

Conversion Plan: CME Cleared MXN TIIE Interest Rate Swaps

Based on feedback from the industry, this document is being put forth as CME Group's official plan to help facilitate the transition from 28D TIIE interest rate swaps to TIIE de Fondo (F-TIIE) overnight index swaps for the Mexican market. This document is intended to supersede any previous plans outlined on the CME Group website.

Background:

In December 2022, pursuant to various recommendations issued by the Financial Stability Board and the International Organization of Securities Commissions, the Bank of Mexico issued a [press release](#) announcing that:

- The use of 28D TIIE for new agreements would be prohibited from January 1, 2025 onwards
- Following January 1, 2025, financial institutions will only be allowed to use the TIIE de Fondo (Funding TIIE / F-TIIE) as a benchmark rate
- The Bank of Mexico will modify the methodology for calculating TIIE greater than 1 banking day so that current agreements that use such reference rates will not require to be adjusted via amending agreements

Furthermore, in December 2023, based on feedback from the industry, the Bank of Mexico announced a waiver period to help facilitate the market's transition to F-TIIE whereby:

- Starting January 2025, new 28D TIIE swaps that mature prior to 2026 will be exempt from the trading prohibitions
- This implies that any 28D TIIE swaps with fixings including and after December 3, 2025, will not be covered by the waiver due to the T+1 market convention for 28D TIIE fixings. To account for this, CME will define this date as the Index Waiver Expiration Date (**IWED**)
- The modified methodology for calculating the 28D TIIE rate will still go into effect from January 1, 2025, as originally communicated

Given the trading prohibitions for 28D TIIE with maturities beyond 2025, CME Group will need to convert legacy 28D TIIE swaps to F-TIIE prior to the restrictions going into place in January 2025.

Conversion Approach and Bank of Mexico Modification Methodology:

There are two critical items required to conduct this conversion: **1) A binding economic relationship** between the 28D TIIE and the F-TIIE rates, and **2) A primary curve** that can be used to price both the legacy 28D TIIE positions, as well as the replacement swaps. The combination of these two items allows CME to maintain NPV-neutrality, as any valuation differences between the legacy trades and the replacement swaps are neutralized via the inclusion of an equal and offsetting upfront payment amount.

Based upon the feedback received through multiple consultation periods, CME intends to leverage the binding economic relationship that has been established by the Bank of Mexico's modification formula to underpin the conversion pricing methodology for 28D TIIE and the F-TIIE curve for any fixings scheduled to occur post-IWED. This will be accomplished as follows:

1. The Bank of Mexico has calculated a fixed spread corresponding to the historical difference between the 28D TIIE and F-TIIE rates (see [Annex 11](#) as published by the Bank of Mexico)
2. CME will utilize a similar methodology and replacement swap structure that was implemented during other recent industry conversions (i.e. USD LIBOR), taking the fixed spread into account

The Bank of Mexico modification methodology calculates the modified 28D TIIE rate by taking the prior day’s F-TIIE fixing, compounds it for 28 days, and adds a fixed spread adjustment of 24bps.

At the point of conversion, the Bank of Mexico modification methodology will be used to value any 28D TIIE fixings that are scheduled to occur post-IWED, which correlates to fixings that will be converted to a forward starting F-TIIE OIS through CME’s replacement swap structure. Any differences that result from this valuation as compared to the legacy swap’s pre-conversion pricing will be neutralized via an offsetting cash compensation amount.

Given the operational nuances associated with utilizing the Bank of Mexico modification methodology as compared to the ISDA Fallbacks leveraged in prior conversion events (i.e. USD LIBOR), and to avoid potential market volatility around the US Presidential Election, the primary conversion of CME cleared 28D TIIE swaps will take place on [November 22, 2024](#).

