

22 Mar 2023
Eurex Clearing

EurexOTC Clear: Amendments to the Clearing Conditions and FCM Regulations of Eurex Clearing AG related to USD LIBOR Trade Conversion

Eurex Clearing Circular 017/23 EurexOTC Clear: Amendments to the Clearing Conditions and FCM Regulations of Eurex Clearing AG related to USD LIBOR Trade Conversion

1. Introduction

This circular contains information with respect to amendments to the Clearing Conditions of Eurex Clearing AG (Clearing Conditions) and the FCM Regulations of Eurex Clearing AG (FCM Regulations) regarding the EurexOTC Clear conversion of cleared OTC transactions referencing the USD LIBOR index.

The amendments to the Clearing Conditions and FCM Regulations will come into effect as of **24 April 2023**.

2. Required action

Clearing Members, ISA Direct Clearing Members, Disclosed Direct Clients, FCM Clearing Members, vendors and other affected contractual parties should take the amendments to the Clearing Conditions and FCM Regulations into consideration.

3. Details of the initiative

As announced in Eurex Clearing Circular **022/21** and Eurex Clearing Newsflash from **22 September 2022**, Eurex Clearing will actively convert the remaining cleared legacy USD LIBOR-based Interest Rate Swaps (IRS) and basis swap trades to standard and liquid SOFR Overnight Index Swap (OIS) trades before the fallback provisions are triggered.

Forward Rate Agreements (FRAs) are out of scope for this transition as Eurex Clearing does not have any outstanding FRA transactions referencing USD LIBOR and with Eurex Clearing Circular **022/21**, the clearing eligibility of FRAs referencing USD LIBOR with an expiry on or after 1 April 2023 was revoked.

It is planned to execute the conversion of such EurexOTC Clear trades starting on **21 April 2023** and executed over that weekend.

In this regard, this Eurex Clearing Circular shall be an announcement of the referred Index Conversion pursuant to Chapter VIII Part 1 Number 1.8.4 of the Clearing Conditions and Chapter II Part 1 Number 1.8.4 of the FCM Regulations.

The conversion will be mandatory for all cleared OTC transactions referencing the USD LIBOR floating rates on the above-mentioned date. It will be effective as soon as it is reflected in Eurex Clearing's systems. Eurex Clearing will legally reflect the conversion as an amendment of the relevant transactions by replacing the references to USD LIBOR floating rates with the SOFR index underlying its fallback.

The cornerstones of the conversion are as follows:

Operational form of the conversion

The conversion will be executed as a termination of each original (LIBOR) trade and a novation of one or more replacement trades for each original (LIBOR) trade. In what follows, we will denote group of replacement trades for each original trade as the "amended trade".

LIBOR based settlements

The roll dates and accrual periods of the SOFR floating coupons of the amended trade are the same as the USD LIBOR trade. Coupons that require a USD LIBOR fixing after 30 June 2023 are calculated without observation period shift by compounding the SOFR index over the USD LIBOR coupon periods. The settlement of these coupons is aligned with SOFR OIS conventions, i.e., having two business days payment offset.

Conversion spreads

The conversion preserves the economic equivalence of the amended trade with the original trade by adding the relevant (not compounded) spread adjustment specified in the respective fallback provisions and published by **Bloomberg Index Services Limited**. No rounding or other modifications to that spread apply. In specific, below spreads will be applied:

Tenor	USD
1M	0,11448%
3M	0,26161%
6M	0,42826%

Eurex Clearing does not have any outstanding transactions referencing the 12M USD LIBOR index.

Treatment of fixed leg

The terms and conditions of the fixed leg of the amended trade are preserved from the original USD LIBOR trade.

Cash compensation

A one-off cash compensation on trade level is introduced and carried out by Eurex Clearing as calculation agent to mitigate the associated residual change in net present value between the LIBOR trade and the amended trade.

Treatment of irregular periods

Irregular stub periods having linear interpolation specified are calculated compounding SOFR over the length of the calculation period and adding a spread adjustment. This spread is not calculated by interpolating between the Bloomberg spreads for the tenors which are next shorter and next longer than the length of the calculation period, but reflect the spread adjustment associated with the regular tenor of the floating leg. The value transfer caused by the divergence with the treatment specified in the ISDA fallback provision is included in the cash compensation.

