

SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): 24-469

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 11/05/24 Filing Description: Modification of Cleared Over-the-Counter ("OTC") Interest Rate Swap Products Referencing the Banco de México 28 day Tasa de Interés Interbancaria de Equilibrio interest rate ("28D TIE") 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

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- 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:

November 5, 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 Banco de México 28 day Tasa de Interés Interbancaria de Equilibrio interest rate (“28D TIIE”) and Limitation of Acceptance for Clearing.
CME Submission No. 24-469**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or “CME Clearing” 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 modification of and restrictions on use of 28D TIIE by Banco de México from January 1, 2025 and the selection of the TIIE de Fondeo (TIIE Funding Rate or “F-TIIE”) by Banco de México as the replacement reference interest rate for certain new Mexican Peso denominated IRS products:

- modifications applicable to certain CME cleared OTC IRS products that reference the 28D TIIE rate and have fixings that occur on or after December 3, 2025,¹ to convert cleared trades in such cleared swap products in each case following close of business (“COB”) on Friday, November 22, 2024 (the “Primary Conversion Date”),² into:
 - where applicable, a corresponding CME cleared 28D TIIE IRS that accounts for remaining fixings under the original swap scheduled to occur prior to December 3, 2025, and
 - a corresponding CME cleared forward starting overnight index swap (“OIS”) referencing the F-TIIE interest rate benchmark that will maintain the original swap’s fixed rate and maturity, replace the 28D TIIE floating rate with daily compounding F-TIIE plus the Banco de México spread adjustment of 24 basis points, and will apply a 2 day payment offset to both the fixed and floating legs, with effective date either on the expiry of any replacement 28D TIIE IRS or, in the absence of a corresponding replacement 28D TIIE IRS, with effective date that is the same as the effective date of the original swap;

¹ Mexican peso (“MXN”) 28D TIIE IRS where the last fixing will occur prior to December 3, 2025 will not be subject to the conversion process and will mature and settle in accordance with their original terms.

² As with previous OTC IRS conversions, CME proposes to reserve the right in limited circumstances to amend the Primary 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.

in each case in accordance with CME's published methodology (the "CME Methodology for 28D TIIE Transition"),³ (the "Primary Conversion");

- modifications applicable to newly cleared OTC IRS products that reference the 28D TIIE rate and are accepted for clearing by CME after the Primary Conversion Date and that have fixings that occur on or after December 3, 2025, to convert cleared trades in such cleared swap products in each case at COB on the date of acceptance for clearing by CME into:
 - where applicable, a corresponding CME cleared 28D TIIE IRS that accounts for remaining fixings under the original swap scheduled to occur prior to December 3, 2025; and
 - a corresponding CME cleared forward starting OIS referencing the F-TIIE interest rate benchmark with effective date either on the expiry of any replacement 28D TIIE IRS or, in the absence of a corresponding replacement 28D TIIE IRS, with effective date that is the same as the effective date of the original swap;

in each case in accordance with CME's published methodology and substantively similar to that applicable to the Primary Conversion (each a "Daily Conversion),

- with respect to each forward starting F-TIIE OIS arising from the Primary Conversion or any Daily Conversion, application of a cash adjustment in the form of an upfront fee to be included on the resulting forward starting F-TIIE OIS to account for valuation differences between the legacy 28D TIIE IRS (valued utilizing the Banco de México Modification Methodology,⁴ as set out in the published CME methodology) and the corresponding replacement swaps arising from the relevant Primary Conversion or Daily Conversion process; and
- clearing support for MXN denominated IRS referencing 28D TIIE following COB on December 31, 2024, shall be limited to:
 - 28D TIIE IRS that do not have fixings on or after December 3, 2025; and
 - in order to support swaps arising from the expiration of any legacy bilateral swaptions, spot and forward starting 28D TIIE IRS, including those contracts with fixings on or after December 3, 2025,

until COB on December 31, 2025, after which clearing support for all 28D TIIE IRS shall be terminated;

(together, the "28D TIIE Transition"), which such modifications shall be effective following COB on Friday, November 22, 2024 (collectively, the "Rule Amendments"). This submission shall become effective on November 21, 2024.

CME is a systemically important derivatives clearing organization ("SIDCO")⁵ and offers clearing for all products traded on the CME exchange, The Board of Trade of the City of Chicago, Inc., New York

³ CME published the CME Methodology for 28D TIIE Transition for the relevant conversion processes in March 2024 on the CME website at: <https://www.cmegroup.com/articles/files/2024/mxn-methodology-and-examples.pdf>

⁴ From January 1, 2025, Banco de Mexico will change the calculation methodology for 28D TIIE, calculating the rate as a function of overnight F-TIIE, as described below in more detail and set out in Banco de Mexico Circular 4/2023, Annex 11 (published April 13, 2023) which describes the revised methodology that will be followed by Banco de México for calculation of TIIE for terms longer than a banking business day, applicable from January 1, 2025 (the "Banco de Mexico Modification Methodology"), which is accessible at: https://www.dof.gob.mx/nota_detalle.php?codigo=5685505&fecha=13/04/2023#gsc.tab=0 .

⁵ On July 18, 2012, CME Inc. was designated as a systemically important financial market utility under Title VIII of the Dodd-Frank Act.

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 28D TIIE Transition is set out in the Clearing Advisory Notice attached as Exhibit 1, effective Friday, November 22, 2024. No substantive amendments to the CME Rulebook are required to effect the 28D TIIE Transition. By publishing a Clearing Advisory Notice to the marketplace, CME will make public the limited withdrawal of clearing support for 28D TIIE as summarized above and set out in the Clearing Advisory Notice.⁶ 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 28D TIIE 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 conversion processes of the 28D TIIE Transition is substantially similar to the process utilized for the U.S. Dollar London Interbank Offered Rate (“USD LIBOR”) equivalent conversions conducted 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 28D TIIE Transition is based on those relevant processes utilized by CME in the USD LIBOR Conversion,⁷ as well as on feedback from market participants and the Banco de Mexico’s Working Group on Alternative Reference Rates (“GTTR”) during a consultation process completed by CME in 2023 and the first quarter of 2024. CME published the final proposals that are the subject of this submission in March 2024, together with additional operational details on the CME website, also in March 2024.⁸

Background

TIIE calculation methodology changes, prohibition on use, and establishment of F-TIIE

On December 20, 2022, Banco de México announced the scheduled prohibition of the use of the TIIE benchmark rate as a reference for new contracts entered into by any financial entity regulated by Banco de México. Banco de Mexico has subsequently indicated that it intends to waive this requirement for 28D TIIE swaps that mature prior to the end of 2025, with effect from January 1, 2025.⁹ Banco de México further

⁶ From January 1, 2025 until close of business on December 31, 2025, CME will only accept the following 28D TIIE Swaps for clearing:

- 28D TIIE Swaps that do not have fixings on or after the IWED; and
- spot and forward starting 28D TIIE Swaps that arise from the expiry of bilateral swaptions, including those that have fixings on or after the IWED.

After close of business on December 31, 2025, CME will cease to accept 28D TIIE Swaps for clearing. 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.

⁷ CME’s approach to the June 2023 USD LIBOR Conversion is set out in CME Submission 23-082, accessible at: <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2023/1/23-082.pdf>.

⁸ For further details on the CME Methodology for 28D TIIE Transition, please see materials available on the CME website at: <https://www.cmegroup.com/articles/2023/transition-from-28d-tiie-to-tiie-de-fondeo-f-tiie-for-cleared-mxn-interest-rate-swaps.html>.

Additional operational level detail is available at: <https://www.cmegroup.com/articles/files/2024/mxn-operational-processing-and-reporting.pdf>. Details on the conversion pricing approach are available at: <https://www.cmegroup.com/articles/files/2024/mxn-pricing.pdf>.

⁹ See initial Banco de México announcement, December 20, 2022: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7B2D6F5896-CF86-3F28-0C02-98D17B7542B9%7D.pdf>. In December 2023, based on feedback from the industry, Banco de México modified its transition plans by announcing a proposed waiver period to help facilitate the market’s transition to F-TIIE, providing that it intends that, from January 1, 2025, new 28D TIIE swaps that mature prior to 2026 will be exempt from the prohibition on trading announced in December 2022. See Banco de México consultation March 5, 2024, accessible at

issued instructions for affected firms to use F-TIIE in new transactions or contracts in place of TIIE and also notified market participants of a proposed change in methodology for the calculation of 28D TIIE and certain other TIIE tenors from January 1, 2025 in order to support the transition of new and legacy contracts away from TIIE and into F-TIIE. This announcement followed the earlier establishment of the F-TIIE benchmark rate by Banco de México, first published in January 2020, which was designed to function as a near risk-free reference rate (“RFR”) representative of the Mexican overnight secured interbank funding market for Mexican pesos and aligned to international standards.

F-TIIE is determined solely from transaction data; the F-TIIE rate is calculated with wholesale overnight repurchase agreement (repo) transactions denominated in Mexican pesos, settled by banks and brokerage firms, and secured by debt instruments issued by the Federal Government, the Mexican Bank Savings Protection Institute (“IPAB”) and the Central Bank. Banco de México’s methodology for F-TIIE considers all relevant repo transactions that are settled through S.D. Indeval (Institución para el Depósito de Valores, S.A. de C.V. (“INDEVAL”). F-TIIE is determined as a volume-weighted median of interest rates paid on these Mexican peso denominated repo transactions. At publication, the volume-weighted median is expressed in annual terms and rounded to two decimal places. F-TIIE is published daily at approximately 5:00 p.m. Mexico time for the same Mexico (“MXMC”) business day.¹⁰

In contrast to other central bank-led major interest rate benchmark transitions to nominated RFRs, Banco de México has determined that it will not discontinue the publication of the TIIE benchmark rate.¹¹ In order to support its continued use in legacy contracts, and with the intention of having to avoid reliance on contractual fallbacks for these legacy contracts, Banco de México announced that the TIIE rate will continue to be published from January 1, 2025, under the revised Banco de México Modification Methodology which will calculate 28D TIIE as a function of overnight F-TIIE, utilizing the previous F-TIIE overnight rate compounded for 28 days, with the addition of a fixed 24 basis point spread adjustment differential applicable to all TIIE tenors, based on the historical median over a five year period from November 2017 to October 2022 of the daily differences between TIIE (with tenors of more than one business day) and F-TIIE.¹²

However, despite the forthcoming change in the 28D TIIE calculation methodology announced by Banco de Mexico, based on CME’s extensive engagement with market participants during the consultation period on its proposals,¹³ there is a clear preference amongst market participants for a central counterparty clearing house (“CCP”)–led conversion of certain “legacy” cleared interest rate swaps referencing 28D TIIE into corresponding, standardized cleared overnight index swaps (“OIS”) referencing F-TIIE, rather than for

<https://www.banxico.org.mx/publicaciones-y-prensa/miscelaneos/%7B4098A198-7A37-2F61-B2E4-B23BB099DC35%7D.pdf>. The stated purpose of the proposed waiver is to allow entities to agree on new swaps that use 28 TIIE from January 1, 2025 to December 31, 2025, as long as the expiration date of such swaps is less than or equal to December 31, 2025. See also materials (Annex 4) from the 12th Meeting of the GTTR April 9th, 2024, published at: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BC8195B8B-53A3-AB57-C910-A3731492B5D3%7D.pdf>

¹⁰ The FSB recommended that reference or benchmark rates must comply with the principles established by IOSCO which aim to give legitimacy to the determination of benchmark rates: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>. See Banco de México publication, referring to the establishment of F-TIIE based on international standards established by the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB): <https://www.banxico.org.mx/markets/d/%7B1FDD2772-9F1C-FDA3-FBBC-AC641FE94CD2%7D.pdf>

¹¹ In contrast, the UK Financial Conduct Authority, as regulator of the administrator of the LIBOR benchmark rates made public statements to the effect that the relevant LIBOR rate was no longer representative of the underlying market for the rate and worked with the relevant administrator and market participants to schedule the permanent cessation of such rates.