Transition Timeline and Details:

Figure 1:



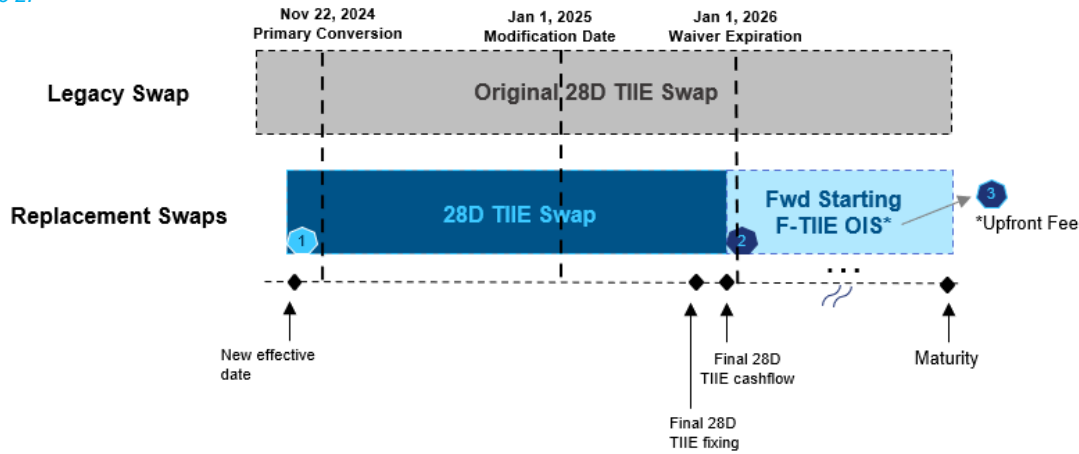
- CME launched production clearing support for F-TIIE OIS on February 5, 2024, allowing participants the opportunity to clear trades and ensure their systems can handle the new OIS product prior to the conversion
- Subject to regulatory review, CME will run the primary conversion on November 22, 2024, converting all legacy in scope 28D TIIE swaps that have scheduled post-IWED fixings
- Following the primary conversion event, CME will continue clearing 28D TIIE swaps that do not contain post-IWED fixings in a business-as-usual manner, complying with the Bank of Mexico waiver
- Any new 28D TIIE swaps that come in for clearing after the primary conversion containing post-IWED fixings will be converted as a part of daily conversion cycles

It should be noted that following the November 22, 2024, primary conversion event, F-TIIE is expected to become the primary liquidity pool for MXN denominated interest rate swaps, and new trading activity in 28D TIIE will be limited, especially for trades extending beyond the end of 2025. CME’s daily conversion process will:

- Utilize the existing conversion logic applied for the primary conversion event, converting any 28D TIIE swaps that come into clearing and contain post-IWED fixings
- Starting in January 2025, adhere to the Bank of Mexico trading prohibitions by limiting the clearing of 28D TIIE swaps with post-IWED fixings to swaps that are a result of a bilateral swaption expiry
- Occur as part of CME’s end of day processing cycle and will be supported through the end of 2025; at which point 28D TIIE clearing support will end

Conversion Methodology:

Figure 2:



As outlined in Figure 2 above, CME will leverage the following conversion methodology, whereby any legacy cleared 28D TIIE swaps with post-IWED fixings will be terminated and replaced with the following:

1. A 28D TIIE replacement swap that is designed to capture any pre-IWED 28D TIIE fixings (legacy swap economics will carry over)
2. A forward starting F-TIIE replacement overnight index swap (OIS) that will maintain the legacy swap's fixed rate, replace the 28D floating rate with daily compounding F-TIIE plus the 24bps Bank of Mexico modification formula spread, and will apply a 2D payment offset to both the fixed and floating legs. This swap will become effective once the 28D TIIE replacement swap expires, and its maturity will match the original legacy swap
3. A cash adjustment in the form of an upfront fee will be included on the forward starting F-TIIE replacement OIS to account for any NPV differences between the legacy 28D TIIE swap (valued under the Bank of Mexico modification methodology) and the corresponding replacement swaps (related to the changes outlined above) booked by CME at the point of conversion

Next Steps:

- CME Group will publish detailed operational resources and documentation in March 2024, which will provide additional information on the following items:
 - Conversion methodology and examples
 - Operational processing, trade messaging and reporting
 - Conversion pricing using the Bank of Mexico modification formula

Contact Information:

Please contact us at ClearedSwapConversion@cmegroup.com if you would like to raise any questions or arrange a call with our team to discuss this plan in greater detail.

The contents of this document provide an overview of CME Group's plan to facilitate the transition from 28D TIIE to TIIE de Fondo (F-TIIE) in the cleared MXN interest rate swap market. The plan is subject to change at any time without prior notice. Any implementation of this plan and the points discussed in this document are subject to regulatory review and to any necessary internal and external approvals.