Pre- and post-conversion trade specification

In order to preserve fixings and settlements as well as the fixed leg cash flows in all trade type cases, the amended trade might comprise more than one individual replacement trade. In case of a conversion of an interest rate swap, it comprises three individual replacement trades. In case of a LIBOR basis swap having no compounding, it comprises one replacement trade. Notable exception of the conversion mechanism is the treatment of LIBOR basis swaps having compounding specified on at least one leg. Such swaps will be terminated on the conversion weekend with a termination fee equal to the net present value of the trade and no replacement trade.

Libor fixings before cessation

The amended trade will preserve USD LIBOR coupons that have a fixing but have not settled yet as well as USD LIBOR coupons that have a fixing after the operational conversion but before the USD LIBOR cessation date of 30 June 2023.

For more information, please refer to Eurex Clearing Readiness Newsflash from **22 September 2022** and to the detailed USD LIBOR trade conversion

booklet explaining the LIBOR conversion from an operational and methodological perspective. The booklet is available in the **Member Section** of Deutsche Börse Group under the following path:

Resources > Eurex Clearing > Documentation and Files > Benchmark Transition Information > LIBOR Trade conversions

Further, as of **24 April 2023**, OTC transactions with a floating rate referencing to USD LIBOR will no longer be eligible for the EurexOTC Clear service.

To reflect the change of eligibility, the following provisions will be amended as outlined in Attachment 1 and 2 together with a minor editorial change:

- ◆ Chapter VIII Part 2 Number 2.1.5.1 of the Clearing Conditions
- ◆ Chapter II Part 2 Number 2.1.5.1 of the FCM Regulations

As of the effective date, the full versions of the Clearing Conditions and FCM Regulations will be available for download on the Eurex Clearing website www.eurex.com/ec-en/ under the following link:

Rules & Regs > Eurex Clearing Rules and Regulations

The amendments to the legal framework of Eurex Clearing AG published by this circular are deemed accepted by each affected contractual party of Eurex Clearing AG, unless the respective contractual party objects by written notice to Eurex Clearing AG prior to the relevant effective date(s) as stipulated in this circular. In case of an objection by the respective contractual party pursuant the preceding sentence, Eurex Clearing AG is entitled to terminate the respective contract (including a Clearing Agreement, if applicable). Instead of submitting an objection, the respective contractual party may submit in writing to Eurex Clearing AG comments to any amendments of the legal framework of Eurex Clearing AG within the first 10 Business Days after the publication of the amendments. Eurex Clearing AG shall assess whether these comments prevent the published amendments from becoming effective taking into account the interests of Eurex Clearing AG and all contractual parties.

Unless the context requires otherwise, terms used and not otherwise defined in this circular shall have the meaning ascribed to them in the Clearing Conditions or FCM Clearing Conditions of Eurex Clearing AG, as applicable.

Attachments:

1. Amended section of Chapter VIII of the Clearing Conditions
2. Amended section of Chapter II of the FCM Regulations
3. Bloomberg Disclaimer

Further information

Recipients: All Clearing Members, ISA Direct Clearing Members, Disclosed Direct Clients and FCM Clearing Members of Eurex Clearing AG, vendors and other affected contractual parties

Target groups: Front Office/Trading, Middle + Back Office, IT/System Administration, Auditing/Security Coordination

Contact: client.services@eurex.com

Related circular: Eurex Clearing Circular **022/21**

Related Newsflash: Eurex Clearing Readiness Newsflash from **22 September 2022**

Web: [Support > Technology > **EurexOTC Clear**](#)

Authorized by: Dmitrij Senko

Further information

[!\[\]\(6bb0e4f14c4133b37d2887cb37e67ddd_img.jpg\) Attachment 1 to Eurex Clearing Circular 017/23](#)

[!\[\]\(47734e4656765d20df4fdbd5b7aff048_img.jpg\) Attachment 2 to Eurex Clearing Circular 017/23](#)

[!\[\]\(bd3b31712ad9bab5a241210fa6925cdd_img.jpg\) Attachment 3 to Eurex Clearing Circular 017/23](#)

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Chapter VIII of the Clearing Conditions of Eurex Clearing AG

Clearing of OTC Interest Rate Derivative Transactions, and OTC NDF Transactions

As of 24.04.2023

AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED;

DELETIONS ARE CROSSED OUT

[...]

Part 2 Clearing of OTC Interest Rate Derivative Transactions

2.1 General Provisions

[...]

2.1.5 Novation Criteria and Process Regarding OTC Interest Rate Derivative Transactions

[...]

2.1.5.1 Transaction Type Specific Novation Criteria and Terms for OTC Interest Rate Derivative Transactions

[...]

(2) Currencies

The currency must be

- (i) for IRS (excluding basis swaps): EUR, ~~USD~~, DKK, SEK, NOK or PLN;

[...]

