

SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): 21-413

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 09/29/21 **Filing Description:** Modification of Cleared Euro Overnight Index Average ("EONIA") Overnight Index Swaps to Reference Euro Short Term Rate ("ESTR") Ahead of Scheduled Discontinuation of EONIA

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: See filing.

New Product

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:

September 29, 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 40.6(a) Certification. Notification Regarding Modification of Cleared Euro Overnight Index Average (“EONIA”) Overnight Index Swaps to Reference Euro Short Term Rate (“€STR”) Ahead of Scheduled Discontinuation of EONIA.
CME Submission No. 21-413**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or the “Clearing House”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or “Act”) hereby certifies to the Commission modifications applicable to certain CME cleared over-the-counter (“OTC”) Euro (“EUR”) denominated Interest Rate Swap (“IRS”) products necessary to complete the transition of such CME cleared derivatives to the nominated Euro Short Term Rate (“€STR”) successor rate ahead of the scheduled discontinuation of the Euro Overnight Index Average (“EONIA”) rate on January 3, 2022.¹ CME proposes to effect a single step conversion of CME cleared EONIA Overnight Index Swaps (“OIS”) referencing the EONIA floating rate option to CME cleared €STR OIS referencing the €STR floating rate option, with a cash adjustment mechanism to compensate for any resulting change in valuation (the “Conversion”), to take effect at close of business (“COB”) on Friday, October 15, 2021 (the “Conversion Date”).

This initiative follows CME’s successful July 2020 transition of CME cleared OTC EUR denominated IRS products from EONIA price alignment and discounting (“PA/Discounting”) to €STR PA/Discounting, coordinated with the wider industry, and the March 2021 CME transition to €STR PA/Discounting for certain CME cleared EUR OTC FX swap contracts.² In July 2021, CME launched €STR overnight index swaps and

¹ EONIA is administered by the European Money Markets Institute (“EMMI”). EONIA is currently calculated as equal to the relevant €STR rate plus a fixed spread of 8.5 basis points. In May 2019, EMMI announced that EONIA would be permanently discontinued from 3 January 2022, see https://www.emmi-benchmarks.eu/assets/files/D0194C-2019%20EONIA_consultation_feedback_press_release.pdf. €STR is the nominated successor rate to EONIA: <https://www.emmi-benchmarks.eu/euribor-eonia-org/about-eonia.html>.

² Cleared EUR derivatives have transitioned from discounting methodology utilizing EONIA to €STR, in response to recommendations from the European Central Bank (“ECB”) working group, in order to help promote liquidity in €STR cash and derivative contracts and prepare the market for discontinuation of EONIA in January 2022. Following the transition, CME now utilizes €STR for EUR IRS clearing for the purposes of the calculation of price alignment (the adjustment used to reflect the overnight cost of funding collateral for a bilateral OTC swap contract to mitigate the basis risk between cleared and uncleared swaps) and for the applicable discounting rate (used for the discount curve to calculate swap value). See CME Clearing Advisories for EUR IRS PA/Discounting transition (July 2020) <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2020/07/Chadv20-272.pdf> and EUR OTC FX

€STR /EURIBOR Basis Swaps in order to support clearing of €STR interest rate swaps in good time ahead of the discontinuation of EONIA, and in order to support firms seeking to transition from EONIA to €STR use in EUR IRS.³

As the final element of CME's support of the ongoing derivative market transition from EONIA to €STR ahead of the scheduled discontinuation of EONIA in January 2022, CME will convert CME cleared EUR OTC IRS referencing the EONIA floating rate option into CME cleared €STR OIS referencing the €STR floating rate option, to take effect on the Conversion Date. From the Conversion Date, CME's open interest in EONIA OIS will be zero. With effect from COB on the Conversion Date, CME will delist EONIA OIS and will therefore cease to accept EONIA OIS for clearing from that time. The modification to implement the Conversion is set out in the Clearing Advisory Notice attached as Exhibit 1, effective October 15, 2021.

CME is a systemically important derivatives clearing organization ("SIDCO")⁴ and offers clearing for all products traded on the CME exchange, The Board of Trade of the City of Chicago, Inc., New York Mercantile Exchange, Inc., and Commodity Exchange, Inc. as well as other cleared products, and provides clearing services to third parties.

