

TO: IRS Clearing Customers
FROM: CME Clearing
DATE: 8/12/2014
ADVISORY #: 14-317
SUBJECT: **Advisory for IRS Margin Model Parameter Change in Production**

CME is incorporating an enhancement to the way it computes interest rate returns inside the margin model by moving to a shifted log approach. Shocks for each interest rate curve will be obtained by shifting up the yield curve prior to calculating log returns, effectively removing zero boundaries for fixed rate payers. The migration to this approach is also accompanied by a recalibration of the volatility floor. We piloted this enhancement with SGD last year and we are now expanding shifted log across all currencies. Another artifact of this change is that the margins between payers and receivers would become less asymmetric.

We want to ensure you have accurate information regarding our recent [advisory](#) on the shifted log enhancement that went into New Release last week.

- CME Interest Rate Swap (IRS) log return parameters went into **New Release (NR)** test environment on August 4th
- The **Production Date** is scheduled for **August 25th, 2014**
- Benefits of shifted log:
 - Provides a natural transition between low rate and high rate regimes which make the margin model less reactive to regime changes while ensuring adequate margin coverage
 - Less asymmetric margins between payers and receivers, resulting in better balance for a wide variety of portfolios

Please reach out to your sales representative or the Risk Research team (qr_irs@cmegroup.com or 312-648-3813) if you have any questions.