CME Group | Advisory Notice

15-119

TO: Clearing Member Firms

FROM: CME Clearing

DATE: Monday, May 4 2015

SUBJECT: **Modification to the CST610 Settlement Report for LSOC Minimum Margin Calls**

Effective with the intraday settlement cycle on Monday May 4, clearing firms with customer positions in cleared swaps will see a minor change to the presentation of LSOC minimum margin calls on the CST610 “Final Performance Bond Requirements” report.

In particular, there will be a new section, immediately prior to the presentation of the final cash margin call amount, that enumerates the LSOC minimum margin call amount. The “LSOC Top-Up” margin requirements formerly used to explain why a particular margin call was issued are removed from the report.

We believe the change will make it easier for firms to understand exactly why a particular margin call was issued.

For customer positions in cleared swaps, the CFTC’s LSOC regulations mandate that CCP’s issue margin calls at each settlement cycle for the amount by which the total of client-specific margin deficits has not been offset by firm-contributed value. We call this amount the “LSOC minimum margin call.” Here’s an example:

	Margin	LSOC Value	Client Deficit
Client A	100	150	0
Client B	100	80	20
Firm-Contributed Value		5	
Total	200	235	20

In this example, the firm has two clients, each with an initial margin requirement of 100, for a total requirement of 200. There is 235 of collateral value on deposit, broken down as 150 being the LSOC value of client A, 80 being the LSOC value of client B, and 5 being firm-contributed value (value in the segregation pool provided by the firm.)

Thus client A has an excess LSOC value of 50, and client B has a deficit of 20. The total client specific deficit is 20, and 5 of this is offset by firm-contributed value. Therefore the rules of LSOC require the CCP to issue a margin call for 15 – the “LSOC minimum margin call” – even though in the aggregate, across the two clients, there is an excess of collateral on deposit of 35.

Here's three examples which illustrate the reporting change:

Example 1 – where the LSOC minimum call is issued even though in the aggregate there is an excess of collateral on deposit:

Total Initial Margin Requirement	1,000
Total Value of Collateral on Deposit	1,500
Total Excess Collateral on deposit	500
LSOC Minimum Margin Call	200
➔ Actual Margin Call Amount	200

Example 2 – where the LSOC minimum call is issued because there is a deficit of collateral on deposit but this is less than the LSOC minimum:

Total Initial Margin Requirement	1,000
Total Value of Collateral on Deposit	900
Total Deficit of Collateral on deposit	100
LSOC Minimum Margin Call	200
➔ Actual Margin Call Amount	200

Example 3 – where the actual margin call issued is greater than the LSOC minimum:

Total Initial Margin Requirement	1,000
Total Value of Collateral on Deposit	900
Total Deficit of Collateral on deposit	100
LSOC Minimum Margin Call	50
➔ Actual Margin Call Amount	100

The third case is uncommon but may occur occasionally if there is a significant decline in value of the collateral on deposit due to market moves.

Note that neither the margin reports nor the LSOC reports are affected. On all Settlement reports, the "top-up" margin requirements will be removed, and on the CST610 "Final Performance Bond Requirements" report, there is a new section showing the LSOC minimum call amounts, inserted just before the actual Call or Release amount:

```
LSOC MINIMUM MARGIN CALL    AMOUNT
    USD                      500
           --------------------
    USDE                     500
                        ASSET VALUE
CALL/RELEASE AMOUNT
    USD                     -500.00
           ---------------------
    USDE                    -500.00
```

For more information please contact CME Clearing's Financial Unit at 312-207-2594.