Background

Scheduled Discontinuation of EONIA

In September 2018 the ECB convened a private sector working group on Euro risk free rates (the "ECB Working Group"),⁵ which determined that €STR should replace EONIA as the new EUR risk free rate for all cash and derivative market products and contracts. The ECB Working Group has recommended that publication of EONIA be discontinued on January 3, 2022 and therefore market participants must transition to reference €STR in OTC swaps on or before this time.⁶

€STR is calculated by the ECB and is based on the money market statistical reporting of the Eurosystem. Publication of €STR by the ECB began on October 2, 2019 under a reformed methodology for the calculation of EONIA, where EONIA is calculated as €STR plus a fixed spread of 8.5 basis points. €STR provides a broad measure of the cost of borrowing unsecured EUR cash on an overnight basis in wholesale markets based on a large number of banks contributing data and a significant transaction volume. €STR reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area and is published on each TARGET2 business day, based on transactions conducted and settled on the previous TARGET2 business day with a maturity date of T+1. The transactions are arm's length market transactions and therefore €STR is deemed to reflect market rates. €STR is governed by the €STR Guideline which sets out the responsibility of the ECB for the administration and oversight of the €STR, as well as the tasks and responsibilities of the ECB and Eurosystem national central banks. The €STR Guideline also establishes a

PA/Discounting transition (March 2021) <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2021/03/Chadv21-087.pdf>

³ July 2021, CME Clearing Advisory regarding launch of EUR €STR OIS and €STR -EURIBOR Basis Swaps: <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2021/07/Chadv21-253.pdf>

⁴ On July 18, 2012, CME Inc. was designated as a systemically important financial market utility under Title VIII of the Dodd-Frank Act.

⁵ The ECB Working Group was also convened by the Financial Services and Markets Authority ("FSMA"), the European Securities and Markets Authority ("ESMA") and the European Commission.

⁶ Details on the ECB Working Group recommendations and a history of EONIA are available on the EMMI website at: <https://www.emmi-benchmarks.eu/euribor-eonia-org/about-eonia.html>.

€STR Oversight Committee which is responsible for the review, challenge and reporting on all aspects of the €STR determination process as established by the €STR Guideline.⁷

The ECB administers the €STR in compliance with the international best practices set out in the Principles for Financial Benchmarks of the International Organisation of Securities Commissions (“IOSCO”).⁸

CME currently supports EONIA OIS and in July 2021 launched €STR OIS and €STR / EURIBOR Basis Swaps in order to support firms seeking to transition to €STR.

Summary of Proposed CME Conversion of EONIA Swaps to €STR

The scheduled discontinuation of EONIA on January 3, 2022, requires that market participants must transition CME cleared EONIA OIS (“EONIA Swaps”) from the EONIA “Rate Option”/“Floating Rate Option” (within the meaning of the CME Rules) to the corresponding €STR Rate Option/Floating Rate Option ahead of the EONIA discontinuation date.⁹ CME has engaged with market participants regarding its proposals to transition all CME cleared EONIA Swaps to reference the €STR Floating Rate Option on the Conversion Date, utilizing a mandatory conversion process under which all continuing CME cleared EONIA Swaps will be converted by CME in a single step, one time, conversion into corresponding CME cleared €STR OIS, as summarized below:

- With the exception of EONIA Swaps that mature on the Conversion Date, CME will convert each CME cleared trade in EONIA OIS that is open at COB on the Conversion Date by amending the terms of the swap, converting the cleared trade into a corresponding €STR OIS (a “Conversion €STR Swap”);
- In each case, the Conversion €STR Swap will be cleared as a CME cleared €STR OIS, with the same economic terms as the corresponding pre-Conversion EONIA Swap except that the Floating Rate Option of the converted cleared trade will be EUR-EuroSTR-OIS Compound, the €STR OIS reference rate;
- In order to neutralize the value transfer from the conversion of the economic position of each EONIA Swap into each Conversion €STR Swap, CME will calculate a cash adjustment amount that will be applied by CME to each Conversion €STR Swap (the “Cash Adjustment”). In the case of each pre-Conversion EONIA Swap, the Cash Adjustment amount will be calculated by CME based on the difference between the net present value (“NPV”) of the pre-Conversion EONIA Swap and the NPV of the Conversion €STR Swap on the Conversion Date. The Cash Adjustment for each Conversion €STR Swap 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;¹⁰

⁷ Further details on the administration of €STR are available on the ECB website at https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/eurostr_overview.en.html#calc

⁸ See ECB Statement of Compliance with the IOSCO Principles for Financial Benchmarks available at https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/pwc_disclaimer.en.html.

