

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 24-276

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 06/26/24 Filing Description: Modification of Cleared OTC Interest Rate Swap Products Referencing BSBY and Limitation of Acceptance for Clearing  
**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: See filing.

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

**Official Name(s) of Product(s) Affected:**

**Rule Numbers:**

June 26, 2024

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: CFTC Regulation 40.6(a) Certification. Modification of Cleared Over-the-Counter (“OTC”) Interest Rate Swap Products Referencing the Bloomberg Short-Term Bank Yield Index (“BSBY”) and Limitation of Acceptance for Clearing.  
CME Submission No. 24-276**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or the “Clearing House”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or “Act”) hereby certifies to the Commission the following modification to certain CME cleared over-the-counter (“OTC”) Interest Rate Swap (“IRS”) products in connection with the scheduled cessation of publication of the Bloomberg Short-Term Bank Yield Index (“BSBY”) and the publication of rates for all BSBY tenors following final publication on November 15, 2024 (the “BSBY Cessation Date”):

- modifications applicable to certain CME cleared OTC IRS products that reference the BSBY rate and have fixings scheduled to be published after the BSBY Cessation Date<sup>1</sup>, to convert cleared trades in such cleared swap products in each case into:
  - where applicable, a corresponding short-dated CME cleared BSBY IRS to account for remaining floating and fixed coupons under the original swap scheduled to be published prior to the BSBY Cessation Date, and
  - a corresponding CME cleared forward starting overnight index swap (“OIS”) referencing the Secured Overnight Financing Rate (“SOFR”) interest rate benchmark that will maintain the original swap’s fixed rate and maturity, replace the BSBY floating rate with daily compounding SOFR plus a CME-calculated fallback spread adjustment and will apply a 2 day payment offset to both the fixed and floating legs, to be effective on the expiry of the short-dated replacement BSBY IRS; and

to take effect following close of business on Friday, July 12, 2024<sup>2</sup> (the “Conversion Date”),

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<sup>1</sup> BSBY IRS where the last BSBY fixing is published on or before November 15, 2024 will not be subject to the Conversion process and will mature and settle in accordance with their original terms.

<sup>2</sup> As with previous OTC IRS conversions, CME proposes to reserve the right in limited circumstances to amend the Conversion Date in its sole and absolute discretion, for example where implementation of the conversion process on a previously communicated date could result in an unacceptable level of operational or market disruption or where financial stability issues could threaten the orderly transition.

(the “BSBY Conversion”);

- a cash adjustment in the form of an upfront fee will be included on the forward starting SOFR OIS to account for valuation differences between the legacy BSBY IRS (valued under CME’s conversion pricing methodology) and the corresponding replacement swaps arising from the BSBY Conversion; and
- the limitation of clearing support for IRS referencing BSBY following the Conversion Date, after which CME shall accept for clearing only BSBY IRS with fixings scheduled to be published prior to or on the BSBY Cessation Date and which swaps shall be supported until expiration,

(the “BSBY Transition”), to be effective following close of business (“COB”) on Friday, July 12, 2024 (collectively, the “Rule Amendments”).

CME is a systemically important derivatives clearing organization (“SIDCO”)<sup>3</sup> and offers clearing for all products traded on the CME exchange, The Board of Trade of the City of Chicago, Inc., New York Mercantile Exchange, Inc., and Commodity Exchange, Inc. as well as other cleared products, and provides clearing services to third parties.

The modification to implement the BSBY Conversion is set out in the Clearing Advisory Notice attached as Exhibit 1, effective Friday, July 12, 2024. No substantive amendments to the CME Rulebook are required to effect the BSBY Conversion.<sup>4</sup> By publishing a Clearing Advisory Notice to the marketplace, CME will make public the limited withdrawal of clearing support for BSBY IRS from the Conversion Date (except that CME will continue to provide clearing support for BSBY IRS with fixings scheduled to be published on or prior to the BSBY Cessation Date).<sup>5</sup> The list of IRS contracts accepted for clearing by CME will be updated on the CME Group website to reflect the limitation on acceptance for clearing of the relevant IRS contracts and the product rules for BSBY IRS will be amended in Rule 90102.E.1. (“Interest Rate Swaps Rate Options”), as indicated in the attached Exhibit 2.

In operational and certain other terms, the methodology for the BSBY Conversion is substantially similar to the process utilized for the U.S. Dollar LIBOR (“USD LIBOR”) equivalent conversions effected by CME in 2023 under which CME effected the successful transition of CME cleared USD LIBOR OTC IRS into standardized OIS referencing the nominated successor risk-free rate, the Secured Overnight Financing Rate (“SOFR”) and, where relevant, short-dated USD LIBOR swaps to preserve remaining representative fixings, ahead of the scheduled date of non-representativeness of USD LIBOR rates following publication on June 30, 2023 (the “USD LIBOR Conversion”). The conversion approach adopted by CME for the BSBY Conversion is based on those relevant processes utilized by CME in the USD LIBOR Conversion and also on feedback from market participants during a consultation process completed by CME in the first half of

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<sup>3</sup> On July 18, 2012, CME Inc. was designated as a systemically important financial market utility under Title VIII of the Dodd-Frank Act.

<sup>4</sup> CME Rule 90102.H (Application of Permanent Cessation Fallbacks) will not apply to the BSBY IRS contracts which are the subject of this submission.

<sup>5</sup> CME will cease to accept new executions of BSBY IRS for clearing following the Conversion Date, except those BSBY Swaps that have final fixings scheduled to be published prior to the BSBY Cessation Date, which may continue to be submitted for clearing after close of business on the BSBY Conversion Date. CME will cease to accept any new submissions of BSBY IRS from close of business on the BSBY Cessation Date. The Clearing Advisory Notice will be in the form set out in Exhibit 1 and will advise market participants of the limited withdrawal of clearing support for the contracts.

2024. CME published the final proposals that are the subject of this submission in May 2024, together with additional operational details in early June 2024.<sup>6</sup> This approach provides that all cleared BSBY IRS with fixings beyond the BSBY Cessation Date will be converted on a single conversion date (the Conversion Date) and also maintains all BSBY fixings that are scheduled to occur between the Conversion Date and BSBY Cessation Date.

## 1. **Background**

### Scheduled cessation of BSBY

Following a period of consultation with market stakeholders driven by limitations on usage of BSBY within financial products, on November 15, 2023 Bloomberg Index Services Limited (“BISL”), the administrator of BSBY, announced the future permanent cessation of the BSBY index and the publication of all rates for all BSBY tenors to take effect on Friday, November 15, 2024, immediately following publication of the rate for each BSBY tenor (the “BISL Announcement”). The BISL Announcement also confirmed that BISL would not be recommending a fallback replacement rate for BSBY.<sup>7</sup>

As a result of the scheduled cessation of the BSBY rates, relevant market participants are required to ensure that contractual fallbacks should be implemented in bilateral uncleared, cleared and exchange traded derivative markets, triggered by the BISL Announcement of the cessation of BSBY on the BSBY Cessation Date.

### Contractual fallbacks in bilateral markets

In response to the BISL Announcement, on November 20, 2023, the International Swaps and Derivatives Association, Inc. (“ISDA”) published a statement, confirming that the BISL Announcement constitutes an “Index Cessation Event” for the purposes of the 2021 ISDA Interest Rate Derivatives Definitions (the “2021 Definitions”), the 2006 ISDA Definitions (the “2006 Definitions”) and the 2018 ISDA Benchmarks Supplement in respect of all BSBY settings referenced in derivative contracts incorporating the relevant ISDA terms. ISDA further confirmed that, in the absence of a recommended fallback rate nominated by BISL, the relevant ISDA terms would apply to determine the alternative rate which will apply in respect of the USD-BSBY floating rate option under affected contracts, for example, determination of the relevant successor rate by the calculation agent under the 2021 Definitions or the 2006 Definitions, and that relevant contractual fallbacks in the relevant ISDA documentation would apply from the Index Cessation Effective Date in respect of BSBY, being Monday, November 18, 2024, being the first date on which BSBY would ordinarily have been published or provided and will no longer be published or provided.<sup>8</sup>

Unlike the previous IBOR fallback events, there is no industry or regulator recommended rate to replace the USD-BSBY floating rate option in contractual fallbacks from the BSBY Cessation Date and therefore

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<sup>6</sup> The final methodology for the BSBY Conversion was published by CME in May 2024 following a period of consultation and is available on the CME website at: <https://www.cmegroup.com/markets/interest-rates/files/conversion-plan-cme-cleared-bsby-interest-rate-swaps.pdf>. Additional operational level detail was provided by CME in June 2024, see: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>. CME’s approach to the June 2023 USD LIBOR Transition is set out in Clearing Advisory 23-103, available at: <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2023/03/Chadv23-103.pdf>. See also CME Submission 23-082, accessible at: <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2023/1/23-082.pdf>.

<sup>7</sup> See BISL announcement: <https://assets.bbhub.io/professional/sites/10/BSBY-Future-Cessation-Announcement-.pdf>

<sup>8</sup> ISDA statement available at: <https://www.isda.org/a/vbqqE/Future-Cessation-of-the-Bloomberg-Short-Term-Bank-Yield-Index-Final.pdf>

contractual fallbacks may differ as agreed between market participants. As a result, CME considers it necessary to nominate a successor floating rate option for relevant CME cleared IRS referencing BSBY with fixings beyond the BSBY Cessation Date and to implement a conversion process of CME cleared contracts into standardized OIS referencing the relevant successor floating rate option, under a process similar to that used by CME for IBOR conversions, in good time ahead of the implementation of contractual fallbacks under bilateral derivative agreements.

#### Determination of a successor rate to BSBY for CME cleared contracts

BSBY was originally developed by BISL in response to demand from cash market participants for an interest rate with a credit-sensitive spread with a forward-looking term structure to track the US wholesale unsecured funding market and supplement SOFR. BSBY is a credit sensitive index that measures the average yields at which large, global banks access USD senior unsecured marginal wholesale funding.

On this basis, CME has determined that the relevant successor rate for the purposes of the conversion of CME cleared BSBY swaps should be SOFR. The SOFR rate is a reference rate administered by the Federal Reserve Bank of New York and which provides a broad measure of the cost of borrowing USD cash overnight collateralized by US Treasury securities, calculated based on overnight observable transactions in the active and liquid USD Treasury repo market.<sup>9</sup> SOFR is an overnight rate only based on the funding cost of overnight transactions secured by US Treasury securities. Of all available potential successor rates, based on feedback received from market participants during CME's consultation process, CME considers SOFR to be the most appropriate successor reference rate to BSBY for CME cleared BSBY swaps.

SOFR Swaps are widely traded and cleared. CME supports clearing of SOFR IRS and CME also lists SOFR Futures on the CME designated contract market.<sup>10</sup> As a result, conversion of CME cleared BSBY swaps into standardized SOFR OIS ahead of the BSBY Cessation Date is considered by CME and market participants to be the optimal solution to the issue of contractual fallbacks for BSBY IRS.

#### Determination of methodology for CME conversion of BSBY cleared contracts

Market participant feedback received during CME's consultation process reflected the preference of position holders for CME to adopt a CCP-led approach to conversion of any CME cleared BSBY swaps utilizing a methodology substantially the same as that utilized by CME for previous IBOR fallback conversions, for example, the USD LIBOR to SOFR conversion undertaken by CME in June 2023, ahead of the scheduled "non-representativeness" of USD LIBOR after publication on June 30, 2023.

As with previous IBOR conversions, CME's key considerations for the methodology included:

- ensuring that pricing of BSBY swaps is fair and not subject to manipulation to USD BSBY rates;
- reducing the differences in cash flow amounts for the projected cash flows pre- and post-conversion;
- ensuring that converted swaps would maintain scheduled BSBY fixings from the original BSBY swap due to be published prior to the BSBY Cessation Date; and

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<sup>9</sup> See <https://www.newyorkfed.org/markets/reference-rates/sofr>.

<sup>10</sup> Information on volume of CME cleared OTC SOFR Swaps are available at <https://www.cmegroup.com/education/cme-volume-oj-records.html>. Information on CME SOFR Futures, including contract specifications and trading and volume data, are available at <https://www.cmegroup.com/trading/interest-rates/secured-overnight-financing-rate-futures.html>.

- price replacement swaps on the relevant conversion date consistent with an agreed pricing approach.

However, unlike previous IBOR conversions effected by CME, in the absence of an industry nominated successor rate for BSBY, there is also no industry agreed pricing methodology for the calculation and processing of contractual fallbacks for BSBY swaps to reference SOFR, nor is there an industry agreed or published “spread adjustment” to enable the fallback / conversion from BSBY to SOFR reference rates.<sup>11</sup> In contrast, for previous IBOR conversions, CME utilized the relevant ISDA “Fallback Rate” (which replaced the relevant affected IBOR rate in the contract) as part of the IBOR conversion methodology, which rate was in each case calculated by BISL according to the industry-agreed pricing methodology published by ISDA (the “ISDA Fallback Pricing Methodology”)<sup>12</sup>, based on the combination of the following components for each relevant tenor:

- Adjusted RFR: compounded setting in arrears RFR for each relevant term;<sup>13</sup>
- ISDA Spread Adjustment: median of the historical differences between the relevant IBOR rate for each tenor and the compounded RFR for that tenor over a five-year period prior to the relevant trigger event.<sup>14</sup>

For example, in the case of the recent CME Canadian Dollar (“CAD”) IRS conversion that CME effected in May 2024, the nominated RFR successor rate to the CAD Canadian Dollar Offered Rate (“CDOR”) is the spread adjusted Canadian Overnight Repo Rate Average (“CORRA”), which in turn gave the relevant Fallback Rate for bilateral uncleared CAD CDOR derivative contracts under ISDA contractual fallbacks, utilizing the BISL published ISDA Spread Adjustment for CAD CDOR settings.<sup>15</sup> In order to promote close coordination with bilateral fallbacks, in May 2024 CME therefore “converted” the initial population of cleared CAD CDOR swaps into standardized CORRA referencing OIS, accounting for the ISDA Spread Adjustment

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<sup>11</sup> The “spread adjustment” in each case for ISDA IBOR fallbacks provided an important part of the overall fallback rate and was designed to reflect a portion of the structural differences between relevant IBORs and the corresponding RFR used as the fallback rate. For example, where an IBOR incorporates a credit risk premium but the corresponding RFR is “risk-free” then the purpose of the relevant spread adjustment was to account for this credit risk premium, calculated using a historical median approach over a five-year lookback period from the date of the announcement on the IBOR cessation / non-representativeness. Under this protocol, the fallback for each relevant IBOR setting was based on the relevant RFR compounded in arrears to address the differences in tenor, plus the relevant spread adjustment, calculated by BISL in each case. The methodology was agreed by ISDA following multiple industry consultations.

