CME Group | Advisory Notice

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY #: 20-402

DATE: 10/16/2020

SUBJECT: OTC IRS Production – SOFR Discounting Transition Processing Completed

Please be advised that CME Clearing has successfully completed the SOFR Discounting Transition and Price Alignment Processing for USD Interest Rate Swap products in accordance with the process set out in Clearing Advisory 20-391 .

As part of this transition, CME conducted a standard end-of-day valuation cycle under EFFR discounting for affected contracts. CME then generated an IRS Discounting Transition Report (IRSDIS) providing the Net Present Value (NPV) of all trades under SOFR discounting and the corresponding offsetting Cash Adjustment amounts needed to account for the change in NPV resulting from the change in discounting rate from EFFR to SOFR. The IRSDIS report was posted to each firm's secure FTP site with filename: IRDIS_XXX_20201016_EOD.csv

CME also conducted the mandatory Re-hedging Process, booking a series of EFFR/SOFR Basis Swaps (or synthetic Basis Swaps, as elected) 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 Basis Swaps can be identified with the "ORIGINATING_EVENT" field (column ER) being populated with "DISC_TRANSITION".

Beginning on Monday, October 19th, all USD interest rate swap products in the Production environment will be valued under SOFR discounting and price alignment.

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

Capitalized terms not defined in this Clearing Advisory shall have the meaning set out in Clearing Advisory 20-391.

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

Regards,

CME Clearing