CME-FICC Cross-Margining Arrangement

September 2023

Overview

Today, the CME–FICC Cross-Margining Arrangement allows for cross-margining of CME Group interest rate futures products with FICC cleared cash Treasuries. The arrangement is applicable to house (proprietary) accounts of CME Clearing Members and FICC GSD Netting Members. FICC and CME Group are working together to enhance the 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. The changes, which have received approval from U.S. financial regulators, would expand the scope and efficiency of the margin offsets that are available to clearing members of CME and FICC / GSD, thus reducing margin charges and allowing for more efficient capital usage.[1]

Enhancements are focused on expanding the eligible CME Group interest rate futures products available for cross-margining and simplifying the overall margin calculation process that would apply to a cross-margining participant's[2] eligible positions and streamlining the default management process by making clear that a joint liquidation would be the preferred method used by FICC and CME in the event of a member default.

1. What is the latest Timeline?

- FICC and CME Clearing each submitted rule changes to their respective regulatory authorities in July 2023, which were approved in September 2023. FICC and CME Clearing intend to implement the enhanced cross-margining arrangement in January 2024.

[1] The information and examples provided in these FAQs are for general informational and indicative purposes only. Such information may not be relied on by any party for any purpose. Any statements in these FAQs, like any statements regarding hypothetical scenarios, are subject to inherent uncertainties. Neither FICC nor CME undertakes to update these FAQs to reflect changes or events that occur after the date of publication. The range of available actions described in this document and the discussion of actions that could be taken in certain scenarios are hypothetical only and not binding on any parties in any forum, including but not limited to FICC, CME or any of its or their affiliates.

[2] Pursuant to the Restated Agreement, "Cross-Margining Participant" "means a Joint Clearing Member that has become, or a Clearing Member that is part of a pair of affiliated Clearing Members each of which has become, a participant in the cross-margining arrangement between FICC and CME established pursuant to this Agreement. In the latter case, the term "Cross-Margining Participant" shall, where the context requires, refer collectively to the pair of Cross-Margining Affiliates."

- The client testing process is available today to allow clearing members to become familiar with the daily operation of the enhanced program within CME's test environment, as well as view mock-up margin reporting within FICC's and CME's test environments.

2. Which Clearing Members will be able to access the program?

- Under the current, as well as the new CME-FICC Cross-Margining arrangement, eligible participants include (i) entities that are clearing members of both CME and FICC/GSD and (ii) pairs of clearing members where one is a clearing member of CME and an affiliate is a clearing member of FICC/GSD (or vice versa).
- The new arrangement will require new agreements for which signatures will be required by all parties (including currently eligible participants). Copies of the new agreement will be distributed to current participants in September 2023. New participants should contact their Relationship Managers at FICC and CME Group to discuss eligibility and obtain the necessary agreement.

3. Which products will be added to the program?

- The new CME-FICC Cross-Margining arrangement looks to add CME Group listed interest rate futures products, Ultra-10, Ultra-Bond, Fed Funds, and SOFR, and the flexibility to add future products as markets evolve. Please note, however, that the addition of other products into the program will require applicable governance and model validation approvals and possible regulatory filings.
- FICC-Cleared US Treasury Notes and Bonds that have a time to maturity greater than 1 year,[3] resulting from a buy/sell or repo/reverse repo transaction, will be eligible for the new arrangement. Other Treasury securities, including When Issued Securities prior to settlement date and TIPS, may be considered for inclusion in the program in a later phase.

4. Does CME Clearing or FICC anticipate any changes required for Clearing Member settlement accounts or any changes to their acceptable collateral schedules?

- No changes are required to any clearing members settlement accounts to accommodate participation in the enhanced arrangement.
- No changes to the acceptable collateral schedules at either clearing agency are anticipated due to the enhancements to the CME-FICC Cross-Margining arrangement.

5. Will CME Group or FICC charge separately for participation in the arrangement?

- No, neither CME Group nor FICC envision charging separately for participation in this arrangement.
- FICC and CME Group believe that these enhancements will encourage greater utilization of centralized clearing, thereby facilitating systemic risk reduction.

[3] Treasuries with less than one year to maturity are excluded from the program because they are subject to a haircut margining model, as opposed to a VaR-based margining model, and as a result are not eligible for cross-margining against futures positions.