<sup>12</sup> BISL and its affiliates was selected by ISDA as the vendor to calculate and distribute the RFR adjustments required for IBOR and other conversions determined in accordance with the ISDA Fallback Pricing Methodology. BISL calculates and publishes the relevant Adjusted RFR according to the prescribed ISDA methodology, as set out in the IBOR Fallback Rate and Adjustments Rule Book published by BISL at [https://assets.bbhub.io/professional/sites/10/IBOR-Fallback-Rate-Adjustments-Rule-Book\\_V4.1\\_Jun2023.pdf](https://assets.bbhub.io/professional/sites/10/IBOR-Fallback-Rate-Adjustments-Rule-Book_V4.1_Jun2023.pdf). In the absence of a nominated successor RFR for BSBY, there is no relevant process BISL or ISDA process for calculating an Adjusted RFR for BSBY fallbacks.

<sup>13</sup> To determine the Adjusted RFR, the underlying RFR is compounded over an accrual period corresponding to the tenor of the relevant IBOR. The start of the accrual period is determined firstly by following the market convention Reference Spot Lag, and then applying a two business day backward shift, of Offset Lag. The compounded rate is annualized, and the day count convention is adjusted to match that of the relevant IBOR. See: <https://data.bloomberglp.com/professional/sites/10/IBOR-Fallbacks-Fact-Sheet.pdf>.

<sup>14</sup> For each relevant IBOR, BISL calculated and published the relevant ISDA Spread Adjustment and Fallback Rate according to the prescribed ISDA methodology, described in summary at <https://data.bloomberglp.com/professional/sites/10/IBOR-Fallbacks-Fact-Sheet.pdf>.

<sup>15</sup> By way of example, the relevant information on the ISDA Spread Adjustment for CAD CDOR settings published by BISL under the ISDA methodology is available at [https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks\\_CDOR\\_Cessation\\_Technical-Note\\_220516.pdf](https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks_CDOR_Cessation_Technical-Note_220516.pdf):



on the floating leg on the replacement CORRA referencing swap, ahead of the final publication date for CAD CDOR.<sup>16</sup>

In the case of BSBY, in the absence of an industry nominated successor rate for BSBY or corresponding ISDA spread adjustment or fallback rate for BSBY contractual fallbacks, in contrast to the prior and recent CME IBOR conversions, CME has been required to develop its own conversion pricing approach and methodology for the purposes of converting CME-cleared BSBY swaps into corresponding SOFR OIS. Based on market participant feedback during the consultation process, CME has determined that the CME BSBY conversion pricing and swap conversion methodology should be based on the same principles as previous IBOR conversions, utilizing a conversion pricing approach based on the ISDA Fallback Pricing Methodology and a CME-calculated spread adjustment and fallback rate for BSBY based on the same methodology utilized by BISL for the calculation of ISDA Spread Adjustments and publication of IBOR fallback rates for previous IBOR contractual fallbacks, for example, GBP/JPY/CHF LIBOR, USD LIBOR and CAD CDOR contractual fallbacks.

In connection with this approach, CME has calculated fallback spreads to adjusted SOFR (daily compounded SOFR)<sup>17</sup> for each of the 1M and 3M BSBY tenors, using its published methodology based in turn on the ISDA Fallback Pricing Methodology.<sup>18</sup> For these purposes, CME has considered the BISL Announcement date of November 15, 2023, as the “Spread Adjustment Fixing Date” for BSBY for the purposes of the calculation. Consistent with BISL’s calculated spread adjustments for IBOR rates, the CME BSBY fallback spread adjustment is calculated as the median spread between BSBY and adjusted SOFR over the preceding five-year period from the BISL Announcement. The relevant methodology and CME-calculated fallback spreads were published by CME and subject to a consultation process with market participants, with final publication in May 2024.<sup>19</sup> No objections were raised to the published CME-

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<sup>16</sup> CME Rule 90102.H. (Application of Permanent Cessation Fallbacks) confirms the application of the Permanent Cessation Fallback provisions in the 2021 ISDA Definitions to CME cleared trades. Rule 90102.H. is expressed to be subject to the other chapters of or provisions of or made under the CME Rules and subject to and without prejudice to any specific actions that are determined by the Clearing House in its sole and absolute discretion to be necessary on the occurrence of a Permanent Cessation Trigger with respect to any Floating Rate Option referenced under an IRS Contract, each as defined in the 2021 ISDA Definitions. As set out in Clearing Advisory [21-335](#) and [CME Submission No. 21-431](#), Rule 90102.H. therefore does not limit CME’s ability to take alternative action in relation to circumstances that constitute a Permanent Cessation Fallback, for example and without limitation, to participate in a CCP-led transition away from a particular reference rate subject to a Permanent Cessation Fallback ahead of a transition date required under the 2021 Definitions. CME is able to exercise its discretion not to apply the “Permanent Cessation Fallbacks” from the ISDA 2021 Definitions incorporated into the CME Rules. In the case of the scheduled cessation of publication of BSBY, in response to market participant feedback, CME does not propose to apply the “Permanent Cessation Fallbacks” within the ISDA 2021 Definitions and CME Rule 90102.H to BSBY Swaps cleared by CME. Instead, based on consultations with market participants and consistent with broader cleared industry initiatives and its approach to the USD LIBOR Transition in 2023, CME proposes to effect the conversion of BSBY Swaps into corresponding standardized SOFR OIS ahead of the final publication date of BSBY. As a result, the amendments to the terms of the CME Rules set out in the Clearing Advisory in respect of the BSBY Conversion expressly disapply the Permanent Cessation Fallbacks set out in CME Rule 90102.H. for the purposes of the BSBY Transition.

<sup>17</sup> Under the methodology used for calculating the adjusted RFR rate, the underlying RFR is compounded over an accrual period corresponding to the tenor of the original rate (e.g. IBOR, BSBY, etc). The start of the accrual period is determined firstly by following the market convention Reference Spot Lag, and then applying a two business day backward shift, or Offset Lag. The compounded rate is annualized, and the day count convention adjusted to match that of the original rate.

<sup>18</sup> As noted above, the ISDA Fallback Pricing Methodology was previously utilized by BISL to calculate and publish adjustments related to fallbacks to RFRs under the ISDA Definitions, which in turn were incorporated into CME’s previous relevant IBOR conversions for cleared swaps. CME’s fallback spread calculation methodology for BSBY is therefore consistent with the approach used by BISL during prior fallback spread calculations for IBOR rates, which in turn incorporates the ISDA Fallback Pricing Methodology.

<sup>19</sup> See: <https://www.cmegroup.com/markets/interest-rates/files/conversion-plan-cme-cleared-bsby-interest-rate-swaps.pdf>

calculated spread adjustment rates which are now fixed by CME for the purposes of the BSBY Conversion as follows:

<b>BSBY Tenor</b>	<b>CME calculated BSBY Fallback Spread (bps)</b>
1M	3.403
3M	12.878

(the “BSBY Fallback Spreads”).

CME proposes that the corresponding BSBY Fallback Spread calculated by CME according to this methodology will be applied as a spread on the floating leg of each SOFR OIS that would result from the conversion of CME cleared BSBY swaps. The relevant CME-calculated BSBY Fallback Spread will also be used by CME for the purposes of computing the projected BSBY forward rate on the Conversion Date, utilizing the CME methodology provided to market participants and made public by CME in early June 2024, together with confirmation of the CME BSBY Fallback Spreads.<sup>20</sup>

#### CME Methodology for BSBY Transition

The methodology utilized by CME to calculate the BSBY Fallback Spreads is based on the ISDA Fallback Pricing Methodology previously utilized by BISL, acting on appointment by ISDA to calculate and distribute RFR adjustments for certain ISDA IBOR contractual fallbacks. CME has permission from ISDA and BISL to utilize the methodology for the purposes of the BSBY Conversion, including the calculation and publication of the BSBY Fallback Spreads for use by CME in relation to contractual fallbacks for CME cleared swaps. BISL and ISDA, as applicable, are the owners of the intellectual property rights with respect to the ISDA Fallback Pricing Methodology and the BISL IBOR Fallback Rate Adjustments Rule Book. CME is solely responsible for the determination and application of the relevant methodology and the calculation and publication of the BSBY Fallback Spreads, and for use in any conversion process implemented by CME. Neither ISDA nor BISL endorses the BSBY Fallback Spreads or CME’s proposed methodology and neither ISDA nor BISL has any responsibility or liability for CME’s utilization of the methodology, calculation or publication of the BSBY Fallback Spreads or use of the BSBY Fallback Spreads in any fallback or conversion process conducted by CME, or use of the BSBY Fallback Spreads by any other person. The BSBY Fallback Spreads should not be used by any other person as a reference rate within a financial instrument or financial contract.

The methodology proposed by CME for the BSBY Transition ensures that each resulting conversion swap will retain the key economic terms of the corresponding original BSBY Swap to the extent practicable, in accordance with CME’s published methodology, and shall include the BSBY Fallback Spread calculated by CME<sup>21</sup>. The CME approach to the BSBY Conversion also maintains BSBY fixings that are scheduled to be

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<sup>20</sup> See: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>

<sup>21</sup> Key economic terms to be carried over include notional amount, direction, maturity date, etc. If the notional of the original swap is constant (bullet), the notional of the original swap is carried over to both replacement swaps. Notional type (bullet) is also carried over to both swaps. If the notional of the original swap is variable, the notional step schedule is carried over to the replacement



published prior to the BSBY Cessation Date. Further, pricing the original BSBY Swaps under the CME Methodology for BSBY Transition (based on the ISDA Fallback Pricing Methodology) to compute the Cash Adjustment ensures that the BSBY Swap value is fair and is not subject to manipulation to USD BSBY marks. The Cash Adjustment is designed to compensate position holders for any changes in valuation from the original, legacy BSBY swaps. This adjustment is intended to ensure that the conversion event would be a zero-sum event from a “profit and loss” (“PNL”) perspective at the point of conversion. As a result, differences in projected cash flow amounts are reduced which ensures the Conversion will result in a minimal change in risk exposure for a position holder of an original BSBY Swap.

#### Contractual Fallbacks under CME Rules and Market Participant-Driven Solution for Cleared Markets

As noted above, in making its announcement regarding the BSBY Cessation Date, BISL determined not to nominate a recommended successor to BSBY. In contrast to certain IBOR transitions in recent years, it is also notable that global regulators have allowed the market to determine appropriate BSBY transition arrangements and have therefore not nominated or endorsed a specific RFR as a successor rate. As a result, in the absence of a regulator-endorsed or clear industry-approved process, CME consulted market participants as part of its engagement on the CME cleared BSBY swap transition plans to determine industry preferences in relation to any proposed conversion process and successor RFR.<sup>22</sup>

Based on market participant feedback, CME does not propose to rely on contractual fallback language contained in the CME Rules (based on the ISDA fallback provisions) that would otherwise apply to CME cleared BSBY swaps from the BSBY Cessation Date. As with the recent CME-led IBOR transitions, instead the industry consensus communicated to CME by market participants indicated that the significant majority of cleared market participants prefer an “early” and “CCP-led” transition of cleared BSBY Swaps to standardized cleared SOFR OIS ahead of the BSBY Cessation Date. Market participants have informed CME that the CCP-led conversion of BSBY swap exposures into market standard SOFR swaps benefits the marketplace by providing a clear operational pathway to convert BSBY exposures into liquid standardized SOFR OIS exposure, based on a clear, transparent methodology and the published BSBY Fallback Spreads. Transitioning BSBY exposures into the liquid pool of SOFR OIS ensures that the relevant swaps are capable of being supported by clearing following the BSBY Cessation Date and further provides certainty to market participants that “legacy” and “new” contracts would be fungible with one another following the transition to SOFR OIS.

On this basis, CME has determined that it will not implement the “Permanent Cessation Fallbacks” anticipated by CME Rule 90102.H. for BSBY on the “Index Cessation Effective Date” as set out in the CME

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swaps and the notionals of the replacement swaps will match the step schedule of the original swap. In some cases, there may be no actual changes to the notional in one or both of the replacement swaps despite a variable notional swap type. In this case, the notional type of the replacement(s) is changed to “bullet”.

<sup>22</sup> During the first half of 2024, as part of ongoing discussions with market participants on this issue and following the successful transition of USD LIBOR swaps in 2023, CME shared public details of the proposals to effect an “early” and “CCP-led” transition away from BSBY ahead of the Index Cessation Effective Date. CME published final proposals in May 2024, and full operational details in early June 2024.

Rulebook and proposes instead that, subject to regulatory review, CME will implement the BSBY Transition, as summarized below, from close of business on the BSBY Conversion Date.

#### Summary of Proposed Conversion of CME cleared BSBY Swaps

In operational terms relating to the conversion process of BSBY swaps, CME's methodology for the BSBY Transition is substantively the same as the USD LIBOR Conversion effected by CME in 2023 under which CME effected the successful conversion of cleared USD LIBOR OTC IRS into CME cleared SOFR OIS (and, where applicable, short-dated USD LIBOR swaps to maintain representative USD LIBOR fixings) ahead of the scheduled date of non-representativeness of USD LIBOR rates following publication on June 30, 2023.

