

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY #: 20-272

DATE: 07/15/2020

SUBJECT: OTC IRS Production – €STR Price Alignment and Discounting Transition

Please be advised that CME Clearing will implement the transition of the price alignment (PA) and discounting protocols from EONIA to €STR with respect to open cleared trades in affected CME cleared products (Euro OTC IRS) after the close of business on **Friday, July 24, 2020**. Beginning July 27, 2020, CME will begin using €STR in price alignment and discounting of Euro OTC IRS.

In 2019, the ECB's working group on Euro risk-free rates recommended that EUR cleared derivatives contracts should transition from utilizing EONIA to utilizing the euro short-term rate ("€STR") for the purposes of calculating price alignment and for the applicable discounting rate. Following this announcement, CME consulted with the CFTC, industry working groups, and OTC market participants on the best methodology to move to €STR Price Alignment and Discounting. The detailed operational plans and timelines were made publicly available in March 2020.

**Summary of the €STR Price Alignment and Discounting Transition:**

- Objective: Single-step transition for all EUR interest rate products from an EONIA to €STR discounting curve and price alignment rate.
- Product Scope: All cleared EUR interest rate swap products (IRS, OIS, FRAs, Basis, ZCS).
- Transition Process: Following the standard EOD cycle using EONIA PA and discounting on Friday, CME will generate a discounting transition report that provides the NPV of all trades under €STR discounting and the corresponding cash adjustment amounts needed to account for the change in discounting rate.
- Cash Adjustment: To neutralize the value transfer from the discounting change, CME will process a cash adjustment that is equal and opposite to the NPV change on each trade in all position accounts.
- €STR Discounting Curve: To facilitate this transition, CME will create a new €STR discounting curve for the valuation of Euro OTC IRS.
- Margin Analysis: CME CORE will be updated to reflect €STR discounting when the application starts up at 5PM CT on July 26<sup>th</sup>.
- Portfolio Optimizer: All Clearing Members participating in the Portfolio Margin Program must go live with Optimizer version 14 for processing on Monday July 27<sup>th</sup>. Details here: <https://www.cmegroup.com/notices/clearing/2020/05/Chadv20-214.html?source=rss>

For questions, please contact the CME Client Services Team at [onboarding\\_clearing@cmegroup.com](mailto:onboarding_clearing@cmegroup.com) or +1 312 338 7112.

Regards,

CME Clearing