¹² See Banco de Mexico Circular 4/2023, Annex 11 (published April 13, 2023), accessible at: https://www.dof.gob.mx/nota_detalle.php?codigo=5685505&fecha=13/04/2023#gsc.tab=0. See also December 2022 Banco de Mexico announcement, available at: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7B2D6F5896-CF86-3F28-0C02-98D17B7542B9%7D.pdf>

¹³ During 2023 and the first quarter 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 a CCP-led transition away from 28D TIIE and into F-TIIE ahead of the change of methodology of calculation of 28D TIIE. CME published final proposals in March 2024, accessible at <https://www.cmegroup.com/articles/2023/transition-from-28d-tiie-to-tiie-de-fondeo-f-tiie-for-cleared-mxn-interest-rate-swaps.html>.

all “legacy” cleared contracts to adopt the revised 28D TIIE rate that will be published from January 1, 2025 under the revised Banco de México Modification Methodology.¹⁴ This is driven in particular by market participant concerns in relation to available liquidity for non-standardized “legacy” swaps referencing the 28D TIIE rate and which mature after the end of the proposed Banco de Mexico waiver period on December 31, 2025, even under the revised methodology; it is considered that liquidity will be greater for standardized F-TIIE OIS, which are widely expected to be the most liquid MXN IRS contract for fixings after the end of the proposed waiver period, than it would be for the equivalent non-fungible legacy 28D TIIE swaps.

CME launched a clearing service for F-TIIE OIS (out to 31 years of maturity) in February 2024 to support Banco de México’s transition from 28D TIIE to F-TIIE (see CME Submission [24-004](#) dated February 1, 2024). The floating rate coupon for F-TIIE OIS references “MXN-TIIE-ON-OIS-Compound” as published in the ISDA 2021 Definitions. This ensures that market participants have the opportunity to clear trades and ensure their systems can handle the new F-TIIE OIS product prior to the Conversion process. CME also lists F-TIIE Futures on the CME designated contract market.¹⁵ As liquidity in F-TIIE derivatives continues to grow, with additional support from Banco de México’s “F-TIIE Primero” initiative which is designed to promote liquidity in F-TIIE derivatives,¹⁶ it is considered that the conversion of legacy 28D TIIE swaps will boost liquidity in F-TIIE derivatives in the second half of 2024. Based on feedback from market participants during the period of consultation by CME throughout 2023 and the first quarter of 2024, liquidity in F-TIIE OIS is expected to be materially impacted in a positive manner by the conversion processes that CME and other CCPs have proposed, with market participant liquidity expected to transition to F-TIIE OIS ahead of the commencement of the Banco de Mexico trading restrictions on 28D TIIE swaps. Liquidity in F-TIIE OIS markets has not been raised as a concern by market participants during the consultation process and CME understands that market participants are comfortable receiving F-TIIE OIS as a result of the conversion process.

Timing and scope considerations for CME conversion of MXN 28D TIIE IRS

Following extensive discussions with market participants in 2023 and early 2024, CME has determined that the primary event of the CCP-led 28D TIIE conversion process for CME cleared contracts should take place on November 22, 2024 (the “Primary Conversion Date”). It is important that the primary conversion process should take place prior to the commencement of Banco de México’s trading prohibitions on new TIIE interest rate swaps on January 1, 2025, in order to ensure that any initial conversion process is completed before the relevant restrictions take effect. Furthermore, market participants also support CME’s decision to schedule the primary conversion process to take place outside the immediate period around the scheduled 2024 U.S. Presidential Election in order to avoid potential market volatility around that time. Market participants have also supported the proposed CME Methodology for 28D TIIE Transition and operational mechanisms for the 28D TIIE conversion, which is substantively similar to that used by CME for other major RFR conversion processes, such as the USD LIBOR OTC IRS conversion in June 2023.

Pursuant to the proposed waiver announced by Banco de México in December 2023, the prohibition on use of 28D TIIE in new interest rate swaps from January 1, 2025 will not apply to newly cleared 28D TIIE

¹⁴ See Banco de México Announcement December 20, 2022: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7B2D6F5896-CF86-3F28-0C02-98D17B7542B9%7D.pdf> and (Annex 11) Banco de Mexico Circular 4/2023: <https://www.banxico.org.mx/marco-normativo/normativa-emitada-por-el-banco-de-mexico/circular-3-2012/%7B38CBE44D-CF95-1E3A-8750-D5C1FC3A2FB1%7D.pdf>

¹⁵ Details on the launch of CME F-TIIE OTC IRS are available at:

<https://www.cftc.gov/media/10176/CME%20Swap%20Submission%202022-1-24-F-TIIE/download>. Information on volumes of CME cleared OTC F-TIIE Swaps are available at <https://www.cmegroup.com/education/cme-volume-of-records.html>.

¹⁶ Phase 3 of the F-TIIE Primero initiative anticipates that clearing houses will complete the conversion of legacy TIIE swaps, see February 1, 2024 and April 9, 2024 GTTR meeting publications available on the Banco de Mexico website: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BA5419A19-1C19-9ED4-F429-8518FF28516E%7D.pdf> and <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BC8195B8B-53A3-AB57-C910-A3731492B5D3%7D.pdf>

swaps that mature prior to 2026. This means that any new interest swaps executed after January 1, 2025 which contain only fixings scheduled to take place prior to the end of 2025 would benefit from the waiver from the prohibition.¹⁷ Due to the T+1 market conventions applicable to 28D TIIE, this means that 28D TIIE swaps with all fixings prior to December 3, 2025 would be covered by the Banco de México waiver. As a result, it is not necessary for CME to convert 28D TIIE swaps that fall into this exempt category, i.e. 28D TIIE IRS with all fixings prior to December 3, 2025 as these swaps will continue to benefit from the relevant waiver and could therefore continue to be traded by market participants, rendering conversion unnecessary. For this reason, CME Clearing has excluded these swaps from the conversion processes. CME Clearing does not anticipate any difficulties in risk management or default management of such contracts in the period to their final settlement on the basis that they are not affected by the prohibition on trading and the market for such swaps would therefore remain relatively liquid until maturity.

For the purposes of the 28D TIIE Transition process and this submission, CME has termed the December 3, 2025 date as the “Index Waiver Expiration Date” (“IWED”), being the day after the last fixing day prior to the end of the proposed Banco de Mexico waiver period and therefore the effective date of expiry of the waiver from the prohibition. Given that the proposed Banco de Mexico waiver period allows market participants to continue to execute new cleared 28D TIIE swaps with fixings prior to the IWED, CME has determined that the IWED is a critical date for the conversion methodology and should serve as the date from which further 28D TIIE fixings on a CME-cleared 28D TIIE swap should be converted into corresponding F-TIIE OIS. CME’s conversion approach will therefore maintain scheduled 28D TIIE fixings from the original 28D TIIE swap due to take place prior to the IWED through the allocation (to the relevant position holder of the original swap on the date of the relevant Conversion) of a CME cleared 28D TIIE IRS that accounts for remaining fixings under the original swap scheduled to occur prior to the IWED. This model is designed to preserve fixings and cashflows in respect of 28D TIIE periods that will fix prior to the IWED and CME believes that this approach, when combined with the waiver period announced by Banco de Mexico, will serve to ensure that cleared and uncleared markets are aligned to the greatest extent and longest time period possible, to best mitigate the risk of a potential basis between the markets.

In response to market participant feedback, as with certain previous RFR conversions, CME has determined that it will continue to accept for clearing eligible 28D TIIE IRS that are submitted to CME for a period after the Primary Conversion Date. Where such new swaps are received for clearing by CME and contain fixings on or after the IWED, they will be subject to the Daily Conversion process (utilizing the same methodology as on the Primary Conversion Date) on the relevant date of acceptance for clearing. Respondents to CME’s conclusion process demonstrated demand for CME to continue to provide limited support for 28D TIIE clearing after the Primary Conversion Date given the Banco de Mexico waiver that extends to December 31, 2025 for certain 28D TIIE swaps that do not have fixings on or after the IWED and also for the purposes of supporting clearing and conversion of 28D TIIE IRS arising from existing bilateral swaption expiries, both of which create a need for the clearing house to maintain the ability to clear and to convert those cleared swaps after the Primary Conversion, as required. CME will therefore continue to accept such contracts for clearing until COB on December 31, 2025 and will operate the daily conversion process at COB on each CME business day following the Primary Conversion Date.

Challenges for CCP-led conversion for MXN 28D TIIE and links to bilateral markets

Banco de México will continue to publish 28D TIIE under a revised methodology from January 1, 2025, specifically in order to avoid the need for contractual fallbacks that would otherwise result from cessation of publication of the rate, and which caused certain difficulties and operational / legal challenges for

¹⁷ This was discussed in the 11th Meeting of the GTTR, on February 1, 2024: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BA5419A19-1C19-9ED4-F429-8518FF28516E%7D.pdf>

implementation in cash and uncleared derivative markets in connection with LIBOR transition.¹⁸ However, the absence of a “fallback trigger” or “index cessation event” relating to 28D TIIE creates certain challenges for a CCP-led conversion of 28D TIIE swaps that were not present for previous RFR transitions. Given the commitment of Banco de Mexico to continue to publish 28D TIIE, the contractual fallback provisions contained in the International Swaps and Derivatives Association, Inc. (“ISDA”) 2021 ISDA Interest Rate Derivatives Definitions (the “2021 Definitions”) which are widely used in uncleared derivatives markets, and which are also incorporated into the CME Rules, are not expected to be triggered in relation to 28D TIIE. As a result, without additional specific action and rule modifications by CME to convert relevant 28D TIIE exposures into corresponding F-TIIE OIS, under the operation of the current CME Rules all relevant CME cleared 28D TIIE interest rate swaps would continue to reference 28D TIIE, as determined under the revised methodology, after 1 January 2025.

In contrast to previous RFR conversions conducted by CME, it follows that without an “index cessation event” connected with a cessation of publication of 28D TIIE (or cessation of representativeness of the benchmark), there is no associated contractual basis within the CME Rules (or in bilateral uncleared markets) for the economic conversion of a 28D TIIE swap into an equivalent TIIE OIS, nor is there any specific point in time or basis against which to determine and calculate any cash compensation that should arise to cover any differences in value between the original 28D TIIE swap and the output of any conversion into TIIE OIS. For the same reason, therefore there is no basis for the use of a methodology based on the contractual fallbacks within the ISDA 2021 Definitions, such as those used by CME for previous conversions.

