

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY #: 21-076

DATE: 03/01/2021

SUBJECT: OTC IRS and FX New Release – Emerging Markets Discounting and Price Alignment Transition: Phase 2 Testing and Mock Transition Weekend

CME is scheduled to begin New Release Phase 2 testing of the Emerging Markets Discounting and Price Alignment Transition on March 8, 2021. At the beginning of Phase 2, CME will run a mock transition in New Release from March 5th to March 8th for testing of the end-to-end transition workflows.

Simulation Weekend: March 5th – March 8th

All trade data used in the simulation weekend is from the New Release environment.

- Friday, March 5th simulates the transition date (Friday, March 26th)
 - Standard end-of-day clearing cycle is completed
 - 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 8th simulates the business day following the transition date (Monday, Mar 29th)
 - 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 8th – March 26th

- Allows for testing of the post-transition environment in New Release. All in-scope IRS will reference SOFR-based discounting and price alignment.
 - IRS Discounting Transition Report is no longer published in New Release
 - Discounting curves and price alignment rates are based on SOFR
 - Discounting curve files reflect SOFR-based inputs
- 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 8th and are issued daily through March 25th. The official Production file is posted on Friday, March 26th.

Emerging Markets Discounting and Price Alignment Transition Overview

- Summary: Subject to regulatory review, CME will conduct a 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 or 312.338.7112.

Regards,

CME Clearing