

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 24-004

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

**Filing as a:**  DCM  SEF  DCO  SDR

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy):** 02/01/24 **Filing Description:** Acceptance of MXN TIE de Fondo Overnight Interest Rate Swaps 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:**

**New Product**

**Please note only ONE product per Submission.**

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

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

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

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

**Rule Numbers:**

February 1, 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 39.5(b) Certification. Acceptance of TIIE de Fondo (F-TIIE) Overnight Interest Rate Swaps for Clearing.  
CME Submission No. 24-004**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “CME Clearing”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or “Act”), hereby submits to the Commodity Futures Trading Commission (“CFTC”) pursuant to Commission Regulation 39.5(b), its certification that it will begin accepting TIIE de Fondo (“Overnight TIIE Funding Rate” or “F-TIIE”) interest rate swaps (overnight index swaps) (“F-TIIE OIS”) for clearing and implement related amendments to CME Rule 90102.E.1. (“Interest Rate Swaps Rate Options”) of Chapter 901 (“Interest Rate Swaps Contract Terms”), effective on trade date Monday, February 5, 2024.

F-TIIE is administered and published by the Mexican central bank, Banco de México (“Bank of Mexico”). In December 2022, as a part of the global shift to risk free rates, the Bank of Mexico announced that F-TIIE would be selected as the new benchmark index, shifting away from the current 28-day TIIE rate (“28D TIIE”). The F-TIIE overnight rate has been published by the Bank of Mexico since January 2020.

In order to obtain a near risk-free reference rate (“RFR”) aligned to international standards and representative of the Mexican overnight secured interbank funding market for Mexican pesos, the Mexican central banks, Bank of Mexico calculates and provides to the general public the Overnight TIIE Funding Rate. A key feature of RFRs is that these rates must be determined solely from transaction data. Hence, the Overnight TIIE Funding Rate is calculated with wholesale overnight repurchase agreement (repo) transactions denominated in Mexican pesos, settled by banks and brokerage firms.

In May 2021, CME launched the Mexican Funding TIIE (Monthly Contract) Futures contract (“F-TIIE futures”) on its designated contract market (“DCM” or “CME Exchange”) to proactively offer a futures contract tied to a risk-free rate index in Mexico, providing market participants a compliment to OTC derivatives for short term interest rate risk management. CME will begin to support outright cleared F-TIIE OIS to offer market participants clearing services for swaps indexed to the risk-free rate ahead of the aforementioned benchmark transition in Mexico.

Subject to regulatory approvals, CME plans to convert legacy cleared 28D TIIE swaps to F-TIIE cleared swaps through a primary conversion process that is scheduled for November 2024. At the point of conversion, any CME cleared 28D TIIE swaps that are set to mature beyond the end of 2025 will be in scope for conversion. 28D TIIE swaps that expire prior to the end of 2025 will not be converted to F-TIIE as they will expire before the F-TIIE mandate takes effect.

In offering clearing support for F-TIIE interest rate swaps, CME will continue to support the risk management needs of market participants utilizing the F-TIIE rate in cash and derivative market products, as part of CME's comprehensive interest rate complex. Cleared F-TIIE OIS are designed as a Mexican peso-denominated overnight, risk-free rate indexed interest rate swap that will add to CME Clearing's suite of interest rate swap products, allowing market participants to further manage their interest rate exposures going forward.

As shown in Exhibit 2, CME's cleared OTC IRS product scope will be increased to include F-TIIE OIS.

### **39.5(b)(3)(i): Eligibility to Clear**

Pursuant to CFTC Regulation 39.5(b)(3)(i), CME states that it is eligible to accept F-TIIE OIS for clearing. Should the Commission determine that such swaps are required to be cleared, CME will be able to maintain compliance with the DCO core principles set forth in Section 5b(c)(2) of the Act and the Regulations promulgated thereunder.