In order to process previous RFR conversions, CME and other CCPs have relied on two critical items to determine the terms, valuation and pricing of the input and output IRS contracts: firstly, a binding economic relationship between the original interest rate benchmark (in this case, 28D TIIE) and the replacement RFR benchmark rate (i.e., F-TIIE), and secondly, a primary curve that can be used to value both the legacy IRS contracts and the replacement RFR swaps. The combination of these two factors allows the CCP to maintain net present value (“NPV”) neutrality at the point of conversion as any valuation differences between the legacy trades and the replacement swaps are neutralized via the inclusion of an equal and offsetting upfront payment amount (known as the “Cash Adjustment” amount, effected through an upfront fee on the replacement RFR swap).

Based upon the feedback received through multiple consultation periods, in order to address these issues, CME intends to leverage the binding economic relationship between 28D TIIE and F-TIIE that has been established by the Banco de México’s Modification Methodology in order to underpin the conversion pricing methodology for 28D TIIE and the F-TIIE curve for any fixings scheduled to occur on or after December 3, 2025.¹⁹ The Banco de México Modification Methodology provides for a robust mechanism for the calculation of a relevant projected 28D TIIE benchmark rate as a forward-looking value based on compounding F-TIIE from the previous day, compounded for 28 days, and adding the fixed spread adjustment of 24 basis points. At the point of conversion, the Banco de México Modification Methodology will therefore be used by CME to value any 28D TIIE fixings that are scheduled to occur on or after December 3, 2025, which correlates to fixings that will be converted to a forward starting F-TIIE OIS through the replacement swap structure. Any differences that result from this valuation as compared to the legacy swap’s pre-conversion pricing will be neutralized via an offsetting cash compensation amount.

¹⁸ Note that despite Banco de Mexico’s aim to avoid contractual fallbacks by continuing to publish 28D TIIE, the Banco de Mexico GTTR and wider market nonetheless specifically supports CCP-led conversion initiatives of 28D TIIE swaps into F-TIIE OIS in order to promote liquidity in standardized F-TIIE OIS and to ensure fungibility of “legacy” and “new” contracts going forward.

¹⁹ See: <https://www.cmegroup.com/articles/files/2024/proposal-for-cme-cleared-mxn-tiie-interest-rate-swaps-2024-03.pdf>. Further details on curve construction for the 28D TIIE Transition process have been published by CME at: <https://www.cmegroup.com/articles/files/2024/FTIIE-conversion-curve-methodology.pdf>.

CME and market participants consider that a conversion mechanism utilizing this methodology provides a robust and appropriate basis for the conversion pricing approach for a CCP-led conversion of 28D TIIE IRS into replacement F-TIIE OIS (and any corresponding resulting 28D TIIE swap), providing CME with reference points for determining the valuation of any input contracts and calculation of any associated cash compensation.

Based on CME's discussions with Banco de Mexico, CME understands that the GTTR and Banco de Mexico are supportive of clearing house initiatives to convert 28D TIIE swaps on the basis of the proposals published by CME.

Objectives of methodology for CME conversion of 28D TIIE cleared contracts

Similar to the considerations relating to previous IBOR conversions, CME's key considerations for the conversion methodology for 28D TIIE included:

- ensuring that pricing of 28D TIIE swaps is fair and not subject to manipulation to 28D TIIE rates;
- reducing the differences in cash flow amounts for the projected cash flows pre- and post-conversion;
- ensuring that converted swaps would maintain scheduled 28D TIIE fixings from the original 28D TIIE swap due to be published prior to the IWED ok by; and
- price replacement swaps on the relevant conversion date consistent with an agreed pricing approach, notwithstanding the absence of an "index cessation event" and lack of industry agreed contractual fallbacks or pricing methodology for 28D TIIE swaps to convert to F-TIIE.²⁰

As noted above, CME has determined that the CME Methodology for 28D TIIE Transition and conversion pricing approach for the 28D TIIE Transition should be based on the Banco de México Modification Methodology and the relevant spread adjustment of 24 basis points, which provides for a historical "spread adjustment" to reflect the historical daily differences between 28D TIIE and F-TIIE reference rates.²¹ Market participants have agreed that the Banco de México Spread Adjustment will be applied on the floating leg of each F-TIIE OIS that results from the conversion of CME cleared 28D TIIE swaps. The relevant spread adjustment will also be used by CME for the purposes of computing the projected F-TIIE forward rate on the relevant Conversion Date, utilizing the CME Methodology for 28D TIIE Transition provided to market participants and made public by CME in March 2024.

By utilizing a conversion pricing approach based on the Banco de México Modification Methodology (and its further use to compute the Cash Adjustment) ensures that the pricing of the relevant "replacement" swaps is fair and is not subject to manipulation. As with previous RFR conversions, the Cash Adjustment is designed to compensate position holders for any changes in valuation resulting from the conversion of the original, legacy 28D TIIE swaps into the replacement swaps. This adjustment is intended to ensure that the conversion event will be a zero-sum event from a PnL perspective at the point of conversion. As a result, differences in projected cash flow amounts are reduced which ensures each relevant conversion will result in a minimal change in risk exposure for a position holder of an original 28D TIIE Swap.

²⁰ For previous IBOR to RFR 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 and published according to the industry-agreed pricing methodology published by ISDA (the "ISDA Fallback Pricing Methodology").

²¹ The "spread adjustment" in each case for ISDA IBOR fallbacks provided an important part of the overall ISDA Fallback Rate for previous IBOR to RFR conversions and was designed in each case to reflect a portion of the structural differences between the relevant IBOR and the corresponding RFR used as the fallback reference rate, 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 in each case. The relevant methodology was agreed by ISDA following multiple industry consultations and adopted by CME and other CCPs for the purposes of CCP-led IBOR to RFR conversions.

The CME Methodology for 28D TIIE Transition also ensures that the resulting conversion swap(s) will in each case retain the key economic terms of the corresponding original 28D TIIE Swap to the extent practicable, and the process also maintains any pre-IWED 28D TIIE coupons, restating these accrual periods in any relevant 28D TIIE replacement swap.

Summary of Proposed Conversion of CME cleared 28D TIIE Swaps

In operational terms relating to the conversion process of 28D TIIE swaps, the CME Methodology for 28D TIIE Transition follows similar principles to the USD LIBOR Conversion undertaken by CME in 2023 through which CME completed 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.

CME proposes to transition CME cleared 28D TIIE Swaps with fixings on and after the IWED date of December 3, 2025 by replacing each such contract in the relevant account with the following:

- where relevant, a 28D TIIE swap to capture any pre-IWED 28D TIIE fixings; and
- a standardized forward starting OIS that references F-TIIE that will maintain the legacy swap's fixed rate, replace the 28D TIIE floating rate with daily compounding F-TIIE plus the Banco de México Spread Adjustment, and apply a 2 day payment offset to both the fixed and floating legs, with effective date on the expiry of any replacement 28D TIIE replacement swap or the effective date of the original swap, as required, to settle all remaining cash flows and account for a cash compensation fee;²²

on the Primary Conversion Date, and thereafter on each subsequent Conversion Date following the Primary Conversion Date for newly cleared contracts, utilizing a mandatory conversion process and the relevant methodology determined by CME, as described in more detail below:

Conversion Processes - Adjustment Methodology

CME has published its detailed CME Methodology for 28D TIIE Transition which sets out the methodology for the Conversion processes, including worked examples, which is provided as Exhibit 3 to this Submission. The relevant methodology is summarized below:

- each resulting CME cleared F-TIIE OIS arising from the Conversion process (each, a "Forward Starting F-TIIE OIS") will account for the Banco de México Spread Adjustment on the floating leg of the F-TIIE OIS swap, retaining the key economic terms of the original trade, subject to certain adjustments described below and determined by CME as set out in the CME Methodology for 28D TIIE Transition;
- each resulting CME cleared 28D TIIE Swap arising from the Conversion process (each, a "Resulting 28D TIIE Swap") is designed to account for any pre-IWED 28D TIIE coupons and will have economic terms as determined by CME according to the CME Methodology for 28D TIIE Transition, the purpose of which is to maintain all pre-IWED payments;

²² Using standard F-TIIE OIS trade attributes ensures that the replacement F-TIIE OIS are supported by execution venues and back office systems. Details of the market standard attributes for F-TIIE OIS supported by CME Clearing are available at: <https://www.cmegroup.com/articles/files/2024/f-tiie-ois-market-standard-attributes.pdf>

- in order to neutralize the value transfer from the Conversion of the economic position of each original 28D TIIE Swap into the resulting swap(s), CME will calculate the Cash Adjustment that will be based on the difference between the net present value (“NPV”) of the original 28D TIIE Swap and the combined NPV of the Forward Starting F-TIIE OIS and any Resulting 28D TIIE Swap on the relevant Conversion Date. The Cash Adjustment for each Forward Starting F-TIIE 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”).²³ The Cash Adjustment amount will be applied by CME in the form of upfront “fees” on each resulting cleared Forward Starting F-TIIE OIS on the relevant 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 F-TIIE OIS will be cleared as a CME cleared F-TIIE OIS (referencing the MXN-TIIE ON-OIS Compound Floating Rate Option) and any Resulting 28D TIIE Swap will be cleared as a 28D TIIE Swap.

Primary Conversion Date – Conversion Processes

A: 28D TIIE IRS excluded from Conversion

The following CME cleared 28D TIIE IRS open on the Primary Conversion Date are excluded from the conversion process on the Primary Conversion Date:

- (i) 28D TIIE Swaps that mature on or before the Primary Conversion Date; and
- (ii) 28D TIIE IRS that do not contain fixings on or after the IWED, which shall expire and settle on their original terms.

B: Conversion of 28D TIIE IRS with fixings prior to the IWED

On the Primary Conversion Date, CME will convert each relevant CME cleared 28D TIIE IRS into:

- (i) a corresponding standardized Forward Starting F-TIIE OIS:
 - retaining the relevant key economic terms of the original 28D TIIE Swap trade, maturity date and fixed leg economic terms (excluding payment offset), except that the effective date shall be the expiry date of the Resulting 28D TIIE Swap;
 - including a payment offset (2D) added to both legs of the resulting F-TIIE OIS, consistent with market standard F-TIIE OIS conventions;
 - fixed/float leg day counts defaulted to the market standard convention of ACT/360;
 - additional payment calendars defaulted to the market standard convention of Mexico (MXMC). No additional calendars are carried over;

²³ Where the holder of a Forward Starting F-TIIE 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 F-TIIE OIS and such amount would be due from the position holder at the next clearing cycle. Where the holder of a Forward Starting F-TIIE 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 F-TIIE 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.

- including a single compensating upfront fee (the Cash Adjustment) to be paid the following Mexico business day; and
- (ii) a Resulting 28D TIIE Swap accounting for all 28D TIIE fixings prior to the IWED:
- fixed/float leg day counts are preserved from the original swap;
 - Mexico (MXMC) calendar for payments and fixings preserved from the original swap,

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 F-TIIE OIS, and applied according to the CME Methodology for 28D TIIE Transition, set out in Exhibit 3.

C: Conversion of Forward Starting 28D TIIE Swaps with all fixings on or after the IWED

On the Primary Conversion Date, CME will convert each CME cleared 28D TIIE Swap that is a Forward Starting Swap with all fixings on or after the IWED into a corresponding standardized Forward Starting F-TIIE OIS:

- retaining the key economic terms of the original 28D TIIE Swap trade, including the effective date, maturity date and fixed leg economic terms (excluding payment offset);
- including a payment offset (2D) added to both legs of the resulting F-TIIE OIS, consistent with market standard F-TIIE OIS conventions;
- fixed/float leg day counts defaulted to the market standard convention of ACT/360;
- additional payment calendars defaulted to the market standard convention of Mexico (MXMC). No additional calendars are carried over;
- including a single compensating upfront fee (the Cash Adjustment) to be paid the following Mexico business day,

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 F-TIIE OIS, and applied according to the CME Methodology for 28D TIIE Transition, as set out in Exhibit 3.

