



TO: Clearing Member Firms
Back Office Managers

DATE: March 29, 2023

FROM: CME Clearing

NOTICE #: 23-106

SUBJECT: **Dress Rehearsal 4 for LIBOR to SOFR Conversion of USD Interest Rate Swaps**

CME will conduct a Dress Rehearsal for the USD LIBOR to SOFR Swap Conversion in the New Release environment tonight, **Wednesday, March 29**, following the close-of-business at 6:00 pm ET. This test simulates the Primary Conversion to be held in Production on April 21, 2023 and includes all LIBOR swap products with the exception of Zero Coupon Swaps.

To facilitate this test, the corresponding Index Cessation Date of the underlying LIBOR indices is set to June 30, 2023. This setting is the same as the Production conversion events.

Summary of Conversion Process

Following the close of business, CME will close out in-scope Pre-Conversion USD LIBOR Swap and establish in the account of the position holder the following Replacement Swap(s):

LIBOR Swap Type	Replacement Swap(s)
Fixed-float IRS	fixed-float SOFR OIS, OR fixed-float SOFR OIS and Short-dated LIBOR IRS
Fed Funds/LIBOR basis swap	Fed Funds/SOFR basis swap, OR Short-dated Fed Funds/LIBOR basis swap and Fed Funds/SOFR basis swap

- Each Replacement Swap will retain key trade attributes of the corresponding Pre-Conversion LIBOR Swap.

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 an sFTP site;
- A FpML termination message will be sent to relevant CME clearing firms in respect of the termination of each relevant LIBOR Swap; and
- A FpML clearing confirmation message will be sent to relevant CME clearing firms in respect of the establishment of each new relevant Replacement Swap(s).
- Indicative analysis report for test portfolio

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.

Operational Timeline: *(all times are estimates)*

- 6:00 – 6:10 pm ET: CME runs netting/blending and sends firms trade messages
- 6:10 – 6:25 pm ET: Indicative Analysis reports published
- 6:25 – 9:00 pm ET: CME runs conversion and sends termination and new trade messages to clearing firms
- 7:00 – 7:30 pm ET: CME publishes end-of-day trade registers with all conversion activity

Cash Compensation

- In order to neutralize the value transfer from the Conversion of the economic position of each USD 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 will be applied by CME to each SOFR Replacement Swap in the form of an “upfront fee”, with fees for this test conversion paying on **Thursday, March 30**.

Indicative Analysis Reporting

- CME is currently publishing daily indicative analysis reports for test portfolios through March 29, 2023, with File Name: IRS_IBORCONV_FFF_YYMMDD_EOD.nr.csv

Daily Conversion Test Schedule

- Beginning on March 30, CME will only accept spot and forward-starting LIBOR IRS in the New Release environment
- Daily conversion runs will be held to simulate CME's production environment following the LIBOR cessation date. The daily conversions will continue indefinitely in the New Release environment.

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