

**CME Group SOFR Discounting & Price Alignment Transition
for Cleared Emerging Market Interest Rate Swaps and OTC FX Products**

Following the October 16th discounting transition of USD Swap Products, CME Group intends to advance the second phase of our transition to bring all other Cleared OTC products with a USD-funding component at CME onto SOFR discounting and Price Alignment.

Scope: All existing Cleared ND-IRS, MXN IRS, and OTC FX products at CME referencing either USD or EUR discounting, comprising of:

LatAm IRS Products	<i>MXN, BRL, CLP, COP</i>
APAC IRS Products	<i>KRW, INR, CNY</i>
OTC FX Products	<i>NDFs (11 Pairs), CSFs (20 Pairs), FX Options (3 Pairs)</i>

Transition Date: CME is targeting Close of Business March 26, 2021.

Cash Adjustment: To neutralize the value transfer from the change to SOFR discounting, CME will process a cash adjustment that is equal and opposite to the NPV change on each trade in all accounts.

Re-hedging Exercise: CME will **not be conducting** a re-hedging and corresponding auction process given the relatively small size of the discounting risk carried in the products and weighting towards the short end of the curve.

Processing: Following the standard EOD cycle using EFFR discounting/PA on Friday, CME will generate a Discounting Transition Report showing the revised NPVs under SOFR discounting and the cash adjustment at the trade level for each position account. The purpose of generating the Discounting Transition Report is to:

- Isolate the impacts of the discounting transition for each relevant trade cleared at CME. In the below example, the Friday SOFR NPV is \$126, generating the -\$1 cash adjustment
- Provide participants ability to reconcile settlement variation on Monday by referencing the cash adjustment amount and prior-day EFFR NPV

	Date	Current NPV	Prior NPV	VM	Adjustment	Total Cash
1	T - 1 (Thursday)	\$100 (EFFR)				
2	T (Friday)	\$125 (EFFR)	\$100 (EFFR)	\$25		\$25
Discounting Transition						
	T + 1 (Monday)	\$140 (SOFR)	\$125 (EFFR)	\$15	-\$1	\$14

Consistent with market conventions, the cash adjustment amount for MXN Swaps will be represented in MXN equivalents whereas the adjustment for NDIRS OTC FX products will be denominated in USD equivalents.

Methodology: Mark-to-Market (MTM) in local currency for each of the swaps is computed by discounting the future cashflows in local currency. MTM for NDIRS is then converted to USD equivalent using Spot FX rate.

CME generates discount and forecast curves for each of the currencies. When pricing under SOFR discounting for EM IRS and OTC FX products in scope, CME will keep the forward projected cashflows (i.e. forecast curves) unchanged.

Testing: CME will deploy the Discounting Transition Reports into our new release test environment on February 10th. Starting on March 5th, CME will publish the Discounting Transition Reports in production on a daily basis, allowing firms to evaluate the impacts to their portfolios at CME.