



# Global Exchanges and Markets Committee

## Customer Gross Margin Reporting

May 29, 2012

Revision 0.3

Proposal Status: ~~Draft~~Approved

---

**For Global Technical Committee Governance Internal Use Only**

Submission Date	<u>May 24, 2012</u>	Control Number	<u>EP155</u>
Submission Status	<u>Approved</u>	Ratified Date	<u>June 22, 2012</u>
Primary Contact Person	<u>Ryan Pierce, CME Group</u>	Release Identifier	<u>5.0 SP3</u>

## **DISCLAIMER**

THE INFORMATION CONTAINED HEREIN AND THE FINANCIAL INFORMATION EXCHANGE PROTOCOL (COLLECTIVELY, THE "FIX PROTOCOL") ARE PROVIDED "AS IS" AND NO PERSON OR ENTITY ASSOCIATED WITH THE FIX PROTOCOL MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE FIX PROTOCOL (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF) OR ANY OTHER MATTER AND EACH SUCH PERSON AND ENTITY SPECIFICALLY DISCLAIMS ANY WARRANTY OF ORIGINALITY, ACCURACY, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. SUCH PERSONS AND ENTITIES DO NOT WARRANT THAT THE FIX PROTOCOL WILL CONFORM TO ANY DESCRIPTION THEREOF OR BE FREE OF ERRORS. THE ENTIRE RISK OF ANY USE OF THE FIX PROTOCOL IS ASSUMED BY THE USER.

NO PERSON OR ENTITY ASSOCIATED WITH THE FIX PROTOCOL SHALL HAVE ANY LIABILITY FOR DAMAGES OF ANY KIND ARISING IN ANY MANNER OUT OF OR IN CONNECTION WITH ANY USER'S USE OF (OR ANY INABILITY TO USE) THE FIX PROTOCOL, WHETHER DIRECT, INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL (INCLUDING, WITHOUT LIMITATION, LOSS OF DATA, LOSS OF USE, CLAIMS OF THIRD PARTIES OR LOST PROFITS OR REVENUES OR OTHER ECONOMIC LOSS), WHETHER IN TORT (INCLUDING NEGLIGENCE AND STRICT LIABILITY), CONTRACT OR OTHERWISE, WHETHER OR NOT ANY SUCH PERSON OR ENTITY HAS BEEN ADVISED OF, OR OTHERWISE MIGHT HAVE ANTICIPATED THE POSSIBILITY OF, SUCH DAMAGES.

**DRAFT OR NOT RATIFIED PROPOSALS** (REFER TO PROPOSAL STATUS AND/OR SUBMISSION STATUS ON COVER PAGE) ARE PROVIDED "AS IS" TO INTERESTED PARTIES FOR DISCUSSION ONLY. PARTIES THAT CHOOSE TO IMPLEMENT THIS DRAFT PROPOSAL DO SO AT THEIR OWN RISK. IT IS A DRAFT DOCUMENT AND MAY BE UPDATED, REPLACED, OR MADE OBSOLETE BY OTHER DOCUMENTS AT ANY TIME. THE FPL GLOBAL TECHNICAL COMMITTEE WILL NOT ALLOW EARLY IMPLEMENTATION TO CONSTRAIN ITS ABILITY TO MAKE CHANGES TO THIS SPECIFICATION PRIOR TO FINAL RELEASE. IT IS INAPPROPRIATE TO USE FPL WORKING DRAFTS AS REFERENCE MATERIAL OR TO CITE THEM AS OTHER THAN "WORKS IN PROGRESS". THE FPL GLOBAL TECHNICAL COMMITTEE WILL ISSUE, UPON COMPLETION OF REVIEW AND RATIFICATION, AN OFFICIAL STATUS ("APPROVED") FOR THE PROPOSAL AND A RELEASE NUMBER.

No proprietary or ownership interest of any kind is granted with respect to the FIX Protocol (or any rights therein).

Copyright 2003-2012 FIX Protocol Limited, all rights reserved.

