

Conversion Plan: CME Cleared BSBY Interest Rate Swaps

As the Bloomberg Short-Term Bank Yield Index (“BSBY”) is to cease publication, this document is being put forth as CME Group’s official conversion plan. This document is intended to supersede any previous proposals or plans outlined on the CME Group website.

Background and Key Considerations:

On November 15, 2023, following a consultation period that was subject to the oversight of the BSBY Oversight Committee (“BSBY OC”), Bloomberg Index Services Limited (“BISL”) [announced](#) the future permanent cessation of the BSBY index and the publication of rates for all BSBY tenors. The cessation of BSBY will take effect on Friday, November 15, 2024, immediately following the publication of the rate for each BSBY tenor.

At the same time BISL announced that it will not be calculating or recommending a fallback replacement rate for BSBY.

In light of BISL’s approach and the outcomes achieved from recent CME-led benchmark transitions to risk-free-rates (RFRs) for cleared swaps referencing IBORs, including for USD-LIBOR cleared swaps, CME is planning an approach whereby any legacy BSBY swaps that contain fixings beyond the cessation date will be converted into corresponding CME cleared SOFR overnight index swaps (OIS) prior to the November 15, 2024, cessation event, subject to regulatory review.¹ Converting these cleared swaps from BSBY to overnight SOFR ensures that they can continue to be supported in clearing.

In connection with this approach, CME has calculated fallback spreads to adjusted SOFR (daily compounded SOFR) for each of the 1M and 3M BSBY tenors, applying the published ISDA IBOR fallback methodology previously utilized by BISL to calculate and publish adjustments related to fallbacks to RFRs under the ISDA Definitions, which in turn were incorporated into CME’s [previous](#) relevant IBOR conversions for cleared swaps. This fallback spread calculation methodology is consistent with the approach used by BISL during prior fallback spread calculations for IBOR rates, which in turn incorporates the ISDA IBOR fallback methodology. CME has considered the announcement date of November 15, 2023, as the “Spread Adjustment Fixing Date” for BSBY for the purposes of the calculation. Consistent with BISL’s calculated spread adjustments for IBOR rates, the spread adjustment is calculated as the median spread between BSBY and Adjusted SOFR over the preceding five-year period. Under this plan, the corresponding BSBY fallback spread adjustment calculated by CME according to the aforementioned methodology will be applied as a spread on the floating leg of the SOFR OIS that would result from the conversion of CME cleared BSBY swaps.

Also in line with CME’s methodology used to convert cleared USD LIBOR and other IBOR swaps, a cash adjustment will be included as a part of the conversion process to compensate position holders for any changes in valuation from the original, legacy BSBY swaps. This adjustment is intended to ensure that the conversion event would be a zero-sum event from a PNL perspective at the point of conversion.

CME has collected feedback through an open period for market commentary, in which impacted participants expressed their support for this conversion plan absent a formalized industry fallback protocol to follow.

¹ In most cases, the conversion process will also result in a short-dated BSBY replacement swap that is designed to capture any BSBY fixings scheduled to occur prior to the date of cessation of the index, described in more detail below.

Timeline and Proposal:

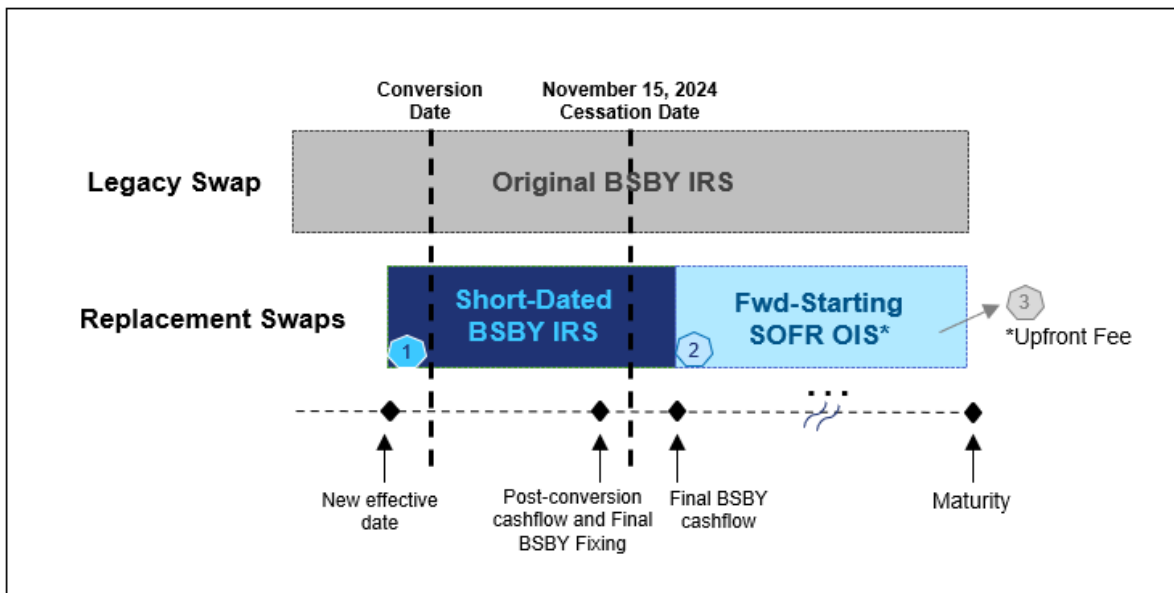
Subject to regulatory review, CME plans to convert all outstanding cleared BSBY swaps that contain fixings beyond the announced BSBY cessation date of November 15, 2024 via a mandatory conversion process utilizing an operational methodology similar to previous CME IBOR swap conversions to relevant RFRs. Having considered relevant holidays across jurisdictions, CME plans to run a primary conversion cycle on **July 12, 2024**, as shown in the below timeline:



It is important to note a few details as they relate to this timeline of events:

- The July 12, 2024, conversion event will encompass all legacy cleared BSBY swaps that contain fixings beyond the November 15, 2024, cessation date.
- Any BSBY versus SOFR basis swaps with post-cessation BSBY fixings will be subject to a splitting event, whereby the swaps will be split into pairs of fixed versus float swaps prior to the July 12, 2024 conversion event. CME will communicate additional details with impacted participants holding basis swaps in due course.
- Immediately following the conversion, CME will limit its BSBY support to swaps that have their final fixings prior to the cessation date. This is intended to provide clearing support for these contracts and the ability to offset BSBY replacement swaps that result from the conversion.
- Any new BSBY swaps submitted for clearing with fixings beyond November 15, 2024, will be rejected.

Conversion Methodology and CME-Calculated Fallback Spreads:



As outlined in the illustration above, CME will utilize a conversion methodology whereby any legacy cleared BSBY swaps that have fixings beyond November 15, 2024, will be converted and replaced with:

1. **A short-dated BSBY swap** that is designed to capture any BSBY fixings scheduled to occur prior to the cessation (economics from the legacy swap would carry over);
2. **A forward starting SOFR overnight index swap (OIS)** that will maintain the legacy swap's fixed rate, replace the BSBY floating rate with daily compounding SOFR plus the CME-calculated fallback spread, and will apply a 2D payment offset to both the fixed and floating legs. This swap will become effective once the short-dated BSBY replacement swap expires, and its maturity will match the original legacy swap; and
3. **A cash adjustment in the form of an upfront fee** will be included on the forward starting SOFR replacement OIS to account for any differences between the legacy BSBY swap valued under the ISDA IBOR fallback methodology and the corresponding replacement swaps booked by CME at the point of conversion.

As with previous CME IBOR cleared swap conversions, the legal characterization of the conversion will be as an amendment of the original cleared BSBY legacy swap. From an operational perspective, the CME Clearing operational processes will constitute a close-out (termination) of the original swap and establishment of new replacement contracts.

Given the absence of a formal or industry-agreed fallback protocol, the below CME-calculated fallback spreads will be utilized for the purpose of this conversion. For the avoidance of doubt, CME calculated the below spreads as the median over a 5-year historical timeframe for the spread between BSBY fixing levels and relevant adjusted SOFR (utilizing the ISDA IBOR fallback methodology). Note that the November 15, 2023, cessation announcement date was used as the "Spread Adjustment Fixing Date" for BSBY:

BSBY Tenor	Fallback Spread (bps)
1M	3.403
3M	12.878

Next Steps:

- CME will release more detailed operational resources to support the conversion, which will be made available [here](#).
- CME will offer operational testing for this conversion, which will provide indicative analysis reporting from June 12, 2024, and one dress rehearsal on June 17, 2024.
- By default, CME will load production portfolios into its UAT environment prior to the scheduled dress rehearsal, allowing firms to obtain a trade register report with the economics of the replacement swaps they are in line to receive as a result of the conversion.

Contact Information:

Please direct any inquiries regarding this conversion plan to ClearedSwapConversion@cmegroup.com.

Disclaimer:

The methodology utilized by CME to calculate the fallback spreads for BSBY tenors contained in this document (the Fallback Spreads) is based on the IBOR fallback methodology previously utilized by BISL, acting on appointment by the International Swaps and Derivatives Association (ISDA), to calculate and distribute RFR adjustments for certain ISDA IBOR contractual fallbacks. CME has permission from ISDA and BISL to utilize the methodology for the purposes anticipated in this document, including the calculation and publication of the Fallback Spreads for use by CME in relation to contractual fallbacks for CME cleared swaps. BISL and ISDA, as applicable, are the owners of the intellectual property rights with respect to the ISDA IBOR fallback methodology and the BISL IBOR Fallback Rate Adjustments Rule Book. CME is solely responsible for the determination and application of the relevant methodology and the calculation and publication of the Fallback Spreads, and for use in any conversion process implemented by CME. Neither ISDA nor BISL endorses the Fallback Spreads or CME's proposed methodology and neither ISDA nor BISL has any responsibility or liability for CME's utilization of the methodology, calculation or publication of the Fallback Spreads or use of the Fallback Spreads in any fallback or conversion process conducted by CME, or use of the Fallback Spreads by any other person.

CME reserves the right to adjust the methodology or recalculate the Fallback Spreads contained in this document at any time without prior notice and such Fallback Spreads should not be used by any other person as a reference rate within a financial instrument or financial contract.

The contents of this document are for informational purposes only and provide an overview of CME's proposal to facilitate the conversion of BSBY cleared swaps to SOFR OIS ahead of the cessation date announced by BISL. The plan is subject to change at any time without prior notice. Any implementation of any final plan is subject to regulatory review and to any necessary internal and external approvals and rulebook implementation.