Daily Conversion Process

Following COB on each CME business day following the Primary Conversion Date, CME will convert each new relevant CME cleared 28D TIIE IRS with fixings on or after the IWED as follows:

- where the 28D TIIE IRS has all fixings on or after the IWED, the original swap will be converted into a single standardized F-TIIE OIS; and
- where the 28D TIIE IRS has fixings prior to the IWED, the original swap will be converted into a Resulting 28D TIIE Swap and a standardized F-TIIE OIS,

in each case, in accordance with the relevant operational elements of the relevant Conversion process in paragraph B or C above, as applicable (the “Daily Conversion Process”).

The Daily Conversion Process shall cease to operate after COB on December 31, 2025.

For the avoidance of doubt, newly cleared 28D TIIE IRS accepted for clearing after COB on the Primary Conversion Date that do not contain fixings on or after the IWED shall expire and settle on their original terms and shall not be subject to the Daily Conversion Process.

Limitation of Clearing Support for 28D TIIE Swaps after Primary Conversion Date

- (i) From COB on the Primary Conversion Date until COB on December 31, 2024, CME will continue to accept for clearing new 28D TIIE IRS.
- (ii) From January 1, 2025 until COB on December 31, 2025, CME will accept for clearing 28D TIIE IRS with all fixings before the IWED.
- (iii) From January 1, 2025 until COB on December 31, 2025, CME will accept for clearing spot and forward starting 28D TIIE IRS that result from the expiry of bilateral swaptions, including those with fixings on or after the IWED.
- (iv) From COB on December 31, 2025, CME will cease to accept for clearing new 28D TIIE IRS.
- (v) From COB on the Primary Conversion Date until the IWED, newly cleared 28D TIIE swaps that do not contain fixings on or after the IWED shall not be subject to the Daily Conversion Process and shall expire and settle on their original terms.

The 28D TIIE Transition 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 28D TIIE Swaps from November 21, 2024, subject to regulatory review.

Amendment to Primary Conversion Date in Limited Circumstances

CME will reserve the right to amend the Primary Conversion Date in its sole and absolute discretion prior to the Primary 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 Primary Conversion Date to market participants as soon as practicable upon making such determination.²⁴

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 28D TIIE Swaps, converting the terms of each cleared trade to a standardized CME cleared F-TIIE interest rate swap and, where applicable, a Resulting 28D TIIE Swap. From an operational perspective, each relevant Conversion will be processed by CME as a “termination” of each relevant 28D TIIE Swap and the establishment of a “new” corresponding cleared trade in F-TIIE OIS within the clearing system, the Forward Starting F-TIIE OIS and, where applicable, a new Resulting 28D TIIE 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 28D TIIE Swap; and

²⁴ CME Clearing has identified a provisional contingency fallback date of December 13, 2024, in the event that the proposed November 22, 2024, date for the Primary Conversion is determined to be unsuitable as the date of the Primary Conversion.

- a clearing confirmation message to relevant CME Clearing Members in respect of the establishment of each new relevant Forward Starting F-TIIE OIS and, as applicable, Resulting 28D TIIE Swap.

As part of the Conversion process, a subset of Trade IDs from each original 28D TIIE Swap will be carried over to the relevant resulting F-TIIE OIS and Resulting 28D TIIE Swap. The CME Trade ID and USI/UTI are not carried over but, in order to identify the link between each original 28D TIIE Swap and the relevant resulting F-TIIE OIS and any Resulting 28D TIIE Swap, CME will add a replacement Trade ID and Original Trade ID respectively in the History section of the clearing confirmation messages.

CME will report the close out of each 28D TIIE Swap and the establishment of each corresponding Forward Starting F-TIIE OIS, Resulting 28D TIIE Swap and/or other resulting F-TIIE 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 28D TIIE 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 28D TIIE Swap and CME will ensure that each resulting F-TIIE 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 28D TIIE Swap and the combined valuation of the resulting F-TIIE OIS and any related Resulting 28D TIIE Swap on the relevant Conversion Date. The difference in the NPV of each original 28D TIIE Swap and the corresponding replacement swaps on the relevant 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 F-TIIE OIS.

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

- On or shortly after COB on the relevant 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 28D TIIE Swap subject to the Conversion process on that date, calculated utilizing CME's closing curve marks on the relevant Conversion Date for each position account and utilizing the published CME Methodology for 28D TIIE Transition.
- Upon establishment of each F-TIIE OIS and any Resulting 28D TIIE Swap within the clearing system, on or shortly after COB on the relevant Conversion Date, the Clearing House will conduct an additional calculation to determine the NPV for each F-TIIE OIS and any Resulting 28D TIIE Swap calculated utilizing CME's closing curve marks on the relevant Conversion Date for each position account.
- Note that the determination of the NPV of the original 28D TIIE Swap and the F-TIIE OIS and any Resulting 28D TIIE 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 CME business day.

- The difference between the two NPV calculations for each original 28D TIIE 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 28D TIIE rate to F-TIIE.

The relevant Cash Adjustment amount to be applied to each resulting F-TIIE 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 F-TIIE 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 F-TIIE OIS had benefited from a change in NPV, i.e., where the resulting swap(s) NPV is greater than the corresponding original 28D TIIE 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 F-TIIE 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 relevant Conversion Date, during which cycle settlement variation for positions in the F-TIIE 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 F-TIIE OIS experiences a negative change in NPV, the Cash Adjustment will be a positive amount and will be applied to the F-TIIE 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 relevant 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 28D TIIE Swap and the Cash Adjustment processes, reflecting the operational characterization of the process as a “termination” of the original 28D TIIE Swap and establishment of a “new” Forward Starting F-TIIE OIS and, in this case, a corresponding Resulting 28D TIIE Swap. As noted above, in legal terms, the relevant Conversion is treated as an amendment of the terms of the relevant cleared trade.

As of COB on Friday, November 22, 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 28D TIIE Swap	11/22/2024	144223	MXN-TIIE	TERMINATED	0	0	27,000.00	-27,000.00	-	-	-	-27,000.00
Resulting 28D TIIE Swap	11/22/2024	126466	MXN-TIIE	CLEARED	5,000.00	5,000.00	0	5,000.00	-	-	-	5,000.00
Forward Starting F-TIIE OIS	11/22/2024	126467	MXN- TIIE ON-OIS Compound	CLEARED	22,500.00	16,500.00	0	16,500.00	6,000.00	UPFRONT_FEE	11/25/2024	22,500.00

28D TIIE Swap valuation 11/22/24 = 27,500.00

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

Cash Adjustment Calculation Example*

Original 28D TIIE Swap Valuation NPV Adj. as at COB November 22, 2024 = 27,500.00 (shown as zero above since swap has terminated in conversion, from an operational perspective)

Forward Starting F-TIIE OIS Valuation + Resulting 28D TIIE Swap Valuation (NPV Adj. as at 11/22/2024) = 5,000.00 + 16,500.00 = 21,500.00

PnL Change = (5,000.00 + 16,500.00) – 27,500.00 = - 6,000.00

Cash Adjustment = Change in Adjusted NPV = 6,000.00

* Note: In this example, the Cash Adjustment offsets the gain of 6,000.00 between the Original 28D TIIE Swap and the combined valuation of the Forward Starting F-TIIE OIS and the Resulting 28D TIIE 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
11/25/2024	126466	MXN-TIIE	CLEARED	5,500.00	5,500.00	5,000.00	500.00	-	-	-	500.00
11/25/2024	126467	MXN- TIIE ON-OIS Compound	CLEARED	17,000.00	17,000.00	16,500.00	500.00	-	-	-	500.00

Calculation Breakdown (11/22/2024)

Original 28D TIIE Swap VM = NPV Adj. – Previous NPV Adj.

= 0 – 27,000.00 = -27,000.00

PnL Change = NPV Adj. (Forward Starting F-TIIE OIS) + NPV Adj. (Resulting 28D TIIE swap) – NPV Adj. Original 28D TIIE Swap

= (16,500.00 + 5,000.00) – 27,500.00 = -6,000.00

Cash Adjustment Amount = (NPV Adj. of Original 28D TIIE Swap – NPV Adj. of Forward Starting F-TIIE OIS + NPV Adj. (Short Dated 28D TIIE swap)

= 27,500.00 – (5,000.00 + 16,500.00) = 6,000.00

NPV Adj. (Forward Starting F-TIIE OIS) = NPV – Upfront Payment

= 16,500.00 – -6,000.00 = 22,500.00

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 F-TIIE OIS and Resulting 28D TIIE Swaps

Each Forward Starting F-TIIE OIS and Resulting 28D TIIE Swap will be cleared by CME in accordance with the CME Rules.

From the completion of the end of day clearing cycle on the relevant Conversion Date, each Forward Starting F-TIIE OIS and any Resulting 28D TIIE 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.

Fees for 28D TIIE Transition Process

CME will apply a transaction fee per line item for conversion of any CME cleared interest rate swaps that reference 28D TIIE (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 F-TIIE OIS transactions.²⁵

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

*This fee will be charged on the resulting F-TIIE referencing trades and shall not apply to Resulting 28D TIIE Swaps or the terminated 28D TIIE swaps.

Limitation of Acceptance for Clearing for 28D TIIE Referencing Swaps

From COB on the Primary Conversion Date until COB on December 31, 2024, CME will continue to accept for clearing new 28D TIIE IRS. From January 1, 2025 until COB on December 31, 2025, CME will not accept for clearing 28D TIIE IRS with fixings on or after the IWED, except spot and forward starting swaps that result from the expiry of bilateral swaptions. After COB on December 31, 2025, CME will cease to accept for clearing 28D TIIE IRS.

1. Implementation of 28D TIIE Transition

No amendments to the CME Rulebook are necessary to implement the 28D TIIE Transition.

The 28D TIIE Transition will be implemented via Advisory Notice published by the Clearing House setting out the terms of the Conversion processes, 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 28D TIIE Swaps on and after November 21, 2024.

In order to reflect the limited acceptance of 28D TIIE IRS from January 1, 2025, the product rules for 28D TIIE 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.

Each of the 28D TIIE Transition, the relevant Conversions and Cash Adjustment processes is a mandatory process and market participants will be notified in the Advisory Notice that the 28D TIIE Transition will apply to all positions in relevant 28D TIIE Swaps on the Primary Conversion Date and each subsequent Conversion Date, except cleared 28D TIIE swaps that do not contain fixings on or after the IWED or those maturing on or before the Primary Conversion Date. Market participants will be reminded that they should consider the terms and impact of the 28D TIIE Transition as set out in the Advisory Notice and take appropriate action prior to the Primary Conversion Date or relevant subsequent Conversion Date. Position

²⁵ The Conversion Fee shall not apply to: Resulting 28D TIIE Swaps resulting from the Conversion process or to the termination of 28D TIIE Swaps.

holders that do not wish to participate in the 28D TIIE Transition must close out any affected cleared trades in relevant 28D TIIE Swaps prior to the relevant 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 28D TIIE Swaps (as applicable) on the relevant 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 28D TIIE 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 28D TIIE Swap and the revised NPV for each F-TIIE OIS (combined with any Resulting 28D TIIE 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 September 2, 2024 until the Primary Conversion Date. The Indicative Analysis Report will use CME valuation curves for project 28D TIIE 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 relevant Conversion Date. The actual Cash Adjustment amounts will be indicated in the IRS Trade Register at COB on the relevant Conversion Date.