[...]

(4) Maximum remaining term / Termination Date

The remaining term of the OTC Interest Rate Derivative Transaction from the date of novation to the Termination Date must be

- (a) in case of IRS (excluding basis swaps),

- (i) for Original OTC Transactions in EUR, no more than 61 years (22,335 calendar days);

- ~~(ii) for Original OTC Transactions in USD, no more than 51 years (18,675 calendar days);~~

(iii) for Original OTC Transactions in DKK, NOK or SEK, no more than 31 years (11,375 calendar days); and

(iiiv) for Original OTC Transactions in PLN, no more than 16 years (5,871 calendar days),

(b) in case of basis swaps

(i) for Original OTC Transactions in EUR, no more than 61 years (22,335 calendar days);

(ii) for Original OTC Transactions in USD, no more than 51 years (18,675 calendar days);

(iii) for Original OTC Transactions in DKK or NOK, no more than 31 years (11,375 calendar days); and

(iv) for Original OTC Transactions in PLN, no more than 16 years (5,871 calendar days),

(bc) in case of OIS,

[...]

(ed) in case of FRA, for Original OTC Transactions in EUR, ~~USD~~, DKK, NOK, PLN or SEK, no more than 3 years (1,225 calendar days), ~~provided however, in case of FRA referencing USD-LIBOR as the relevant floating rate for any eligible tenor, the termination date must not be on or after 01.04.2023;~~ and

(de) in case of ZCIS,

[...]

(5) Minimum remaining term

[...]

In case of FRA which are settled in advance or in arrears, the minimum period between the date of novation and the payment date must be at least one Business Day for EUR, ~~USD~~ and PLN and two Business Days for DKK, NOK and SEK.

[...]

(b) The minimum period length of short Interest Rate Stub Periods is one day. The maximum period length for long Interest Rate Stub Periods for both, fixed rate payments under IRS in any eligible currency, and OIS is not restricted. The maximum period length for long Interest Rate Stub Periods is one year and one month for floating rate payments under IRS (including basis swaps) in EUR and under basis swaps in USD. For floating rate payments under IRS (including basis swaps) in ~~USD~~, DKK, NOK and PLN, the maximum length for long Interest Rate Stub Periods is seven months and for floating rate payments

under IRS (excluding basis swaps) in SEK the maximum length for long Interest Rate Stub Periods is four~~six~~ months.

- (c) For IRS floating payments, the floating rates for Interest Rate Stub Periods must be specified in the Trade Record submitted via the ATS as follows:

[...]

(bb) if a floating rate index tenor is specified, which is used for the fixing in respect of the Interest Rate Stub Period, the respective tenors. The following tenors (W = week(s), M = month(s), Y = year) are eligible:

[...]

~~(vi) in case the currency is USD and the termination date is before 01.10.2021: 1W, 1M, 2M, 3M, 6M; in case the currency is USD and the termination date is on or after 01.10.2021: 1M, 3M, 6M.~~

[...]

[...]

(8a) Floating Rate Options

For IRS, OIS, FRA, the following Floating Rate Options are eligible (where applicable, the relevant Designated Maturity needs to be specified) subject to further provisions:

- (a) EUR-EURIBOR (also referred to as EUR-EURIBOR-Reuters);
- ~~(b) USD-LIBOR (also referred to as USD-LIBOR-BBA);~~
- ~~(e)~~ USD-Federal Funds-OIS Compound (also referred to as USD-Federal Funds-H.15-OIS-COMPOUND);
- ~~(d)~~ JPY-TONA-OIS Compound (also referred to as JPY-TONA-OIS-COMPOUND);
- ~~(e)~~ GBP-SONIA-OIS Compound (also referred to as GBP-SONIA-COMPOUND);
- ~~(f)~~ NOK-NIBOR (also referred to as NOK-NIBOR-OIBOR; NOK-NIBOR-NIBR);
- ~~(g)~~ SEK-STIBOR (also referred to as SEK-STIBOR-SIDE);
- ~~(h)~~ DKK-CIBOR (also referred to as DKK-CIBOR-DKNA13);
DKK-CIBOR2 (also referred to as DKK-CIBOR2-DKNA13);
- ~~(i)~~ PLN-WIBOR (also referred to as PLN-WIBOR-WIBO);
- ~~(j)~~ CHF-SARON-OIS Compound (also referred to as CHF-SARON-OIS-COMPOUND);
- ~~(k)~~ EUR-EuroSTR-OIS Compound (also referred to as EUR-EuroSTR-COMPOUND);

(k) USD-SOFR-OIS Compound (also referred to as USD-SOFR-COMPOUND).