Subject to regulatory review, CME proposes to transition CME cleared BSBY Swaps with fixings beyond the BSBY Cessation Date by:

- converting such contracts to standardized OIS that reference SOFR with a start date equal to the start of the floating period following the BSBY Cessation Date, to settle all remaining cash flows and account for a cash compensation fee<sup>23</sup>; and
- in certain cases, book an additional short-dated BSBY swap to settle all BSBY fixings scheduled to be published prior to the BSBY Cessation Date,

on the BSBY Conversion Date, utilizing a mandatory conversion process and the relevant methodology determined by CME, as summarized below:

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<sup>23</sup> Using standard SOFR OIS trade attributes ensures that the replacement SOFR OIS are supported by execution venues and back office systems.

Date	CME cleared swaps subject to Conversion	Output of Conversion
July 12, 2024	BSBY IRS that contain any fixing dates scheduled to be published after November 15, 2024*.  *Any BSBY IRS which has a final fixing scheduled to be published before COB November 15, 2024 will be left to mature and will not undergo conversion.	For Seasoned Swaps: <ul style="list-style-type: none"> <li>• Short-dated BSBY Swap accounting for all remaining unsettled BSBY fixings that are scheduled to be published prior to the BSBY Cessation Date in respect of the original BSBY Swap; and</li> <li>• Forward Starting SOFR OIS with start date of the maturity date of the Short-Dated BSBY Swap</li> <li>• Fixed cash flows and compounded cash flows on the replacement swaps may not match the original BSBY Swap in some cases (see examples)</li> </ul>
		For Forward Starting Swaps with an effective date after the BSBY Cessation Date: <ul style="list-style-type: none"> <li>• Forward Starting SOFR OIS with effective/maturity dates and fixed leg economic terms (excluding payment offset) of original BSBY Swap               <ul style="list-style-type: none"> <li>• Single compensation fee is included and paid the following New York business day</li> <li>• 2-day payment offset is added to both legs of the SOFR OIS, consistent with market standard OIS conventions</li> </ul> </li> </ul>

### Conversion Processes - Adjustment Methodology

CME has published its detailed methodology for the Conversion processes, including worked examples, provided as Exhibit 3 to this Submission.<sup>24</sup> The relevant methodology is summarized below:

- each resulting CME cleared SOFR OIS arising from the Conversion process (each, a “Forward Starting SOFR OIS”) will account for the BSBY Fallback Spread on the floating leg of the SOFR OIS swap, retaining the key economic terms of the original trade, subject to certain adjustments described below and determined by CME according to its published methodology;
- each resulting CME cleared short-dated BSBY Swap arising from the Conversion process (each, a “Short-Dated BSBY Swap”) is designed to account for any scheduled BSBY fixing coupons which are due to take place prior to the BSBY Cessation Date, restating these accrual periods as Short-Dated BSBY Swaps which will have economic terms as determined by CME according to its published methodology, the purpose of which is to reduce the differences in cashflow amounts for the projected cashflows;
- in order to neutralize the value transfer from the Conversion of the economic position of each original BSBY Swap into each relevant Forward Starting SOFR OIS, CME will calculate a cash adjustment amount that will be based on the difference between the net present value (“NPV”) of the original BSBY Swap and the combined NPV of the Forward Starting SOFR OIS and any Short-Dated BSBY Swap on the Conversion Date. The Cash Adjustment for each Forward Starting

<sup>24</sup> The CME BSBY Cleared Swap Conversion methodology document is available on the CME website at: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>

SOFR OIS will be equal and opposite to the change in NPV calculated by CME, and therefore may be a positive or negative amount depending on the position (the “Cash Adjustment”).<sup>25</sup> The Cash Adjustment amount will be applied by CME in the form of upfront “fees” on each resulting cleared Forward Starting SOFR OIS on the Conversion Date;

- cash flows relating to the Cash Adjustment will be applied in the next end of day clearing cycle following the Conversion Date;
- the Cash Adjustment will ensure that the NPV change for position holders impacted by the Conversion will be neutralized;
- in each case, any Forward Starting SOFR OIS will be cleared as a CME cleared SOFR OIS (referencing the USD-SOFR-OIS Compound Floating Rate Option) and any Short-Dated BSBY Swap will be cleared as a BSBY Swap and shall not be subject to the fallback provisions in Rule 90102.H.

### Conversion Date – Conversion Processes

#### *A: BSBY IRS excluded from Conversion*

The following CME cleared BSBY IRS open on the Conversion Date are excluded from the conversion process on the Conversion Date:

- (i) BSBY Swaps that mature on or before the Conversion Date; and
- (ii) BSBY IRS where the last BSBY fixing is scheduled to be published after the Conversion Date but on or before November 15, 2024, which shall expire and settle on their original terms.

#### *B: Conversion of Seasoned BSBY Swaps*

On the Conversion Date, CME will convert each CME cleared BSBY Swap that has an effective date before the Index Cessation Effective Date (each, a “Seasoned Swap”) into:

- (i) a corresponding standardized Forward Starting SOFR OIS, retaining the key economic terms of the original BSBY Swap trade; and
- (ii) a Short-Dated BSBY Swap accounting for all BSBY fixings scheduled to be published prior to the Index Cessation Effective Date,

in each case subject to certain adjustments determined by CME described above (in Adjustment Methodology), including the Cash Adjustment which shall be applied to each Forward Starting SOFR OIS, and applied according to its published methodology set out in Exhibit 3.

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<sup>25</sup> Where the holder of a Forward Starting SOFR OIS had benefited from a change in NPV, an upfront fee equal and opposite to that amount of change in NPV would be applied to that Forward Starting SOFR OIS and such amount would be due from the position holder at the next clearing cycle. Where the holder of a Forward Starting SOFR OIS experiences a negative change in NPV, an upfront fee equal and opposite to that amount of change in NPV would be applied to the Forward Starting SOFR OIS and such amount would be due to the position holder at the next clearing cycle. The net cash flow position for all participants is neutral. The net cash flow position for the Clearing House is neutral.

*C: Conversion of Forward Starting BSBY Swaps with an effective date after the Index Cessation Effective Date*

On the Conversion Date, CME will convert each CME cleared BSBY Swap that is a Forward Starting Swap with an effective date after the Index Cessation Effective Date and which is open on the Conversion Date into:

- a corresponding standardized Forward Starting SOFR OIS, retaining the key economic terms of the original BSBY Swap trade,

in each case subject to certain adjustments determined by CME described above (in Adjustment Methodology), including the Cash Adjustment which shall be applied to each Forward Starting SOFR OIS, and applied according to its published methodology set out in Exhibit 3.

*D: Characteristics of each resulting Forward Starting SOFR OIS:*

Each Forward Starting SOFR OIS resulting from the Conversion process will:

- maintain the effective/maturity dates and fixed leg economic terms (excluding payment offset) of the original BSBY Swap;
- include a payment offset (2D) added to both legs of the resulting SOFR OIS swap, consistent with market standard SOFR OIS conventions;
- include a single compensating upfront fee (the Cash Adjustment) to be paid the following New York business day;
- Fixed leg day counts defaulted to the market standard convention, Actual/360;
- Payment calendars default to US New York (USNY).

*E: Conversion approach to Swap Stub Periods*

Stub periods require special processing when converting BSBY Swaps as there are different methods used to specify the original Floating Rate Option.

- Short-dated BSBY Swaps: CME will carry over the stub type, period start, and period end dates if the stub will be paid out after the Conversion Date and the stub has a fixing scheduled to be published prior to the Index Cessation Effective Date. Stub periods will reference the published BSBY fixing rates.
- SOFR OIS: Forward starting stub periods will maintain the period start and end dates with a daily compounded overnight rate. The compounding method is the same as a standard period. Fallback spreads apply to stub periods.

Limitation of Clearing Support for BSBY Swaps after Conversion Date

From COB on the Conversion Date, except for the limited exception noted below, CME will cease to accept BSBY Swaps for clearing.

Until further notice by CME to market participants, from the Conversion Date CME will continue to accept BSBY swaps with all fixings scheduled to be published on or prior to the BSBY Cessation Date.

For the avoidance of doubt, from the Conversion Date CME will not accept any BSBY swap with fixings scheduled to be published after the BSBY Cessation Date.

The BSBY Conversion is a mandatory process and the terms set out in the Clearing Advisory (in the form appended as Exhibit 1) will apply to all affected cleared trades in BSBY Swaps from July 12, 2024, subject to regulatory review.

#### Amendment to Conversion Date in Limited Circumstances

CME will reserve the right to amend the Conversion Date in its sole and absolute discretion prior to the Conversion in limited circumstances, for example, where implementation of the conversion process on the previously communicated date could, in the opinion of the Clearing House, result in an unacceptable level of operational or market disruption or where financial stability issues could threaten the orderly transition. In such circumstances, CME would communicate the amended Conversion Date to market participants as soon as practicable upon making such determination.<sup>26</sup>

#### Legal and Operational Characterization; Messaging and Reporting to SDR

In legal and contractual terms, each Conversion process will amend the terms of cleared trades in CME cleared BSBY Swaps, converting the terms of each cleared trade to a standardized CME cleared SOFR interest rate swap and, where applicable, a Short-Dated BSBY Swap. From an operational perspective, each relevant Conversion will be processed by CME as a “termination” of each relevant BSBY Swap and the establishment of a “new” corresponding cleared trade in SOFR OIS within the clearing system, the Forward Starting SOFR OIS or corresponding SOFR swap and, where applicable, a new Short-Dated BSBY Swap.

To reflect the operational processes within the clearing system, CME will send:

- a termination message to relevant CME Clearing Members in respect of the termination of each relevant converted BSBY Swap; and
- a clearing confirmation message to relevant CME Clearing Members in respect of the establishment of each new relevant Forward Starting SOFR OIS or corresponding SOFR swap and, as applicable, Short-Dated BSBY Swap.

As part of the Conversion process, a subset of Trade IDs from each original BSBY Swap will be carried over to the relevant resulting SOFR OIS and Short-Dated BSBY Swap. The CME Trade ID and USI/UTI are not carried over but, in order to identify the link between each original BSBY Swap and the relevant resulting SOFR OIS and any Short-Dated BSBY Swap, CME will add a replacement Trade ID and Original Trade ID respectively in the History section of the clearing confirmation messages.

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<sup>26</sup> CME Clearing has identified a provisional contingency fallback date of July 26, 2024, in the event that the July 12, 2024, date for the Conversion is determined to be unsuitable as the date of Conversion.



CME will report the close out of each BSBY Swap and the establishment of each corresponding Forward Starting SOFR OIS, Short-Dated BSBY Swap and/or other resulting SOFR swap in the account of the relevant position holder to the CME SDR under Part 45 of the CFTC's Regulations. With regard to reporting data submitted to SDR in respect of each resulting swap, CME will populate the "Prior USI" or "Prior UTI" field with the USI/UTI of the relevant original BSBY Swap to reflect the nature of the Conversion process. For SDR reporting purposes, reporting rows will be generated and submitted to CME SDR terminating the USI/UTI of each original BSBY Swap and CME will ensure that each resulting SOFR swap will be reported as a "New Trade."

### Examples of Cash Adjustment Amount Calculation and Processing

#### *Calculation of Cash Adjustment Amount*

The Cash Adjustment amount is necessary to account for the difference in valuation between the original BSBY Swap and the combined valuation of the resulting SOFR OIS and any related Short-Dated BSBY Swap on the Conversion Date. The difference in the NPV of each original BSBY Swap and the corresponding replacement swaps on the Conversion Date represents a gain or loss to the relevant position holder in each case. In order to neutralize the transfer in value between position holders arising from the transition, CME will apply a Cash Adjustment amount equal and opposite to the change in NPV resulting from the transition to each resulting SOFR OIS.

The Cash Adjustment amount will be calculated by CME on the Conversion Date as follows (the "Conversion Calculation"):

- On or shortly after COB on the Conversion Date, the Clearing House will conduct a standard valuation calculation during the end of day clearing cycle, to determine the NPV for each relevant original BSBY Swap subject to the Conversion process on that date, calculated utilizing CME's closing curve marks on the Conversion Date for each position account and utilizing the CME methodology and fallback spread calculation that is based on the equivalent ISDA IBOR methodology used by BISL for prior IBOR conversions (the "CME Methodology for BSBY Transition").
- Upon establishment of each SOFR OIS and any Short-Dated BSBY Swap within the clearing system, on or shortly after COB on the Conversion Date, the Clearing House will conduct an additional calculation to determine the NPV for each SOFR OIS and any Short-Dated BSBY Swap calculated utilizing CME's closing curve marks on the Conversion Date for each position account.
- Note that the determination of the NPV of the original BSBY Swap and the SOFR OIS and any Short-Dated BSBY Swap will be calculated on an "adjusted" basis, where the adjusted NPV in each case is the NPV less the present value of any fee or coupon payment due to bank on the following Business Day.
- The difference between the two NPV calculations for each original BSBY Swap and the corresponding replacement swap(s) represents the change in NPV arising from the conversion of the reference rate exposure of that position from the BSBY rate to SOFR.

The relevant Cash Adjustment amount to be applied to each resulting SOFR OIS in each position account shall be equal and opposite to the relevant change in NPV calculated by CME in the Conversion Calculation. As the Cash Adjustment for each SOFR OIS will be equal and opposite to the change in NPV calculated by CME, it may be a positive or negative amount depending on the position.

#### *Payment of Cash Adjustment Amount*

Where the holder of a resulting SOFR OIS had benefited from a change in NPV, i.e., where the resulting swap(s) NPV is greater than the corresponding original BSBY Swap NPV, the Cash Adjustment will be a negative amount equal to that change in NPV. The Cash Adjustment amount will be applied to the resulting SOFR OIS as an upfront fee which will be due and paid from the position holder (to the Clearing House as central counterparty and other party to the cleared trade), at the next clearing cycle following the Conversion Date, during which cycle settlement variation for positions in the SOFR OIS will be determined and outstanding exposures and payments netted and settled in accordance with CME Rule 814 (“Settlements, Settlement Variation Payment, and Option Value”). Accordingly, where the holder of a resulting SOFR OIS experiences a negative change in NPV, the Cash Adjustment will be a positive amount and will be applied to the SOFR OIS as an upfront fee which will be due and paid to the position holder (from the Clearing House, as central counterparty and other party to the cleared trade).