In accordance with CFTC Regulation 39.5(b)(3)(ii)-(viii), CME is providing the following information in support of this submission:

### **39.5(b)(3)(ii)(A): Statement on Outstanding Derivatives Notional Exposure, Trading Liquidity and Pricing Data**

The Bank of Mexico began publishing the F-TIIE rate in January 2020. Following the Bank of Mexico's announcement that F-TIIE is to serve as the new benchmark interest rate from January 1, 2025, the new rate has been increasingly utilized for cash market contracts, including the issuance of corporate bonds, floating-rate notes, syndicated loans and certificates of deposit. CME expects the F-TIIE rate will be utilized for an increasing amount of OTC swap transactions as clearing becomes available and the transition from 28D TIIE nears.

#### **A. F-TIIE Swaps**

As of January 2024, F-TIIE OIS have not been widely traded by the marketplace as evidenced by zero volume reported to the Bank of Mexico and US swap data repositories through January 30, 2024. Beginning January 1, 2025, Mexican financial institutions will be required to replace the current benchmark 28D TIIE rate with F-TIIE. CME's expectation is existing 28D TIIE swap activity will transition to F-TIIE as a result, similar to the transition from LIBOR to SOFR in the US. Furthermore, CME Clearing plans to convert in-scope legacy 28D TIIE swaps to the new F-TIIE index in late 2024, which CME expects will facilitate the Bank of Mexico's planned transition and positively impact liquidity in the cleared F-TIIE market.

CME Clearing intends to support clearing of the new F-TIIE OIS well in advance of any such conversion event. Providing production clearing support in February 2024 will allow participants adequate time to ensure their systems and businesses are configured for F-TIIE OIS. Following the launch of F-TIIE clearing support, the market will begin to transition new activity in the Mexican swap market away from the legacy 28D TIIE rate. For context, CME cleared an average of over 550 28D TIIE swap trades per day in 2023, amounting to \$22B USDE in average daily notional volume. Open interest in 28D TIIE swaps cleared at CME stands at over \$3.1 trillion USDE.

#### **B. F-TIIE Futures**

As previously noted, in May 2021, CME Exchange launched the Mexican Funding TIIE (Monthly Contract) Futures contract ("F-TIIE futures"). F-TIIE Futures trade alongside CME Exchange's other interest rate futures, which has expanded in recent years to include other non-USD based products like GBP SONIA and EUR €STR futures.

F-TIIE Futures activity has been limited to this point with 138 contracts outstanding as of January 30, 2024; however, CME expects meaningful development in this market as the industry transitions from 28D TIIE to F-TIIE.

### **39.5(b)(3)(ii)(B): Rule Framework, Capacity, Operational Expertise and Resources, and Credit Support Infrastructure**

The rule framework for F-TIIE OIS is the same as all other IRS cleared by CME and is set forth in the CME Rulebook.<sup>1</sup> Furthermore, CME Clearing's "Risk Management and Financial Safeguards" brochure (the "Risk Management Brochure"), contains information regarding CME's risk management capacity, expertise, resources, and financial safeguard system.<sup>2</sup> Both documents are available to the public on the CME Group website.

### **39.5(b)(3)(ii)(C): Statement on the Mitigation of Systemic Risk**

As a central counterparty, CME interposes itself between counterparties to the swaps (and other derivatives products) that it clears, becoming the buyer to every seller and the seller to every buyer. For each swap that it clears, CME provides all clearing house services, including a mark-to-market function, on a daily basis. Depending upon the particular asset class, CME may standardize contract-critical dates (e.g., start dates, last trade dates, expiry dates) and other contract terms. This may enable customers who hold positions to liquidate or to adjust positional exposures simply by buying back or selling the relevant contracts. The associated benefits are considerable:

- *Centralized clearing.* Clearing F-TIIE OIS through CME allows market participants to free up counterparty credit lines. The daily mark-to-market process employed by CME enhances customer risk management opportunities.
- *Operational efficiencies.* Centralized clearing of swaps reduces operational burdens in several ways. Standardization and centralized clearing enables consolidation of collateral management and cash flows and eliminates the need for novation or tear-ups.
- *Ease of position adjustment.* In non-cleared markets, the only means to completely eliminate the risk of a swap is to (i) enter into a tear-up agreement with the swap counterparty, or (ii) enter into a novation (i.e., find another entity willing to assume its side of the swap). In either case, the tear-up or the novation must be approved by the bilateral swap counterparty. For most asset classes, central clearing may be used to offset exposures by a contra trade.

