FCM will finish its end-of-day bookkeeping process, and create and submit the end-of-day collateral value file. The file must be submitted to CME Clearing by early morning of the next clearing business day. We are proposing 6:00am New York time as the deadline.

The market values and haircutted market values provided in this end-of-day datafile must reflect the state of the firm's books prior to the effect of any margin calls for additional cash or releases of excess margin cash, which were issued by CME Clearing as part of the previous night's clearing cycle.

Note, however, that if at the time of creation of the end-of-day file, the firm knows how these calls or releases affect the customer-specific values, this data may also be included in the end-of-day file. Alternatively, the firm may omit this information from the end-of-day datafile due by 6:00am. Note also that the firm may submit an updated collateral value datafile at any time.

FCMs may report these amounts either as total USD-equivalent values, or they may elect to provide currency-by-currency values.

In determining market value for non-cash assets, FCMs may elect to use CME's asset prices, or they may use their own provided that they are reasonable and that they maintain a record of the asset prices used for auditing purposes. In calculating haircuts, FCMs may elect to use CME's haircut percentages or their own, provided that the percentage used is not unreasonably less conservative than CME's, and that they retain a record of the haircut percentages used. If reporting on a USD-equivalent basis, FCM's may elect to use CME's end-of-day exchange rates or they may use their own, provided that the rates used are reasonable and that they retain a record of the exchange rates used.

Note that the CFTC's Part 22 regulations don't affect the collateral that FCMs can accept from customers or what CME Clearing accepts from FCMs, and FCMs are under no obligation to deposit excess customer collateral at CME Clearing or any other CCP.

The format for the LSOC collateral report datafile is shown below. It is in industry-standard FIXML and is highly analogous to the format used for reporting positions for Customer Gross Margining.

For each guarantee fund, the file should contain a record for each customer holding positions, and one record for the firm buffer. The record for the firm buffer should be identified by a value of **FIRMBUFFER** in the customer account field.

There are only two enhancements to the format.

First, a new "haircut type" attribute is added to the collateral amount element. Haircut type 1 is defined to mean the total **haircutted** market value, and haircut type type 0 is defined to mean the total market value (**unhaircutted**.)

Second, a new sub role of the customer account specification is added to allow the designation of the asset class or guarantee fund to which the report pertains. This new role need be provided only if the FCM were using the same firm number and customer account ID for customer collateral in more than one guarantee fund.

The file should be submitted as normal to the firm's **Incoming** directory on the Firm FTP Server. We will publish file naming conventions shortly. A sample message is provided on the following page.

For more information please contact CME Clearing at 312-930-3170.

LSOC Collateral Report Submission via FIXML

```
<AcctSumRpt                                // collateral report
  RptID="123456789"                        // unique record ID
  BizDt="2012-02-06"                       // clearing business date
  SetSesID="EOD"                           // settlement cycle (end-of-day)
  TxnTm="2012-02-06T18:49">              // submission time

<Pty ID="CME" R="21"/>                     // clearing organization
<Pty ID="111" R="4"/>                       // clearing member firm ID
<Pty ID="NYMEX" R="22"/>                   // firm exchange
<Pty ID="111" R="1"/>                       // trade mgmt firm ID
<Pty ID="ABC12345" R="24">                 // customer account
  <Sub ID="1" Typ="26"/>                   // customer origin
  <Sub ID="ACCTNAME" Typ="5"/>             // account name
  <Sub ID="H" Typ="41"/>                   // customer account type
  <Sub ID="IRS" Typ="tdb"/>               // guarantee fund for this report
</Pty>

<CollAmt HrctInd="0" Amt="30000000.00" Ccy="USD"/> // unhaircutted mkt value
<CollAmt HrctInd="1" Amt="29990000.00" Ccy="USD"/> // haircutted market value
<CollAmt HrctInd="0" Amt="50000000.00" Ccy="EUR"/> // unhaircutted mkt value
<CollAmt HrctInd="1" Amt="49990000.00" Ccy="EUR"/> // haircutted market value

<CollAmt HrctInd="0" Typ="CALL" Amt="10000.00" Ccy="USD"/> // cash margin call value

</AcctSumRpt>
```

Note: if providing the amount of a cash margin release, the type should be provided as **Typ="REL"**.