BrokerTec US Treasury Benchmarks

Oversight Committee Minutes

CME Group Benchmark Administration Limited

September 7th, 2021

Attendees:

- Sean Hodgson (SH) – Chair
- Ted Carey (TC) – voting member
- Bobby Timberlake (BT) – voting member
- Vincenzo Albano (VA) – non voting member
- Graham Stride (GS) – non voting member
- Jackson Griffith (JG) – observer
- Tao van de Graaff (TvdG) – observer

Apologies:

- Vanessa Walsh (VW)

Agenda

1 Intro & Conflict of Interest disclosure (SH)
2 Administrator's Report (GS & VA)
   - May 2021 – July 2021 Analysis
   - Data Integrity & Validation Checks
   - Benchmark Methodology updates
   - BMR Statement updates
4. Use of BrokerTec US Treasury Benchmarks in Micro Yield Futures (TC)
5. Legal and Compliance Update (MH & TvdG)
6. Schedule for next Oversight Committee

Minutes:

The Chairman declared the meeting quorate and opened reading the Legal disclaimer, reminding Oversight Committee (OC) members their responsibilities. No conflict of interest was declared by voting members.

The Chairman asked the Administrator to provide the OC with an update.

The Administrator opened the updated with an analysis of BrokerTec US Treasury (UST) fixings against prevalent interest rate swaps (IRS) rates for the same period; no anomalies were reported. Daily Volumes remained sustained for all daily fixings, with the 5yr and 10yr notes being the most active.

The Administrator presented an analysis of the order-book depth; bid and offers which indicated healthy demand of UST.

An overview of the average bid-offer spreads for each snapshot was presented. The tightest spreads were seen in the 2yr and 3yr with the 20yr and 30yr having the widest spreads. The OC noted that this was consistent with the minimum price increments for the UST market.

The OC asked whether there is a risk of not being able to calculate the benchmarks.

The Administrator explained that for the calculation not to happen, there would need to be no executed trades and no order book quotes. In this scenario the last fixing would be re-published. During the most recent period, there were no instances of an empty order book and in >99% of instances, the order book was 5 levels deep.

The Administrator reported that most fixings are calculated at Level 1 of the waterfall (executed transactions) with Level 2 complementing the calculation inputs, in the occurrences where the "target volume" is not achieved by executed trades alone. The use of Level 3 (insufficient trades + order book) is extremely rare in the 11:00am and 3:00pm fixings, slightly more used in the 4:00pm and 5:00pm.

The Administrator reported on data integrity and validation checks and confirmed that no triggers have been noted during the observation period.

The OC asked whether any controls are delegated to external vendors.

The Administrator confirmed that the entire calculation process and controls are managed internally by CME Inc and CBA.

The OC asked whether the Administrator is considering further enhancements of the Methodology to reduce the risk of manipulation.

The Administrator might consider such enhancements, subject to technological feasibility.

The OC suggested that imminent transition from the NEX platform to CME systems might provide an opportunity for introducing such enhancements such as those introduced for other CBA benchmarks.

The Administrator would be keen on utilising knowledge gained from checks on other benchmarks.

The Administrator then moved to present some minor enhancements to the Benchmark Methodology, in particular:

> 3.2. Treasury Benchmarks Price Calculation: re-worked to provide additional clarity on the volume of order book data and the “Gap” between the Target Volume and the Traded Volume
>
> 3.3. Treasury Benchmarks Yield Calculation: added equations used to derive the Yield used in the VWAY
>
> 4.2 Validation and integrity checks: updated validation and integrity checks

The Administrator asked voting members to approve the enhancement to the Methodology. The OC unanimously approved.

The OC provided an updated on the Micro Yield Future, launched August 15th and based on the 3:00pm 2yr, 5yr, 10yr and 30yr fixings. The first expiration of the contract was conducted successfully with about 700 contracts settled.

The Chairman asked whether there were any Legal/Compliance updates. It was noted there were no major updates to report.

The Chairman thanked participants and closed the meeting.