

TO: Clearing Member Firms; Back Office Managers
FROM: CME Clearing
ADVISORY #: 20-367
DATE: 09/18/2020
SUBJECT: OTC IRS New Release – SOFR Discounting Transition Processing Completed

-- SOFR Discounting Transition Test Advisory --

Please be advised that CME has successfully completed the SOFR Discounting Transition and Price Alignment processing for USD products.

As part of this transition, CME conducted a standard end-of-day valuation cycle under Fed Funds discounting. CME then generated an IRS Discounting Transition Report (IRSDIS) providing the NPV of all trades under SOFR discounting and the corresponding cash adjustment amounts needed to account for the change in discounting rate. The IRSDIS report was posted to each firm's secure FTP site.

CME also conducted the mandatory re-hedging process, booking a series of EFFR/SOFR basis swaps (or synthetic basis swaps) to participants' accounts to restore the approximate EFFR discounting exposures and mitigate both the re-hedging costs associated with this transition and the sensitivity of valuations to closing curve marks.

The re-hedging basis swaps were included in the end-of-day IRS Trade Register (IRSTR), which can be found in the same secure FTP site. These swaps can be identified with the "ORIGINATING_EVENT" field (column ER) being populated with "DISC_TRANSITION".

Beginning on Monday, September 21, all USD interest rate swap products in **the New Release environment** will be valued under SOFR discounting and price alignment. To allow for further cash adjustment testing, CME will produce daily indicative cash adjustments and SOFR-discounted NPVs for Production portfolios through October 16.

Please visit CMEGroup.com through the below links for detailed materials discussing this transition.

[SOFR Discounting Transition Overview Presentation](#)
[Three-Part Webinar Series](#)
[Discounting Transition Methodologies White Paper](#)

For questions, please contact the CME Client Services Team at onboarding@cmegroup.com or 312.338.7112.

Regards,

CME Clearing