## Table of Contents

Document History.....	5
1 Introduction .....	6
2 Business Workflow.....	6
3 Issues and Discussion Points .....	7
4 Proposed Message Flow .....	7
Appendix A - Data Dictionary.....	9
Appendix B - Glossary Entries .....	12
Appendix C - Abbreviations.....	12
Appendix D - Usage Examples.....	12

## Table of Figures

## Document History

Revision	Date	Author/Editor	Revision Comments
0.1	5/2/12	Richard Baker, ICE Andy Booth, NYSE Liffe US Mike Gibson, ICE Ed Gogol, CME Group Ryan Pierce, CME Group Doug Rogers, OCC Matt Simpson, CME Group	Initial draft.
0.2	5/22/12	Ryan Pierce, CME Group	Incorporated changes from May 14, 2012 GExMC meeting:  Clarified roles for with PartySubIDType values should be used.  Removed requested PartyRole of Settlement Account because it already exists. Added glossary entry for Position Account.  Changed description of AdjustmentType.
0.3	5/29/12	Ryan Pierce, CME Group	Incorporated changes from May 24, 2012 GTC meeting:  Clarified meaning for PCS and PAJ  Renamed Asset Account to Collateral Asset Account
<a href="#">ASBUILT</a>	<a href="#">May 31, 2012</a>	<a href="#">L. Taikitsadaporn</a>	<a href="#">Created ASBUILT to clean up and prep for Repository coding.</a>
	<a href="#">June 6, 2012</a>	<a href="#">R. Shriver</a>	<a href="#">Assigned enum values based on EP154 Fiximate results.</a>
	<a href="#">July 7, 2012</a>	<a href="#">L. Taikitsadaporn</a>	<a href="#">Editted Data Dictionary to add elaboration to the PartyRole values.</a>  <a href="#">Replaced "TBD" in example with assigned values.</a>

## 1 Introduction

This gap analysis addresses a new CFTC reporting requirement for Futures Commission Merchants (FCMs) called Customer Gross Margining (CGM). CGM applies to products under the futures regulatory regime, and products classified as cleared swaps for regulatory purposes.

These regulations go into effect on November 8, 2012. Urgent consideration is requested, given the need for final industry standards so that Derivatives Clearing Organizations (DCOs) and FCMs can implement the necessary changes.

## 2 Business Workflow

Customer Gross Margining will require a significant change in how DCOs calculate performance bond (initial margin) requirements for customer positions. Specifically, under CFTC Regulation 39.13(g)(8)(i), DCOs will be required to set minimum performance bond levels as the sum of requirements calculated for each individual customer account.

Currently, several DCOs use a “modified customer gross margining method” which has long been used. Under the existing method, clearing firms categorize individual customer account positions according to the degree to which risk offsets exist, and report this data twice daily (as the “spreads” information included in the Position Change Submission (PCS) used to determine open interest). The new method will assure that client account risk offsets will be applied only for the benefit of each individual customer account.

The key operational implication of CGM is that the DCO must know positions for all customers. In some cases, clearing firms hold customer positions in position accounts which typically commingle positions of many individual customers.

To satisfy CGM requirements, clearing firms must submit a data file or other messaging to the DCO which identifies positions by individual customer. This is required to allow the DCO to calculate margins per customer. The file must be submitted for both the end-of-day settlement cycle and the intraday cycle.

For futures, the CGM mandate does not require any changes in how clearing firms handle omnibus accounts. Firms may continue to hold omnibus accounts on their books, and these may be fully disclosed, partially disclosed, or entirely non-disclosed.

This gap analysis supports all three of these possibilities:

- An omnibus account with no detail subaccounts is entirely non-disclosed.
- An omnibus account with detail accounts, and the sum of the detail account positions is equal to the omnibus account positions, is fully disclosed.
- An omnibus account with detail accounts, and the sum of the detail account positions is less than the omnibus account position, is partially disclosed.

For CGM, the calculation of the margin requirement for an omnibus account will follow long-established practices. First, normal portfolio margin requirements are calculated for each disclosed subaccount. The remaining non-disclosed positions are considered “naked”, and are margined without recognizing any risk offsets. The total requirement for the omnibus account, then, is the sum of the portfolio requirements for the disclosed subaccounts, and the naked requirements for the non-disclosed positions.