As further described in the Risk Management Brochure and summarized in the section below titled "Risk Management Procedures," CME has the necessary resources available to clear F-TIIE OIS.

### **39.5(b)(3)(ii)(D): Statement on Competition and Appropriate Fees and Charges**

CME does not believe that the clearing of F-TIIE OIS will have any negative impact, or impose any burden, on competition. In clearing F-TIIE OIS CME will provide market participants with another clearing service provider to support activity in F-TIIE derivative contracts.

CME's schedule of fees for IRS can be found at <https://www.cmegroup.com/trading/interest-rates/cleared-otc-irs-customer-fees.html>.

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<sup>1</sup> The CME Rulebook is available at <https://www.cmegroup.com/rulebook/CME/>

<sup>2</sup> The Risk Management Brochure is available at <http://www.cmegroup.com/clearing/files/financialsafeguards.pdf>  
20 South Wacker Chicago, IL 60606 t 312 466 7478 tim.elliott@cmegroup.com cmegroup.com

### **39.5(b)(ii)(E): Statement on Legal Certainty and Insolvency**

The bankruptcy of a DCO is governed by subchapter IV of Chapter 7 of the U.S. Bankruptcy Code (11 U.S.C. §§ 761-767), and by Subpart C of Part 190 (“Bankruptcy”) of the Commission’s Regulations. Also relevant in the event that CME were to enter into bankruptcy proceedings is CME Rule 818. (“Close-Out Netting”) included in Chapter 8 (“Clearing House and Performance Bonds”) of the CME Rulebook.

The bankruptcy of a clearing member that is a U.S. futures commission merchant (“FCM”) would be governed by subchapter IV of Chapter 7 of the U.S. Bankruptcy Code (11 U.S.C. §§ 761-767) and Subpart B of Part 190 (Bankruptcy) of the Commission’s Regulations. If an FCM is registered as a broker-dealer, certain aspects of its insolvency proceeding will be governed by the Securities Investor Protection Act.

### **39.5(b)(3)(iii): Product Specification**

Attached as Exhibit 2 are the product-specifications for F-TIIE OIS. These specifications will be added to CME’s IRS product scope slate at <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html>. F-TIIE OIS will settle in MXN pesos.

### **39.5(b)(3)(iv): Participant Eligibility Standards**

CME Rule 8G04. (“IRS Clearing Member Obligations and Qualifications”) specifies the requirements for IRS Clearing Members.

### **39.5(b)(3)(v): Pricing Sources**

CME Clearing has concurrently submitted in CME Submission 24-004S, a document, marked for confidential treatment, describing the curve building for cleared F-TIIE OIS.

F-TIIE OIS use a dual curve methodology for daily valuation. The forecasting curve is constructed using a combination of F-TIIE futures and swaps, while the discounting curve is implied using the USD SOFR curve as the base and a combination of FX forwards and cross-currency swaps to imply an MXN OIS curve. Quotes used for curve generation will be sourced at 3:00 p.m. Eastern Time (“ET”) along with existing MXN curves.

### **F-TIIE Swap Rate**

The F-TIIE OIS reference the F-TIIE rate that is administered and published by the Bank of Mexico at approximately 5:00 p.m. Mexico City time.