2. Governance, Industry Consultation, Comments/Opposing Views:

Based on CME’s engagement with market participants, the conversion of cleared 28D TIIE Swaps by the amendment of cleared trades into corresponding F-TIIE OIS by CME is seen by market participants as an important element in the overall process to help facilitate the transition from 28D TIIE interest rate swaps to F-TIIE OIS for the Mexican market. Unlike USD LIBOR and other IBOR rates which were the subject of other recent CME RFR conversions, 28D TIIE is not subject to a forthcoming “index cessation event” and therefore contractual fallbacks would not otherwise be triggered under the CME Rules. However, market participants and position holders in relation to 28D TIIE interest rate swaps with fixings that extend from and beyond the IWED have expressed a clear preference for a CCP-led conversion of these cleared swaps into corresponding standardized F-TIIE OIS ahead of the commencement of the trading prohibition, to reflect the fact that F-TIIE OIS is expected to become the primary liquidity pool for MXN denominated interest rate swaps towards the end of 2024, and new trading activity for 28D TIIE will be limited given the Banco de México restrictions coming into effect, especially for trades extending beyond the end of 2025.

As with the recent CME-led IBOR transitions, the industry consensus communicated to CME by market participants indicated that cleared market participants prefer an “CCP-led” transition of cleared 28D TIIE Swaps to standardized cleared F-TIIE OIS to support the uncleared market transition and to reflect the anticipated changes in liquidity between 28D TIIE and F-TIIE standardized contracts. Market participants have informed CME that the CCP-led conversion of 28D TIIE swap exposures into market standard F-TIIE OIS benefits the marketplace by providing a clear operational pathway to convert legacy 28D TIIE exposures into liquid standardized F-TIIE OIS exposure, based on a clear, transparent methodology. CCP

conversion processes are also anticipated to facilitate a shift in liquidity towards F-TIIE OIS for cleared interest rate swaps ahead of the scheduled Banco de México 28D TIIE trading prohibition. Market participants have also supported CME's proposed CME Methodology for 28D TIIE Transition that incorporates the Banco de México Spread Adjustment, and the decision to follow proven operational processes used by CME for previous IBOR conversions.

Transitioning 28D TIIE exposures with fixings after the IWED into standardized F-TIIE OIS ensures that the relevant resulting swaps are capable of being supported by execution venues and back office systems, which will be increasingly important in light of the anticipated changes in liquidity between 28D TIIE and F-TIIE standardized instruments and, further, provides certainty to market participants that "legacy" and "new" contracts will be fungible with one another following the expected market-led transition of liquidity to standardized F-TIIE OIS for MXN fixings after the IWED.

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 28D TIIE 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 28D TIIE Transition that began in early 2023, CME published the final details of the proposals in March 2024 together with extensive further operational level information on the proposed conversion process, which includes a detailed operational methodology providing full operational level information on the processes that CME will follow to implement the transition.²⁶ CME has engaged directly with Banco de Mexico and GTTR and understands that both Banco de Mexico and GTTR are supportive of the proposed approaches of CCPs to lead the conversion of 28D TIIE IRS into standardized F-TIIE OIS.²⁷

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.

The Clearing House IRS Risk Committee reviewed the final proposals and related methodology for the 28D TIIE Transition in April 2024 and no objections were raised to the relevant proposals or processes.²⁸

At the conclusion of the consultation process with market participants, as set out in the final proposals published by CME in March 2024, there were no substantive opposing views raised by market participants with respect to the final proposals for the 28D TIIE Transition as set out in the text of the Advisory Notice

²⁶ See CME Methodology for 28D TIIE Transition: <https://www.cmegroup.com/articles/files/2024/mxn-methodology-and-examples.pdf> and <https://www.cmegroup.com/articles/files/2024/mxn-pricing.pdf>

²⁷ This was discussed in the 11th Meeting of the GTTR on February 1, 2024: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BA5419A19-1C19-9ED4-F429-8518FF28516E%7D.pdf>

²⁸ 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."

and CME is not aware of any other substantive opposing views with respect to the 28D TIIE Transition or the text of the Advisory Notice.

CME recognizes that the 28D TIIE Transition and the relevant Conversion processes will have an impact on market participants holding open positions in 28D TIIE Swaps. As a result, as part of the preparations for the 28D TIIE Transition, CME will provide market participants with information, reporting tools and two operational “dress rehearsals” 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 Primary Conversion Date.²⁹

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 September 2, 2024 and will be available for both clearing members and clients until the Primary Conversion Date.

3. Derivatives Clearing Organization Core Principles (“DCO Core Principles”) Analysis in Connection with the 28D TIIE 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 28D TIIE Transition via the Advisory Notice has been designed to be straightforward from an operational processing perspective.

The 28D TIIE Transition process is designed to benefit the marketplace by adhering to the modification and corresponding timeline of the 28D TIIE trading prohibitions required by Banco de México. The Conversion processes ensures that fixings prior to the IWED are maintained and that each resulting conversion swap will retain the key economic terms of the corresponding original 28D TIIE Swap to the extent practicable, in accordance with CME’s published CME Methodology for 28D TIIE Transition, and shall include the Banco de México Spread Adjustment calculated by CME. Further, pricing the original 28D TIIE Swaps utilizing the Banco de México methodology ensures that the 28D TIIE Swap value is fair and is not subject to manipulation. 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 28D TIIE Swap.

Based on extensive outreach to customers, CME understands that market participants support this approach. Market participants also support the overall principles behind the 28D TIIE Transition on the basis that it is anticipated to assist risk management of open interest in the MXN swap market.

DCO Core Principle L – Public Information: The implementation of the 28D TIIE Transition via the Advisory Notices and the operational elements of the conversions will affect market participants holding 28D TIIE swaps. A summary of the 28D TIIE Transition was provided to market participants and made publicly available as part of the public consultation process conducted by CME that began in early 2023 and ended in March 2024 with the publication of CME’s final proposal for the conversion, together with related

²⁹ CME will be coordinating dress rehearsals on September 27, 2024 and October 25, 2024, to simulate and test the Primary Conversion event. In order to make these tests as realistic as possible, production portfolios will be loaded into the CME UAT environment. This will allow firms to obtain a full trade register report showing simulated Conversion results following each dress rehearsal. For further details on arrangements for client readiness, see: <https://www.cmegroup.com/articles/files/2024/cme-conversion-for-cleared-mxn-28d-tiie-swaps.pdf>.

operational level information.³⁰ 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 28D TIIE Swaps at the time of the Primary Conversion and thereafter. The operational workflows and legal basis for the 28D TIIE Transition have been made publicly available. As noted above, as part of the preparations for the 28D TIIE Transition, CME will provide market participants with two operational “Dress Rehearsal” test events for the Primary Conversion processes, to simulate the processes for the Primary Conversion Date.

CME will report the operational processes relating to the 28D TIIE Transition in accordance with Part 45 of the CFTC’s Regulations, as described above.

DCO Core Principle N – Antitrust Considerations: The 28D TIIE Transition will not result in any unreasonable restraint of trade or impose any material anticompetitive burden. The 28D TIIE Transition reflects an important step in an industry-wide initiative to transition interest rate swaps and other products to F-TIIE and is widely supported by market participants as promoting the success of the transition from 28D TIIE to F-TIIE. CME has engaged with market participants to obtain feedback on the processes for the 28D TIIE Transition and has not received any comments regarding antitrust/fair competition concerns. The transparent process that CME has followed has made clear that the approach to the transition process, consistent with CME’s approach to IBOR fallbacks, is designed to promote the success of the relevant transition and not to harm competition.

The modifications to the CME Rulebook to effect the 28D TIIE Transition will be implemented via Advisory Notice published by the Clearing House setting out the terms of the 28D TIIE Transition, in the form set out in Exhibit 1 (the “28D TIIE Transition Advisory Notice”). The 28D TIIE Transition Advisory Notice will be binding on all position holders and Clearing Members and shall be effective on November 21, 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 November 21, 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.

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.

Sincerely,

/s/ Timothy Elliott
Managing Director & Chief Regulatory Counsel

³⁰ All final methodology and operational process materials are available on the CME website at: <https://www.cmegroup.com/articles/2023/transition-from-28d-tiie-to-tiie-de-fondeo-f-tiie-for-cleared-mxn-interest-rate-swaps.html>

Attachments: Exhibit 1 –CME Clearing Advisory Notice – 28D TIIE Transition
Exhibit 2 – Amendments to CME Chapter 901 (blackline format)
Exhibit 3 – CME Methodology for 28D TIIE 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 Banco de México 28 day Tasa de Interés Interbancaria de Equilibrio interest rate (“28D TIIE”) and Limitation of Acceptance for Clearing.**

Background

On December 20, 2022, Banco de México announced the scheduled prohibition of the use of the TIIE benchmark rate as a reference for new contracts entered into by any financial entity regulated by Banco de México. At the same time, Banco de México also announced a proposed change in methodology for the calculation of 28D TIIE and certain other TIIE tenors from January 1, 2025, in order to support the transition of new and legacy contracts away from TIIE (the “Banco de México Modification Methodology”)³¹. This announcement and subsequent initiatives led by Banco de México have set the terms and timetable for the scheduled transition of Mexican Peso money markets from TIIE to the designated replacement near risk-free reference rate (“RFR”), TIIE de Fondeo (TIIE Funding Rate or “F-TIIE”). The F-TIIE rate is administered by Banco de México and aligned with international standards, with a calculation methodology based on wholesale overnight repurchase agreement (repo) transactions denominated in Mexican pesos.³²

In contrast to other central bank-led major interest rate benchmark transitions to nominated successor “risk-free rates” (“RFRs”), Banco de México has determined that it will not discontinue the publication of the TIIE benchmark rate. In order to support its continued use in legacy contracts, and with the intention of having to avoid reliance on contractual fallbacks for these legacy contracts, Banco de México announced that the TIIE rate will continue to be published from January 1, 2025, under the revised Banco de México

³¹ See initial Banco de México announcement, December 20, 2022: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7B2D6F5896-CF86-3F28-0C02-98D17B7542B9%7D.pdf>. In December 2023, based on feedback from the industry, Banco de México modified its transition plans by announcing a proposed waiver period to help facilitate the market’s transition to F-TIIE, providing that it intends that, from January 1, 2025, new 28D TIIE swaps that mature prior to 2026 will be exempt from the prohibition on trading announced in December 2022. Due to the T+1 market conventions applicable to 28D TIIE, this means that 28D TIIE swaps with all fixings prior to December 3, 2025 (the “Index Waiver Expiration Date” or “IWED”) would be covered by the Banco de México waiver and, as a result, it is not necessary for CME to convert 28D TIIE swaps that fall into this exempt category. See Banco de México consultation March 5, 2024, accessible at <https://www.banxico.org.mx/publicaciones-y-prensa/miscelaneos/%7B4098A198-7A37-2F61-B2E4-B23BB099DC35%7D.pdf>. The stated purpose of the proposed waiver is to allow entities to agree on new swaps that use 28 TIIE from January 1, 2025 to December 31, 2025, as long as the expiration date of such swaps is less than or equal to December 31, 2025. See also materials (Annex 4) from the 12th Meeting of the Banco de Mexico’s Working Group on Alternative Reference Rates (“GTTR”) April 9th, 2024, published at: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BC8195B8B-53A3-AB57-C910-A3731492B5D3%7D.pdf>