⁹ The term “Rate Option” or “Floating Rate Option” means the applicable interest rate option under Chapter 901 of the rules of CME relating to the relevant IRS product. The Floating Rate Option for EONIA is “EUR-EONIA-OIS-COMPOUND” (ISDA 2006 Definitions) / “EUR-EONIA-OIS Compound” (ISDA 2021 Definitions), as applicable. The Floating Rate Option for €STR is “EUR-EuroSTR-COMPOUND” (ISDA 2006 Definitions) / “EUR-EuroSTR-OIS Compound” (ISDA 2021 Definitions), as applicable.

¹⁰ Where the holder of a Conversion €STR Swap 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 Conversion €STR Swap and such amount would be due from the position holder at the next clearing cycle. Where the holder of a Conversion €STR Swap experiences a negative change in NPV, an upfront fee equal and opposite to that amount of change in NPV would be applied to the Conversion €STR Swap and such amount would be due to the

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- The Cash Adjustment amount will be applied by CME to each Conversion €STR Swap in a position account in the form of upfront “fees” on each trade. Cash flows relating to the Cash Adjustment will be applied in the next end of day clearing cycle following the Conversion Date on Monday, October 18, 2021, and will be settled the following morning. The Cash Adjustment will ensure that net cash flows for position holders impacted by the change of floating rate option from EONIA to €STR are zero;
- No spread or fixed rate adjustment will be applied to the Conversion €STR Swap; the Conversion will convert EONIA to €STR on a “flat” basis, with no spread component to account for the spread between EONIA and €STR¹¹;
- Each Conversion €STR Swap will be cleared by CME subject to the terms of the CME Rules;
- From an operational perspective, the Conversion will be processed by CME as a “termination” of each relevant pre-Conversion EONIA Swap and the establishment of a “new” corresponding cleared trade in €STR OIS within the clearing system. CME will report the close-out of each pre-Conversion EONIA Swap and the establishment of each Conversion €STR Swap in the account of the relevant position holder to the CME Swap Data Repository (“SDR”) under Part 45 of the CFTC’s Regulations. The “Prior USI” field for each Conversion €STR Swap report will reference the Unique Swap Identifier (“USI”) of the relevant corresponding EONIA Swap, reflecting the nature of the Conversion process.

The Conversion is a mandatory process and will apply to all cleared trades in EONIA Swaps on the Conversion Date with the exception of those EONIA Swaps that mature on the Conversion Date.

From COB on the Conversion Date, CME will cease to accept EONIA Swaps for clearing.

Further details on the Conversion process are provided below.

Overview of Engagement with Market Participants and Industry Groups

The conversion of cleared EONIA Swaps by the amendment of cleared trades into corresponding €STR Swaps by central clearing counterparties (“CCPs”) is seen by market participants as a critical element in the overall process of ensuring an orderly and efficient transition from EONIA to €STR in derivatives markets. In 2021, as part of implementation of contractual provisions to address transition away from certain inter-bank offered rates (“IBORs”), CME and other major CCPs adopted “fallback” provisions designed to ensure transition of key interest rate benchmarks, including provisions that would apply to transition cleared EONIA IRS to reference €STR on the scheduled date of final publication of EONIA on January 3, 2022.¹² However, in CME’s engagement with market participants in relation to the specific question of EONIA transition, undertaken during the first half of 2021, market participants have expressed a clear preference for CME to convert EONIA Swaps to €STR OIS a short period ahead of the last publication of EONIA on

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.

¹¹ The current EMMI basis for calculation of EONIA as €STR plus a fixed spread of 8.5 basis points makes it unnecessary to perform any additional adjustment processing.

¹² CME implemented fallback provisions for OTC IRS in January 2021, aligned with the approach of ISDA for bilateral uncleared derivative contracts set out in the ISDA IBOR Fallbacks Supplement to the 2006 ISDA Definitions. On October 4, 2021, subject to regulatory review, CME will incorporate into the CME Rules additional IRS contractual fallbacks incorporating the “permanent cessation fallbacks” within the 2021 ISDA Definitions (which are substantially the same as those set out in the ISDA IBOR Fallbacks Supplement). Further details are set out in [CME Submission No. 21-431](#) and CME Clearing Advisory.

