

DTCC

 **CME Group**

CME Group-FICC Enhanced Cross-Margining Arrangement

CME Group & FICC

September 2023

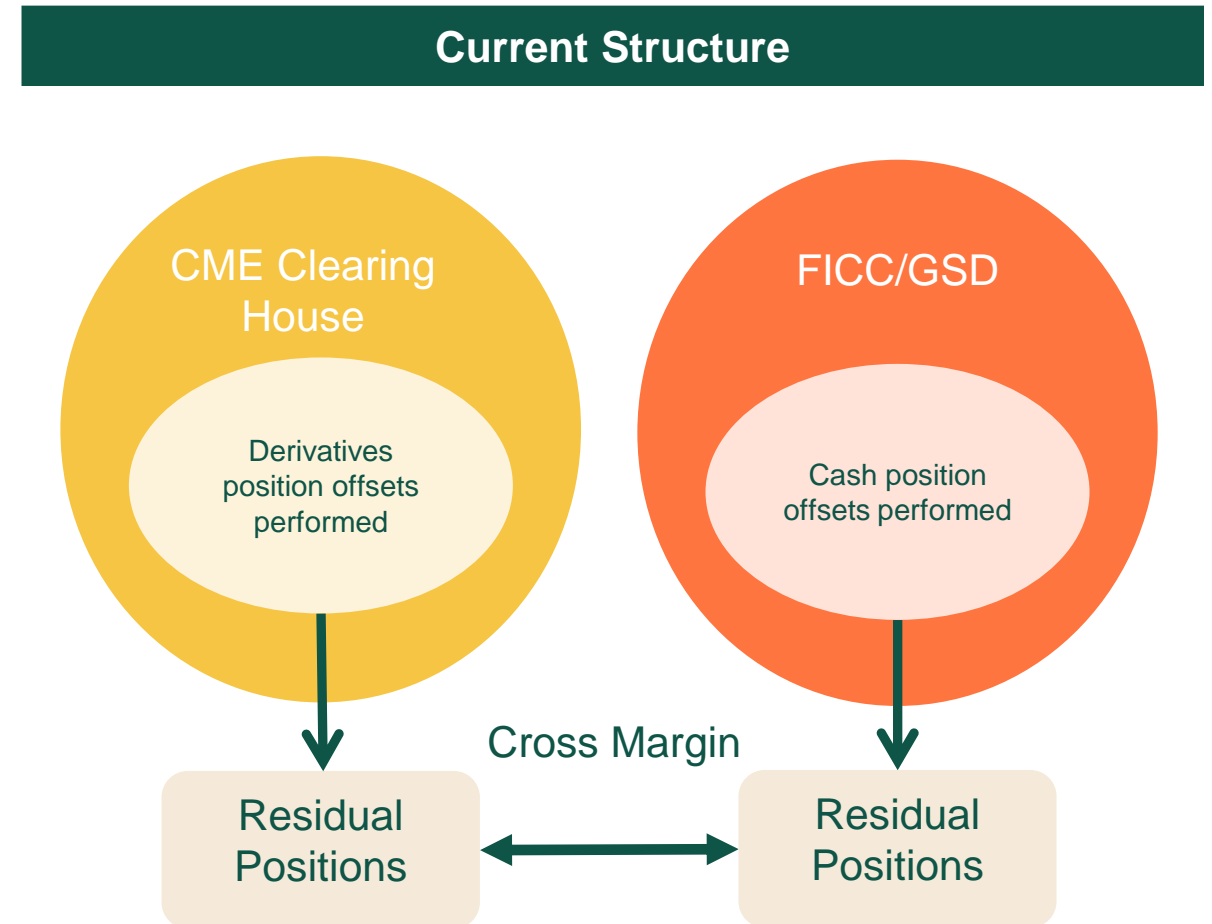
CME Group-FICC Enhanced Cross-Margining

- ▶ CME Group and FICC are working together to enhance their existing cross-margining arrangement for the benefit of common members (and their affiliates, where applicable) when trading U.S. Treasury Securities and CME Group interest rate futures that have offsetting risk exposures.

