

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 21-471

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

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

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

**Filing Date (mm/dd/yy):** 11/09/21 **Filing Description:** Acceptance of Bloomberg Short-Term Bank Yield Index (BSBY) 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:**

November 9, 2021

**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 Bloomberg Short-Term Bank Yield Index (BSBY) Interest Rate Swaps for Clearing.  
CME Submission No. 21-471**

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 acceptance of Bloomberg Short-Term Bank Yield Index ("BSBY") interest rate swaps (overnight index swaps and basis swaps) ("BSBY Swaps") and 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, November 15, 2021.

BSBY is administered and published by Bloomberg Index Services Limited ("BISL"), an authorized U.K. benchmark administrator that operates in alignment with the IOSCO Principles for Financial Benchmarks.<sup>1</sup> BISL developed BSBY in response to strong demand from cash market participants for an interest rate with a credit-sensitive spread with a forward-looking term structure to track the US wholesale unsecured funding market and supplement the Secured Overnight Financing Rate ("SOFR").<sup>2</sup>

BSBY is a dynamic, credit sensitive index that measures the average yields at which large, global banks access U.S. Dollar ("USD") unsecured wholesale funding. BISL calculates BSBY indices for overnight, one-month, three-month, six-month and 12-month yield tenors, and publishes the index values daily at 8:00 am New York time. BISL calculates BSBY using consolidated anonymized trade data and firm executable quotes for certain bank-issued instruments. Depending on the yield tenor, the index is calculated using

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<sup>1</sup> Details are available on the BISL website at: <https://assets.bbhub.io/professional/sites/27/BSBY-Fact-Sheet.pdf>. Bloomberg Index Services Limited and its affiliates (collectively, "Bloomberg") are not affiliated with Chicago Mercantile Exchange Inc. and do not approve, endorse, review, or recommend CME BSBY Swaps. BLOOMBERG and the Bloomberg Short Term Bank Yield Index are trademarks or service marks of Bloomberg Finance L.P. and have been licensed to Chicago Mercantile Exchange Inc. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the Bloomberg Short Term Bank Yield Index.

<sup>2</sup> In connection with the phase-out of Three-month US dollar ICE LIBOR®, the Alternative Reference Rates Committee ("ARRC") convened by the Board of Governors of the Federal Reserve ("Fed") and the Federal Reserve Bank of New York recommended SOFR as the alternative risk-free reference rate ("RFR") for the US dollar ICE LIBOR® market. As the cessation of ICE LIBOR® approaches, the financial markets have been preparing for the adoption of SOFR. Market participants are generally supportive of SOFR as the ICE LIBOR® fallback, but SOFR is a backward looking, compounded RFR based on secured repo transactions, whereas ICE LIBOR® is a forward-looking rate for unsecured wholesale lending. A segment of cash market participants has expressed a strong desire for a credit-sensitive spread with a forward-looking term structure as a supplement to SOFR.

trade and quote data for some or all of the following bank instruments: commercial paper, certificates of deposit, deposits and senior unsecured corporate bonds. Publication of BSBY began on an indicative basis in October 2020 and BISL provides historical data for BSBY dating to January 2016.<sup>3</sup>

In August 2021, CME launched Three-Month BSBY Futures contracts (“BSBY futures”) on the Chicago Mercantile Exchange Inc. designated contract market (“DCM”) (“CME Exchange”) in response to strong interest expressed by derivatives market participants in futures products referencing the three-month BSBY rate in order to help firms manage their exposure as BSBY continues to become used with more frequency in US lending markets.<sup>4</sup> CME will support cleared BSBY swaps for both outright Overnight Indexed Swap (“OIS”) and basis swaps to offer further support for these market participants and to facilitate trading between BSBY and existing benchmarks. In offering clearing support for BSBY interest rate swaps, CME will continue to support the risk management needs of market participants utilizing the BSBY rate in cash and derivative market products, as part of CME’s comprehensive interest rate complex. Cleared BSBY swaps are designed to complement Three-Month BSBY Futures and CME Exchange’s leading suite of SOFR-based derivatives and reference rates, providing an expanded set of capital-efficient tools for managing interest rate exposures going forward.