³² See Banco de México publication, referring to the establishment of F-TIIE based on international standards established by the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB): <https://www.banxico.org.mx/markets/d/%7B1FDD2772-9F1C-FDA3-FBBC-AC641FE94CD2%7D.pdf>

Modification Methodology. From this date, Banco de México will calculate 28D TIIE as a function of overnight F-TIIE, utilizing the previous F-TIIE overnight rate compounded for 28 days, with the addition of a fixed 24 basis point spread adjustment differential applicable to all TIIE tenors, based on the historical median over a five year period from November 2017 to October 2022 of the daily differences between TIIE (with tenors of more than one business day) and F-TIIE (the “Banco de México Spread Adjustment”).³³

However, despite the forthcoming change in the 28D TIIE calculation methodology, based on CME’s extensive engagement with market participants on the Banco de México transition proposals³⁴, there is a clear preference amongst market participants for a CCP-led conversion of certain “legacy” cleared interest rate swaps (“IRS”) referencing 28D TIIE into corresponding, standardized cleared overnight index swaps (“OIS”) referencing F-TIIE, rather than for all “legacy” cleared contracts to adopt the revised 28D TIIE rate that will be published from January 1, 2025 under the revised Banco de México Modification Methodology. This is driven in particular by market participant concerns in relation to available liquidity for non-standardized “legacy” swaps referencing the 28D TIIE rate and which mature after the end of the proposed Banco de México waiver period on December 31, 2025, even under the revised calculation methodology for TIIE; it is considered that liquidity will be greater for standardized F-TIIE OIS, which are widely expected to be the most liquid MXN IRS contract for fixings after the end of the proposed waiver period, than it would be for the equivalent non-fungible legacy 28D TIIE swaps.

Based on this feedback from market participants, CME will, subject to regulatory review:

- convert certain CME cleared OTC IRS products that reference the 28D TIIE rate and have fixings that occur on or after December 3, 2025,³⁵ in each case following close of business (“COB”) on Friday, November 22, 2024 (the “Primary Conversion Date”),³⁶ into:
 - where applicable, a corresponding CME cleared 28D TIIE IRS that accounts for remaining fixings under the original swap scheduled to occur prior to December 3, 2025, and
 - a corresponding CME cleared forward starting OIS referencing the F-TIIE interest rate benchmark taking into account the Banco de México spread adjustment of 24 basis points,in each case in accordance with CME’s published methodology (the “CME Methodology for 28D TIIE Transition”)³⁷ (the “Primary Conversion”);
- following the Primary Conversion Date, on a daily basis, convert newly cleared OTC IRS products that reference the 28D TIIE rate and have fixings that occur on or after December 3, 2025, into:

³³ See Banco de Mexico Circular 4/2023, Annex 11 (published April 13, 2023), accessible at:

https://www.dof.gob.mx/nota_detalle.php?codigo=5685505&fecha=13/04/2023#gsc.tab=0.

³⁴ During 2023 and the first quarter 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 a CCP-led transition away from 28D TIIE and into F-TIIE. CME published final proposals in March 2024, accessible at

<https://www.cmegroup.com/articles/2023/transition-from-28d-tiie-to-tiie-de-fondeo-f-tiie-for-cleared-mxn-interest-rate-swaps.html>.

³⁵ Mexican peso (“MXN”) 28D TIIE IRS where the last fixing will occur prior to the IWED (December 3, 2025) will not be subject to the conversion process and will mature and settle in accordance with their original terms. CME’s conversion approach will maintain scheduled 28D TIIE fixings from the original 28D TIIE swap due to take place prior to the IWED through the allocation a CME cleared 28D TIIE IRS that accounts for remaining fixings under the original swap scheduled to occur prior to the IWED.

³⁶ As with previous OTC IRS conversions, CME proposes to reserve the right in limited circumstances to amend the Primary 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.

³⁷ CME published the CME Methodology for 28D TIIE Transition for the relevant conversion processes in March 2024 on the CME website at: <https://www.cmegroup.com/articles/files/2024/mxn-methodology-and-examples.pdf>

- where applicable, a corresponding CME cleared 28D TIIE IRS that accounts for remaining fixings under the original swap scheduled to occur prior to December 3, 2025; and
- a corresponding CME cleared forward starting OIS referencing the F-TIIE interest rate benchmark taking into account the Banco de México Spread Adjustment of 24 basis points;

in each case in accordance with CME's published methodology and substantively similar to that applicable to the Primary Conversion (each a "Daily Conversion),

- with a cash adjustment mechanism to compensate for any resulting change in valuation between the legacy 28D TIIE IRS (valued utilizing the Banco de México Modification Methodology³⁸, as set out in the published CME methodology) and the corresponding replacement swaps arising from the relevant Primary Conversion or Daily Conversion process; and
- following close of business on December 31, 2024, CME shall limit clearing support for MXN 28D TIIE IRS to:
 - 28D TIIE IRS that do not have fixings on or after December 3, 2025; and
 - in order to support swaps arising from the expiration of any legacy bilateral swaptions, spot and forward starting 28D TIIE IRS, including those contracts with fixings on or after December 3, 2025,

until close of business on December 31, 2025, after which clearing support for all 28D TIIE IRS shall be terminated,

(together, the "28D TIIE Transition").

This Clearing Advisory sets out the terms of the 28D TIIE Transition and shall be binding on Clearing Members and position holders of CME cleared IRS Contracts in affected 28D TIIE Swaps from November 21, 2024, subject to regulatory review.

Summary of Conversion Processes

CME has published its detailed CME Methodology for 28D TIIE Transition for the relevant conversion processes, including worked examples, which is also provided as Exhibit 3 to CME Submission 24-469. The relevant methodology is summarized below:

- each resulting CME cleared F-TIIE OIS arising from the relevant conversion process (each, a "Forward Starting F-TIIE OIS") will account for the Banco de México Spread Adjustment on the floating leg of the F-TIIE OIS, retaining the key economic terms of the original trade, subject to certain adjustments described below and determined by CME as set out in the CME Methodology for 28D TIIE Transition;

³⁸ From January 1, 2025, Banco de Mexico will change the calculation methodology for 28D TIIE, calculating the rate as a function of overnight F-TIIE, as described below in more detail and set out in Banco de Mexico Circular 4/2023, Annex 11 (published April 13, 2023) which describes the revised methodology that will be followed by Banco de México for calculation of TIIE for terms longer than a banking business day, applicable from January 1, 2025 (the "Banco de Mexico Modification Methodology"), which is accessible at: https://www.dof.gob.mx/nota_detalle.php?codigo=5685505&fecha=13/04/2023#gsc.tab=0 .

- each resulting CME cleared 28D TIIE Swap arising from the relevant conversion process (each, a “Resulting 28D TIIE Swap”) is designed to account for any pre-IWED 28D TIIE coupons and will have economic terms as determined by CME according to the CME Methodology for 28D TIIE Transition, the purpose of which is to maintain all pre-IWED payments;
- in order to neutralize the value transfer from the conversion of the economic position of each original 28D TIIE Swap into the resulting swap(s), CME will calculate a cash adjustment that will be based on the difference between the net present value (“NPV”) of the original 28D TIIE Swap and the combined NPV of the Forward Starting F-TIIE OIS and any Resulting 28D TIIE Swap on the relevant Conversion Date. The Cash Adjustment for each Forward Starting F-TIIE 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”).³⁹ The Cash Adjustment amount will be applied by CME in the form of upfront “fees” on each resulting cleared Forward Starting F-TIIE OIS on the relevant 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 F-TIIE OIS will be cleared as a CME cleared F-TIIE OIS (referencing the MXN-TIIE ON-OIS Compound Floating Rate Option) and any Resulting 28D TIIE Swap will be cleared as a 28D TIIE Swap.

Valuation and pricing methodology

CME intends to leverage the binding economic relationship between 28D TIIE and F-TIIE that has been established by the Banco de México’s Modification Methodology in order to underpin the conversion pricing methodology for 28D TIIE and the F-TIIE curve for any fixings scheduled to occur on or after December 3, 2025.⁴⁰ The Banco de México Modification Methodology provides for a robust mechanism for the calculation of a relevant projected 28D TIIE benchmark rate as a forward-looking value based on compounding F-TIIE from the previous day, compounded for 28 days, and adding the fixed Spread Adjustment of 24 basis points. At the point of conversion, the Banco de México Modification Methodology will therefore be used by CME to value any 28D TIIE fixings that are scheduled to occur on or after the December 3, 2025 IWED, which correlates to fixings that will be converted to a forward starting F-TIIE OIS through the replacement swap structure. As noted above, any differences that result from this valuation as compared to the legacy swap’s pre-conversion pricing will be neutralized via the offsetting cash compensation amount represented by the Cash Adjustment.

CME and market participants consider that this conversion pricing approach ensures that the pricing of the relevant “replacement” swaps is fair and is not subject to manipulation. As with previous RFR conversions,

³⁹ Where the holder of a Forward Starting F-TIIE 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 F-TIIE OIS and such amount would be due from the position holder at the next clearing cycle. Where the holder of a Forward Starting F-TIIE 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 F-TIIE 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.

⁴⁰ See: <https://www.cmegroup.com/articles/files/2024/proposal-for-cme-cleared-mxn-tiie-interest-rate-swaps-2024-03.pdf>. Further details on curve construction for the 28D TIIE Transition process have been published by CME at: <https://www.cmegroup.com/articles/files/2024/FTIIE-conversion-curve-methodology.pdf>.

the Cash Adjustment is intended to ensure that the conversion event will be a zero-sum event from a PNL perspective at the point of conversion.

Primary Conversion Date – Detailed Overview of Conversion Processes

A: 28D TIIE IRS excluded from Primary Conversion

The following CME cleared 28D TIIE IRS open on the Primary Conversion Date are excluded from the conversion process on the Primary Conversion Date:

- i. 28D TIIE Swaps that mature on or before the Primary Conversion Date; and
- ii. 28D TIIE IRS that do not contain fixings on or after the IWED, which shall expire and settle on their original terms.

B: Conversion of 28D TIIE IRS with fixings prior to the IWED

On the Primary Conversion Date, CME will convert each relevant CME cleared 28D TIIE IRS into:

- i. a corresponding standardized Forward Starting F-TIIE OIS:
 - retaining the relevant key economic terms of the original 28D TIIE Swap trade, maturity date and fixed leg economic terms (excluding payment offset), except that the effective date shall be the expiry date of the Resulting 28D TIIE Swap;
 - including a payment offset (2D) added to both legs of the resulting F-TIIE OIS, consistent with market standard F-TIIE OIS conventions;
 - fixed/float leg day counts defaulted to the market standard convention of ACT/360;
 - additional payment calendars defaulted to the market standard convention of Mexico (MXMC). No additional calendars are carried over;
 - including a single compensating upfront fee (the Cash Adjustment) to be paid the following Mexico business day; and
- ii. a Resulting 28D TIIE Swap accounting for all 28D TIIE fixings prior to the IWED:
 - fixed/float leg day counts are preserved from the original swap;
 - Mexico (MXMC) calendar for payments and fixings preserved from the original swap,

in each case subject to certain adjustments determined by CME, including the Cash Adjustment which shall be applied to each Forward Starting F-TIIE OIS, and applied according to the CME Methodology for 28D TIIE Transition, as set out in Exhibit 3 to CME Submission 24-469.