Given that the change in NPV calculated by the Conversion Calculation is offset exactly by the Cash Adjustment amount, indicated by the figure in the “Net Cash Flow” column in the examples in the table below, the net cash flow with respect to the NPV change is zero on both a per account basis and an overall product basis for the Clearing House.

#### *Cash Adjustment Examples*

The example below demonstrates the operational processing of a Conversion for a hypothetical BSBY Swap and the Cash Adjustment processes, reflecting the operational characterization of the process as a “termination” of the original BSBY Swap and establishment of a “new” Forward Starting SOFR OIS and corresponding Short-Dated BSBY Swap. As noted above, in legal terms, the Conversion is treated as an amendment of the terms of the relevant cleared trade.

*As of COB on Friday, July 12, 2024*

	Value Date	Cleared Trade ID	Floating Rate Option	Status	NPV	NPV Adj.*	Previous NPV Adj.	Variation Margin	Upfront Payment	Fee Type	Payment Date	Net Cash Flow
Original BSBY Swap	07/12/2024	20162532	USD-BSBY	TERMINATED	0	0	38,012.03	-38,012.03	-	-	-	-38,012.03
Short-Dated BSBY Swap	07/12/2024	20216009	USD-BSBY	CLEARED	9,926.50	9,926.50	0	9,926.50	-	-	-	9,926.50
Forward Starting SOFR OIS	07/12/2024	20215998	USD- SOFR- OIS Compound	CLEARED	29,955.78	29,554.44	0	29,554.44	401.56	UPFRONT_FEE	07/15/2024	29,955.78

*BSBY Swap valuation 07/12/24 = 39,882.50*

\* NPV Adj. reflects the value of the swap removing any fee payments to be made the following business day. In the event of multiple replacement swaps, all Adjusted NPVs are added to calculate the Cash Adjustment.

#### *Cash Adjustment Calculation Example\**

Original BSBY Swap Valuation NPV Adj. as at COB July 12, 2024 = 39,882.50 (shown as zero above since swap has terminated in conversion, from an operational perspective)  
 Forward Starting SOFR OIS Valuation + Short-Dated BSBY Swap Valuation (NPV Adj. as at 07/12/2024) = 9,926.50 + 29,554.44 = 39,480.94  
 PnL Change = (9,926.50 + 29,554.44) – 39,882.50 = - 401.56  
 Cash Adjustment = Change in Adjusted NPV = 401.56

\* Note: In this example, the Cash Adjustment offsets the gain of 401.56 between the Original BSBY Swap and the combined valuation of the Forward Starting SOFR OIS and the Short-Dated BSBY Swap

*Resulting swaps as of COB on Next Value Date – Variation Margin example*

Value Date	Cleared Trade ID	Floating Rate Index	Status	NPV	NPV Adj.	Previous NPV Adj.	Variation Margin	Upfront Payment	Fee Type	Payment Date	Net Cash Flow
07/15/2024	20216009	USD-BSBY	CLEARED	9,940.00	9,940.00	9,926.50	13.50	-	-	-	13.50
07/15/2024	20215998	USD-SOFR-OIS Compound	CLEARED	29,580.00	29,580.00	29,554.44	25.56	-	-	-	25.56

Calculation Breakdown (07/12/2024)

Original BSBY Swap VM = NPV Adj. – Previous NPV Adj.

$$= 0 - 38,012.03 = -38,012.03$$

PnL Change = NPV Adj. (Forward Starting SOFR OIS) + NPV Adj. (Short Dated BSBY swap) – NPV Adj. Original BSBY Swap

$$= (29,554.44 + 9,926.50) - 39,882.50 = - 401.56$$

Cash Adjustment Amount = (NPV Adj. of Original BSBY Swap – NPV Adj. of Forward Starting SOFR OIS + NPV Adj. (Short Dated BSBY swap)

$$= 39,882.50 - (29,554.44 + 9,926.50) = 401.56$$

NPV Adj. (Forward Starting SOFR OIS) = NPV – Upfront Payment

$$= 29,955.78 - (401.56) = 29,554.44$$

CME’s approach to “compensation” arising from change in NPV through the Cash Adjustment process is widely supported by market participants. The process has been discussed with Clearing Members and their customers and is understood to be consistent with the needs and expectations of market participants, and consistent with previous industry initiatives.

Clearing of Forward Starting SOFR OIS and Short-Dated BSBY Swaps

Each Forward Starting SOFR OIS and Short-Dated BSBY Swap will be cleared by CME in accordance with the CME Rules.

From the completion of the end of day clearing cycle on the Conversion Date, each Forward Starting SOFR OIS and any Short-Dated BSBY Swap resulting from any Conversion process will for the remaining lifecycle of the relevant cleared trade be subject to valuation and settlement variation (as defined in the CME Rules) for each clearing cycle following the Conversion Date.

From the completion of the end of day clearing cycle on the Conversion Date, each Short-Dated BSBY Swap will be cleared by CME and shall not be subject to any Conversion or fallback process under the CME Rules.

Fees for BSBY Conversion Process

CME will apply a transaction fee per line item for conversion of any CME cleared interest rate swaps that reference BSBY (a “Conversion Fee”). In each case, the Conversion Fee for Clearing Member House positions shall be a fee of \$10 and the Conversion Fee for Customer positions shall be a fee of \$50 which shall be applied by the Clearing House per line item subject to the relevant Conversion and shall apply on the resulting Forward Starting SOFR OIS transactions.<sup>27</sup>

Fee Type	Trade Types	Products	Source, Terminate Reason (TR), Create Reason (CR)	HOUSE FM / NONFM	CUSTOMER Standard Client Schedule
SOFR Conversion Fee	All	All	CR = Index Conversion	\$10 per line item*	\$50 per line item*

\*This fee will be charged on the resulting SOFR referencing trades except for Short-Dated BSBY Swaps (or the terminated BSBY swaps) which will not be charged.

Limitation of Acceptance for Clearing for BSBY Referencing Swaps Following Conversion Date

From close of business on the Conversion Date, the Clearing House will cease to accept for clearing trades in BSBY Swaps except those trades where the last fixing of the BSBY swap is scheduled to be published prior to the BSBY Cessation Date.

**2. Implementation of BSBY Transition**

No amendments to the Rulebook are necessary to implement the BSBY Transition.

The BSBY Conversion will be implemented via Advisory Notice published by the Clearing House setting out the terms of the Conversion, in the form set out in Exhibit 1. The Advisory Notice will be made available to Clearing Members, market participants and the general public via the CME website. The Advisory Notice will be binding on position holders in all BSBY Swaps on and after July 12, 2024.

In order to reflect the limited acceptance of BSBY IRS from the Conversion Date, the product rules for BSBY Swaps will be amended in Rule 90102.E.1. (“Interest Rate Swaps Rate Options”). Exhibit 2 below provides amendments to Rule 90102.E.1. in blackline format.

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<sup>27</sup> The Conversion Fee shall not apply to: Short-Dated BSBY Swaps resulting from the Conversion process or to the termination of BSBY Swaps.

Each of the BSBY Transition, the Conversion and Cash Adjustment process is a mandatory process and market participants will be notified in the Advisory Notice that the BSBY Transition will apply to all positions in relevant BSBY Swaps on the Conversion Date, except those maturing on or before the Conversion Date or those BSBY Swaps with final fixings scheduled to be published prior to the Index Cessation Effective Date. Market participants will be reminded that they should consider the terms and impact of the BSBY Transition as set out in the Advisory Notice and take appropriate action prior to the Conversion Date. Position holders that do not wish to participate in the BSBY Transition must close out any affected cleared trades in relevant BSBY Swaps prior to the Conversion Date.

In addition to the information provided in each Advisory Notice, the Clearing House will provide to Clearing Members the following information applicable to positions in the relevant BSBY Swaps (as applicable) on the Conversion Date, or as otherwise specified below:

- End of Day Trade Register report made available by the Clearing House only to IRS clearing members and clients via an sFTP site;
- CME OTC IRS Bookkeeping document, made available to IRS Clearing Members and their customers on request;
- FpML Confirmations in respect of the operational termination of each BSBY Swap and the establishment of each relevant replacement swap; and
- Cash Adjustment Report made available by the Clearing House only to IRS Clearing Members and clients via an sFTP site, illustrating the NPV for each original BSBY Swap and the revised NPV for each Forward Starting SOFR OIS (combined with any Short-Dated BSBY Swap, as applicable) and the Cash Adjustment at the trade level for each position account. This report will be available as an “Indicative Analysis Report” in the CME Production Environment on a daily basis from June 12, 2024 until the Conversion Date. The Indicative Analysis Report will use CME valuation curves for project BSBY fixings and to value all swaps for indicative purposes only. The Indicative Analysis Report will be delivered to clearing firm and client sFTP folders. Actual values will vary and are not known until the conversion process on the Conversion Date. The actual Cash Adjustment amounts will be indicated in the IRS Trade Register at COB on the Conversion Date.

#### Disapplication of CME Rule 90102.H

CME will not apply the Permanent Cessation Fallbacks in CME Rule 90102.H. (“Application of Permanent Cessation Fallbacks”) in respect of any IRS contract referencing BSBY.

### **3. Governance, Industry Consultation, Comments/Opposing Views:**

Based on CME’s engagement with market participants, the conversion of cleared BSBY Swaps by the amendment of cleared trades into corresponding SOFR OIS by CME is seen by market participants as an important element in the overall process of ensuring an orderly and efficient transition from BSBY in derivatives markets prior to the BSBY Cessation Date.

As with the recent CME-led IBOR transitions, the industry consensus communicated to CME by market participants indicated that cleared market participants prefer an “early” and “CCP-led” transition of cleared

BSBY Swaps to standardized cleared SOFR OIS ahead of the BSBY Cessation Date. Market participants have informed CME that the CCP-led conversion of BSBY swap exposures into market standard SOFR swaps benefits the marketplace by providing a clear operational pathway to convert BSBY exposures into liquid standardized SOFR OIS exposure, based on a clear, transparent methodology. Market participants have also supported CME's proposed methodology and approach to calculate the BSBY Fallback Spreads, utilizing a methodology based on the ISDA Fallback Pricing Methodology used by CME for previous IBOR conversions, and CME's proposal to account for the relevant BSBY Fallback Spread on the floating leg of the replacement SOFR OIS swap, rather than rely fully on the ISDA-derived contractual fallbacks that would otherwise apply under the CME Rules following the BSBY Cessation Date.

Transitioning BSBY exposures into the liquid pool of SOFR OIS ensures that the relevant swaps are capable of being supported by clearing following the BSBY Cessation Date and further provides certainty to market participants that "legacy" and "new" contracts will be fungible with one another following the transition to SOFR OIS.

CME's proposed approach has been well publicized and understood. Previous IBOR conversions conducted by CME since 2022, including the USD LIBOR conversion in June 2023, have demonstrated CME's operational capabilities and clearing member and wider market participant understanding and support of the relevant processes.

CME has consulted with a diverse cross-section of market participants to obtain feedback on the operational processes for the BSBY Transition. As noted above, the proposed processes are substantively similar to the approach adopted by CME in 2023 to effect the USD LIBOR Transition, in relation to which CME had conducted extensive outreach and engagement in 2022 and 2023. As part of ongoing discussions with market participants on the proposals for the BSBY Conversion, in May 2024 CME shared the final public details of the proposals to effect an "early" and "CCP-led" transition away from BSBY ahead of the Index Cessation Effective Date, which included publication of the CME-calculated BSBY Fallback Spreads. CME published further operational level information on the proposed conversion process in June 2024, which included a detailed operational methodology providing full operational level information on the processes that CME will follow to implement the transition.<sup>28</sup>

Following the successful USD LIBOR Transition in 2023 and the CAD CDOR transition in May 2024, market participants are familiar with CME's approach and methodology implementing changes to the reference terms of IRS contracts and operational processes to effect cash compensation to reflect valuation changes having been tested in both test and production environments.

The Clearing House IRS Risk Committee has reviewed the proposals for previous transitions to RFRs and no objections have been raised to previous conversion proposals. Given that operational and contractual processes for the BSBY swap conversion component of the BSBY Transition are substantively the same

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<sup>28</sup> The final methodology for the BSBY Conversion was published by CME in May 2024 following a period of consultation and is available on the CME website at: <https://www.cmegroup.com/markets/interest-rates/files/conversion-plan-cme-cleared-bsby-interest-rate-swaps.pdf>. Additional operational level detail was provided by CME in June 2024, see: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>



as previous IBOR conversions it was not necessary for CME to consult the Clearing House IRS Risk Committee in addition to the consultation exercise completed with market participants.<sup>29</sup>

During the consultation process, there were no substantive opposing views raised by market participants with respect to the proposals for the BSBY Transition as set out in the text of the Advisory Notice and CME is not aware of any other substantive opposing views with respect to the BSBY Transition or the text of the Advisory Notice.

CME recognizes that the BSBY Transition and the Conversion will have an impact on market participants holding open positions in BSBY Swaps. As a result, as part of the preparations for the BSBY Transition, CME will provide market participants with information, reporting tools and an operational “dress rehearsal” to promote operational readiness and to ensure that CME clearing members and their customers understand the processes of the transition and are operationally ready for the Conversion Date.<sup>30</sup> CME conducted a “dress rehearsal” for clearing member testing on June 17, 2024.<sup>31</sup>

The initial publication by CME Clearing of “indicative analysis reports” to illustrate example Cash Adjustment amounts for test portfolios on any conversion day commenced on June 12, 2024 and will be available for both clearing members and clients until the Conversion Date.

#### **4. Derivatives Clearing Organization Core Principles (“DCO Core Principles”) Analysis in Connection with the BSBY Transition and Advisory Notices**

CME reviewed the DCO Core Principles as set forth in the CEA. During the review, CME identified the following DCO Core Principles as potentially being impacted:

DCO Core Principle D – Risk Management: Following extensive market consultation, the implementation of the BSBY Transition via the Advisory Notice has been designed to be straightforward from an operational processing perspective.