CME Group-FICC Enhanced Cross-Margining

Current Methodology

- ▶ Today, the CME Group – FICC Cross-Margining Arrangement allows for cross-margining of CME Group interest rate futures with FICC cleared cash Treasuries.
- ▶ FICC and CME Clearing each separately hold and manage their own positions and collateral and independently determine the amount of margin that it would make available for cross-margining.
- ▶ Operationally, the current arrangement is light touch, with no affirmative daily management required by participating members.
- ▶ Current arrangement is applicable to house (proprietary) accounts of CME Clearing Members and FICC/GSD Netting Members.
- ▶ Approximately 30 members are eligible for the current arrangement with several firms receiving some benefit on each day.



CME Group-FICC Enhanced Cross-Margining

Enhanced Methodology

▶ Key Enhancements:

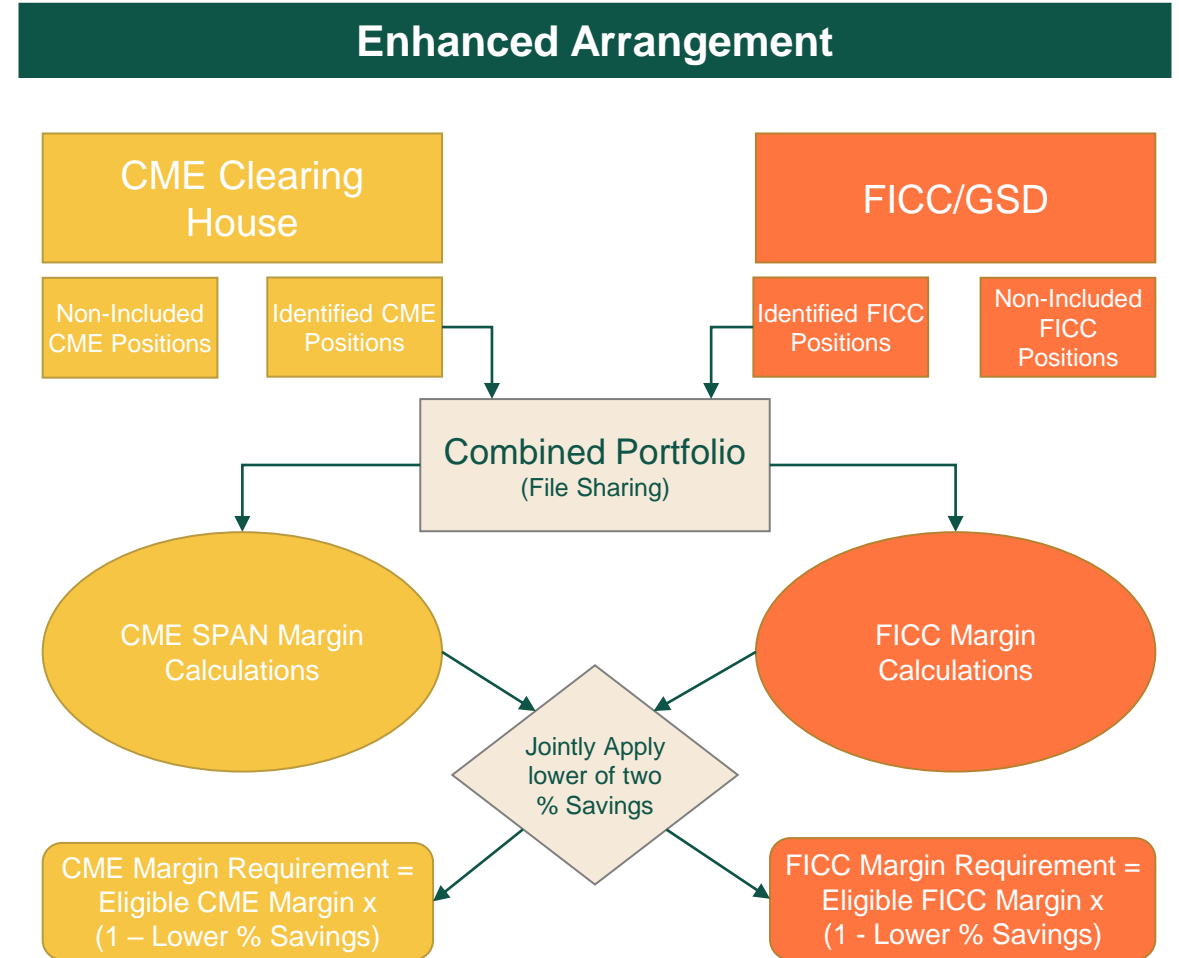
- Introduce active management aspect applicable to CME Group eligible positions; passive management remains for FICC eligible positions.
- Expand the list of CME Group eligible interest rate futures products available for cross-margining.