As shown in Exhibit 2, CME’s cleared OTC IRS product scope will be increased to include BSBY IRS and BSBY/SOFR Basis Swaps. The same BSBY rates are used in both product types, the one-month and three-month tenors.<sup>5</sup>

### **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 BSBY Swaps 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**

Publication of BSBY by BIS began in October 2020, with historical data available dating from January 2016. Since launch, BSBY has been utilized for cash market contracts, including the issuance of corporate bonds, floating-rate notes, syndicated loans and certificates of deposit, and has also been utilized for OTC uncleared swap transactions referencing BSBY.<sup>6</sup>

#### **A. BSBY Swaps**

In the week ending October 1, 2021, BSBY swaps traded notional was \$1.2 Billion. From start of trading in April 2021, to week ending October 8, BSBY swaps traded notional was \$5.6 Billion. Note the year to date traded notional includes basis swaps traded, which is estimated \$2.9 billion in notional.

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<sup>3</sup> Historical data is available on the BISL website at: [https://assets.bbhub.io/professional/sites/27/BSBY\\_Historical-Data.pdf](https://assets.bbhub.io/professional/sites/27/BSBY_Historical-Data.pdf)

<sup>4</sup> For details, see CME Submission 21-255 available at: <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2021/8/21-255.pdf>. Submission 21-255 contains detailed information on the underlying BSBY Index, including analysis. Details on Three-Month BSBY futures are available on the CME website at <https://www.cmegroup.com/trading/interest-rates/bsby-futures.html>.

<sup>5</sup> CME Three-Month BSBY Futures reference the three-month BSBY tenor. CME BSBY Swaps will reference the three-month BSBY tenor and the one-month BSBY tenor.

<sup>6</sup> See BISL BSBY Fact Sheet accessible at: <https://assets.bbhub.io/professional/sites/27/BSBY-Fact-Sheet.pdf>

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CME expects further development of the BSBY Swaps market in the near future as cash market participants continue to seek to utilize BSBY to track the US wholesale unsecured funding market and supplement their use of SOFR.

## B. BSBY Futures

CME Exchange launched BSBY Futures in August 2021. BSBY Futures trade alongside CME Exchange's SOFR futures, Eurodollars, and Fed Funds futures to offer seamless spread trading opportunities and margin offsets across interest rate products.

In the week ending Sept 3, 2021, average daily volume of BSBY Futures exceeded 5,700 contracts. From launch in August 2021 to week ending October 15, 2021 average daily volume of BSBY Futures exceeded 6,700 contracts.

We expect further development of the BSBY futures market in the near future as use of the BSBY rate in cash markets continues to increase.

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

The rule framework for BSBY Swaps is the same as all other IRS cleared by CME and is set forth in the CME Rulebook.<sup>7</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>8</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 BSBY Swaps 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

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<sup>7</sup> The CME Rulebook is available at <https://www.cmegroup.com/rulebook/CME/>

<sup>8</sup> The Risk Management Brochure is available at <http://www.cmegroup.com/clearing/files/financialsafeguards.pdf>  
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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 BSBY Swaps.

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

CME does not believe that the clearing of BSBY Swaps will have any negative impact, or impose any burden, on competition. In clearing BSBY Swaps CME will provide market participants with another clearing service provider to support activity in BSBY 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>.

### **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 BSBY Swaps. These specifications will be added, without the conditional statement of being subject to further regulatory review upon the effectiveness of this submission, to CME’s IRS product scope slate at <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html>. BSBY Swaps will settle in USD.

### **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**

We have concurrently submitted in CME Submission 21-471S, a document, marked for confidential treatment, describing the curve building for cleared BSBY Swaps.

