

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY #: 17-380

DATE: September 29, 2017

SUBJECT: Production OTC IRS Advisory – EUR, GBP and JPY Valuation Curves

As part of our continuing efforts to ensure a prudent risk management process for all products, CME Clearing will be incorporating CME-specific observations into end of day valuation curves used for pricing of EUR, GBP and JPY interest rate swaps (IRS). This change will be reflected in the Production environment on **Monday, October 2nd, 2017**. Please note this change has been live in NR since August 9, 2017.

CME-specific Settlement Curves for EUR, GBP and JPY IRS

Summary of existing methodology:

CME is using the following inputs to build the forecasting curves for pricing of EUR, GBP and JPY IRS:

- EUR 6M EURIBOR:
 - FRA: 0Dx6M, 6Mx1Y, 1Yx18M
 - Par swap rates: 2Y to 10Y, 12Y, 15Y, 20Y, 25Y, 30Y, 40Y, 50Y
- GBP 6M LIBOR:
 - FRA: 0Dx6M, 6Mx1Y, 1Yx18M
 - Par swap rates: 2Y to 10Y, 12Y, 15Y, 20Y, 25Y, 30Y, 40Y, 50Y
- JPY 6M LIBOR:
 - FRA: 0Dx6M, 6Mx1Y, 1Yx18M
 - Par swap rates: 2Y to 10Y, 12Y, 15Y, 20Y, 25Y, 30Y, 40Y, 50Y

What is changing?

CME Clearing will be incorporating CME-specific observations in the end of day EUR, GBP and JPY valuation curves.

What does not change?

- No changes to the curve components, generation algorithm, interpolation methods
- No changes to the format of the curve files published on FTP site.

Downstream impacts?

All curves that are created as a spread to the 6M curves being updated will be affected. The curves below will be impacted:

- Changes in EUR 6M EURIBOR will affect:
 - EUR 1M forecasting curve
 - EUR 3M forecasting curve
- Changes in GBP 6M LIBOR will affect:
 - GBP 1M forecasting curve
 - GBP 3M forecasting curve
- Changes in JPY 6M LIBOR will affect:
 - JPY 1M forecasting curve
 - JPY 3M forecasting curve

For questions, please contact the Pricing and Valuations team at OTCValuations@cmegroup.com.

Regards,

CME Clearing