F-TIIE is a near risk-free reference rate aligned to international standards and representative of the Mexican overnight secured interbank funding market for Mexican pesos. It is calculated using wholesale overnight repurchase agreement (repo) transactions denominated in Mexican pesos and settled by banks and brokerage firms. These repo transactions are secured by debt instruments issued by the Federal Government, the Mexican Bank Savings Protection Institute (“IPAB”) and the Bank of Mexico. The database considered by the Bank of Mexico consists of repo transactions with the characteristics described above that are settled through S.D. Indeval (Institución para el Depósito de Valores, S.A. de C.V. (“INDEVAL”)).<sup>3</sup>

The F-TIIE rate is determined as a volume-weighted median of interest rates paid on Mexican peso denominated repo transactions. The volume-weighted median is calculated by ordering transactions in ascending order (i.e., the lowest to the highest rate). Then for each transacted rate starting with the lowest, the cumulative volume is calculated and expressed as a percentage of the total volume. The F-TIIE rate is

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<sup>3</sup> Please refer to the Bank of Mexico’s methodology for determining the overnight TIIE funding rate, available here: <https://www.banxico.org.mx/markets/d/%7B1FDD2772-9F1C-FDA3-FBBC-AC641FE94CD2%7D.pdf>

then determined as the interest rate associated with the first transaction where cumulative volume is at least 50%.

Further information on how the F-TIIE rate is calculated can be found on the Bank of Mexico's website.<sup>4</sup>

Akin to the SOFR index, CME does not require a license agreement from the Bank of Mexico to support the clearing of F-TIIE OIS.

### **39.5(b)(3)(vi): Risk Management Procedures**

The Risk Management Brochure summarizes CME's risk management procedures applicable to the clearing of F-TIIE OIS.

CME has performed various tests to ensure the existing IRS margin model and related parameters do not require any enhancements to cover the clearing of F-TIIE OIS. These tests included backtesting and correlation analysis where it was validated that CME's existing IRS margin model generates performance bond requirements that are sufficient to cover the clearing of F-TIIE OIS. Further, the existing IRS financial safeguards will be utilized to cover any additional exposures related to the clearing of F-TIIE OIS. The IRS financial safeguards will continue to provide risk management protection beyond daily settlement variation and performance bonds.

### **39.5(b)(3)(vii): Rules, Manuals, Policies, or Procedures**

The product rules for F-TIIE OIS are being added to Chapter 901 of the CME Rulebook and are enclosed in Exhibit 1 which is attached hereto. The product rules to add MXN-TIIE ON-OIS Compound are reflected in amendments to Rule 90102.E.1. ("Interest Rate Swaps Rate Options"). Exhibit 1 below provides amendments to Rule 90102.E.1. in blackline format.

### **39.5(b)(3)(viii): Notice of Submission**

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

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

Sincerely,

/s/ Timothy Elliott  
Managing Director & Chief Regulatory Counsel

Attachments:           Exhibit 1 – Amendments to Rule 90102.E.1. ("Interest Rate Swaps Rate Options")  
                              Exhibit 2 – F-TIIE OIS Product Specifications

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<sup>4</sup>See <https://www.banxico.org.mx/markets/d/%7B1FDD2772-9F1C-FDA3-FBBC-AC641FE94CD2%7D.pdf>.

## EXHIBIT 1

### CME RULEBOOK Chapter 901 Interest Rate Swap Contract Terms

(additions underscored)

