CME Group | Advisory Notice

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DATE: April 07, 2014

TO: Clearing Member Firms

FROM: CME Clearing

SUBJECT: **Margin Requirements for Positions In Delivery**

When positions in physically-deliverable futures contracts go into the delivery process, they are typically assessed a special **delivery margin requirement**. CME will shortly introduce a new data field into its SPAN files, to assist firms in calculating this requirement and to allow its calculation to be automated.

For most deliverable futures, you calculate the delivery margin requirement normally, except that the risk of the position is not allowed to be offset against that of any other contract. In effect, the position is margined naked, as if it had been moved to a separate account.

For a few deliverable futures (for example, crude oil and natural gas), long positions are assessed the full value of the contract ("long full value margining"). And CME has one contract where both long and short sides are assessed the full value.

Note that for some deliverable contracts, all positions in a maturing contract go into the delivery process at the same time, and are assessed delivery margins beginning on that date. For other deliverable contracts, there is a range of dates during which delivery may be initiated. For these, if the position has gone into the delivery process, then the delivery margin requirement is assessed, and for positions not in delivery, the margin requirement is calculated using the normal SPAN portfolio margin calculation.

So we are introducing a new field, the **Delivery Margin Method**, which will be added to bytes 169-173 at the end of the type "B" record for physically-deliverable futures and/or forward contracts. It may assume the following values:

PID All positions in this contract are in delivery today, and hence normal "naked" delivery margins are assessed today for all positions in this contract.

PIDP Some positions in this contract may be in the delivery process today, and for these, normal "naked" delivery margins are assessed today. Positions not in delivery are margined normally.

LFV "Long Full Value." Short positions in the contract are margined naked today, and long positions are assessed the full contract value.

FV "Full Value." Both long positions and short positions are assessed the full contract value today.

If the field is null or blank, then no positions in this contract are assessed special delivery margins today.

The special delivery margin requirement, for positions in deliverable contracts which have gone into delivery, should not be confused with the "spot charge" or "delivery charge". The "spot charge" is assessed for positions in deliverable contracts which are **approaching** their delivery process, but are not yet in delivery.

The new field will be included in the "New Release" SPAN files in May, and in production SPAN files in June. We will update and re-issue this advisory when the exact dates are known.

SPAN file formats are documented at:
http://www.cmegroup.com/confluence/display/pubspan/Risk+Parameter+File+Layouts+for+the+Positional+Formats

(You can find the above link at:
http://www.cmegroup.com/clearing/risk-management/span-use.html
Click on "SPAN Risk Parameter and Position File Formats")

For more information please contact CME Clearing at 312-648-3888.