CME Group Advisory Notice

TO: Clearing Member Firms
Back Office Managers

DATE: June 28, 2023

FROM: CME Clearing

NOTICE #: 23-188

SUBJECT: **USD LIBOR to SOFR Secondary Swap Conversion – July 3rd**

CME is on-track to conduct the USD LIBOR to SOFR Secondary (ZCS) Swap Conversion on **Monday, July 3, 2023,** beginning at 7:00 pm ET. Full details of this event are available in Notice 23-103.

Summary of Conversion Process

At close of business on July 3rd, 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.
        - **Note** – USD LIBOR swaps with zero coupon payments are replaced by a single SOFR OIS
- Each Replacement Swap will retain key economic terms of the corresponding Pre-Conversion LIBOR Swap. The SOFR OIS will default some economics to the market standard contract. The conversion methodology and retained swap economics will vary by LIBOR swap economics and cash flow dates.

Operational Information and Reporting

Product Scope:

- Cleared USD LIBOR swaps with non-representative LIBOR fixings
- Zero Coupon Swaps

Out-of-scope: LIBOR swaps with only representative fixings. Includes LIBOR swaps maturing shortly after the cessation date and any LIBOR swaps created during the April 21st conversion.

CME Clearing will provide the following information during the conversion processing:

- 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.

Operational Timeline: (all times are estimates)

- **7:00 – 7:05 pm ET**: CME runs netting/blending and sends firms trade messages
- **7:10 – 7:15 pm ET**: Indicative Analysis reports published
- **7:15 – 7:30 pm ET**: CME runs conversion and sends termination and new trade messages to clearing firms
- **7:45 – 8:10** pm ET: CME publishes end-of-day trade registers with all conversion activity

Trade Linkage:

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. In the Trade Register report (IRSTR), each replacement swap links back to the original swap through the Converted Trade ID.

Client IDs on each replacement swap will be the original swap's Client ID appended with an "L" for LIBOR swaps and an "S" for SOFR OIS.

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 fee amounts will settle on Wednesday, July 5, 2023.

Indicative Analysis Reporting

- CME will publish an indicative analysis report on July 3rd with the actual cash compensation amounts.
- File Name: IRS_IBORCONV_FFF_YYYMMDD_EOD.csv

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