BSBY swaps rely on a dual-curve valuation methodology with the respective index tenor referencing BSBY curve used for forecasting and the SOFR curve for discounting the cash flows of cleared BSBY swaps. BSBY curve quotes will be sourced at 3:00 p.m. Eastern Time (“ET”) along with existing USD curves.

### **BSBY Swap Rate**

The BSBY Swaps reference the BSBY one-month and three-month tenors published by BISL. BISL has made the relevant BSBY rates available for licensing since March 8, 2021.

This section summarizes the background on the development of BSBY, along with a high level overview of the methodology for BSBY's construction and calculation, including safeguards to protect the rates from manipulation. Further information providing statistical analysis demonstrating that BSBY rates are robust, reliable benchmarks that are not readily susceptible to manipulation is provided in [CME Submission 21-255](#).<sup>9</sup> For a more detailed explanation of the BSBY methodology, please refer to documents published by BISL titled "Bloomberg Short-Term Bank Yield BSBY Methodology As of August 20, 2021," and "Introducing the Bloomberg Short-Term Bank Yield Index (BSBY)", accessible on the BISL public web pages.<sup>10</sup>

BISL developed BSBY in response to strong demand for a short-term forward-looking rate to supplement SOFR. CME wishes to support the clearing of BSBY Swaps in response to strong interest expressed by derivatives market participants and to complement the CME BSBY futures and wider CME interest rate product offering.

In connection with the phase-out of US dollar ICE LIBOR®, the Alternative Reference Rates Committee ("ARRC") convened by the Board of Governors of the Federal Reserve ("Fed") and the Federal Reserve Bank of New York recommended SOFR as the alternative risk-free reference rate ("RFR") for the US dollar ICE LIBOR® market.<sup>11</sup> As the cessation of ICE LIBOR® approaches, the financial markets have been preparing for the adoption of SOFR. Market participants are generally supportive of SOFR as the ICE LIBOR® fallback, but SOFR is a backward looking, compounded RFR based on secured repo transactions, whereas ICE LIBOR® is a forward-looking rate for unsecured wholesale lending. A segment of cash market participants has expressed a strong desire for a credit-sensitive spread with a forward-looking term structure as a supplement to SOFR, because SOFR as a benchmark for loans can create a significant mismatch between a bank's assets (loans) and its liabilities (borrowings). This, in fact, occurred in March 2020. The emergence of the COVID-19 pandemic caused a flight to quality, which in combination with the Fed's liquidity operations pushed SOFR from 80 bps down to 5 bps, while concurrently banking credit concerns pushed Three-Month US dollar ICE LIBOR® from 80 bps up to 140 bps. The already strong demand for a credit-sensitive spread to supplement SOFR intensified in the aftermath of that significant disconnect.

BISL designed BSBY to provide a series of credit-sensitive reference rates that incorporate systemic bank credit spreads and define a forward term structure. The BSBY is a dynamic, credit sensitive index that aims to measure the average yields at which investors are willing to invest USD funds on a senior, unsecured basis in a list of global systemically important banks at various tenors. BISL calculates and publishes the one-month and three-month index values daily at 8:00 am New York time. Each BSBY rate is generated from transaction-based volumes with minimum volume thresholds. Where a minimum volume threshold for a tenor is not met, the BSBY methodology provides for a fallback which uses a longer lookback window.

BISL calculates BSBY using consolidated anonymized trade data and firm executable quotes for certain bank-issued instruments, including commercial paper, certificates of deposit, deposits and senior unsecured corporate bonds.<sup>12</sup> For commercial paper, certificates of deposit and deposits, BISL uses

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<sup>9</sup> While CME Three-Month BSBY Futures reference only the three-month BSBY tenor, page 6 of the Bloomberg Short Term Bank Yield Index Methodology document (available at <https://assets.bbhub.io/professional/sites/27/BSBY-Methodology-Document-20-August-2021.pdf>) confirms that the methodology utilized by BISL for the one-month BSBY Index (and all other tenors) is the same as the three-month BSBY tenor with the exception that the eligible input data varies for each tenor (the methodology provides that relevant instrument data is filtered by "days-to-maturity" ("DTM") and only contribute to the relevant tenor calculation if their respective maturities fall within a defined date range for each tenor). The methodology documentation published by BISL confirms that "The methodology to determine each BSBY tenor is identical once the DTM range and the evaluation point are determined".

