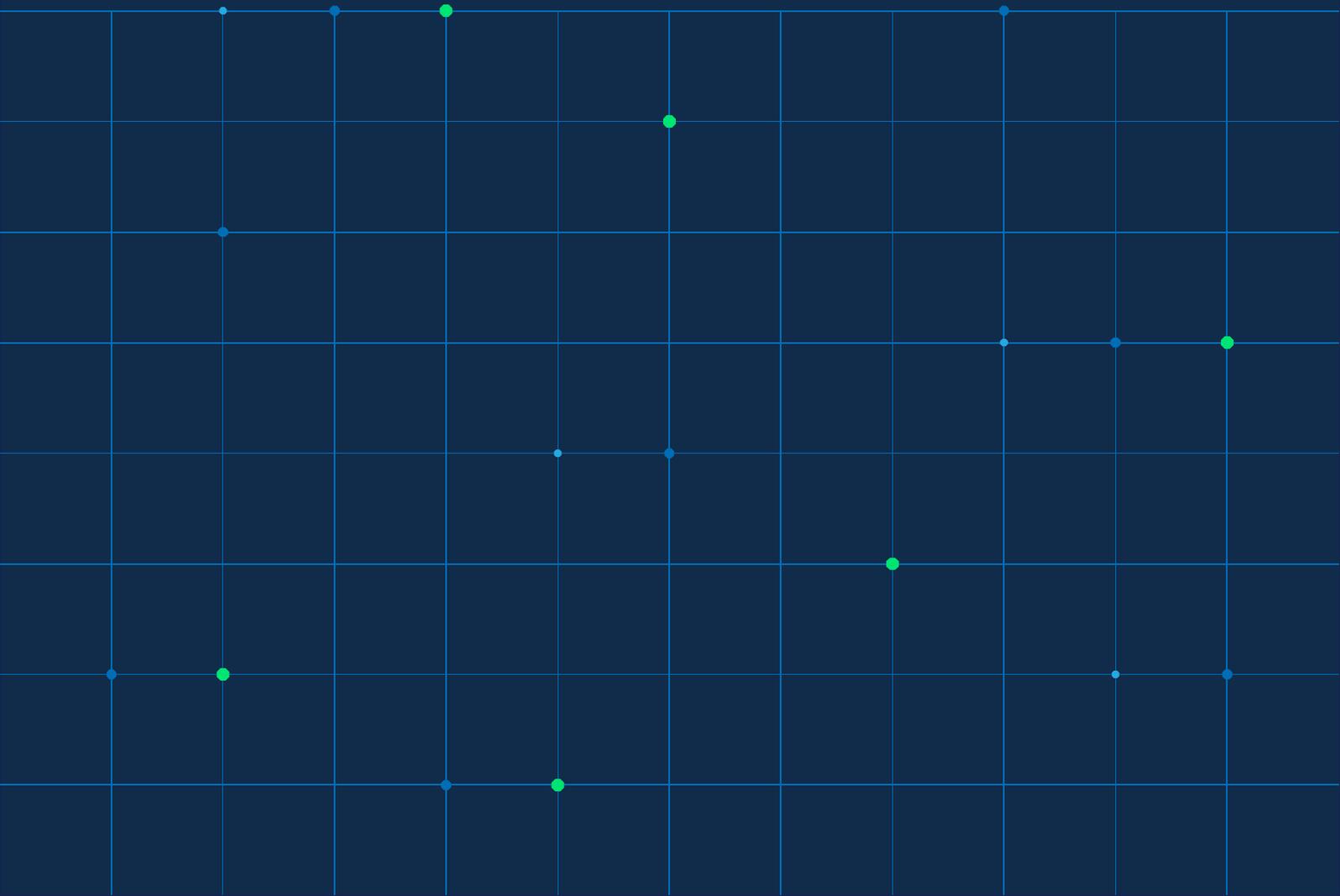# CME Group

CME Overnight Repo-Backed Benchmarks Consultation Feedback Statement

RepoFunds Rate Euro "RFR Euro"
RepoFunds Rate Sterling "RFR Sterling"
Repo Funds Rate JBOND "RFR JBOND"

CME Group Benchmark Administration Limited

February 14th, 2022

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1. Introduction

CME Overnight Repo-Backed Benchmarks is a suite of benchmarks administered by CME Group Benchmark Administration Limited ("CBA" or the "Administrator") and intended to measure the cost of secured one-day repo funding of sovereign bonds issued by a sub-set of Eurozone Countries, the United Kingdom and Japan.

These benchmarks, are registered under UK BMR as a "Benchmark Family":

- RepoFunds Rate Euro ("RFR EUR")

- RepoFunds Rate Sterling ("RFR Sterling")

- RepoFunds Rate JBOND ("RFR JBOND").

In December 2021, CBA published a consultation paper to seek comments on changing the Specific Collateral Filtering Algorithm. More general feedback was also welcomed. Respondents were requested to provide feedback to CBA by January 28, 2022. CBA stated that feedback to the consultation would be considered confidential, however the Administrator would publish an anonymized summary with its conclusions.

After receiving written and informal responses, subsequent testing was performed over the proposed specific collateral filtering approach for 2019. The analysis for this period corroborated CBA's previous assessment that this change will make the Benchmark Family more robust.

Responses included questions on why the current filtering approach is only applied to specific collateral trades and not general collateral trades. The CME Overnight Repo-Backed Benchmarks intend to measure the cost of secured one-day repo funding of sovereign bonds. Unlike general collateral repo, specific collateral repo can be influenced by demand for a particular security and the transacted repo rate tends to be below typical market levels. Consequently, the filtering algorithm is applied to remove a proportion of specific collateral trades to create a rate more representative of the cost of secured one-day repo funding.

Based on the feedback received and the analysis undertaken, CBA will proceed with the change to the Specific Collateral Filtering Algorithm. The change will become effective on April 4th, 2022.

2. New Special Collateral Filtering Algorithm

The following text will replace the Specific Collateral Filtering Algorithm section of the methodology. The updated methodology will be published on the CME Group website and will apply from April 4th, 2022.

Repo markets execute a mix of trades types, usually described as "general collateral" or "special collateral".

Unlike "general collateral", special collateral trades (special trades) precisely identify the ISIN of the security to be used as collateral. Normally it happens when a special security is in high demand and the transacted repo rate tends to be below typical market levels, often by a significant spread. Hence, the calculation algorithm is designed to remove "special trades" from the set of trades used for benchmark calculation.

A 25% threshold of the "specials" by volume, has been estimated as a suitable threshold for the identification of special trades to be removed from the calculation process.

All repo trades labelled as specials are combined by settlement date and by individual benchmark, and are sorted by descending rate. Then, the bottom 25% of trades are removed from the population, before combining the filtered set with general collateral trades, for the final VWAR calculation.

The same filtering process is also applied to the calculation of RFR Euro as a whole; the entire set of special repo trades executed in the ten (10) individual Eurozone countries listed above, is aggregated in a single set and the filtering algorithm described above is applied.

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Appendix: Consultation Questions

The questions requesting specific feedback from market participants are listed below. More general feedback by email was also welcome.

1. Do you agree with the proposed change to the specific collateral filtering approach, as defined in section 6? Yes/No. If no, please explain why.

There were no objections to the proposed change to the specific collateral filtering approach.

2. Please add any additional comments you may have about the CME Overnight Repo Backed Benchmarks.

No additional comments were received.