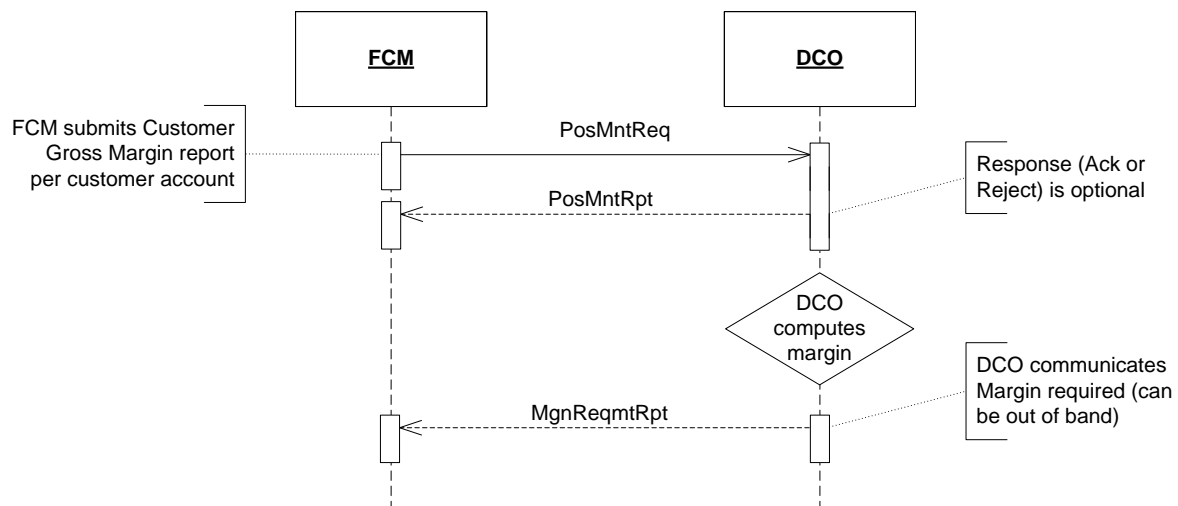
Changes requested include:

1. An AdjustmentType(718) enumeration for "Customer-Specific Position". This differentiates a CGM position maintenance report from a PCS position maintenance report.
2. PartySubIDType(803) enumeration for "Customer account type". This is intended for use with PartyRole(452) = Customer Account(24). While usage of the corresponding PartySubID(523) field cannot be restricted by the FIX specification, suggested values for use in expressing customer account type are:

- a. "M" – Member. The account pertains to a member of an exchange cleared by this DCO.
  - b. "H" – Hedge. The account's trading activity is for hedging, as defined by the regulations.
  - c. "O" – Omnibus. The account actually comprises positions of multiple customers, and typically represents positions of a non-clearing FCM on the books of the clearing FCM.
  - d. "S" – Speculator. None of the above.
3. PartySubIDType(803) enumeration for "Omnibus account". This is intended for use with PartyRole(452) = Customer Account(24). When used, this indicates a detail account with a corresponding omnibus account identified by the PartySubID(523) field. Partially disclosed and fully disclosed omnibus accounts will have detail accounts referencing them.
  4. PartySubIDType(803) enumeration for "Funds segregation type". This is intended for use with PartyRole(452) = Customer Account(24) or Position Account(38). While usage of the corresponding PartySubID(523) field cannot be restricted by the FIX specification, suggested values for use in expressing funds segregation type are:
    - a. "CSEG" – Customer segregated.
    - b. "COTC" – Customer cleared swaps.
    - c. "CNSEG" – Customer non-segregated.
    - d. "NSEG" – Non-segregated.
  5. PartyRole(452) enumerations for "Margin Account" and "Collateral Asset Account." Note that "Settlement Account" already exists. These are defined in the glossary in Appendix B. They enable DCOs to model several specific types of accounts used in the clearing and settlement process. These can appear in a wide variety of use cases, such as parties reference data and trade reporting.

### 3 Issues and Discussion Points

### 4 Proposed Message Flow



1. FCMs submit customer positions to the DCO for CGM purposes using the Position Maintenance Request message. This could be transmitted using real time messaging or batch files.

2. [Optional] The DCO acknowledges or rejects the CGM submission using the Position Maintenance Report message. Alternately, the DCO can communicate exceptions out of band, such as in the case of batch file submission.
3. The DCO computes the margin requirements for each account.
4. The DCO communicates the margin requirements to the FCM, either through the Margin Requirement Report, or through an out of band mechanism.