6. **Will CME Clearing or FICC require any changes to operational procedures or member firm accounts?**

- Yes, at CME Clearing, the operational process for the new arrangement will be modernized to allow additional flexibility in managing the program by allowing clearing members to select which interest rate futures to include in the program.
- At CME Clearing, the arrangement will become 'actively' managed by clearing members, versus the 'passive' approach today. A new separate eligible position sub-account will be available for clearing members where they can choose which interest rate futures to include for potential offset with their FICC cleared positions.
- At FICC, Clearing Members will not need to actively manage which FICC eligible positions are included for purposes of cross-margining and will see results reported in their daily margin requirements.

7. **Will the CME-FICC cross-margining efficiencies be made available to firms during each clearing agency intraday margining cycle?**

- Yes, in the new arrangement, to the extent applicable, the margin reductions will be calculated during both intra-day and end of day processing cycles. Whereas, currently, the margin reductions at each clearing agency are only calculated once daily during the end of day process.
- Please note that for purposes of FICC's formal noon intraday margining process, FICC will look at all novated, unsettled positions (including newly traded positions since the last margin cycle) when determining positions eligible for cross-margining.

8. **How are the margin savings determined and applied by CME Clearing and FICC under the new arrangement?**

- Under the new arrangement, FICC and CME Clearing will each treat a participant's relevant products as a single portfolio (a "Combined Portfolio"). Treatment as a Combined Portfolio provides the ability for the FICC and CME Clearing to assess risk at a security level and eliminates the need to use separate margin calculations and apply offset classes and conversions of eligible products. Both CME Clearing and FICC will use their own margin models on the combined Treasuries and futures portfolios, to the extent applicable, and jointly apply a margin savings percentage to each account based on the more conservative result.

9. **Can a firm submit a hypothetical portfolio to both FICC and CME Clearing for analysis under the enhanced cross-margining program?**

   Yes, currently on an ad hoc basis FICC and CME Clearing can analyze a hypothetical portfolio under the new arrangement. Please note, however, that Clearing Members should not rely upon the results of the hypothetical portfolios, as neither CME Clearing nor FICC guarantee the same results in an actual portfolio. Additionally, the FICC calculator, enabling members to run various scenarios on cash positions paired against the latest available position file provided by CME Clearing is anticipated to be available in November 2023.

10. What is the process flow at CME Clearing and how are positions made eligible?

- Each participating Clearing Member at CME will be required to establish a dedicated cross-margin position account for any futures eligible under the program.
- Futures eligible for the program can be moved into this position account either by trading directly in this account or by allocating position transfers or give-ups to CME Clearing.
- Once in this account, these futures positions will be offset against FICC positions and margined as if the positions were a combined portfolio, as set out above in FAQ No. 8, to determine any potential margin reductions.
- CME is engaged with several Clearing Members to evaluate the potential for tools which could help automate and expedite the determination of any futures positions to move into these CME Clearing accounts.

11. What is the process flow at FICC and how are positions made eligible?

- FICC will determine which eligible positions within the clearing member's FICC/GSD account are available for the CME-FICC cross-margining arrangement and thus no affirmative determination by the clearing member is required.

12. Will there be a tool to help firms prioritize futures positions included in the CME cross-margin account?

- Yes, initially, CME Clearing will create a report of equivalent CME Group Treasury positions to offset FICC eligible positions on a daily basis. Clearing members may use this report to determine transfers of futures into the CME Clearing cross-margin position account.
- CME Group has also built a "rules-based" tool to help streamline identification and transfer of interest rate futures into the cross-margin position account which is available through the CME CORE platform.
- As part of a future phase deliverable, CME Clearing, with assistance from FICC, is exploring a margin optimizer to further minimize risk and streamline the transfer process for the arrangement.

13. Will market professionals or other end-user customers be eligible for participation in the enhanced program?

- No, as described above, cross-margining is only available for house (proprietary accounts) of (i) entities that are clearing members of both CME and FICC/GSD and (ii) pairs of clearing members where one is a clearing member of CME and an affiliate is a clearing member of FICC/GSD (or vice versa).
- However, increased eligibility for participation in this program is being contemplated for a future phase subject to regulatory approval, and both CME Group and FICC would be receptive to requests for access in order to help us gauge and prioritize future efforts.

14. Will there be a cutover from the current program into the new enhanced program?

- Yes, CME Group and FICC will choose a date in January 2024 at which point the current arrangement will no longer operate and the new enhanced arrangement will replace it and be the only one available. FICC will issue a notice to its members providing notice of the specific operative date at least two weeks prior to such date.

- CME Group and FICC are aligned in our goal to choose a cutover date which will be clearly communicated to all current and eligible participants. In order to participate, all eligible participants, including those that are already participants in the current arrangement, will need to execute a new common member and/or affiliate member agreement, as applicable.