

13-320

TO: Clearing Member Firms
 FROM: CME Clearing
 SUBJECT: CME CDS Credit Limits
 DATE: July 12, 2013

Effective **July 29th, 2013**, CME Clearing will upgrade the pre-trade credit limits on Clearing Members for Credit Default Swap (CDS) products.

Currently, Clearing Member Firms have the ability to set CME-hosted credit limits for CDS on a customer account by customer account basis. Additionally, CME Clearing has limits in place on each Clearing Member Firm. This upgrade will allow CME Clearing to systematically track and enforce the CME Clearing level risk limits. This is similar to the process that CME Clearing has in place for its interest rate swap offering.

CME Clearing will determine two maintenance margin limits for each Clearing Member Firm – one for its customer origin and one for its house origin. The utilization of this limit will be based on the same margin methodology that CME Clearing currently uses on a daily basis to calculate initial margin. Please note that this limit will be a daily limit and will be based on trades executed for the **current trade date only**. In other words, the calculation is reset daily, and it does not reflect the exposure of any open trades executed prior to the current trade date.

Three hypothetical examples of the calculation of the utilization are outlined below:

Trade 1: Customer A executes a buy-protection \$100M notional CDXHY20 5yr trade with Clearing Member Firm B equivalent to \$5M in margin for the current trade date.

Trade 2: Customer C then executes a sell-protection \$100M notional CDXHY20 5yr trade with Clearing Member Firm B for the current trade date.

Example 1: Credit Utilization – Same Trade Dates

	After Trade 1	After Trade 2
Clearing Member Firm B House Origin	\$5M	\$0M (offsetting)
Clearing Member Firm B Customer Origin	\$5M	\$0M (offsetting)

Now, if the 2nd trade was executed on the **following trade date**:

Example 2: Credit Utilization – Different Trade Dates

	After Trade 1	After Trade 2*
Clearing Member Firm B House Origin	\$5M	\$5M (not offsetting)
Clearing Member Firm B Customer Origin	\$5M	\$5M (not offsetting)

Further, using the original 2 trades above as the base case, if the 2nd trade was now buy-protection (instead of sell-protection):

Example 3: Credit Utilization – Same Trade Dates - Directional

	After Trade 1	After Trade 2**
Clearing Member Firm B House Origin	\$5M	\$10M
Clearing Member Firm B Customer Origin	\$5M	\$10M

A result of pre-trade credit limit automation is that CDS transactions that exceed the daily limit will be rejected for clearing by CME Clearing. CME Clearing will continue to communicate via email and telephone to work with your firm if your credit limit utilization is approaching its limit. In the future, we will provide firms with access to a separate view in CME Account Manager (RAV Manager) with the ability to view your Clearing Member Firm and Origin level limits and utilizations real-time.

If you have questions about the calculation or the specific limit in place for your Clearing Member Firm, please contact the CME Clearing Risk Team at clearing.riskmanagement@cmegroup.com or 312.648.3888.

For all other questions, please contact the CME Client Services Team at onboarding@cmegroup.com or 312-338-7112.

*Assuming the margin on a buy-protection trade and sell-protection trade are equivalent

**Assuming the portfolio margin of trades 1 and 2 combined is 1\$0M