

Curve Building Methodology for Cleared IRS

OTC Pricing & Valuation

CME Clearing

OTCRatesPricing@cmegroup.com

Introduction

CME Clearing independently generates valuation curves for all currencies in the cleared OTC IRS products offering. These valuation curves are used in both the initial margin and settlement variation (e.g., variation margin) calculations.

Curve Inputs

For curve construction, CME Clearing uses input instruments based on market feedback, liquidity analysis and quote availability. Inputs are reviewed periodically, which is designed to ensure that CME Clearing's valuation curves reflect changes in the market standard specific to each currency. A typical combination of instruments is the deposit rate on the short end, followed by futures or FRAs, and finally swaps on the long end of the curve.

CME Clearing sources quotes from multiple data providers. The quotes are then validated against one another and blended together to derive inputs that are used in curve generation.

Curve Generation

Bootstrapping a curve is the process of implying zero rates from the market quotes of input instruments. Interpolation is an essential part of curve generation and is used to generate daily zero rates along the entire term structure.

An appropriate bootstrapping algorithm and interpolation scheme are selected to provide for accurate repricing of input instruments and compliance with general term structure expectations.

For further information on CME Clearing's IRS curve generation, please contact CME Clearing's OTC Valuations Team at OTCRatesPricing@cmegroup.com.