<sup>10</sup> These documents are available at <https://www.bloomberg.com/professional/introducing-the-bloomberg-short-term-bank-yield-index-bsby/> and <https://assets.bbhub.io/professional/sites/27/BSBY-Methodology-Document-20-August-2021.pdf>

<sup>11</sup> ICE LIBOR® is a registered trademark of Intercontinental Exchange Holdings, Inc. and is used under license.

<sup>12</sup> BISL has issued a report that provides information on the underlying markets for these instruments, which it notes are very large and growing. Commercial paper is the largest component of BSBY; as at July 2021 it was a \$1.2 trillion market, which was its highest level in the previous six (6) years. In the same report BISL estimates that the US Dollar commercial paper market has grown 20% since 2020 with daily issuances over the past three years averaging \$82 billion. The institutional market for Certificates of Deposit has averaged \$11.3 billion in daily issuance over the last few years. For further details see the BISL report accessible at: [https://assets.bbhub.io/professional/sites/10/Bloomberg\\_BSBY\\_Report\\_070121.pdf](https://assets.bbhub.io/professional/sites/10/Bloomberg_BSBY_Report_070121.pdf)

transaction and quote data captured on Bloomberg's Fixed Income Trading electronic trading solutions platform ("FIT"). Transaction and quote data for bank-issued corporate bonds is captured on the Financial Industry Regulatory Authority ("FINRA") Trade Reporting and Compliance Engine ("TRACE") and transaction settlement data is also sourced from the Depository Trust & Clearing Corporation ("DTCC"). The BSBY indices only contain instruments issued by a list of Global Systemically Important Banks ("G-SIBs") published by the Financial Stability Board plus certain other systemically relevant banks, as determined by BISL, excluding state-owned banks ("BSBY Eligible Banks").<sup>13</sup> The BSBY governance committee will review the bank eligibility criteria quarterly and may update the criteria when necessary.

The inputs for the three-month BSBY tenor and the one-month BSBY tenor are limited to certificates of deposit, deposits, and commercial paper with a maturity at the time of issuance that does not exceed nine months (270 days).<sup>14</sup> CME understands that the inputs to each of the three-month BSBY tenor and the one-month BSBY tenor does not contain any corporate bonds or any commercial paper that is a security as defined in Section 3(a)(10) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Accordingly, CME listed CME BSBY futures as a rate futures contract in lieu of treating it as a futures contract on an index of securities subject to CEA Sections 2(a)(1)(C) or (D).<sup>15</sup> Consistent with this conclusion, the BSBY Swaps will not be "security-based swaps" within the meaning of Section 3(a)(68) of the Exchange Act and shall therefore be swaps subject to CFTC regulation.

BISL filters the trade and executable quote data from the sources described above to ensure the data used for the calculations only covers instruments of BSBY Eligible Banks. BISL uses filtered data from a three day rolling window (as the default configuration) to calculate each BSBY yield tenor. The yields of the resulting datasets are normalized across instrument types, using an actual/360 convention. Each transaction is weighted by trade size and each executable quote is weighted by one-eighth (1/8th) of its size (i.e., by 12.5%). Historically, the average executable trade size is \$200 million, compared to an average trade size of \$75 million. The 12.5% coefficient adjustment is applied to executable quotes to ensure that trade data is assigned a much higher weight and is a strong component in the calculation of each BSBY tenor rate. From the resulting dataset, BISL calculates an overnight, one-month, three-month, six-month and 12-month BSBY yield, generated through a localized trimmed linear curve fitting process. This local fitting approach allows only neighboring data to participate in the yield calculation for a given tenor and contributes to the accuracy of the rate for the desired term setting. For each BSBY Index tenor, the relevant maturity range is designed to be sufficiently wide to ensure a large number of data points and sufficient volumes contribute to the final calculation.

