

TO: Clearing Member Firms
Back Office Managers

DATE: January 23, 2023

FROM: CME Clearing

NOTICE #: 23-022

SUBJECT: **Dress Rehearsal for USD LIBOR Basis Swap Splitting**

Please be advised that CME will be conducting a dress rehearsal for the splitting of USD LIBOR basis swaps in the New Release testing environment on **Friday, January 27, 2023**. This process replicates the Production USD LIBOR basis swap splitting to be held on Friday, March 24, 2023.

The Dress Rehearsal will run as part of CME's end of day cycle where each USD LIBOR basis swap will be converted (split) into a pair of fixed-float swaps. Trade data is based on New Release (test) trade data at the time of the conversion. This conversion will not require cash compensation as NPVs/valuations and cash flows will remain unchanged at the portfolio level.

Beginning Monday, January 30, 2023, CME will **remove** clearing support in New Release environment for the USD LIBOR basis swaps in-scope for the splitting. CME will continue to clear fixed-float LIBOR swaps and LIBOR-Fed Funds Basis Swaps.

Product Scope

- LIBOR-LIBOR Basis Swaps
- LIBOR-SOFR Basis Swaps
- **Excluded** from splitting process: *LIBOR-Fed Funds Basis Swaps*
 - *Please note that LIBOR-Fed Funds Basis Swaps are converted to SOFR-Fed Funds Basis Swaps as part of the Primary Conversion process*

Operational Processing

Beginning at 6 pm ET, CME will begin the operational processing to terminate existing LIBOR Basis Swaps and book new, replacement fixed-float swaps. Terminated swaps will be set to NPV of zero at end-of-day. New fixed-float swaps will carry unique CME Cleared Trade IDs and UTIs. The trade processing is expected to be completed by 7 pm ET.

LIBOR swaps created from this splitting will later be converted to SOFR OIS in the Primary Conversion's dress rehearsal held on Friday, February 10. SOFR OIS created from this splitting will require no further action.

Reporting and Messaging

All information pertaining to the terminated basis swaps and resulting cleared fixed-float swaps will be available on January 27's end-of-day IRS Trade Register (IRSTR) file.

- For trade linkage, the "CONVERTED_TRADE_ID" column will be populated with the CME Cleared Trade ID of the original basis swap for each corresponding fixed-float swap
- Terminating Event of "INDEX_CONVERSION" is applied to the terminated basis swaps
- Originating Event of "INDEX_CONVERSION" is applied to the new fixed-float swaps

CME clearing Confirmed messaging corresponding to the terminated basis swaps and fixed-float replacements will be sent to IRS Clearing Firms during conversion processing:

- The "INDEX_CONVERSION" Terminating and Originating Event are sent in the FpML messages
- The "History" element will provide linkage between the original basis swap and fixed-float replacements.

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-conversion-for-usd-libor-cleared-swaps.pdf>

Operational specifications and samples for IRS Clearing Members are also available on the Intralinks file-sharing site.

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

Regards,

CME Clearing