▶ Timeline to Implementation:

- Operational testing available today. FICC will offer a cross-margin report to support operational testing beginning 9/5/2023.
- Target Implementation Date: January 2024.

▶ Eligibility:

- Eligibility for the arrangement remains house (proprietary) accounts of CME Clearing Members & FICC GSD Netting Members, however, subject to regulatory analyses and approvals, CME Group & FICC are supportive of extending this program beyond house accounts as part of a later phase.



CME Group Planned Resources & Targeted Timelines

Initial Offering

- New report available for CME Group and FICC/GSD XM Participating Members daily.
- Report maps FICC/GSD positions (CUSIP & Notional Amount) into equivalent CME Group Treasury futures positions.
- CME Clearing members to determine the number of futures position transfers to submit for offset in the program.

Position Transfer Automation

- Rules-based engine creates risk reducing transfers in equivalent CME Group Treasury futures positions based on the amount of FICC allocated positions.
- Existing CME Group Optimizer Software enhanced to support automation of transfers.
- Available today for testing purposes.

Margin Optimization

- CME Group to provide a multi-dimensional optimization process across futures, FICC eligible positions, and CME Cleared Swaps.
- Incorporated into the CME Group Optimizer Software algorithm to minimize total margin across all three dimensions.
- Target Availability in 12-24 months.

CME Group-FICC Program Testing Availability

- ▶ Testing is available in the CME Clearing New Release test environment.
- ▶ Firms can begin to test automated transfers with the rules-based Optimizer solution.
- ▶ Cross-margin savings produced in the test environment are intended to be indicative of expected savings in the program; provided, however, that Firms should not rely upon the results of the hypothetical portfolios as neither CME Clearing nor FICC guarantee the same results in an actual portfolio.

CME Group-FICC Enhanced Cross-Margining

Examples

| | CME Group Treasury Futures | | FICC Treasury Securities | | Savings w/ Enhanced Cross-Margining | |
|---------------------|----------------------------|-------------|--|--------------|-------------------------------------|------|
| | Position | Margin | Position | Margin | \$ | % |
| Portfolio 1: | 1,000 SEP 2yr Contracts | \$1,050,000 | (\$222,000,000) in 2yr Treasury Notes | \$943,000 | \$1,594,400 | ~80% |
| Portfolio 2: | 2,000 SEP 5yr Contracts | \$2,800,000 | (\$250,000,000) in 5yr Treasury Notes | \$2,900,000 | \$4,560,000 | ~80% |
| Portfolio 3: | 2,000 SEP 10yr Contracts | \$4,000,000 | (\$270,000,000) in 10yr Treasury Notes | \$6,000,000 | \$8,000,000 | ~80% |
| Portfolio 4: | 2,000 SEP 30yr Contracts | \$7,800,000 | (\$334,000,000) in 30yr Treasury Bonds | \$13,000,000 | \$16,640,000 | ~80% |

Note: Margin rates and savings subject to change based upon market conditions and portfolio composition

Next Steps

- ▶ Participating firms to complete the following:
 1. **New account setup at CME Clearing**
 2. **Complete program legal documentation**
 3. **Test end-to-end workflows**

- ▶ Please note that the existing, passive arrangement at CME Clearing will no longer be available after enhanced arrangement goes into production.

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Thank You



The image features a central logo consisting of the letters 'DTCC' in a bold, dark green, sans-serif font. The logo is positioned within a large, light beige arrow shape that points to the right. The background is composed of several geometric shapes: a teal triangle on the left, a large orange triangle on the right, and a white triangle at the top right. A thin yellow line outlines a smaller white triangle above the 'DTCC' text.

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