[...]

[...]

(8d) Fixing Day offset

A Fixing Day offset may be specified in the limits of the following parameters:

[...]

(b) for IRS: -10 to 0 Business Days

For basis swaps: for the floating leg referencing

(A): EUR-EURIBOR, ~~USD-LIBOR~~: -10 to 0 Business Days; and

[...]

(c) for FRAs:

(i) where settlement in advance is specified, for the floating leg referencing

[...]

(B) EUR-EURIBOR, ~~USD-LIBOR~~, PLN-WIBOR: -10 to -1 Business Days;

[...]

[...]

(9a) Delayed Payments

Delayed Payments (also called payment lags or payment offsets and which shall be interpreted in accordance with Section 3.1.9 of the 2021 ISDA Definitions) may be specified within the following parameters:

(a) for IRS:

(i) between 0 and 2 Business Days for legs referencing ~~USD-LIBOR~~, EUR-EURIBOR, DKK-CIBOR, SEK-STIBOR, NOK-NIBOR, PLN-WIBOR,

(ii) between 1 and 2 Business Days for legs referencing USD-SOFR-OIS Compound, USD-Federal Funds-OIS Compound, EUR-EuroSTR-OIS Compound, GBP-SONIA-OIS Compound, JPY-TONA-OIS Compound,

[...]

[...]

(14) Business Days

[...]

(b) At least the specification of the following financial center(s) and/or terms is mandatory for the OTC Interest Rate Derivative Transaction, further financial center(s) and/or terms may be added optionally as set out in limb (a):

Referenced floating rate index	FpML code of the mandatory financial center(s) and/or terms		
	For Payment Dates	For Effective Date, Termination Date	For Fixing Dates
USD-LIBOR-BBA	USNY	USNY	GBLO
EUR-EURIBOR-Reuters	EUTA	EUTA	EUTA
[...]			

[...]

[...]

Chapter II: Special Provisions for Clearing of Interest Rate Derivative Transactions

FCM Regulations of Eurex Clearing AG

As of 24.04.2023

AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED;

DELETIONS ARE CROSSED OUT

[...]

Part 2 Clearing of Interest Rate Derivative Transactions

2.1 General Provisions

[...]

2.1.5 Novation Criteria and Process Regarding Interest Rate Derivative Transactions

[...]

2.1.5.1 Specific Novation Criteria and Terms for Swap Transactions

[...]

(2) Currencies

The currency must be

(i) for IRS (excluding basis swaps): EUR, ~~USD~~, DKK, SEK, NOK or PLN;

[...]

[...]

(4) Maximum remaining term

The remaining term of the Interest Rate Derivative Transaction from the date of novation to the termination date must be

(a) in case of IRS (excluding basis swaps)

(i) for Original OTC Transactions in EUR, no more than 61 years
(22,335 calendar days);

~~(ii) for Original Swap Transactions in USD, no more than 51 years
(18,675 calendar days);~~

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(iii) for Original Swap Transactions in DKK, NOK or SEK, no more than 31 years (11,375 calendar days); and

~~(iiiv)~~ for Original Swap Transactions in PLN, no more than 16 years (5,871 calendar days),

(b) in case of basis swaps,

(i) for Original OTC Transactions in EUR, no more than 61 years (22,335 calendar days);

(ii) for Original Swap Transactions in USD, no more than 51 years (18,675 calendar days);

(iii) for Original Swap Transactions in DKK or NOK no more than 31 years (11,375 calendar days); and

(iv) for Original Swap Transactions in PLN, no more than 16 years (5,871 calendar days),

~~(bc)~~ in case of OIS,

[...]

~~(ed)~~ in case of FRA, for Original Swap Transactions in EUR, ~~USD~~, DKK, NOK, PLN or SEK, no more than 3 years (1,225 calendar days), ~~provided, however, in case of FRA referencing USD-LIBOR as the relevant floating rate for any eligible tenor, the termination date must not be on or after 01.04.2023~~

~~(de)~~ in case of ZCIS,

[...]

(5) Minimum remaining term

[...]

In case of FRA which are settled in advance or in arrears, the minimum period between the date of novation and the payment date must be at least one Business Day for EUR, ~~USD~~ and PLN and two Business Days for DKK, NOK and SEK.

[...]

(7) Shortened or extended calculation period (stub period)

[...]