C: Conversion of Forward Starting 28D TIIE Swaps with all fixings on or after the IWED

On the Primary Conversion Date, CME will convert each CME cleared 28D TIIE Swap that is a Forward Starting Swap with all fixings on or after the IWED into a corresponding standardized Forward Starting F-TIIE OIS:

- retaining the key economic terms of the original 28D TIIE Swap trade, including the effective date, maturity date and fixed leg economic terms (excluding payment offset);
- including a payment offset (2D) added to both legs of the resulting F-TIIE OIS, consistent with market standard F-TIIE OIS conventions;
- fixed/float leg day counts defaulted to the market standard convention of ACT/360;
- additional payment calendars defaulted to the market standard convention of Mexico (MXMC). No additional calendars are carried over;
- including a single compensating upfront fee (the Cash Adjustment) to be paid the following Mexico business day,

in each case subject to certain adjustments determined by CME, including the Cash Adjustment which shall be applied to each Forward Starting F-TIIE OIS, and applied according to the CME Methodology for 28D TIIE Transition, as described in Exhibit 3 to CME Submission 24-469.

Daily Conversion Process – Detailed Overview of Conversion Processes

Following COB on each Business Day following the Primary Conversion Date, CME will convert each new relevant CME cleared 28D TIIE IRS with fixings on or after the IWED as follows:

- where the 28D TIIE IRS has all fixings on or after the IWED, the original swap will be converted into a single standardized F-TIIE OIS; and
- where the 28D TIIE IRS has fixings prior to the IWED, the original swap will be converted into a Resulting 28D TIIE Swap and a standardized F-TIIE OIS,

in each case, in accordance with the relevant operational elements of the relevant Conversion process in paragraph B or C above, as applicable (the “Daily Conversion Process”).

The Daily Conversion Process shall cease to operate after close of business on December 31, 2025.

For the avoidance of doubt, newly cleared 28D TIIE IRS accepted for clearing after COB on the Primary Conversion Date that do not contain fixings on or after the IWED shall expire and settle on their original terms and shall not be subject to the Daily Conversion Process.

Limitation of Clearing Support for 28D TIIE Swaps after Primary Conversion Date

- From COB on the Primary Conversion Date until COB on December 31, 2024, CME will continue to accept for clearing new 28D TIIE IRS.
- From January 1, 2025 until close of business on December 31, 2025, CME will accept for clearing 28D TIIE IRS with all fixings before the IWED.

- iii. From January 1, 2025 until close of business on December 31, 2025, CME will accept for clearing spot and forward starting 28D TIIE IRS that result from the expiry of bilateral swaptions, including those with fixings on or after the IWED.
- iv. From COB on December 31, 2025, CME will cease to accept for clearing new 28D TIIE IRS.
- v. From COB on the Primary Conversion Date until the IWED, newly cleared 28D TIIE swaps that do not contain fixings on or after the IWED shall not be subject to the Daily Conversion Process and shall expire and settle on their original terms.

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 28D TIIE IRS will be amended in Rule 90102.E.1. (“Interest Rate Swaps Rate Options”), as detailed in CME Submission 24-469.

The 28D TIIE Transition is a mandatory process and the terms set out in this Clearing Advisory will apply to all affected cleared trades in 28D TIIE Swaps from November 22, 2024, subject to regulatory review.

Amendment to Primary Conversion Date in Limited Circumstances

CME will reserve the right to amend the Primary Conversion Date in its sole and absolute discretion prior to the Primary 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 Primary Conversion Date to market participants as soon as practicable upon making such determination.⁴¹

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 28D TIIE Swap and the combined valuation of the resulting F-TIIE OIS and any related Resulting 28D TIIE Swap on the relevant Conversion Date. The difference in the NPV of each original 28D TIIE Swap and the corresponding replacement swaps on the relevant 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 F-TIIE OIS.

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

- On or shortly after COB on the relevant 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 28D TIIE Swap subject to the conversion process on that date, calculated utilizing CME’s closing curve marks on the relevant Conversion Date for each position account and utilizing the published CME Methodology for 28D TIIE Transition.

⁴¹ CME Clearing has identified a provisional contingency fallback date of December 13, 2024, in the event that the proposed November 22, 2024, date for the Primary Conversion is determined to be unsuitable as the date of the Primary Conversion.

- Upon establishment of each F-TIIE OIS and any Resulting 28D TIIE Swap within the clearing system, on or shortly after COB on the relevant Conversion Date, the Clearing House will conduct an additional calculation to determine the NPV for each F-TIIE OIS and any Resulting 28D TIIE Swap calculated utilizing CME's closing curve marks on the relevant Conversion Date for each position account.
- Note that the determination of the NPV of the original 28D TIIE Swap and the F-TIIE OIS and any Resulting 28D TIIE 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 28D TIIE 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 28D TIIE rate to F-TIIE.

The relevant Cash Adjustment amount to be applied to each resulting F-TIIE 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 F-TIIE 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 F-TIIE OIS had benefited from a change in NPV, i.e., where the resulting swap(s) NPV is greater than the corresponding original 28D TIIE 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 F-TIIE 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 relevant Conversion Date, during which cycle settlement variation for positions in the F-TIIE 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 F-TIIE OIS experiences a negative change in NPV, the Cash Adjustment will be a positive amount and will be applied to the F-TIIE 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 relevant 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 28D TIIE Swap and the Cash Adjustment processes, reflecting the operational characterization of the process as a “termination” of the original 28D TIIE Swap and establishment of a “new” Forward Starting F-TIIE OIS and, in this case, a corresponding Resulting 28D TIIE Swap. As noted above, in legal terms, the relevant Conversion is treated as an amendment of the terms of the relevant cleared trade.

As of COB on Friday, November 22, 2024

	Cleared Trade ID	Floating Rate Option	Status	NPV	NPV Adj.*	Previous NPV Adj.	Variation Margin	Upfront Payment	Fee Type	Payment Date	Net Cash Flow
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Original 28D TIIE Swap	11/22/2024	144223	MXN-TIIE	TERMINATED	0	0	27,000.00	-27,000.00	-	-	-	-27,000.00
Resulting 28D TIIE Swap	11/22/2024	126466	MXN-TIIE	CLEARED	5,000.00	5,000.00	0	5,000.00	-	-	-	5,000.00
Forward Starting F-TIIE OIS	11/22/2024	126467	MXN- TIIE ON-OIS Compound	CLEARED	22,500.00	16,500.00	0	16,500.00	6,000.00	UPFRONT_FEE	11/25/2024	22,500.00

28D TIIE Swap valuation 11/22/24 = 27,500.00

* 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 28D TIIE Swap Valuation NPV Adj. as at COB November 22, 2024 = 27,500.00 (shown as zero above since swap has terminated in conversion, from an operational perspective)

Forward Starting F-TIIE OIS Valuation + Resulting 28D TIIE Swap Valuation (NPV Adj. as at 11/22/2024) = 5,000.00 + 16,500.00 = 21,500.00

PnL Change = (5,000.00 + 16,500.00) – 27,500.00 = - 6,000.00

Cash Adjustment = Change in Adjusted NPV = 6,000.00

* Note: In this example, the Cash Adjustment offsets the gain of 6,000.00 between the Original 28D TIIE Swap and the combined valuation of the Forward Starting F-TIIE OIS and the Resulting 28D TIIE 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
11/25/2024	126466	MXN-TIIE	CLEARED	5,500.00	5,500.00	5,000.00	500.00	-	-	-	500.00
11/25/2024	126467	MXN- TIIE ON-OIS Compound	CLEARED	17,000.00	17,000.00	16,500.00	500.00	-	-	-	500.00

Calculation Breakdown (11/22/2024)

Original 28D TIIE Swap VM = NPV Adj. – Previous NPV Adj.

= 0 – 27,000.00 = -27,000.00

PnL Change = NPV Adj. (Forward Starting F-TIIE OIS) + NPV Adj. (Resulting 28D TIIE swap) – NPV Adj. Original 28D TIIE Swap

= (16,500.00 + 5,000.00) – 27,500.00 = -6,000.00

Cash Adjustment Amount = (NPV Adj. of Original 28D TIIE Swap – NPV Adj. of Forward Starting F-TIIE OIS + NPV Adj. (Short Dated 28D TIIE swap)

= 27,500.00 – (5,000.00 + 16,500.00) = 6,000.00

NPV Adj. (Forward Starting F-TIIE OIS) = NPV – Upfront Payment

= 16,500.00 – -6,000.00 = 22,500.00

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 F-TIIE OIS and Resulting 28D TIIE Swaps

Each Forward Starting F-TIIE OIS and Resulting 28D TIIE Swap will be cleared by CME in accordance with the CME Rules.

From the completion of the end of day clearing cycle on the relevant Conversion Date, each Forward Starting F-TIIE OIS and any Resulting 28D TIIE 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.

Fees for 28D TIIE Transition Process

CME will apply a transaction fee per line item for conversion of any CME cleared interest rate swaps that reference 28D TIIE (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 F-TIIE OIS transactions.⁴²

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

*This fee will be charged on the resulting F-TIIE referencing trades and shall not apply to Resulting 28D TIIE Swaps or the terminated 28D TIIE swaps.

Rationale for 28D TIIE Transition Process

Based on CME’s engagement with market participants, the CCP-led conversion of certain cleared 28D TIIE Swaps into corresponding F-TIIE OIS is seen by market participants as an important element in the overall process to help facilitate the transition from 28D TIIE interest rate swaps to F-TIIE OIS for the Mexican market. Unlike USD LIBOR and other IBOR rates which were the subject of other recent CME RFR conversions, 28D TIIE is not subject to a forthcoming “index cessation event” and therefore contractual fallbacks would not otherwise be triggered under the CME Rules. However, market participants and position holders in relation to 28D TIIE interest rate swaps with fixings that extend from and beyond the IWED have expressed a clear preference for a CCP-led conversion of these cleared swaps into corresponding standardized F-TIIE OIS ahead of the commencement of the Banco de México trading prohibition from January 1, 2025, to reflect the fact that F-TIIE OIS is expected to become the primary liquidity pool for MXN denominated interest rate swaps towards the end of 2024, and new trading activity for 28D TIIE will be limited in light of the restrictions, especially for trades extending beyond the end of 2025.

Market participants have informed CME that the CCP-led conversion of 28D TIIE swap exposures into market standard F-TIIE OIS benefits the marketplace by providing a clear operational pathway to convert legacy 28D TIIE exposures into liquid standardized F-TIIE OIS exposure, based on a clear, transparent methodology. CCP conversion processes are also anticipated to facilitate a shift in liquidity towards F-TIIE

⁴² The Conversion Fee shall not apply to: Resulting 28D TIIE Swaps resulting from the conversion process or to the termination of 28D TIIE Swaps.

OIS for cleared interest rate swaps ahead of the scheduled Banco de México 28D TIIE trading prohibition. Market participants have also supported CME's proposed CME Methodology for 28D TIIE Transition that incorporates the Banco de México Spread Adjustment, and the decision to follow proven operational processes used by CME for previous IBOR conversions.