The BSBY Transition ensures that each resulting conversion swap will retain the key economic terms of the corresponding original BSBY Swap to the extent practicable, in accordance with CME’s published methodology, and shall include the BSBY Fallback Spread calculated by CME. The CME approach to the BSBY Conversion also maintains BSBY fixings that are scheduled to be published prior to the BSBY Cessation Date. Further, pricing the original BSBY Swaps under the CME Methodology for BSBY Transition (based on the ISDA Fallback Pricing Methodology) to compute the Cash Adjustment ensures that the BSBY Swap value is fair and is not subject to manipulation to USD BSBY marks. As a result, differences in projected cash flow amounts are reduced which ensures the Conversion will result in a minimal change in risk exposure for a position holder of an original BSBY Swap.

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<sup>29</sup> CME will effect the Rule amendments under the authority of CME under Chapter 2 (Government) of the CME Rulebook which provides (at Rule 230.(j)) that the CME Board of Directors shall “make and amend the Rules; provided the Board may also delegate authority to make and amend the rules as it deems appropriate.”

<sup>30</sup> Prior to the dress rehearsal, from June 5, 2024, to provide a “clean slate” for testing in the New Release environment, CME will terminate all BSBY swaps in the New Release environment. Following the dress rehearsal, CME will run a daily conversion cycle in the New Release environment to establish resulting swaps in the New Release environment.

<sup>31</sup> See CME Clearing Advisory 24-171: <https://www.cmegroup.com/notices/clearing/2024/06/Chadv24-171.html>

Based on extensive outreach to customers, CME understands that market participants support this approach.

DCO Core Principle L – Public Information: The implementation of the BSBY Transition via the Advisory Notices and the operational elements of the conversions will affect market participants holding BSBY swaps. A summary of the BSBY Transition was provided to market participants and made publicly available as part of a public consultation process that ended in May 2024 with the publication of CME’s final proposal for the conversion, and related operational level information in early June 2024.<sup>32</sup> CME has taken appropriate steps to provide market participants with sufficient information to enable those market participants to identify and evaluate effectively the risk associated with holding positions in BSBY Swaps at the time of the Conversion and thereafter. The operational workflows and legal basis for the BSBY Transition have been made publicly available. As noted above, as part of the preparations for the BSBY Transition, CME will provide market participants with an operational “Dress Rehearsal” testing environment for the Conversion processes, to simulate the processes for the Conversion Date.

CME will report the operational processes relating to the BSBY Transition in accordance with Part 45 of the CFTC’s Regulations, as described above.

DCO Core Principle N – Antitrust Considerations: The BSBY Transition will not result in any unreasonable restraint of trade or impose any material anticompetitive burden. The BSBY Transition reflects an important step in an industry-wide initiative to transition interest rate swaps and other products away from BSBY and is widely supported by market participants as promoting the orderly transition away from BSBY. CME has engaged with market participants to obtain feedback on the processes for the BSBY Transition and has not received any comments regarding antitrust/fair competition concerns. The transparent process that CME has followed make clear that the approach to implementation of fallbacks for BSBY, consistent with CME’s approach to IBOR fallbacks, is designed to mitigate risks to financial stability identified by regulators and not to harm competition.

The modifications to the CME Rulebook to effect the BSBY Conversion will be implemented via Advisory Notice published by the Clearing House setting out the terms of the BSBY Transition, in the form set out in Exhibit 1 (the “BSBY Conversion Advisory Notice”). The BSBY Conversion Advisory Notice will be binding on all position holders and Clearing Members and shall be effective on July 12, 2024 and thereafter. The list of IRS Rate Options in CME Rule 90102.E.1. (Interest Rate Swaps Rate Options) in Chapter 901 (“Interest Rate Swaps Contract Terms”) of the CME Rulebook will be updated accordingly from close of business on July 12, 2024.

Pursuant to Section 5c(c)(1) of the CEA and CFTC Regulation 40.6(a), CME certifies that the Rule Amendments in the form of the Clearing Advisory in Exhibit 1 comply with the CEA and the regulations thereunder.

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<sup>32</sup> See CME publication “Conversion Plan: CME Cleared BSBY Interest Rate Swaps, May 2024” accessible on the CME website at: <https://www.cmegroup.com/markets/interest-rates/files/conversion-plan-cme-cleared-bsby-interest-rate-swaps.pdf> and “CME Conversion for BSBY Cleared Swaps, June 2024, accessible at <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>.

CME certifies that this submission has been concurrently posted on CME Group's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (312) 466 7478 or via e-mail at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Timothy Elliott  
Managing Director & Chief Regulatory Counsel

Attachments: Exhibit 1 –CME Clearing Advisory Notice – BSBY Conversion  
Exhibit 2 – Amendments to CME Chapter 901 (blackline format)  
Exhibit 3 – CME Methodology for BSBY Transition

## Exhibit 1 CME Clearing Advisory Notice



TO: Clearing Member Firms  
Back Office Managers

DATE: [ ], 2024

FROM: CME Clearing

NOTICE #: 24-[ ]

SUBJECT: **Modification of Cleared Over-the-Counter (“OTC”) Interest Rate Swap Products Referencing the Bloomberg Short-term Bank Yield Index (“BSBY”) and Limitation of Acceptance for Clearing**

### **Background**

On November 15, 2023, Bloomberg Index Services Limited (“BISL”), the administrator of BSBY, announced the future permanent cessation of the BSBY index and the publication of all rates for all BSBY tenors to take effect on Friday, November 15, 2024 (the “BSBY Cessation Date”), immediately following publication of the rate for each BSBY tenor (the “BISL Announcement”). The BISL Announcement also confirmed that BISL would not be recommending a fallback replacement rate for BSBY.<sup>1</sup>

In response to the BISL Announcement, on November 20, 2023, the International Swaps and Derivatives Association, Inc. (“ISDA”) published a statement, confirming that the BISL Announcement constitutes an “Index Cessation Event” for the purposes of the relevant ISDA definitions in respect of all BSBY settings referenced in derivative contracts incorporating the relevant ISDA terms. ISDA further confirmed that, in the absence of a recommended fallback rate for BSBY nominated by BISL, the relevant ISDA terms would apply to determine the alternative rate which will apply in respect of the USD-BSBY floating rate option under affected contracts from the “Index Cessation Effective Date” of Monday, November 18, 2024.<sup>2</sup> However, unlike previous ISDA fallback conversions for IBORs, in the absence of a single nominated successor rate for the USD-BSBY floating rate option in contractual fallbacks from the BSBY Cessation Date for bilateral derivative agreements, the chosen contractual fallback rate may differ as agreed between market participants and relevant adopted fallback language.

As a result of the scheduled cessation of the BSBY rates, relevant market participants are required to ensure that contractual fallbacks should be implemented in bilateral uncleared, cleared and exchange traded derivative markets.

CME cleared BSBY IRS Contracts (the “Affected BSBY Swaps”) currently incorporate the ISDA “fallback” provisions from the 2021 ISDA Definitions.<sup>3</sup> However, following industry consultation and the successful

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<sup>1</sup> See BISL announcement: <https://assets.bbhub.io/professional/sites/10/BSBY-Future-Cessation-Announcement.pdf>

<sup>2</sup> The “Index Cessation Effective Date” is the first date on which BSBY would ordinarily have been published or provided and will no longer be published or provided. See ISDA statement available at: <https://www.isda.org/a/vbqgE/Future-Cessation-of-the-Bloomberg-Short-Term-Bank-Yield-Index-Final.pdf>

<sup>3</sup> In January 2021, CME implemented certain changes to the CME Rulebook to incorporate “fallback” provisions into CME cleared IRS to provide for contractual fallback to a relevant alternative spread and term adjusted RFR on the permanent discontinuation or “non-representativeness” of certain key IBORs, including GBP, CHF and JPY LIBORs. See <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2021/01/Chadv21-039.pdf>. In October 2021, concurrently with

implementation of previous IBOR conversion processes effected by CME, rather than rely on existing contractual fallbacks in CME Rule 90102.H. (“Application of Permanent Cessation Fallbacks”) for BSBY IRS on the “Index Cessation Effective Date”, CME will, subject to regulatory review:

- undertake a CCP-led conversion of each relevant Affected BSBY Swap into:
  - where applicable, a corresponding short-dated CME cleared BSBY IRS to account for remaining floating and fixed coupons under the original swap scheduled to be published on or prior to the BSBY Cessation Date, and
  - a corresponding CME cleared forward starting overnight index swap (“OIS”) referencing the Secured Overnight Financing Rate (“SOFR”) interest rate benchmark that will maintain the original swap’s fixed rate and maturity, replace the BSBY floating rate with daily compounding SOFR plus a CME-calculated fallback spread adjustment (described in more detail below) and will apply a 2 day payment offset to both the fixed and floating legs, to be effective on the expiry of the short-dated replacement BSBY IRS;

to take effect following close of business on Friday, July 12, 2024<sup>4</sup> (the “Conversion Date”), (the “BSBY Conversion”);

- implement a cash adjustment in the form of an upfront fee which will be included on the forward starting SOFR OIS to account for valuation differences between the legacy BSBY IRS (valued under CME’s conversion pricing methodology) and the corresponding replacement swaps arising from the BSBY Conversion; and
- limit clearing support for IRS referencing BSBY following the Conversion Date, after which CME shall accept for clearing only BSBY IRS with fixings scheduled to be published prior to or on the BSBY Cessation Date and which swaps shall be supported until expiration, (the “BSBY Transition”), to be effective following close of business (“COB”) on Friday, July 12, 2024.

The conversion processes that form the BSBY Transition have been determined by CME based on extensive discussions with market participants.

This Clearing Advisory sets out the terms of the BSBY Transition and shall be binding on Clearing Members and position holders of CME cleared IRS Contracts in Affected BSBY Swaps from close of business on July 12, 2024.

### **Summary of Conversion Process**

Subject to regulatory review, CME will transition CME cleared BSBY Swaps by converting each Affected BSBY Swap on the Conversion Date as specified in the table below by category of cleared contract, utilizing a mandatory conversion process, as summarized below:

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the implementation by ISDA of the 2021 ISDA Definitions, by way of amendment to the CME Rules and as set out in Clearing Advisory [21-335](#). CME revoked Clearing Advisory 21-039 and confirmed the incorporation into the CME Rules of the contractual fallback triggers and fallback provisions contained within the 2021 ISDA Definitions in CME Rule 90102.H (“Application of Permanent Cessation Fallbacks”), replacing those substantially equivalent provisions contained in the ISDA IBOR Fallbacks Supplement and subsequent additional supplements by ISDA.

<sup>4</sup> As with previous OTC IRS conversions, CME proposes to reserve the right in limited circumstances to amend the Conversion Date in its sole and absolute discretion, for example where implementation of the conversion process on a previously communicated date could result in an unacceptable level of operational or market disruption or where financial stability issues could threaten the orderly transition.

Date	CME cleared swaps subject to Conversion	Output of Conversion
July 12, 2024	BSBY IRS that contain any fixing dates scheduled to be published after November 15, 2024*.  *Any BSBY IRS which has a final fixing scheduled to be published before COB November 15, 2024 will be left to mature and will not undergo conversion.	For Seasoned Swaps: <ul style="list-style-type: none"> <li>• Short-dated BSBY Swap accounting for all remaining unsettled BSBY fixings that are scheduled to be published prior to the BSBY Cessation Date in respect of the original BSBY Swap; and</li> <li>• Forward Starting SOFR OIS with start date of the maturity date of the Short-Dated BSBY Swap</li> <li>• Fixed cash flows and compounded cash flows on the replacement swaps may not match the original BSBY Swap in some cases (see examples)</li> </ul>
		For Forward Starting Swaps with an effective date after the BSBY Cessation Date: <ul style="list-style-type: none"> <li>• Forward Starting SOFR OIS with effective/maturity dates and fixed leg economic terms (excluding payment offset) of original BSBY Swap               <ul style="list-style-type: none"> <li>• Single compensation fee is included and paid the following New York business day</li> <li>• 2-day payment offset is added to both legs of the SOFR OIS, consistent with market standard OIS conventions</li> </ul> </li> </ul>

Calculation of the fallback spread adjustment – CME methodology

BSBY was originally developed by BISL in response to demand from cash market participants for an interest rate with a credit-sensitive spread with a forward-looking term structure to track the US wholesale unsecured funding market and supplement SOFR. BSBY is a credit sensitive index that measures the average yields at which large, global banks access USD senior unsecured marginal wholesale funding. Based on feedback received from market participants during CME’s consultation process, CME considers SOFR to be the most appropriate successor reference rate to BSBY for CME cleared BSBY swaps. Unlike previous IBOR conversions effected by CME, in the absence of an industry nominated successor rate for BSBY, there is also no industry agreed pricing methodology for the calculation and processing of contractual fallbacks for BSBY swaps to reference SOFR, nor is there an industry agreed or published “spread adjustment” to enable the fallback / conversion from BSBY to SOFR reference rates.<sup>5</sup> For previous IBOR conversions, such as the USD LIBOR conversion in June 2023, CME utilized the relevant ISDA “Fallback Rate” (which replaced the relevant affected IBOR rate in the contract) as part of the IBOR conversion methodology, which rate was in each case calculated by BISL according to the industry-agreed pricing methodology published by ISDA (the “ISDA Fallback Pricing Methodology”), based on the combination of the following components for each relevant tenor:

- Adjusted RFR: compounded setting in arrears RFR for each relevant term;

<sup>5</sup> The “spread adjustment” in each case for ISDA’s IBOR fallbacks provided an important part of the overall fallback rate and was designed to reflect a portion of the structural differences between relevant IBORs and the corresponding RFR used as the fallback rate. For example, where an IBOR incorporates a credit risk premium but the corresponding RFR is “risk-free” then the purpose of the relevant spread adjustment was to account for this credit risk premium, calculated using a historical median approach over a five-year lookback period from the date of the announcement on the IBOR cessation / non-representativeness. Under this protocol, the fallback for each relevant IBOR setting was based on the relevant RFR compounded in arrears to address the differences in tenor, plus the relevant spread adjustment, calculated by BISL in each case. The methodology was agreed by ISDA following multiple industry consultations.



