

TO: Clearing Member Firms
Back Office Managers

DATE: February 10, 2023

FROM: CME Clearing

NOTICE #: 23-040

SUBJECT: **Dress Rehearsal for USD LIBOR to SOFR Swap Primary Conversion**

CME will conduct a Dress Rehearsal for the USD LIBOR to SOFR Swap Conversion in the New Release environment on **Friday, February 10, 2023**. This event simulates the Primary Conversion to be held on April 21, 2023.

To facilitate this test, the corresponding Index Cessation Effective Date of the underlying LIBOR index is set to March 3, 2023, in the New Release environment. This date makes the New Release date of March 3, 2023, equivalent to June 30, 2023, in the Production conversion, and represents the last day of USD LIBOR rate publication.

Summary of Conversion Process

At close of business on the Dress Rehearsal date, CME will convert each applicable cleared USD LIBOR Swap into corresponding Short LIBOR Swaps and SOFR 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 Swap(s):
 - For each USD LIBOR swap, a fixed-float SOFR OIS
 - For each USD LIBOR swap with representative LIBOR fixings, an additional Short LIBOR swap is created to settle any unpaid coupon payments from periods with representative fixings.
- Each Replacement Swap will retain key economic terms of the corresponding Pre-Conversion LIBOR Swap. SOFR OIS will also default some economics to the market standard contract. 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 to IRS clearing members and clients via a secured FTP site;

- FpML termination message to relevant CME clearing firms in respect of the termination of each relevant LIBOR Swap; and
- FpML clearing confirmation message to relevant CME clearing firms in respect of the establishment of each new relevant 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. Each replacement swap links back to the original swap through the converted_trade_id on the Trade Register report.

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 SOFR Replacement Swap.
- The cash compensation dress rehearsal amounts will settle on Monday, February 13, 2023.

Indicative Analysis Reporting

- CME is currently publishing an indicative analysis report for production portfolios through July 3, 2023, with File Name: IRS_IBORCONV_FFF_YYMMDD_EOD.csv
- The same report is available for New Release test portfolios through March 3, 2023

Please reference the presentation and videos in the below links for more details on the methodology and timeline:

<https://www.cmegroup.com/trading/interest-rates/files/cme-conversion-for-usd-libor-cleared-swaps.pdf>
<https://www.cmegroup.com/articles/2022/conversion-of-cleared-usd-libor-swaps-to-sofr.html>

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

Regards,

CME Clearing