Each BSBY Index tenor is designed to mitigate any potential for manipulation, with a number of processes that limit the contribution of any particular bank and exclude outlier rates. The BSBY yields for each tenor are calculated based on local volume weighted linear regressions where the volume of each data point is capped at \$500MM and the input of instruments from a single BSBY Eligible Bank cannot exceed 20%. Further, all yields above the 75th volume percentile and below the 25th volume percentile are eliminated from final calculation. These safeguards ensure that the BSBY Index is robustly anchored to market transactions where the importance of a given data point is proportional to its transaction volume. The robustness and resiliency of each BSBY Index tenor is further supported by significant trading volumes for the bank instruments in the index, with a large number of market participants contributing to that trading volume.<sup>16</sup>

To further ensure that the index calculations are anchored to transaction data, the BISL BSBY methodology establishes for each tenor a minimum trading volume threshold for instruments in the index over the relevant three-day rolling window. The minimum threshold for the three-month BSBY tenor and the one-month BSBY

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<sup>13</sup> Details on TRACE are available at <https://www.finra.org/sites/default/files/AppSupportDoc/p014320.pdf>

<sup>14</sup> See Bloomberg Short Term Bank Yield Index Methodology document available at

<https://assets.bbhub.io/professional/sites/27/BSBY-Methodology-Document-20-August-2021.pdf>.

<sup>15</sup> This conclusion is consistent with the definitions of "narrow-based security index" and "security futures" in the Exchange Act.

<sup>16</sup> Further details are set out in CME Submission 21-255 available at: <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2021/8/21-255.pdf>.

tenor is \$10 billion notional trading volume for all instruments in the index in the calculation window. If the minimum threshold is not met, BISL will apply a fallback process to ensure sufficient volume is available to calculate the relevant BSBY rate, to provide continuity in producing and publishing BSBY in challenging market circumstances. The fallback process extends the lookback period calculation window in one-day increments, up to a maximum five day rolling window. If the threshold is still not met, the prior day's BSBY rate is carried over.

Another key metric in assessing the robustness of the BSBY Index is the sensitivity of its construction algorithm to potential data manipulation scenarios. BISL has made public detailed information on its arrangements to mitigate the risk of manipulation of the BSBY rates, demonstrating that BSBY has been constructed to be highly resistant to outlier data points that may be a feature of manipulation scenarios. Details of the testing conducted by BISL is available on the BISL website in the July 2021 report titled "Bloomberg Short-Term Bank Yield Index, BSBY report: Additional analysis and key facts", with further detail provided in [CME Submission 21-255](#).<sup>17</sup>

The diversity of product type coupled with index parameters such as capping any bank's contribution at 20% and excluding outlier rates provide significant protections from manipulation of the index. Expanding the number of days to fulfill the minimum volume requirement ensures the BSBY Index is produced during both good and challenging economic conditions.

BSBY does not rely on subjective inputs or submissions from individual banks. Instead, as noted above, BSBY is constructed from actual transactions between bank issuers and investors. These transactions are collected from multiple data sets. Firms are not aware of the specific mix of transactions that contribute to the index calculation at any point in time; a rate calculation algorithm determines this mix and it may change from day to day. BSBY is based on instruments issued by a large number (as of May 2021, 34) systemically relevant banks. BISL will review via its governance and oversight committees the eligibility and selection criteria on a periodic basis and update the criteria and current list of BSBY included banks whenever it is determined by BISL to be necessary or prudent.<sup>18</sup>

For each bank issuer that comprises one half of one transaction that is fed into the BSBY index, there is an investor on the other side. There are approximately 2,500 different institutions in total that participate in the commercial paper/certificate of deposit markets. As BISL has explained in its report referenced above, these markets are very robust, competitive and efficient.<sup>19</sup> The bank issuers are seeking to fund themselves at the lowest rate possible and the investors which buy their paper are looking for the highest rates of return for their investments. It is common practice for multiple dealers to compete to place an issuer's paper with hundreds of different investors.