January 3, 2022, rather than rely on the contractual fallbacks that would otherwise apply under the CME Rules on the event of the scheduled permanent discontinuation of EONIA to effect a transition to €STR.¹³

The industry consensus communicated to CME by market participants indicates that the significant majority of cleared market participants prefer such an “early” transition of cleared EONIA Swaps to €STR on the basis that a CCP-led conversion could effect the transition into standardized €STR Swaps, which would not be the case with a “fallback” approach where the resulting €STR referencing swap positions would not be on the same terms, and therefore not directly fungible with, standardized €STR Swaps.¹⁴ As a result, participants wishing to unwind non-standardized resulting contracts would need to execute and book additional non-standard swaps in an uncertain liquidity environment. In addition, market participants have indicated that a CCP-led “early” transition of EONIA Swaps to €STR could be scheduled outside the end-December 2021 / early January 2022 time period which is anticipated to be subject to significant operational congestion for cash and derivatives market participants and CCPs due to the scheduled cessation of certain LIBOR benchmarks on December 31, 2021.¹⁵

Furthermore, in CME’s engagement with market participants, these stakeholders have expressed a clear preference that CME’s approach to the EONIA to €STR transition should be aligned as closely as possible with the wider industry approach, and specifically that of the UK and EU CCPs responsible for clearing the overwhelming majority of EONIA Swaps, each of which have expressed their intention to effect a single step conversion of EONIA Swaps to reference €STR on October 15, 2021.¹⁶ Given the feedback from market participants, CME has determined to convert EONIA Swaps to standardized €STR swaps ahead of the last publication of EONIA, and to align its approach and proposed timing for the Conversion as closely as possible with that of the other major UK/EU CCPs clearing EONIA IRS.

CME has consulted with a diverse cross-section of market participants to obtain feedback on the operational processes for the Conversion. CME first informed IRS Clearing Members of the intention to run an EONIA to €STR Conversion cycle in late 2020 and first presented the operational processing mechanics to IRS Clearing Members in March 2021. A summary of CME’s Conversion plan was provided to market participants and made publicly available in May 2021 and further details were provided by CME to market

¹³ The incorporation of contractual fallbacks within the CME Rules provide a mechanism that would provide for CME cleared EONIA Swaps to “fall back” to the €STR rate on the permanent discontinuation of EONIA, on the relevant “Index Cessation Effective Date” for the purposes of the relevant ISDA fallback documentation set out in the ISDA IBOR Fallbacks Supplement and the “Permanent Cessation Fallbacks” incorporated into the CME Rules set out in [CME Submission No. 21-431](#), in force from October 4, 2021. However, as permitted by CME Rule 90102.H (Application of Permanent Cessation Fallbacks) within those same rules in force from October 4, 2021, CME is able to exercise its discretion not to apply the “Permanent Cessation Fallbacks” from the ISDA 2021 Definitions incorporated into the CME Rules. In the case of the permanent discontinuation of EONIA, in response to market participant feedback, CME does not propose to apply the “Permanent Cessation Fallbacks” within the ISDA 2021 Definitions and CME Rule 90102.H to EONIA Swaps cleared by CME. Instead, based on consultations with market participants and consistent with broader cleared industry initiatives, CME proposes to effect the Conversion of EONIA Swaps into standardized €STR OIS on the Conversion Date, over two months prior to the relevant Index Cessation Effective Date in respect of EONIA. As a result, the amendments to the terms of the CME Rules set out in the Clearing Advisory in respect of the Conversion effectively disapply the Permanent Cessation Fallbacks set out in CME Rule 90102.H. for the purposes of the Conversion in relation to EONIA.

¹⁴ See ESMA Consultation Paper July 9, 2021 “On the clearing and derivative trading obligations in view of the benchmark transition”. ESMA identifies the importance of the legal trade conversion of legacy contracts from reference rates that will be discontinued that has been prepared by some CCPs. ESMA notes that “it is expected that after the conversion dates in Q4 2021 any liquidity with regards to classes referencing these benchmarks would sharply decrease, and hence that some or most of the liquidity, depending on the currency and the available benchmarks then, will have switched to the products referencing RFRs”.

¹⁵ On March 5th, 2021, the FCA made an announcement regarding the future cessation or loss of representativeness of all LIBOR benchmarks. As a result, CHF, GBP, JPY and EUR LIBOR rates will cease permanently on December 31, 2021. CCPs and market participants are expected to seek to transition away from these rates during early to mid-December 2021. See FCA announcement at <https://www.fca.org.uk/news/press-releases/announcements-end-libor>.