- ISDA Spread Adjustment: median of the historical differences between the relevant IBOR rate for each tenor and the compounded RFR for that tenor over a five-year period prior to the relevant trigger event.

In the absence of an industry nominated successor rate for BSBY or corresponding ISDA spread adjustment or fallback rate for BSBY contractual fallbacks, CME has been required to develop its own conversion pricing approach and methodology for the purposes of converting CME-cleared BSBY swaps into corresponding SOFR OIS. Based on market participant feedback during the consultation process, CME has determined that the CME BSBY conversion pricing and swap conversion methodology should be based on the same principles as previous IBOR conversions, utilizing a conversion pricing approach based on the ISDA Fallback Pricing Methodology and a CME-calculated spread adjustment and fallback rate for BSBY based on the same methodology utilized by BISL for the calculation of ISDA Spread Adjustments and publication of IBOR fallback rates for previous IBOR contractual fallbacks, for example, GBP/JPY/CHF LIBOR, USD LIBOR and CAD CDOR contractual fallbacks.

In connection with this approach, CME has calculated fallback spreads to adjusted SOFR (daily compounded SOFR)<sup>6</sup> for each of the 1M and 3M BSBY tenors, using its published methodology.<sup>7</sup> For these purposes, CME has considered the BISL Announcement date of November 15, 2023, as the “Spread Adjustment Fixing Date” for BSBY for the purposes of the calculation. Consistent with BISL’s calculated spread adjustments for IBOR rates, the CME BSBY fallback spread adjustment is calculated as the median spread between BSBY and adjusted SOFR over the preceding five-year period from the BISL Announcement. The relevant methodology and CME-calculated fallback spreads were published by CME and subject to a consultation process with market participants, with final publication in May 2024 providing the following spreads:<sup>8</sup>

<b>BSBY Tenor</b>	<b>CME calculated BSBY Fallback Spread (bps)</b>
1M	3.403
3M	12.878

(the “BSBY Fallback Spreads”).

CME proposes that the corresponding BSBY Fallback Spread calculated by CME according to this methodology will be applied as a spread on the floating leg of each SOFR OIS that will result from the conversion of CME cleared BSBY swaps. The relevant CME-calculated BSBY Fallback Spread will also be used by CME for the purposes of computing the projected BSBY forward rate on the Conversion Date, utilizing the CME methodology set out in Exhibit 3 to CME Submission [24-[]].<sup>9</sup>

The methodology utilized by CME to calculate the BSBY Fallback Spreads is based on the ISDA Fallback Pricing Methodology previously utilized by BISL, acting on appointment by ISDA to calculate and distribute

<sup>6</sup> Under the methodology used for calculating the adjusted RFR rate, the underlying RFR is compounded over an accrual period corresponding to the tenor of the original rate (e.g. IBOR, BSBY, etc). The start of the accrual period is determined firstly by following the market convention Reference Spot Lag, and then applying a two business day backward shift, or Offset Lag. The compounded rate is annualized, and the day count convention adjusted to match that of the original rate.

<sup>7</sup> As noted above, the ISDA Fallback Pricing Methodology was previously utilized by BISL to calculate and publish adjustments related to fallbacks to RFRs under the ISDA Definitions, which in turn were incorporated into CME’s previous relevant IBOR conversions for cleared swaps. CME’s fallback spread calculation methodology for BSBY is therefore consistent with the approach used by BISL during prior fallback spread calculations for IBOR rates, which in turn incorporates the ISDA Fallback Pricing Methodology.

<sup>8</sup> See: <https://www.cmegroup.com/markets/interest-rates/files/conversion-plan-cme-cleared-bsby-interest-rate-swaps.pdf>

<sup>9</sup> See: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>

RFR adjustments for certain ISDA IBOR contractual fallbacks. CME has permission from ISDA and BISL to utilize the methodology for the purposes of the BSBY Conversion, including the calculation and publication of the BSBY Fallback Spreads for use by CME in relation to contractual fallbacks for CME cleared swaps. BISL and ISDA, as applicable, are the owners of the intellectual property rights with respect to the ISDA Fallback Pricing Methodology and the BISL IBOR Fallback Rate Adjustments Rule Book. CME is solely responsible for the determination and application of the relevant methodology and the calculation and publication of the BSBY Fallback Spreads, and for use in any conversion process implemented by CME. Neither ISDA nor BISL endorses the BSBY Fallback Spreads or CME's proposed methodology and neither ISDA nor BISL has any responsibility or liability for CME's utilization of the methodology, calculation or publication of the BSBY Fallback Spreads or use of the BSBY Fallback Spreads in any fallback or conversion process conducted by CME, or use of the BSBY Fallback Spreads by any other person. The BSBY Fallback Spreads should not be used by any other person as a reference rate within a financial instrument or financial contract.

### Conversion Processes for Affected BSBY Swaps on the Conversion Date

CME has published its detailed methodology for the Conversion processes, including worked examples, provided as Exhibit 3 to CME Submission [24-[ ]] and is available on the CME website.<sup>10</sup> The methodology proposed by CME for the BSBY Transition ensures that each resulting conversion swap will retain the key economic terms of the corresponding original BSBY Swap to the extent practicable, in accordance with CME's published methodology, and shall include the BSBY Fallback Spread calculated by CME<sup>11</sup>. The relevant methodology for the conversion of each original BSBY IRS is summarized below:

- each resulting CME cleared SOFR OIS arising from the Conversion process (each, a "Forward Starting SOFR OIS") will account for the BSBY Fallback Spread on the floating leg of the SOFR OIS swap, retaining the key economic terms of the original trade, subject to certain adjustments described below and determined by CME according to its published methodology;
- each resulting CME cleared short-dated BSBY Swap arising from the Conversion process (each, a "Short-Dated BSBY Swap") is designed to account for any scheduled BSBY fixing coupons which are due to take place prior to the BSBY Cessation Date, restating these accrual periods as Short-Dated BSBY Swaps which will have economic terms as determined by CME according to its published methodology, the purpose of which is to reduce the differences in cashflow amounts for the projected cashflows;
- in order to neutralize the value transfer from the Conversion of the economic position of each original BSBY Swap into each relevant Forward Starting SOFR OIS, CME will calculate a cash adjustment amount that will be based on the difference between the net present value ("NPV") of the original BSBY Swap and the combined NPV of the Forward Starting SOFR OIS and any Short-Dated BSBY Swap on the Conversion Date. The Cash Adjustment for each Forward Starting SOFR OIS will be equal and opposite to the change in NPV calculated by CME, and therefore

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<sup>10</sup> The CME BSBY Cleared Swap Conversion methodology document is available on the CME website at: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>

<sup>11</sup> Key economic terms to be carried over include notional amount, direction, maturity date, etc. If the notional of the original swap is constant (bullet), the notional of the original swap is carried over to both replacement swaps. Notional type (bullet) is also carried over to both swaps. If the notional of the original swap is variable, the notional step schedule is carried over to the replacement swaps and the notionals of the replacement swaps will match the step schedule of the original swap. In some cases, there may be no actual changes to the notional in one or both of the replacement swaps despite a variable notional swap type. In this case, the notional type of the replacement(s) is changed to "bullet".

may be a positive or negative amount depending on the position (the “Cash Adjustment”).<sup>12</sup> The Cash Adjustment amount will be applied by CME in the form of upfront “fees” on each resulting cleared Forward Starting SOFR OIS on the Conversion Date;

- cash flows relating to the Cash Adjustment will be applied in the next end of day clearing cycle following the Conversion Date;
- the Cash Adjustment will ensure that the NPV change for position holders impacted by the Conversion will be neutralized;
- in each case, any Forward Starting SOFR OIS will be cleared as a CME cleared SOFR OIS (referencing the USD-SOFR-OIS Compound Floating Rate Option) and any Short-Dated BSBY Swap will be cleared as a BSBY Swap and shall not be subject to the fallback provisions in Rule 90102.H.

#### Conversion Date – Conversion Processes

##### *A: BSBY IRS excluded from Conversion*

The following CME cleared BSBY IRS open on the Conversion Date are excluded from the conversion process on the Conversion Date:

- (i) BSBY Swaps that mature on or before the Conversion Date; and
- (ii) BSBY IRS where the last BSBY fixing is scheduled to be published after the Conversion Date but on or before November 15, 2024, which shall expire and settle on their original terms.

##### *B: Conversion of Seasoned BSBY Swaps*

On the Conversion Date, CME will convert each CME cleared BSBY Swap that has an effective date before the Index Cessation Effective Date (each, a “Seasoned Swap”) into:

- (i) a corresponding standardized Forward Starting SOFR OIS, retaining the key economic terms of the original BSBY Swap trade; and
- (ii) a Short-Dated BSBY Swap accounting for all BSBY fixings scheduled to be published prior to the Index Cessation Effective Date,

in each case subject to certain adjustments determined by CME described above (in Adjustment Methodology), including the Cash Adjustment which shall be applied to each Forward Starting SOFR OIS, and applied according to its published methodology set out in Exhibit 3 to CME Submission [24-[ ]].

##### *C: Conversion of Forward Starting BSBY Swaps with an effective date after the Index Cessation Effective Date*

On the Conversion Date, CME will convert each CME cleared BSBY Swap that is a Forward Starting Swap with an effective date after the Index Cessation Effective Date and which is open on the Conversion Date into:

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<sup>12</sup> Where the holder of a Forward Starting SOFR OIS had benefited from a change in NPV, an upfront fee equal and opposite to that amount of change in NPV would be applied to that Forward Starting SOFR OIS and such amount would be due from the position holder at the next clearing cycle. Where the holder of a Forward Starting SOFR OIS experiences a negative change in NPV, an upfront fee equal and opposite to that amount of change in NPV would be applied to the Forward Starting SOFR OIS and such amount would be due to the position holder at the next clearing cycle. The net cash flow position for all participants is neutral. The net cash flow position for the Clearing House is neutral.

- a corresponding standardized Forward Starting SOFR OIS, retaining the key economic terms of the original BSBY Swap trade,

in each case subject to certain adjustments determined by CME described above (in Adjustment Methodology), including the Cash Adjustment which shall be applied to each Forward Starting SOFR OIS, and applied according to its published methodology set out in Exhibit 3 to CME Submission [24-[ ]].

*D: Characteristics of each resulting Forward Starting SOFR OIS:*

Each Forward Starting SOFR OIS resulting from the Conversion process will:

- maintain the effective/maturity dates and fixed leg economic terms (excluding payment offset) of the original BSBY Swap;
- include a payment offset (2D) added to both legs of the resulting SOFR OIS swap, consistent with market standard SOFR OIS conventions;
- include a single compensating upfront fee (the Cash Adjustment) to be paid the following New York business day;
- Fixed leg day counts defaulted to the market standard convention, Actual/360;
- Payment calendars default to US New York (USNY).

*E: Conversion approach to Swap Stub Periods*

Stub periods require special processing when converting BSBY Swaps as there are different methods used to specify the original Floating Rate Option.

- Short-dated BSBY Swaps: CME will carry over the stub type, period start, and period end dates if the stub will be paid out after the Conversion Date and the stub has a fixing scheduled to be published prior to the Index Cessation Effective Date. Stub periods will reference the published BSBY fixing rates.
- SOFR OIS: Forward starting stub periods will maintain the period start and end dates with a daily compounded overnight rate. The compounding method is the same as a standard period. Fallback spreads apply to stub periods.

Limitation of Clearing Support for BSBY Swaps after Conversion Date

From COB on the Conversion Date, except for the limited exception noted below, CME will cease to accept BSBY Swaps for clearing.

Until further notice by CME to market participants, from the Conversion Date CME will continue to accept BSBY swaps with all fixings scheduled to be published on or prior to the BSBY Cessation Date.

For the avoidance of doubt, from the Conversion Date CME will not accept any BSBY swap with fixings scheduled to be published after the BSBY Cessation Date.

The BSBY Conversion is a mandatory process and the terms set out in this Clearing Advisory will apply to all affected cleared trades in BSBY Swaps from July 12, 2024, subject to regulatory review.

Amendment to Conversion Date in Limited Circumstances

CME will reserve the right to amend the Conversion Date in its sole and absolute discretion prior to the Conversion in limited circumstances, for example, where implementation of the conversion process on the previously communicated date could, in the opinion of the Clearing House, result in an unacceptable level of operational or market disruption or where financial stability issues could threaten the orderly transition. In such circumstances, CME would communicate the amended Conversion Date to market participants as soon as practicable upon making such determination.<sup>13</sup>

## Examples of Cash Adjustment Amount Calculation and Processing

### *Calculation of Cash Adjustment Amount*

The Cash Adjustment amount is necessary to account for the difference in valuation between the original BSBY Swap and the combined valuation of the resulting SOFR OIS and any related Short-Dated BSBY Swap on the Conversion Date. The difference in the NPV of each original BSBY Swap and the corresponding replacement swaps on the Conversion Date represents a gain or loss to the relevant position holder in each case. In order to neutralize the transfer in value between position holders arising from the transition, CME will apply a Cash Adjustment amount equal and opposite to the change in NPV resulting from the transition to each resulting SOFR OIS.

The Cash Adjustment amount will be calculated by CME on the Conversion Date as follows (the “Conversion Calculation”):

- On or shortly after COB on the Conversion Date, the Clearing House will conduct a standard valuation calculation during the end of day clearing cycle, to determine the NPV for each relevant original BSBY Swap subject to the Conversion process on that date, calculated utilizing CME’s closing curve marks on the Conversion Date for each position account and utilizing the CME methodology and fallback spread calculation that is based on the equivalent ISDA IBOR methodology used by BISL for prior IBOR conversions (the “CME Methodology for BSBY Transition”).
- Upon establishment of each SOFR OIS and any Short-Dated BSBY Swap within the clearing system, on or shortly after COB on the Conversion Date, the Clearing House will conduct an additional calculation to determine the NPV for each SOFR OIS and any Short-Dated BSBY Swap calculated utilizing CME’s closing curve marks on the Conversion Date for each position account.
- Note that the determination of the NPV of the original BSBY Swap and the SOFR OIS and any Short-Dated BSBY Swap will be calculated on an “adjusted” basis, where the adjusted NPV in each case is the NPV less the present value of any fee or coupon payment due to bank on the following Business Day.
- The difference between the two NPV calculations for each original BSBY Swap and the corresponding replacement swap(s) represents the change in NPV arising from the conversion of the reference rate exposure of that position from the BSBY rate to SOFR.