BISL has also highlighted that both the commercial paper and deposit markets have also shown resilience during recent periods of market stress. According to BISL, their platforms recorded a daily average of \$68 billion in commercial paper transactions even at the height of related COVID-19 market stress. Further, BISL noted that its governance and oversight bodies are designed to review periodically BSBY's design, volume thresholds and inputs to ensure that the index remains a reliable measure of its intended interest.

As noted above, further details on the BSBY methodology are available in the "Bloomberg Short-Term Bank Yield BSBY Methodology As of August 20, 2021," accessible on the BISL public web pages.<sup>20</sup>

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<sup>17</sup> CME Submission 21-255 is available at: <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2021/8/21-255.pdf>. For further details on BISL testing analysis, please see the BISL report accessible at: [https://assets.bbhub.io/professional/sites/10/Bloomberg\\_BSBY\\_Report\\_070121.pdf](https://assets.bbhub.io/professional/sites/10/Bloomberg_BSBY_Report_070121.pdf)

<sup>18</sup> The list of eligible banks is maintained by BISL at: <https://assets.bbhub.io/professional/sites/27/BSBY-Methodology-Document-20-August-2021.pdf>

<sup>19</sup> For further details see the BISL report accessible at:

[https://assets.bbhub.io/professional/sites/10/Bloomberg\\_BSBY\\_Report\\_070121.pdf](https://assets.bbhub.io/professional/sites/10/Bloomberg_BSBY_Report_070121.pdf)

<sup>20</sup> For further details, please see <https://assets.bbhub.io/professional/sites/27/BSBY-Methodology-Document-20-August-2021.pdf>

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BISL has issued a Statement of Adherence with the IOSCO Principles for Financial Benchmarks under which BISL confirms that it operates in alignment with the IOSCO Principles for Financial Benchmarks.<sup>21</sup>

CME has a license agreement with BISL permitting CME to support the clearing of BSBY Swaps.

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

The Risk Management Brochure summarizes CME's risk management procedures applicable to the clearing of BSBY Swaps.

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 BSBY Swaps. 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 BSBY Swaps. Further, the existing IRS financial safeguards will be utilized to cover any additional exposures related to the clearing of BSBY Swaps. 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 BSBY Swaps are being added to Chapter 901 of the CME Rulebook and are enclosed in Exhibit 1 which is attached hereto. The product rules and attendant non-substantive conforming revisions to add USD-BSBY is 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 (212) 299-2200 or via e-mail at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director & Chief Regulatory Counsel

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

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<sup>21</sup> The BISL Statement of Adherence with the IOSCO Principles for Financial Benchmarks is available at <https://www.bloomberg.com/professional/bsby-report/>

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## 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:

	<b>2006 ISDA Definitions Floating Rate Option (“FRO”) Name</b>	<b>2021 ISDA Definitions FRO Name</b>
1.	USD-LIBOR-BBA	USD-LIBOR
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
7.	GBP-SONIA-COMPOUND	GBP-SONIA-OIS Compound
8.	JPY-LIBOR-BBA	JPY-LIBOR
9.	JPY-TONA-OIS-COMPOUND	JPY-TONA-OIS Compound
10.	CHF-LIBOR-BBA	CHF-LIBOR
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.	SGD-SOR-VWAP	SGD-SOR
23.	HUF-BUBOR-Reuters	HUF-BUBOR
24.	PLN-WIBOR-WIBO	PLN-WIBOR
25.	CZK-PRIBOR-PRBO	CZK-PRIBOR
26.	ZAR-JIBAR-SAFEX	ZAR-JIBAR
27.	MXN-TIIE-Banxico	MXN-TIIE
28.	USD-SOFR-COMPOUND	USD-SOFR-OIS Compound
29.	EUR-EuroSTR-COMPOUND	EUR-EuroSTR-OIS Compound
30.	CHF-SARON-OIS-COMPOUND	CHF-SARON-OIS Compound

