

CME Group OTC Advisory

#12-406

DATE: 9/21/2012
TO: Clearing Member Firms
FROM: CME Clearing
SUBJECT: **Launch of CME Optimizer & IRS/Futures Portfolio Margin for Customers Update**

On May 7th, 2012 CME Clearing launched the IRS Portfolio Margin program for House accounts of our clearing member firms allowing them to receive margin offsets across CME Eurodollar Futures, CBOT Treasury Futures, and Interest Rate Swaps:

(<http://www.cmegroup.com/tools-information/lookups/advisories/clearing/files/Chadv12-194.pdf>)

To facilitate a more efficient straight-through-processing solution to support the program, the ***CME Optimizer*** has been developed and is now available for download.

Given two portfolios, one of Interest Rate Swaps and one of eligible Interest Rate Futures*, the CME Optimizer will:

- 1) Derive the optimal allocation of existing Futures positions for SPAN and OTC IRS HVAR margin treatment
- 2) Deduce the net positions in each contract that should be transferred from one account to the other
- 3) Produce FIXML transfer messages compatible with CME Clearing's systems to move the positions on the books and records of the Clearing House (which then produce confirmation messages Clearing Members can use to update their books and records)

The CME Optimizer will also allow Clearing Members supporting the Portfolio Margin program to achieve robust operational scalability to facilitate ***IRS/Futures Portfolio Margin for their Customers*** (expected launch in Q4 2012, pending regulatory approval).

The processes being put in place will allow the Clearing House and Clearing Members to recognize reduced risks associated with their clients' open positions, along with the following potential benefits:

- **Reduce margin requirements** for portfolios containing both products
- **Reduced regulatory capital costs** for FCMs
- **Reduced Guaranty Fund requirements** for FCMs

For access to the CME Optimizer please email ClearingMiddleOffice@cmegroup.com.

For access to a whitepaper describing the CME Optimizer's algorithm please email greg.sudkamp@cmegroup.com.

For any other questions pertaining to the CME IRS/Futures Portfolio Margin program please contact Corey Farabi (corey.farabi@cmegroup.com , 312-466-4408).

The CME Optimizer will be integrated with CME CORE in Q4 2012 enabling all market participants to automatically calculate their potential savings from the use of the Portfolio Margin program.

*On an ongoing basis the input to the CME Optimizer should include the current allocation of futures positions already commingled with Interest Rate Swaps to properly deduce the net transfers that should take place in each contract to rebalance the portfolios.