(b) The minimum period length of short Interest Rate Stub Periods is one day. The maximum period length for long Interest Rate Stub Periods for both, fixed rate payments under IRS in any eligible currency, and OIS is not restricted. The

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maximum period length for long Interest Rate Stub Periods is one year and one month for floating rate payments under IRS (including basis swaps) in EUR and under basis swaps in USD. For floating rate payments under IRS in ~~USD~~, DKK, NOK and PLN, the maximum length for long Interest Rate Stub Periods is seven months and for floating rate payments under IRS (excluding basis swaps) in SEK the maximum length for long Interest Rate Stub Periods is ~~six~~four months.

- (c) For IRS floating payments, the floating rates for Interest Rate Stub Periods must be specified in the Trade Record submitted via the ATS as follows:

[...]

(bb) if a floating rate index tenor is specified, which is used for the fixing in respect of the Interest Rate Stub Period, the respective tenors. The following tenors (W = week(s), M = month(s), Y = year) are eligible:

[...]

~~(vi) in case the currency is USD and the termination date is before 01.10.2021: 1W, 1M, 2M, 3M, 6M; in case the currency is USD and the termination date is on or after 01.10.2021: 1M, 3M, 6M.~~

[...]

[...]

[...]

(8a) Floating Rate Options

For IRS, OIS, FRA, the following Floating Rate Options are eligible (where applicable, the relevant Designated Maturity needs to be specified) subject to further provisions:

- (a) EUR-EURIBOR (also referred to as EUR-EURIBOR-Reuters);
- ~~(b) USD-LIBOR (also referred to as USD-LIBOR-BBA);~~
- ~~(e)~~ USD-Federal Funds-OIS Compound (also referred to as USD-Federal Funds-H.15-OIS-COMPOUND);
- ~~(d)~~ JPY-TONA-OIS Compound (also referred to as JPY-TONA-OIS-COMPOUND);
- ~~(e)~~ GBP-SONIA-OIS Compound (also referred to as GBP-SONIA-COMPOUND);
- ~~(f)~~ NOK-NIBOR (also referred to as NOK-NIBOR-OIBOR; NOK-NIBOR-NIBR);
- ~~(g)~~ SEK-STIBOR (also referred to as SEK-STIBOR-SIDE);

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- (hg) DKK-CIBOR (also referred to as DKK-CIBOR-DKNA13);
DKK-CIBOR2 (also referred to as DKK-CIBOR2-DKNA13);
- (ih) PLN-WIBOR (also referred to as PLN-WIBOR-WIBO);
- (ji) CHF-SARON-OIS Compound (also referred to as CHF-SARON-OIS-COMPOUND);
- (kj) EUR-EuroSTR-OIS Compound (also referred to as EUR-EuroSTR-COMPOUND);
- (lk) USD-SOFR-OIS Compound (also referred to as USD-SOFR-COMPOUND);
- [...]

[...]

(8d) Fixing Day offset

[...]

- (b) for IRS: -10 to 0 Business Days

For basis swaps: for the floating leg referencing

(A): EUR-EURIBOR, ~~USD-LIBOR~~: -10 to 0 Business Days; and

[...]

- (c) for FRAs:

- (i) where settlement in advance is specified, for the floating leg referencing

[...]

(B) EUR-EURIBOR, ~~USD-LIBOR~~, PLN-WIBOR: -10 to -1 Business Days;

[...]

[...]

(9a) Delayed Payments

Delayed Payments (also called payment lags or payment offsets and which shall be interpreted in accordance with Section 3.1.9 of the 2021 ISDA Definitions) may be specified within the following parameters:

- (a) for IRS:

- (i) between 0 and 2 Business Days for legs referencing ~~USD-LIBOR~~, EUR-EURIBOR, DKK-CIBOR, SEK-STIBOR, NOK-NIBOR, PLN-WIBOR,

[...]

(b) for OIS

[...]

(ii) between 1 and 2 Business Days for the legs referencing USD-SOFR-OIS Compound, USD-Federal Funds-OIS Compound, EUR-EuroSTR-OIS Compound, JPY-TONA-OIS Compound,

[...]

[...]

(14) Business Days

[...]

(b) At least the specification of the following financial center(s) and/or terms is mandatory for the Interest Rate Derivative Transaction, further financial center(s) and/or terms may be added optionally as set out in limb (a):

Referenced floating rate index	FpML code of the mandatory financial center(s) and/or terms		
	For Payment Date	For Effective Date, Termination Date	For Fixing Days
USD-LIBOR-BBA	USNY	USNY	GBLO
[...]			

[...]

[...]

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