<b>31.</b>	<b><u>USD-BSBY</u></b>	<b><u>USD-BSBY</u></b> <sup>1</sup>
32.	<u>Not supported</u>	SGD-SORA-OIS Compound <i>(also effective November 15, 2021 – see CME Submission No. 21-508)</i>

[Remainder of Rule unchanged.]

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<sup>1</sup> Bloomberg Index Services Limited and its affiliates (collectively, "Bloomberg") are not affiliated with Chicago Mercantile Exchange Inc. and do not approve, endorse, review, or recommend CME BSBY Swaps. BLOOMBERG and Bloomberg Short Term Bank Yield Index are trademarks or service marks of Bloomberg Finance L.P. and have been licensed to Chicago Mercantile Exchange Inc. Bloomberg or its licensors own all proprietary rights in the Bloomberg Short Term Bank Yield Index. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Bloomberg Short Term Bank Yield Index. Bloomberg makes no warranty, express or implied, as to the CME BSBY Swaps or Bloomberg Short Term Bank Yield or any data or values relating thereto or results to be obtained therefrom, and expressly disclaims all warranties of merchantability and fitness for a particular purpose with respect thereto. To the maximum extent allowed by law, Bloomberg, its licensors, and its and their respective employees, contractors, agents, suppliers, and vendors shall have no liability or responsibility whatsoever for any injury or damages-whether direct, indirect, consequential, incidental, punitive, or otherwise-arising in connection with the CME BSBY Swaps or the Bloomberg Short Term Bank Yield Index or any data or values relating thereto-whether arising from their negligence or otherwise.

## EXHIBIT 2

### BSBY Swaps Product Specifications

#### BSBY IRS

<b>Product Type</b>	Interest Rate Swap - Fixed versus BSBY
<b>Currency</b>	USD
<b>Floating Rate Index</b>	USD-BSBY
<b>Maximum Maturity</b>	11 years
<b>Settlement Convention</b>	USD will be settled on a one day (T+1) basis
<b>Floating Index Tenor</b>	1M, 3M
<b>Price Alignment Rate</b>	SOFR
<b>Fixing Calendar</b>	US Government Securities (USGS)
<b>Fixing Offset</b>	-2D
<b>Day Count</b>	ACT/360
<b>Payment Calendar</b>	USNY required, others optional
<b>Payment Frequency</b>	1M, 3M, 6M, 1Y, 1T
<b>Payment Offset</b>	0D, 2D (Flexible)
<b>Variable Notional, Spreads, Stubs</b>	Yes; to be supported

#### BSBY vs SOFR Basis Swap

<b>Product Type</b>	Basis Swap: BSBY versus SOFR
<b>Currency</b>	USD
<b>Floating Rate Index</b>	USD-BSBY vs USD-SOFR-COMPOUND (2006 FRO) USD-BSBY vs USD-SOFR-OIS Compound (2021 FRO)
<b>Maximum Maturity</b>	11 years
<b>Settlement Convention</b>	USD will be settled on a one day (T+1) basis
<b>Floating Index Tenor</b>	1M, 3M (BSBY leg)
<b>Price Alignment Rate</b>	SOFR
<b>Fixing Calendar</b>	US Government Securities (USGS)
<b>Fixing Offset</b>	BSBY = -2D, SOFR = 0D
<b>Day Count</b>	ACT/360
<b>Payment Calendar</b>	USNY required, others optional
<b>Payment Frequency</b>	1M, 3M, 6M, 1Y, 1T
<b>Payment Offset</b>	BSBY = 0D, 2D (Flexible); SOFR = 2D
<b>Spreads, Stubs</b>	Yes; to be supported