

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY #: 21-049

DATE: 02/03/2021

SUBJECT: OTC IRS and FX New Release – Emerging Markets Discounting and Price Alignment Transition: Phase 1 Testing

CME will begin New Release testing of the Emerging Markets Discounting and Price Alignment Transition on February 10, 2021. Testing will be done in two phases to test both the transition weekend and post-transition processing. Between the two phases, CME will run a Simulation Weekend in New Release from March 5<sup>th</sup> to March 8<sup>th</sup> for testing of the end-to-end workflows.

**Phase 1 Testing: February 10<sup>th</sup> – March 5<sup>th</sup>**

- Daily simulation of the March 26<sup>th</sup> transition date in the New Release environment for both IRS and FX
- This initial phase allows for testing of new curve files, cash adjustment amounts, and the Discounting Transition Reports
- IRS daily operational process:
  - CME runs a standard end-of-day clearing cycle using Fed Funds discounting and price alignment
  - Following the standard cycle, CME runs the transition processing with SOFR discounting and produces the IRS Discounting Transition Report. This report contains revised adjusted NPVs, NPVs, and cash adjustments.
  - SOFR-based curve files are published for firms to replicate the revised NPVs
- FX daily operational process:
  - CME runs a standard end-of-day clearing cycle using Fed Funds and EONIA discounting and price alignment
  - Next, CME runs the transition processing with SOFR and EuroSTR discounting and produces the FX Discounting Transition Report. This report contains revised mark-to-market amounts and cash adjustments.

**Simulation Weekend: March 5<sup>th</sup> – March 8<sup>th</sup>**

- Friday, March 5<sup>th</sup> simulates the transition date (Friday, March 26<sup>th</sup>)
  - All trade data in the simulation weekend is from the New Release environment
  - IRS Discounting Transition Report issued with revised Adjusted NPVs, NPVs, and cash adjustment amounts
  - OTC FX Discounting Transition Report issued with revised mark-to-markets and cash adjustment amounts
- Monday, March 8<sup>th</sup> simulates the business day following the transition date (Monday, Mar 29<sup>th</sup>)

- OTC IRS and OTC FX Cash adjustments are included in the respective end-of-day variation margin requirements
- Discounting and price alignment in the standard cycle is based on SOFR and EuroSTR

## **Phase 2 Testing: March 8<sup>th</sup> – March 26<sup>th</sup>**

- Allows for testing of the post-transition environment. All in-scope IRS reference SOFR-based discounting and price alignment.
  - IRS Discounting Transition Report no longer published in New Release
  - Discounting and price alignment are based on SOFR
  - SOFR-based discounting curve files remain available for testing
- All OTC FX trades will reference SOFR or EuroSTR-based discounting and price alignment
  - FX Discounting Transition Report no longer published in New Release
- Indicative IRS and FX Discounting Transition Reports begin publication in the Production environment on March 8<sup>th</sup> with the final file posting on Friday, March 26<sup>th</sup>.

## **Emerging Markets Discounting and Price Alignment Transition Overview**

- Summary: Subject to regulatory review, single-step transition on March 26, 2021 for the below OTC Interest Rate and FX products from Fed Funds to SOFR discounting and price alignment. EUR-settled OTC FX products will move from EONIA to EuroSTR discounting and price alignment.
- Product Scope
  - OTC IRS: BRL, CLP, CNY, COP, KRW, INR, and MXN IRS
  - OTC FX: USD and EUR-settled CSFs, NDFs, and FX Options.
- Cash Adjustment: To neutralize the value transfer from the discounting change, CME will process a cash adjustment that is equal and opposite to the value change on each cleared trade.

Please visit CMEGroup.com through the below link for detailed workflows.

<https://www.cmegroup.com/trading/interest-rates/files/emerging-market-discounting-and-price-alignment-transition-detailed-deck.pdf>

For questions, please contact the CME Client Services Team at [onboarding@cmegroup.com](mailto:onboarding@cmegroup.com) or 312.338.7112.

Regards,

CME Clearing