The relevant Cash Adjustment amount to be applied to each resulting SOFR OIS in each position account shall be equal and opposite to the relevant change in NPV calculated by CME in the Conversion Calculation. As the Cash Adjustment for each SOFR OIS will be equal and opposite to the change in NPV calculated by CME, it may be a positive or negative amount depending on the position.

### *Payment of Cash Adjustment Amount*

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<sup>13</sup> CME Clearing has identified a provisional contingency fallback date of July 26, 2024, in the event that the July 12, 2024, date for the Conversion is determined to be unsuitable as the date of Conversion.

Where the holder of a resulting SOFR OIS had benefited from a change in NPV, i.e., where the resulting swap(s) NPV is greater than the corresponding original BSBY Swap NPV, the Cash Adjustment will be a negative amount equal to that change in NPV. The Cash Adjustment amount will be applied to the resulting SOFR OIS as an upfront fee which will be due and paid from the position holder (to the Clearing House as central counterparty and other party to the cleared trade), at the next clearing cycle following the Conversion Date, during which cycle settlement variation for positions in the SOFR OIS will be determined and outstanding exposures and payments netted and settled in accordance with CME Rule 814 (“Settlements, Settlement Variation Payment, and Option Value”). Accordingly, where the holder of a resulting SOFR OIS experiences a negative change in NPV, the Cash Adjustment will be a positive amount and will be applied to the SOFR OIS as an upfront fee which will be due and paid to the position holder (from the Clearing House, as central counterparty and other party to the cleared trade).

Given that the change in NPV calculated by the Conversion Calculation is offset exactly by the Cash Adjustment amount, indicated by the figure in the “Net Cash Flow” column in the examples in the table below, the net cash flow with respect to the NPV change is zero on both a per account basis and an overall product basis for the Clearing House.

### Cash Adjustment Examples

The example below demonstrates the operational processing of a Conversion for a hypothetical BSBY Swap and the Cash Adjustment processes, reflecting the operational characterization of the process as a “termination” of the original BSBY Swap and establishment of a “new” Forward Starting SOFR OIS and corresponding Short-Dated BSBY Swap. In legal terms, the Conversion is treated as an amendment of the terms of the relevant cleared trade.

As of COB on Friday, July 12, 2024

	Value Date	Cleared Trade ID	Floating Rate Option	Status	NPV	NPV Adj.*	Previous NPV Adj.	Variation Margin	Upfront Payment	Fee Type	Payment Date	Net Cash Flow
Original BSBY Swap	07/12/2024	20162532	USD-BSBY	TERMINATED	0	0	38,012.03	-38,012.03	-	-	-	-38,012.03
Short-Dated BSBY Swap	07/12/2024	20216009	USD-BSBY	CLEARED	9,926.50	9,926.50	0	9,926.50	-	-	-	9,926.50
Forward Starting SOFR OIS	07/12/2024	20215998	USD- SOFR- OIS Compound	CLEARED	29,955.78	29,554.44	0	29,554.44	401.56	UPFRONT_FEE	07/15/2024	29,955.78

BSBY Swap valuation 07/12/24 = 39,882.50

\* NPV Adj. reflects the value of the swap removing any fee payments to be made the following business day. In the event of multiple replacement swaps, all Adjusted NPVs are added to calculate the Cash Adjustment.

### Cash Adjustment Calculation Example\*

Original BSBY Swap Valuation NPV Adj. as at COB July 12, 2024 = 39,882.50 (shown as zero above since swap has terminated in conversion, from an operational perspective)

Forward Starting SOFR OIS Valuation + Short-Dated BSBY Swap Valuation (NPV Adj. as at 07/12/2024) = 9,926.50 + 29,554.44 = 39,480.94

Profit and Loss (PnL) Change = (9,926.50 + 29,554.44) – 39,882.50 = - 401.56

Cash Adjustment = Change in Adjusted NPV = 401.56

\* Note: In this example, the Cash Adjustment offsets the gain of 401.56 between the Original BSBY Swap and the combined valuation of the Forward Starting SOFR OIS and the Short-Dated BSBY Swap

Resulting swaps as of COB on Next Value Date – Variation Margin example

Value Date	Cleared Trade ID	Floating Rate Index	Status	NPV	NPV Adj.	Previous NPV Adj.	Variation Margin	Upfront Payment	Fee Type	Payment Date	Net Cash Flow
07/15/2024	20216009	USD-BSBY	CLEARED	9,940.00	9,940.00	9,926.50	13.50	-	-	-	13.50
07/15/2024	20215998	USD-SOFR-OIS Compound	CLEARED	29,580.00	29,580.00	29,554.44	25.56	-	-	-	25.56

#### Calculation Breakdown (07/12/2024)

Original BSBY Swap VM = NPV Adj. – Previous NPV Adj.

$$= 0 - 38,012.03 = -38,012.03$$

PnL Change = NPV Adj. (Forward Starting SOFR OIS) + NPV Adj. (Short Dated BSBY swap) – NPV Adj. Original BSBY Swap

$$= (29,554.44 + 9,926.50) - 39,882.50 = -401.56$$

Cash Adjustment Amount = (NPV Adj. of Original BSBY Swap – NPV Adj. of Forward Starting SOFR OIS + NPV Adj. (Short Dated BSBY swap))

$$= 39,882.50 - (29,554.44 + 9,926.50) = 401.56$$

NPV Adj. (Forward Starting SOFR OIS) = NPV – Upfront Payment

$$= 29,955.78 - (401.56) = 29,554.44$$

CME's approach to "compensation" arising from change in NPV through the Cash Adjustment process is widely supported by market participants. The process has been discussed with Clearing Members and their customers and is understood to be consistent with the needs and expectations of market participants, and consistent with previous industry initiatives.

#### Clearing of Forward Starting SOFR OIS and Short-Dated BSBY Swaps

Each Forward Starting SOFR OIS and Short-Dated BSBY Swap will be cleared by CME in accordance with the CME Rules.

From the completion of the end of day clearing cycle on the Conversion Date, each Forward Starting SOFR OIS and any Short-Dated BSBY Swap resulting from the Conversion process will for the remaining lifecycle of the relevant cleared trade be subject to valuation and settlement variation (as defined in the CME Rules) for each clearing cycle following the Conversion Date.

From the completion of the end of day clearing cycle on the Conversion Date, each Short-Dated BSBY Swap will be cleared by CME and shall not be subject to any Conversion or fallback process under the CME Rules.

#### Fees for BSBY Conversion Process

CME will apply a transaction fee per line item for conversion of any CME cleared interest rate swaps that reference BSBY (a "Conversion Fee"). In each case, the Conversion Fee for Clearing Member House positions shall be a fee of \$10 and the Conversion Fee for Customer positions shall be a fee of \$50 which shall be applied by the Clearing House per line item subject to the relevant Conversion and shall apply on the resulting Forward Starting SOFR OIS transactions.<sup>14</sup>

<sup>14</sup> The Conversion Fee shall not apply to: Short-Dated BSBY Swaps resulting from the Conversion process or to the termination of BSBY Swaps.



Fee Type	Trade Types	Products	Source, Terminate Reason (TR), Create Reason (CR)	HOUSE FM / NONFM	CUSTOMER Standard Client Schedule
SOFR Conversion Fee	All	All	CR = Index Conversion	\$10 per line item*	\$50 per line item*

\*This fee will be charged on the resulting SOFR referencing trades except for Short-Dated BSBY Swaps (or the terminated BSBY swaps) which will not be charged.

### **Rationale for BSBY Transition Process**

Based on CME's engagement with market participants, the conversion of cleared BSBY Swaps by the amendment of cleared trades into corresponding SOFR OIS by CME is seen by market participants as an important element in the overall process of ensuring an orderly and efficient transition from BSBY in derivatives markets prior to the BSBY Cessation Date.

As with the recent CME-led IBOR transitions, the industry consensus communicated to CME by market participants indicated that cleared market participants prefer an "early" and "CCP-led" transition of cleared BSBY Swaps to standardized cleared SOFR OIS ahead of the BSBY Cessation Date. Market participants have informed CME that the CCP-led conversion of BSBY swap exposures into market standard SOFR swaps benefits the marketplace by providing a clear operational pathway to convert BSBY exposures into liquid standardized SOFR OIS exposure, based on a clear, transparent methodology. Market participants have also supported CME's proposed methodology and approach to calculate the BSBY Fallback Spreads, utilizing a methodology based on the ISDA Fallback Pricing Methodology used by CME for previous IBOR conversions, and CME's proposal to account for the relevant BSBY Fallback Spread on the floating leg of the replacement SOFR OIS swap, rather than rely fully on the ISDA-derived contractual fallbacks that would otherwise apply under the CME Rules following the BSBY Cessation Date.

Transitioning BSBY exposures into the liquid pool of SOFR OIS ensures that the relevant swaps are capable of being supported by clearing following the BSBY Cessation Date and further provides certainty to market participants that "legacy" and "new" contracts will be fungible with one another following the transition to SOFR OIS.

CME's proposed approach has been well publicized and understood. Previous IBOR conversions conducted by CME since 2022, including the USD LIBOR conversion in June 2023, have demonstrated CME's operational capabilities and clearing member and wider market participant understanding and support of the relevant processes.

CME has consulted with a diverse cross-section of market participants to obtain feedback on the operational processes for the BSBY Transition. As noted above, the proposed processes are substantively similar to the approach adopted by CME in 2023 to effect the USD LIBOR Transition, in relation to which CME had conducted extensive outreach and engagement in 2022 and 2023. As part of ongoing discussions with market participants on the proposals for the BSBY Conversion, in May 2024 CME shared the final public details of the proposals to effect an "early" and "CCP-led" transition away from BSBY ahead of the Index Cessation Effective Date, which included publication of the CME-calculated BSBY Fallback Spreads. CME published further operational level information on the proposed conversion process in June 2024, which

included a detailed operational methodology providing full operational level information on the processes that CME will follow to implement the transition.<sup>15</sup>

Following the successful USD LIBOR Transition in 2023 and the recent CAD CDOR transition in May 2024, market participants are familiar with CME's approach and methodology implementing changes to the reference terms of IRS contracts and operational processes to effect cash compensation to reflect valuation changes having been tested in both test and production environments.

CME recognizes that the BSBY Transition and the Conversion will have an impact on market participants holding open positions in BSBY Swaps. As a result, as part of the preparations for the BSBY Transition, CME will provide market participants with information, reporting tools and an operational "dress rehearsal" to promote operational readiness and to ensure that CME clearing members and their customers understand the processes of the transition and are operationally ready for the Conversion Date.<sup>16</sup> CME conducted a "dress rehearsal" for clearing member testing on June 17, 2024.<sup>17</sup>

The initial publication by CME Clearing of "indicative analysis reports" to illustrate example Cash Adjustment amounts for test portfolios on any conversion day commenced on June 12, 2024 and will be available for both clearing members and clients until the Conversion Date.

### **Legal and Operational Characterization**

In legal and contractual terms, each Conversion process will amend the terms of cleared trades in CME cleared BSBY Swaps, converting the terms of each cleared trade to a standardized CME cleared SOFR interest rate swap and, where applicable, a Short-Dated BSBY Swap. From an operational perspective, each relevant Conversion will be processed by CME as a "termination" of each relevant BSBY Swap and the establishment of a "new" corresponding cleared trade in SOFR OIS within the clearing system, the Forward Starting SOFR OIS or corresponding SOFR swap and, where applicable, a new Short-Dated BSBY Swap.

### **Operational Information**

To reflect the operational processes within the clearing system, CME will send:

- a termination message to relevant CME Clearing Members in respect of the termination of each relevant converted BSBY Swap; and
- a clearing confirmation message to relevant CME Clearing Members in respect of the establishment of each new relevant Forward Starting SOFR OIS or corresponding SOFR swap and, as applicable, Short-Dated BSBY Swap.

As part of the Conversion process, a subset of Trade IDs from each original BSBY Swap will be carried over to the relevant resulting SOFR OIS and Short-Dated BSBY Swap. The CME Trade ID and USI/UTI are not carried over but, in order to identify the link between each original BSBY Swap and the relevant

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<sup>15</sup> The final methodology for the BSBY Conversion was published by CME in May 2024 following a period of consultation and is available on the CME website at: <https://www.cmegroup.com/markets/interest-rates/files/conversion-plan-cme-cleared-bsby-interest-rate-swaps.pdf>. Additional operational level detail was provided by CME in June 2024, see: <https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>

<sup>16</sup> Prior to the dress rehearsal, from June 5, 2024, to provide a "clean slate" for testing in the New Release environment, CME will terminate all BSBY swaps in the New Release environment. Following the dress rehearsal, CME will run a daily conversion cycle in the New Release environment to establish resulting swaps in the New Release environment.

<sup>17</sup> See CME Clearing Advisory 24-171: <https://www.cmegroup.com/notices/clearing/2024/06/Chadv24-171.html>

resulting SOFR OIS and any Short-Dated BSBY Swap, CME will add a replacement Trade ID and Original Trade ID respectively in the History section of the clearing confirmation messages.

### Reporting to SDR

CME will report the close out of each BSBY Swap and the establishment of each corresponding Forward Starting SOFR OIS, Short-Dated BSBY Swap and/or other resulting SOFR swap in the account of the relevant position holder to the CME SDR under Part 45 of the CFTC's Regulations. With regard to reporting data submitted to SDR in respect of each resulting swap, CME will populate the "Prior USI" or "Prior UTI" field with the USI/UTI of the relevant original BSBY Swap to reflect the nature of the Conversion process. For SDR reporting purposes, reporting rows will be generated and submitted to CME SDR terminating the USI/UTI of each original BSBY Swap and CME will ensure that each resulting SOFR swap will be reported as a "New Trade."