Transitioning 28D TIIE exposures with fixings after the IWED into standardized F-TIIE OIS ensures that the relevant resulting swaps are capable of being supported by execution venues and back office systems, which will be increasingly important in light of the anticipated changes in liquidity between 28D TIIE and F-TIIE standardized instruments and, further, provides certainty to market participants that "legacy" and "new" contracts will be fungible with one another following the expected market-led transition of liquidity to standardized F-TIIE OIS for MXN fixings after the IWED.

CME has consulted with a diverse cross-section of market participants to obtain feedback on the operational processes for the 28D TIIE Transition. In operational and certain other terms, the methodology for the conversion processes of the 28D TIIE Transition is substantially similar to the process utilized for the U.S. Dollar LIBOR conversion conducted by CME in June 2023, and other recent RFR conversions.⁴³ Previous RFR conversion processes have demonstrated CME's operational capabilities and clearing member and wider market participant understanding and support of the relevant processes. Following commencement of discussions in early 2023 and publication of various proposals for the purposes of consultation with market participants, CME published the final details of the proposals for the 28D TIIE Transition in March 2024, together with extensive further operational level information on the proposed conversion process, which includes a detailed operational methodology providing full operational level information on the processes that CME will follow to implement the transition.⁴⁴ CME has also engaged directly with Banco de México and GTTR and understands that both Banco de México and GTTR are supportive of the proposed approaches of CCPs to lead the conversion of 28D TIIE IRS into standardized F-TIIE OIS.⁴⁵

In addition to the extensive information provided on the CME website, CME has also made available reporting tools and two operational "dress rehearsals" 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 Primary Conversion Date.⁴⁶

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 September 2, 2024 and will be available for both clearing members and clients until the Primary Conversion Date.

Legal and Operational Characterization

In legal and contractual terms, each Conversion process will amend the terms of cleared trades in CME cleared 28D TIIE Swaps, converting the terms of each cleared trade to a standardized CME cleared F-TIIE interest rate swap and, where applicable, a Resulting 28D TIIE Swap. From an operational perspective, each relevant Conversion will be processed by CME as a "termination" of each relevant 28D TIIE Swap

⁴³ CME's approach to the June 2023 USD LIBOR Conversion is set out in CME Submission 23-082, accessible at: <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2023/1/23-082.pdf>.

⁴⁴ See CME Methodology for 28D TIIE Transition: <https://www.cmegroup.com/articles/files/2024/mxn-methodology-and-examples.pdf> and <https://www.cmegroup.com/articles/files/2024/mxn-pricing.pdf>

⁴⁵ This was discussed in the 11th Meeting of the GTTR on February 1, 2024: <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7BA5419A19-1C19-9ED4-F429-8518FF28516E%7D.pdf>

⁴⁶ CME will be coordinating dress rehearsals on September 27, 2024 and October 25, 2024, to simulate and test the Primary Conversion event. In order to make these tests as realistic as possible, production portfolios will be loaded into the CME UAT environment. This will allow firms to obtain a full trade register report showing simulated Conversion results following each dress rehearsal. For further details on arrangements for client readiness, see: <https://www.cmegroup.com/articles/files/2024/cme-conversion-for-cleared-mxn-28d-tiie-swaps.pdf>.

and the establishment of a “new” corresponding cleared trade in F-TIIE OIS within the clearing system, the Forward Starting F-TIIE OIS and, where applicable, a new Resulting 28D TIIE 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 28D TIIE Swap; and
- a clearing confirmation message to relevant CME Clearing Members in respect of the establishment of each new relevant Forward Starting F-TIIE OIS and, as applicable, Resulting 28D TIIE Swap.

As part of the conversion process, a subset of Trade IDs from each original 28D TIIE Swap will be carried over to the relevant resulting F-TIIE OIS and Resulting 28D TIIE Swap. The CME Trade ID and USI/UTI are not carried over but, in order to identify the link between each original 28D TIIE Swap and the relevant resulting F-TIIE OIS and any Resulting 28D TIIE 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 28D TIIE Swap and the establishment of each corresponding Forward Starting F-TIIE OIS, Resulting 28D TIIE Swap and/or other resulting F-TIIE 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 28D TIIE 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 28D TIIE Swap and CME will ensure that each resulting F-TIIE swap will be reported as a “New Trade.”

Trade Messaging and Reports

CME Clearing will provide to Clearing Members the following information applicable to positions in the relevant 28D TIIE Swaps (as applicable) on the relevant 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 28D TIIE 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 28D TIIE Swap and the revised NPV for each F-TIIE OIS (combined with any Resulting 28D TIIE 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 September 2, 2024 until the Primary Conversion Date. The Indicative Analysis Report will use CME valuation curves for projected 28D TIIE 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 relevant Conversion Date. The actual Cash Adjustment amounts will be indicated in the IRS Trade Register at COB on the relevant Conversion Date.

Implementation of 28D TIIE Transition

This Advisory Notice sets out the binding rules and operational processes under which CME Clearing will implement each element of the 28D TIIE Transition, including the modification and operational close out of 28D TIIE IRS Contracts and the establishment of replacement corresponding F-TIIE standardized OIS and, where applicable, Resulting 28D TIIE Swaps, which will be implemented by CME with respect to open cleared trades in affected CME cleared products on the Primary Conversion Date and each relevant Conversion Date. The 28D TIIE Transition is a mandatory process and the terms set out below in this Clearing Advisory will apply to all cleared trades in 28D TIIE Swaps from November 21, 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 28D TIIE Transition and this Advisory Notice

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

- i. reference 28D TIIE as the interest rate swap rate option (the “Floating Rate Option”);
- ii. are open at close of business (“COB”) on the relevant Conversion Date;
- iii. have fixings that occur on or after December 3, 2025 (the “IWED”); and
- iv. do not mature on or before the relevant Conversion Date,

(the “Affected Contracts”).

Terms and Operation of Conversion Processes

Primary Conversion

1. The “Primary Conversion Date” shall be Friday, November 22, 2024, except where the Clearing House determines in its sole and absolute discretion prior to the Primary Conversion process that implementation of the conversion process on November 22, 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 “Primary Conversion Date” in its sole and absolute discretion prior to the Primary Conversion and shall communicate the revised Primary Conversion Date to market participants as soon as practicable upon making such determination.
2. At or shortly after COB on the Primary Conversion Date, CME Clearing will amend the terms of each relevant cleared trade in 28D TIIE IRS that is open at COB on the Primary 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. with respect to 28D TIIE IRS with fixings prior to the IWED, a resulting 28D TIIE replacement swap accounting for any fixings that occur prior to the IWED on the Pre-Conversion Swap, (each, a "Resulting 28 TIIE Swap"); and
- b. with respect to all 28D TIIE IRS, a corresponding CME cleared Overnight Index Swap ("OIS") referencing the TIIE de Fondo ("F-TIIE") interest rate benchmark (each, a "F-TIIE OIS Conversion 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.

Daily Conversions after Primary Conversion Date

3. With respect to each cleared 28D TIIE IRS that is accepted for clearing by CME after COB on the Primary Conversion Date and which has fixings that occur on or after the IWED, at or shortly after COB on the date of acceptance of the trade for clearing (each a "Conversion Date") CME Clearing will amend the terms of each such cleared trade 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. with respect to 28D TIIE IRS with fixings prior to the IWED, a resulting 28D TIIE replacement swap accounting for any fixings that occur prior to the IWED on the Pre-Conversion Swap, (each, a "Resulting 28 TIIE Swap"); and
- b. with respect to all 28D TIIE IRS, a corresponding CME cleared OIS referencing the F-TIIE interest rate benchmark (each, a "F-TIIE OIS Conversion 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

4. At or shortly after COB on, as applicable:
 - a. the Primary Conversion Date; or
 - b. each Business Day following the Primary Conversion Date on which CME accepts for clearing 28D TIIE IRS that satisfy the requirements in paragraph 3 above,

(each a "Conversion Date"),

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

- i. each Pre-Conversion Swap subject to Conversion on such Conversion Date; and
 - ii. the corresponding Conversion Swap(s),(the “Conversion Calculation”).
- 5. CME Clearing will determine settlement variation for each Conversion Swap on the relevant Conversion Date (at closing curve levels on the relevant Conversion Date) for valuation for the end of day clearing cycle on the relevant Conversion Date.
- 6. At the next end of day clearing cycle following the relevant Conversion Date, for each Conversion Swap, CME Clearing will:
 - a. apply as an upfront fee to each F-TIIE 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 F-TIIE 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 F-TIIE 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.
- 7. Following the relevant Conversion Date, each Conversion Swap will be cleared by CME subject to the terms of the Rules and this Clearing Advisory.
- 8. CME will account for the Banco de México Spread Adjustment of twenty four (24) basis points (the “Spread Adjustment”) in determining the floating amount of each F-TIIE OIS Conversion Swap in each case in accordance with CME’s published methodology.

Conversion Process Fees

- 9. CME will apply to each resulting F-TIIE OIS Conversion Swap (or such other Conversion Swap, as determined by CME) a fixed conversion surcharge of:
 - a. \$10 for each F-TIIE 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 F-TIIE 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

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 each relevant Conversion process are binding on Clearing Members and position holders in all Affected Contracts, effective November 21, 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.

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

Limitation of Acceptance for Clearing for Affected Contracts Following Primary Conversion Date

From COB on December 31, 2024 until COB on December 31, 2025, CME will only accept the following 28D TIIE IRS for clearing:

- 28D TIIE IRS that do not have fixings on or after the IWED; and
- spot and forward starting 28D TIIE IRS that arise from the expiry of bilateral swaptions, including those that have fixings on or after the IWED.

From close of business on December 31, 2025, CME will cease to accept all 28D TIIE IRS for clearing.

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, as detailed in CME Submission 24-469.

Additional details regarding the 28D TIIE Transition may be viewed in **CME Submission No. 24-469**.

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**

90102. CONTRACT TERMS

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:

	2006 ISDA Definitions Floating Rate Option (“FRO”) Name	2021 ISDA Definitions FRO Name
1.	USD-LIBOR-BBA****	USD-LIBOR****
****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.		
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*
*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.		
7.	GBP-SONIA-COMPOUND	GBP-SONIA-OIS Compound
8.	JPY-LIBOR-BBA**	JPY-LIBOR**
**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.		
9.	JPY-TONA-OIS-COMPOUND	JPY-TONA-OIS Compound
10.	CHF-LIBOR-BBA***	CHF-LIBOR***
***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.		
11.	CAD-BA-CDOR *****	CAD-CDOR *****
*****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.		
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
<p>*****As set out in CME Clearing Advisory Notice [], effective close of business December 31, 2024, CME will only accept for clearing IRS Contracts referencing MXN-TIIE-Banxico or MXN-TIIE which:</p> <ul style="list-style-type: none"> • have all fixings prior to December 3, 2025; or • are spot and forward starting swaps arising from the expiry of bilateral swaptions. <p>From close of business December 31, 2025, CME will cease to accept for clearing all IRS Contracts referencing MXN-TIIE-Banxico or MXN-TIIE.</p>		
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
<p>*****As set out in CME Clearing Advisory Notice 24-185, 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.</p>		
31.	Not supported	SGD-SORA-OIS Compound
32.	Not supported	MXN-TIIE ON-OIS Compound

[Remainder of Rule unchanged.]

Exhibit 3
CME Methodology for 28D TIE Transition

<https://www.cmegroup.com/articles/files/2024/mxn-methodology-and-examples.pdf>