CME Group | Advisory Notice

12- 563

DATE: December 26, 2012

TO: Clearing Member Firms

FROM: CME Clearing

SUBJECT: **IMPORTANT: Customer Gross Margining Position Reconciliation Process and Report**

On Monday, January 14, 2013, pursuant to CFTC regulations, CME Clearing will implement **Customer Gross Margining** ("CGM"). This advisory is being published to provide clearing firms with more details on how the new margining process will reconcile positions as determined in the clearing system, versus positions as reported by the clearing firms as part of the CGM datafile submissions.

The details of the reconciliation process are important because if the positions held in Clearing differ from what is reported by the firm through CGM, we calculate a margin requirement for these "excess margin" positions, and include this in the total requirement charged to the clearing firm in the customer origin.

The process starts by taking the submitted CGM data, and summing across client accounts to determine total submitted quantities by contract. These are called the **Submitted Positions**.

We then utilize the Submitted Positions **as if the firm had submitted them as PCS**, and determine what the final ending positions in clearing would have been if so. We call the results the **Adjusted Clearing Positions**.

So for each contract we will have:

- The Submitted Long Quantity
- The Submitted Short Quantity
- The Adjusted Clearing Long Quantity
- The Adjusted Clearing Short Quantity

The Submitted Net Quantity is then calculated as the Submitted Long Quantity less the Submitted Short Quantity, and the Adjusted Clearing Net Quantity is similarly calculated as the Adjusted Clearing Long Quantity less the Adjusted Clearing Short Quantity. Last, the Net Difference is calculated as the Adjusted Clearing Net Quantity less the Submitted Net Quantity.

Now we're ready to determine the Excess Margin Positions:

- If Long and Short Submitted quantities exactly match Adjusted Clearing Long and Short quantities, then no Excess Margin Position is created.

- If Long and Short Submitted quantities are both greater than Adjusted Clearing Long and Short quantities, and the Net Difference is zero, then likewise no Excess Margin Position will be created.

- If Long and Short Submitted quantities are both greater than Adjusted Clearing Long and Short quantities, and the Net Difference is not equal to zero, then an Excess Margin Position will be created with a position quantity equal to the Net Difference.

- If Submitted Long Quantity is less than Adjusted Clearing Long Quantity, or if Submitted Short Quantity is less than Adjusted Clearing Short Quantity, then an Excess Margin Position is created as follows:

    - The Excess Margin Long Quantity is equal to Adjusted Clearing Long Quantity less Submitted Long Quantity, and

    - The Excess Margin Short Quantity is equal to Adjusted Clearing Short Quantity less Submitted Short Quantity.

Each night, we produce a CSV-format datafile for each clearing firm, showing the results of the CGM position reconciliation and the quantity of the Excess Margin positions. These are the files that are named starting with **CME.CGM.PosRecon.EOD**. The Excess Margin Long Quantity is contained in this datafile in a column labeled “Gross Long Qty”, and the Excess Margin Short Position is contained in a column labeled “Gross Short Qty”. (The Net Difference is contained in a column labeled “Excess Net Qty”.)

Note that this process has no effect whatever on PCS processing or open interest determination. It is used **solely** for Customer Gross Margining.

Some simple examples:

Assuming no trades for the day, the CGM submission is 1000 x 1000 long vs. short, and in CME Clearing, the Adjusted Clearing position is 500 x 500. In this case, no excess positions will be created, since the net is the same, and the CGM submission is greater for both longs and shorts.

Assuming no trades for the day, the CGM submission is 500 x 500, and the Adjusted Clearing position is 1000 x 1000. In this case, though CGM and Adjusted Clearing net positions are the same, excess positions of 500 x 500 will be created.

Assuming no trades for the day, the CGM submission is 500 x 1000, and the Adjusted Clearing position is 1000 x 1000. In this case, an excess position of 500 Longs will be created.

Assuming no trades for the day, the CGM submission is 500 x 1000, the Adjusted Clearing position is 1000 x 750. In this case, an excess margin position consisting of 750 Longs will be created. The excess short quantity initially calculates as 750 – 1000 = -250. The negative short converts to a positive long quantity (just as a negative long converts to a positive short quantity) yielding an additional 250 Longs.

For more information please contact CME Clearing Client Services at 312-207-2525, or CCS@cmegroup.com.