### Trade Messaging and Reports

CME Clearing will provide the following information in relation to Affected Contracts::

- End of Day Trade Register report made available by the Clearing House only to IRS clearing members and clients via an sFTP site;
- CME OTC IRS Bookkeeping document, made available to IRS Clearing Members and their customers on request;
- FpML Confirmations in respect of the operational termination of each BSBY Swap and the establishment of each relevant replacement swap; and
- Cash Adjustment Report made available by the Clearing House only to IRS Clearing Members and clients via an sFTP site, illustrating the NPV for each original BSBY Swap and the revised NPV for each Forward Starting SOFR OIS (combined with any Short-Dated BSBY Swap, as applicable) and the Cash Adjustment at the trade level for each position account. This report will be available as an "Indicative Analysis Report" in the CME Production Environment on a daily basis from June 12, 2024 until the Conversion Date. The Indicative Analysis Report will use CME valuation curves for project BSBY fixings and to value all swaps for indicative purposes only. The Indicative Analysis Report will be delivered to clearing firm and client sFTP folders. Actual values will vary and are not known until the conversion process on the Conversion Date. The actual Cash Adjustment amounts will be indicated in the IRS Trade Register at COB on the Conversion Date.

### Implementation of BSBY Conversion

This Advisory Notice sets out the binding rules and operational processes under which CME Clearing will implement each element of the BSBY Conversion, including the modification and operational close out of BSBY IRS Contracts and the establishment of replacement corresponding SOFR standardized OIS and, where applicable, Short-Dated BSBY Swaps, which will be implemented by CME with respect to open cleared trades in affected CME cleared products on the Conversion Date. The BSBY Conversion is a mandatory process and the terms set out below in this Clearing Advisory will apply to all cleared trades in BSBY Swaps from July 12, 2024, [subject to regulatory review].

Capitalized terms not defined below shall have the meaning set out in the CME Rules.

### CME Cleared Contracts Subject to the BSBY Conversion and this Advisory Notice

The Conversion processes will apply to all cleared trades in CME cleared Interest Rate Swaps that:

- (i) reference BSBY as the interest rate swap rate option (the "Floating Rate Option")<sup>18</sup>;
- (ii) are open at close of business ("COB") on the Conversion Date; and
- (iii) have final rate fixings scheduled to be published after the BSBY Cessation Date,

(the "Affected Contracts").<sup>19</sup>

### **Terms and Operation of Conversion Processes**

1. The "Conversion Date" shall be July 12, 2024 except where the Clearing House determines in its sole and absolute discretion prior to the Conversion process that implementation of the conversion process on July 12, 2024, or such other previously communicated date, could:
  - (a) result in an unacceptable level of operational or market disruption, or
  - (b) threaten the orderly transition due to issues of financial stability,in which case the Clearing House shall determine an alternative date as the "Conversion Date" in its sole and absolute discretion prior to the Conversion and shall communicate the revised Conversion Date to market participants as soon as practicable upon making such determination.
2. At or shortly after COB on the Conversion Date, CME Clearing will amend the terms of each eligible cleared trade in BSBY IRS that is open at COB on the Conversion Date in the account of the relevant position holder (each such cleared trade, a "Pre-Conversion Swap") such that the cleared trade shall be converted into:
  - (a) a corresponding CME cleared Overnight Index Swap ("OIS") referencing the Secured Overnight Financing Rate ("SOFR") interest rate benchmark, with start date matching the start of the relevant floating period following November 15, 2024 (each, a "SOFR OIS Conversion Swap"); and
  - (b) where applicable, a short-dated BSBY replacement swap accounting for BSBY floating period coupons on the Pre-Conversion Swap, with start and end dates matching the remaining BSBY floating periods with unsettled coupons resulting from fixing dates scheduled to be published on or prior to November 15, 2024 (each, a "Short-Dated BSBY Swap"),(each, a "Conversion Swap"), in the position account of the relevant position holder, with the terms of each such Conversion Swap determined according to CME's published methodology.

### **Conversion Processing**

3. At or shortly after COB on the Conversion Date, with respect to each relevant position account, CME will calculate the difference in net present value ("NPV") at COB on the Conversion Date (at closing curve levels on the Conversion Date) between:

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<sup>18</sup> BSBY Swaps comprise any CME cleared IRS referencing "USD-BSBY" as the Floating Rate Option. Basis swaps referencing BSBY are excluded from the BSBY Conversion.

<sup>19</sup> Note that forward rate agreements referencing BSBY ("FRAs") are excluded from the scope of the BSBY Conversion as CME does not support BSBY FRAs. Basis swaps are also excluded from the BSBY Conversion.

- (i) each Pre-Conversion Swap subject to Conversion on the Conversion Date; and
- (ii) the corresponding Conversion Swap(s),

(the "Conversion Calculation").

4. CME Clearing will determine settlement variation for each Conversion Swap on the Conversion Date (at closing curve levels on the Conversion Date) for valuation for the end of day clearing cycle on the Conversion Date.
5. At the next end of day clearing cycle following the Conversion Date, for each Conversion Swap, CME Clearing will:
  - (a) apply as an upfront fee to each SOFR OIS Conversion Swap an offsetting cash compensation amount that is equal and opposite to the difference in NPV between the Conversion Swap(s) and the corresponding Pre-Conversion Swap, as determined by CME Clearing during the Conversion Calculation (the "Cash Adjustment"):
    - i. where the Conversion Calculation determines that the NPV of the relevant Conversion Swap(s) is greater than the NPV of the corresponding Pre-Conversion Swap, the Cash Adjustment applied to the SOFR OIS Conversion Swap will be negative;
    - ii. where the Conversion Calculation determines that the NPV of the relevant Conversion Swap(s) is less than the NPV of the corresponding Pre-Conversion Swap, the Cash Adjustment applied to the SOFR OIS Conversion Swap will be positive; and
  - (b) settle outstanding exposures and payments from the end of day clearing cycle (including for the avoidance of doubt, settlement variation and the Cash Adjustment) in accordance with CME Rule 814. The relevant Cash Adjustment will offset the change in NPV for the relevant Conversion Swap(s) such that the net cash flow in respect of the Conversion will be zero for each cleared trade in such Affected Contract per account.
6. Following the Conversion Date, each SOFR OIS Conversion Swap and Short-Dated BSBY Swap will be cleared by CME subject to the terms of the CME Rules.
7. CME will account for the relevant BSBY fallback spread adjustment published by CME (the "BSBY Fallback Spread") in determining the floating amount of each SOFR OIS Conversion Swap in each case in accordance with CME's published methodology.

#### Conversion Process Fees

8. CME will apply to each resulting SOFR OIS Conversion Swap (or such other Conversion Swap, as determined by CME) a fixed conversion surcharge of:
  - (a) \$10 for each SOFR OIS Conversion Swap that is established as a result of the Conversion process in respect of each relevant Pre-Conversion Swap in Clearing Member House accounts; and
  - (b) \$50 for each SOFR OIS Conversion Swap that is established as a result of the Conversion process in respect of each relevant Pre-Conversion Swap for Customer positions, (each, the "Conversion Fee").

#### Miscellaneous Provisions

9. CME will not apply the Permanent Cessation Fallbacks in CME Rule 90102.H (Application of Permanent Cessation Fallbacks) in respect of any Affected Contract or position or Conversion Swap resulting from the BSBY Conversion process.
10. CME shall make such further amendments to the terms of Affected Contracts as it deems necessary in its sole and absolute discretion to implement the terms of this Advisory Notice.
11. The terms of this Advisory Notice and the Conversion process are binding on Clearing Members and position holders in all Affected Contracts, effective July 12, 2024. To the extent that there is any conflict between the Rules and the terms of this Advisory Notice with respect to any Conversion process, this Advisory Notice shall prevail. For the purposes of this Advisory Notice, Rule 90103.A (Contract Modifications; CME Rules) shall not apply to the extent it purports to restrict modification to the terms of IRS Contracts that are the subject of this Advisory Notice.

The Conversion process on the Conversion Date is a mandatory process. The Conversion and the relevant Cash Adjustment will therefore apply to all positions in cleared trades in relevant Affected Contracts on the Conversion Date, as set out in this Advisory Notice. Market participants should consider the terms and impact of the Conversion as set out in this Advisory Notice and take appropriate action prior to the Conversion Date. Position holders that do not wish to participate in the Conversion process must close out any positions in relevant Affected Contracts prior to the Conversion Date.

#### **Limitation of Acceptance for Clearing for Affected Contracts Following Conversion Date**

From COB on the Conversion Date, CME Clearing will cease to accept for clearing trades referencing BSBY except trades with a final fixing scheduled to be published prior to the BSBY Cessation Date.

The list of IRS Rate Options in CME Rule 90102.E.1. (Interest Rate Swaps Rate Options) in Chapter 901 (“Interest Rate Swaps Contract Terms”) of the CME Rulebook will be updated accordingly from close of business on July 12, 2024, as detailed in CME Submission 24-276.

Additional details regarding the Conversion may be viewed in ***CME Submission No. 24-276***.

Inquiries regarding the aforementioned may be directed to:

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**Exhibit 2  
CME Rulebook**

(additions underscored; deletions ~~overstruck~~)

**Chapter 901  
Interest Rate Swap Contract Terms**

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**90102. CONTRACT TERMS**

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**90102.E. Rate Options**

**90102.E.1. Interest Rate Swaps Rate Options**

With respect to an IRS Contract, the Floating Rate Option elected by the IRS Clearing Participant in accordance with Rule 90002.F from the following Floating Rate Options names specified in the 2006 ISDA Definitions or Floating Rate Options names specified in the ISDA Definitions Floating Rate Matrix, or combination of rate options:

	<b>2006 ISDA Definitions Floating Rate Option (“FRO”) Name</b>	<b>2021 ISDA Definitions FRO Name</b>
1.	USD-LIBOR-BBA****	USD-LIBOR****
<b>****As set out in CME Clearing Advisory Notice 23-096, effective July 3, 2023, CME will cease to accept for clearing IRS Contracts referencing USD-LIBOR-BBA or USD-LIBOR except where the start date of such swap is on or after July 3, 2023.</b>		
2.	USD-Federal Funds-H.15-OIS-COMPOUND	USD-Federal Funds-OIS Compound
3.	USD-Federal Funds-H. 15	USD-Federal Funds
4.	EUR-EURIBOR-Reuters	EUR-EURIBOR
5.	EUR-EURIBOR-Telerate (as defined in the 2000 ISDA Definitions, as published by ISDA)	Not applicable
6.	GBP-LIBOR-BBA*	GBP-LIBOR*
<b>*As set out in CME Clearing Advisory Notice 21-434, effective January 4, 2022, CME will cease to accept for clearing IRS Contracts referencing GBP-LIBOR-BBA or GBP-LIBOR except where the start date of such swap is on or after January 4, 2022.</b>		
7.	GBP-SONIA-COMPOUND	GBP-SONIA-OIS Compound
8.	JPY-LIBOR-BBA**	JPY-LIBOR**
<b>**As set out in CME Clearing Advisory Notice 21-434, effective January 4, 2022, CME will cease to accept for clearing IRS Contracts referencing JPY-LIBOR-BBA or JPY-LIBOR except where the start date of such swap is on or after January 4, 2022.</b>		
9.	JPY-TONA-OIS-COMPOUND	JPY-TONA-OIS Compound
10.	CHF-LIBOR-BBA***	CHF-LIBOR***
<b>***As set out in CME Clearing Advisory Notice 21-434, effective January 3, 2022, CME will cease to accept for clearing IRS Contracts referencing CHF-LIBOR-BBA or CHF-LIBOR except where the start date of such swap is on or after January 3, 2022.</b>		
11.	CAD-BA-CDOR *****	CAD-CDOR *****
<b>*****As set out in CME Clearing Advisory Notice 24-115, effective July 3, 2024, CME will cease to accept for clearing IRS Contracts referencing CAD-BA-CDOR or CAD-CDOR except where the start date of such swap is on or after July 3, 2024.</b>		
12.	CAD-CORRA-OIS-COMPOUND	CAD-CORRA-OIS Compound
13.	AUD-BBR-BBSW	AUD-BBSW



14.	AUD-AONIA-OIS-COMPOUND	AUD-AONIA-OIS Compound
15.	SEK-STIBOR-SIDE	SEK-STIBOR
16.	DKK-CIBOR-DKNA13	DKK-CIBOR
17.	DKK-CIBOR2-DKNA13	DKK-CIBOR2
18.	NOK-NIBOR-NIBR	NOK-NIBOR
19.	NOK-NIBOR-OIBOR	NOK-NIBOR
20.	HKD-HIBOR-HKAB	HKD-HIBOR
21.	NZD-BBR-FRA	NZD-BKBM FRA
22.	HUF-BUBOR-Reuters	HUF-BUBOR
23.	PLN-WIBOR-WIBO	PLN-WIBOR
24.	CZK-PRIBOR-PRBO	CZK-PRIBOR
25.	ZAR-JIBAR-SAFEX	ZAR-JIBAR
26.	MXN-TIIE-Banxico	MXN-TIIE
27.	USD-SOFR-COMPOUND	USD-SOFR-OIS Compound
28.	EUR-EuroSTR-COMPOUND	EUR-EuroSTR-OIS Compound
29.	CHF-SARON-OIS-COMPOUND	CHF-SARON-OIS Compound
30.	USD-BSBY	USD-BSBY
<b>*****As set out in CME Clearing Advisory Notice 24-[ ], effective July 15, 2024, CME will cease to accept for clearing IRS Contracts referencing USD-BSBY except where the final fixing of such swap is published on or before November 15, 2024.</b>		
31.	Not supported	SGD-SORA-OIS Compound
32.	Not supported	MXN-TIIE ON-OIS Compound

[Remainder of Rule unchanged.]

**Exhibit 3**  
**CME Methodology for BSBY Transition**

<https://www.cmegroup.com/articles/files/2024/usd-bsby-operational-material.pdf>