

TO: Clearing Member Firms

FROM: CME Clearing

DATE: October 1, 2012

ADVISORY #: 12-421

SUBJECT: **Value-Date Conventions for Non-USD Variation Margin for Interest-Rate Swaps**

Effective **Thursday, November 8, 2012**, pending regulatory review, CME Clearing will adjust the value-date convention for settling non-USD variation margin obligations for cleared interest-rate swaps. With this adjustment, the value-date for these non-dollar variation moves will be determined solely by the banking calendar of the currency in which the variation is denominated, without any reference to the USD banking calendar. This change will harmonize the value-date convention with OTC market conventions for rate swaps. CME Clearing will settle non-USD currencies on US holidays; the first holiday this will occur for is Veterans Day which is observed Monday, November 12.

On USD banking holidays taking Veteran's Day as an example, all non-USD currency Variation Settlement amounts (AUD, CAD, CHF, EUR, GBP, JPY) will move, and the banking value date on the settlement wires will appear as Monday, November 12, where prior to this change it would appear as Tuesday, November 13. Some detailed examples are highlighted below.

Take for example JPY-denominated variation, which is settled using a T+2 convention. Using end of day variation margin settlement from Thursday, November 8 as an example, the table below illustrates the difference in how variation margin will settle under the **Current State** and the **Future State** (effective November 8, 2012)

State	Value Date for Variation Margin Settlement
<i>Current</i>	Tuesday, November 13, 2012
<i>Future</i>	Monday, November 12, 2012

The effect is analogous for variation amounts denominated in EUR, GBP and CAD, which use a T+1 convention. Using end of day variation margin settlement from Friday, November 9 as an example, the table below illustrates the difference in how variation margin will settle under the **Current State** and the **Future State** (effective November 8, 2012).

State	Value Date for Variation Margin Settlement (EUR & GBP & other T+1 Currencies)
<i>Current</i>	Tuesday, November 13, 2012
<i>Future</i>	Monday, November 12, 2012

For CAD, please note that Monday, November 12 is a bank holiday in Canada (Remembrance Day), thus the value date for CAD-denominated variation margin would be **Tuesday, November 13** under the **Future State** model (effective November 8, 2012).

In settlement and banking reports showing variation amounts for interest-rate swaps, CME Clearing will update the currency code to allow you to distinguish the conventions used for futures versus the convention used for interest-rate swaps. You can see this in the settlement and banking reports in the New Release testing environment today, and the change will take effect in the production environment on Monday, November 5. The key reports to check are **CST590**, **CST620**, and **CST901**.

For example, the currency code for EUR-denominated variation for futures will continue to be **EUR**. The currency code for EUR-denominated variation for IRS contracts will be **EUR1**, meaning the first subsequent banking business day in the EUR banking calendar. Similarly, the currency code for JPY-denominated variation for IRS contracts will be **JPY2**, meaning the second subsequent banking business day in the JPY banking calendar.

The changes to the currency codes for IRS are listed below:

Current Currency Code	New Currency Code
AUD	AUD2
CAD	CAD1
CHF	CHF2
EUR	EUR1
GBP	GBP1
JPY	JPY2
USD	USD

The value-date convention for non-USD variation stemming from futures positions is unaffected by this change, and will continue to take USD bank holidays into account as it currently does.

For further information please contact CME Clearing at onboarding@cmegroup.com or 312-338-7112.