

TO: Clearing Member Firms
Back Office Managers

DATE: November 8, 2024

FROM: CME Clearing

NOTICE #: 24-342

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”)¹. 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.²

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 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”).³

¹ 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/misclaneos/%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>

² 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>

³ 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.

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 proposals⁴, 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, 2025,⁵ in each case following close of business ("COB") on Friday, November 22, 2024 (the "Primary Conversion Date"),⁶ 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")⁷ (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:
 - 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

⁴ 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-tie-to-tie-de-fondeo-f-tie-for-cleared-mxn-interest-rate-swaps.html>

⁵ 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.

⁶ 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.

⁷ 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>

Methodology⁸, 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 Wednesday, November 20, 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;
- 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”).⁹ 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;

⁸ 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#qsc.tab=0.

⁹ 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.

- 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, 2025.¹⁰ 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, 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:

¹⁰ See: <https://www.cmegroup.com/articles/files/2024/proposal-for-cme-cleared-mxn-tie-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>.

- 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

- 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 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.¹¹

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 Business Day.

¹¹ 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.

- 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 |
|-----------------------------|------------|------------------|--------------------------|------------|-----------|-----------|-------------------|------------------|-----------------|-------------|--------------|---------------|
| 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.¹²

¹² The Conversion Fee shall not apply to: Resulting 28D TIIE Swaps resulting from the conversion process or to the termination of 28D TIIE Swaps.

| 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 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.¹³ 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

¹³ 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>.

follow to implement the transition.¹⁴ 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.¹⁵

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.¹⁶

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 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

¹⁴ 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>

¹⁵ 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>

¹⁶ 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>.

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 20, 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 Fondeo ("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:

- each Pre-Conversion Swap subject to Conversion on such Conversion Date; and
- 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 20, 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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|----------------------------|--|--------------|
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