

TO: Clearing Member Firms
Back Office Managers

DATE: October 19, 2021

FROM: CME Clearing

NOTICE #: 21-377

SUBJECT: **Dress Rehearsal for LIBOR to RFR OIS Conversion of OTC JPY and CHF Interest Rate Swaps**

CME will conduct a Dress Rehearsal for the CHF and JPY LIBOR to Risk-Free Rate OIS Conversion in the New Release environment on **Friday, October 22, 2021**.

To facilitate this test, the corresponding Index Cessation Date (last day of fixing rate publication) of the underlying LIBOR indices is set to November 12, 2021 in the New Release environment. This date is equivalent to December 31, 2021 in the Production conversion.

Summary of Conversion Process

At close of business on the Dress Rehearsal date, CME will convert each applicable cleared CHF/JPY LIBOR Swap into corresponding fixed-float overnight index swaps (OIS), as follows:

- Within the Clearing System, CME will close out each Pre-Conversion LIBOR Swap and establish in the account of the position holder the following Replacement RFR Swap(s):
 - For each CHF LIBOR swap, a fixed-float CHF-SARON OIS and additional 1-unit notional OIS as needed to settle future coupons
 - For each JPY LIBOR swap, a fixed-float JPY-TONA OIS and additional 1-unit notional OIS as needed to settle future coupons
- Each Replacement Swap will retain key economic terms of the corresponding Pre-Conversion LIBOR Swap. The conversion methodology and swap economics retained will vary by LIBOR swap economics and cash flow dates.

Operational Information and Reporting

CME Clearing will provide the following information during the Dress Rehearsal:

- End of Day Trade Register report made available by the Clearing House only to IRS clearing members and clients via an sFTP site;
- a FpML termination message to relevant CME clearing firms in respect of the termination of each relevant LIBOR Swap; and

- a FpML clearing confirmation message to relevant CME clearing firms in respect of the establishment of each new relevant RFR Replacement Swap.

In order to identify the link between each Pre-Conversion LIBOR Swap and the relevant Replacement Swap(s), CME will add a replacement Trade ID and Original Trade ID respectively in the History section of the clearing confirmation messages.

Cash Compensation

- In order to neutralize the value transfer from the Conversion of the economic position of each LIBOR Swap into a Replacement Swap(s), CME will calculate a cash compensation that will be applied by CME to the primary Replacement Swap.
- The cash compensation will be applied by CME to each Replacement Swap in the form of upfront “fees”, with the dress rehearsal amounts banking on Tuesday, October 26, 2021.

Indicative Analysis Reporting in Production

- Following this conversion, CME will publish an indicative analysis report for production portfolios from Monday, November 1, 2021 to January 4, 2022 with File Name: IRS_IBORCONV_FFF_YYMMDD_EOD.csv

Please reference the presentation in the below link for more details on the methodology and timeline:
<https://www.cmegroup.com/trading/interest-rates/files/cme-ibor-conversion-for-chf-jpy-and-gbp-cleared-swaps.pdf>

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

Regards,

CME Clearing