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#### 90102. CONTRACT TERMS

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#### 90102.E. Rate Options

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

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

	2006 ISDA Definitions Floating Rate Option ("FRO") Name	2021 ISDA Definitions FRO Name
1.	USD-LIBOR-BBA	USD-LIBOR
<b>****As set out in <a href="#">CME Clearing Advisory Notice 23-096</a>, effective July 3, 2023, CME will cease to accept for clearing IRS Contracts referencing USD-LIBOR-BBA or USD-LIBOR except where the start date of such swap is on or after July 3, 2023.</b>		
2.	USD-Federal Funds-H.15-OIS-COMPOUND	USD-Federal Funds-OIS Compound
3.	USD-Federal Funds-H. 15	USD-Federal Funds
4.	EUR-EURIBOR-Reuters	EUR-EURIBOR
5.	EUR-EURIBOR-Telerate (as defined in the 2000 ISDA Definitions, as published by ISDA)	Not applicable
6.	GBP-LIBOR-BBA*	GBP-LIBOR*
<b>*As set out in <a href="#">CME Clearing Advisory Notice 21-434</a>, effective January 4, 2022, CME will cease to accept for clearing IRS Contracts referencing GBP-LIBOR-BBA or GBP-LIBOR except where the start date of such swap is on or after January 4, 2022.</b>		
7.	GBP-SONIA-COMPOUND	GBP-SONIA-OIS Compound
8.	JPY-LIBOR-BBA**	JPY-LIBOR**
<b>**As set out in <a href="#">CME Clearing Advisory Notice 21-434</a>, effective January 4, 2022, CME will cease to accept for clearing IRS Contracts referencing JPY-LIBOR-BBA or JPY-LIBOR except where the start date of such swap is on or after January 4, 2022.</b>		
9.	JPY-TONA-OIS-COMPOUND	JPY-TONA-OIS Compound
10.	CHF-LIBOR-BBA***	CHF-LIBOR***
<b>***As set out in <a href="#">CME Clearing Advisory Notice 21-434</a>, effective January 3, 2022, CME will cease to accept for clearing IRS Contracts referencing CHF-LIBOR-BBA or CHF-LIBOR except where the start date of such swap is on or after January 3, 2022.</b>		
11.	CAD-BA-CDOR	CAD-CDOR
12.	CAD-CORRA-OIS-COMPOUND	CAD-CORRA-OIS Compound
13.	AUD-BBR-BBSW	AUD-BBSW
14.	AUD-AONIA-OIS-COMPOUND	AUD-AONIA-OIS Compound
15.	SEK-STIBOR-SIDE	SEK-STIBOR
16.	DKK-CIBOR-DKNA13	DKK-CIBOR
17.	DKK-CIBOR2-DKNA13	DKK-CIBOR2
18.	NOK-NIBOR-NIBR	NOK-NIBOR
19.	NOK-NIBOR-OIBOR	NOK-NIBOR

20.	HKD-HIBOR-HKAB	HKD-HIBOR
21.	NZD-BBR-FRA	NZD-BKBM FRA
22.	HUF-BUBOR-Reuters	HUF-BUBOR
23.	PLN-WIBOR-WIBO	PLN-WIBOR
24.	CZK-PRIBOR-PRBO	CZK-PRIBOR
25.	ZAR-JIBAR-SAFEX	ZAR-JIBAR
26.	MXN-TIIE-Banxico	MXN-TIIE
27.	USD-SOFR-COMPOUND	USD-SOFR-OIS Compound
28.	EUR-EuroSTR-COMPOUND	EUR-EuroSTR-OIS Compound
29.	CHF-SARON-OIS-COMPOUND	CHF-SARON-OIS Compound
30.	USD-BSBY	USD-BSBY
31.	Not supported	SGD-SORA-OIS Compound
<a href="#">32.</a>	<a href="#">Not supported</a>	<a href="#">MXN-TIIE ON-OIS Compound</a>

[Remainder of Rule unchanged]



## **EXHIBIT 2**

### **F-TIIE SWAP PRODUCT SPECIFICATIONS**

<b>Attribute</b>	<b>Description</b>
Currency	MXN
Product Type	OIS
Maximum Maturity	31 Years
Floating Rate Indices	MXN-TIIE ON-OIS Compound
Floating Index Tenor	1D
Price Alignment	MXN PAA
Settlement Currency & Convention	MXN (T+1)
Variation, Coupon and Fees	MXN
Holiday Calendar	Mexico City Calendar (MXMC)
Business Day Convention	ACT/360
Leg Fixing Offset	0D is market standard, -10D to -1D optional
Payment Frequency	28D is market standard, 1T optional
Payment Offset	2D is market standard for Float and Fixed; 0D, 1D optional