## Appendix A - Data Dictionary

Tag	FieldName	Action	Datatype	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
-----	-----------	--------	----------	-------------	--------------------	---

452	PartyRole	CHANGE	int	<p>Identifies the type or role of the PartyID (448) specified.</p> <p>See "Appendix 6-G - Use of &lt;Parties&gt; Component Block"</p> <p>(see Volume : "Glossary" for value definitions)</p> <p><u>100TBD = Margin Account</u>  <i>(elaboration: Also referred to as "performance bond account". The margin account is the calculated margin requirements. Typically represents the aggregation of one or more position accounts.)</i></p> <p><u>101TBD = Collateral Asset Account</u>  <i>(elaboration: The account at which individual collateral assets are maintained. Typically, although not always, one-for-one with the settlement account.)</i></p> <p>38 = Position Account  <i>(elaboration: The account which positions are maintained. Typically represents the aggregation of one or more customer accounts.)</i></p> <p>91 = Settlement Account  <i>(elaboration: The account to which individual payment obligations are aggregated for netting and funds movement. Typically represents the aggregation of many margin (performance bond) accounts.)</i></p>	@R	
-----	-----------	--------	-----	---	----	--

718	AdjustmentType	CHANGE	int	<p>Type of adjustment to be applied, used for PCS and PAJ.</p> <p>Type of adjustment to be applied, <del>U</del>Used for Position Change Submission (PCS), Position Adjustment (PAJ), and Customer Gross Margin (CGM).</p> <p>0 = Process <del>R</del>request <del>A</del>as <del>M</del>margin  <del>D</del>disposition                  1 = Delta <del>P</del>plus                  2 = Delta <del>M</del>minus                  3 = Final  <del>4</del>TBD = Customer-<del>S</del>specific <del>P</del>position</p>	@AdjTyp	
803	PartySubIDType	CHANGE	int	<p>Type of PartySubID (523) value</p> <p>4000+ = Reserved and available for bi-laterally agreed upon user defined values</p> <p><del>4</del>1TBD = Customer account type  <del>4</del>2TBD = Omnibus account  <del>4</del>3TBD = Funds segregation type</p>	@Typ	

## Appendix B - Glossary Entries

Term	Definition	Field where used
Position Account	This covers the level at which positions are maintained, and typically represents the aggregation of one or more customer accounts.	PartyRole
Margin Account	Also called Performance Bond Account. This covers the level at which margin requirements are calculated, and typically represents the aggregation of one or more position accounts.	PartyRole
Settlement Account	This covers the level to which individual payment obligations are aggregated for netting and funds movement, and typically represents the aggregation of many margin (performance bond) accounts.	PartyRole
Collateral Asset Account	This covers the level at which individual collateral assets are maintained, and is typically although not always one-for-one with the settlement account.	PartyRole

## Appendix C - Abbreviations

Term	Proposed Abbreviation	Proposed Messages, Components, Fields where used

## Appendix D - Usage Examples

### Customer Gross Margin Submission

This is an example of a Customer Gross Margin submission. AdjTyp indicates that this is a customer-specific position. The customer account (ABC12345) has a type of H (signifying Hedge), and its omnibus account is OMNIACCT.

Line	Tag Example	Description
1	<PosMntReq	Position Maintenance Request
2	ReqID="123456789"	Request ID
3	TxnTyp="4"	Position Change Submission / Margin Disposition
4	AdjTyp="4"	Customer-Specific position
5	Actn="1"	New Submission
6	BizDt="2012-02-06"	Clearing Business Date
7	SetSesID="EOD"	Settlement cycle (End Of Day)
8	TxnTm="2012-02-06T18:23:49">	Submission Time
9	<Pty ID="CME" R="21"/>	Clearing organization
10	<Pty ID="111" R="4"/>	Clearing member firm ID
11	<Pty ID="XNYM" R="22"/>	Exchange

12	<Pty ID="111" R="1"/>	Trading firm ID
13	<Pty ID="ABC12345" R="24">	Customer account
14	<Sub ID="1" Typ="26"/>	Position account type a.k.a. customer origin
15	<Sub ID="ACCTNAME" Typ="5"/>	Account name
16	<Sub ID="H" Typ="41"/>	Customer account type
17	<Sub ID="OMNIACCT" Typ="42"/>	Omnibus account, if relevant
18	</Pty>	
19	<Instrmt	Instrument
20	Sym="CL"	
21	ID="CL"	
22	Src="H"	
23	SecTyp="FUT"	
24	MMY="201203"	
25	Exch="XNYM"/>	
26	<Qty	Long and/or short quantity
27	Typ="TQ"	
28	Long="4250"	
29	Short="1243"/>	
30	</PosMntReq>	