¹⁶ CME understands that each of LCH Limited and Eurex Clearing AG propose to implement conversion processes for their respective customers in order to convert EONIA referencing swaps to €STR, also to take place on the Conversion Date.

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participants in August 2021, followed by operational testing and additional support prior to the proposed date of implementation.¹⁷ Following the successful USD IRS PA/Discounting Transition and the EUR IRS PA/Discounting Transition in 2020, market participants are familiar with CME’s approach and methodology for implementation of changes to the reference terms of IRS contracts and the operational processes to effect cash compensation to reflect valuation changes have been tested in both test and production environments.

The €STR rate is derived from an active, well-defined and deeply liquid market and is produced in a transparent manner based on observable transactions. The ECB Working Group has determined that €STR should replace EONIA as the new EUR risk free rate for all cash and derivative market products and contracts and that market participants must shift from EONIA to reference €STR in OTC swaps before EONIA is permanently discontinued. CME supports EONIA OIS and in July 2021 also launched €STR OIS and €STR /EURIBOR Basis Swaps in order to support firms seeking to transition to €STR. On this basis, CME has determined that €STR is an appropriate reference rate for CME EUR IRS cleared products to succeed EONIA.

The modifications to the CME Rules will be implemented via Advisory Notice published by the Clearing House setting out the terms of the Conversion, in the form set out in Exhibit 1 (the “Advisory Notice”). The Advisory Notice will be binding on all position holders and Clearing Members and shall be effective on the Conversion Date.

Further details on the Conversion process are set out below:

Operational Overview of Conversion Process

In legal and contractual terms, the Conversion process will amend the terms of cleared trades in CME cleared EONIA Swaps which reference EONIA, converting each relevant cleared trade to reference the €STR Floating Rate Option, on the terms of a CME cleared €STR OIS. From an operational perspective within the CME clearing system, to aid operational processing by clearing firms, the Conversion will be processed by CME as a “termination” of each relevant EONIA Swap and the establishment of a “new” corresponding cleared trade in €STR OIS within the clearing system. This is reflected in operational terms by the reporting of each Conversion €STR Swap by CME to CME SDR with reference to the “Prior USI” of the relevant corresponding EONIA Swap. The operational processing steps are summarized below:

Affected Contracts

The Conversion will apply to all cleared trades in CME cleared EONIA Swaps which reference EONIA¹⁸ as the Floating Rate Option (the “Affected Contracts”).

Amendment of Cleared Trades in Affected Contracts

¹⁷ The public overview is available on the CME Group website at: [€STR OIS Clearing and EONIA OIS Conversion CME OTC Clearing \(cmegroup.com\)](https://cmegroup.com). CME will operate an operational “Dress Rehearsal” for the Conversion process on September 10, 2021, to simulate the processes for the Conversion Date. All open EONIA Swaps in the “New Release” Environment (not Production) will be converted to €STR Swaps on that date to enable market participants to take part in a “test” portfolio Conversion simulation. CME will provide the ability to upload an optional EONIA test portfolio to NR position accounts prior to the dress rehearsal. CME will provide Indicative Analysis Reporting in Production from September 20, 2021.

¹⁸ EONIA Swaps include any CME cleared EUR IRS referencing “EUR-EONIA-OIS-COMPOUND” or “EUR-EONIA-OIS Compound” as the relevant Rate Option/Floating Rate Option within the meaning of the CME Rules.

With the exception of EONIA Swaps that mature on the Conversion Date, each CME cleared trade in each Affected Contract that is open at COB on the Conversion Date will be amended by CME at COB on the Conversion Date (each amended EONIA Swap, a “Pre-Conversion EONIA Swap”) such that the terms of the cleared trade shall be converted to those of a CME cleared €STR Swap with the same economic terms (e.g. Notional Amount, Direction, Maturity Date, Payment Periods, etc.) as the Pre-Conversion EONIA Swap except that the Floating Rate Option shall be EUR-EuroSTR-OIS Compound.

From an operational perspective, the amendment of the Pre-Conversion EONIA Swap will be processed by CME as a “termination” of the Pre-Conversion EONIA Swap and the establishment of a “new” cleared trade in €STR OIS within the clearing system. In respect of each Pre-Conversion EONIA Swap held by a position holder, CME will establish in each relevant account a corresponding “new” €STR Swap to replace such Pre-Conversion EONIA Swap. For each Pre-Conversion EONIA Swap, the relevant Conversion €STR Swap shall be a CME cleared €STR Swap and shall have the same economic terms (e.g. Notional Amount, Direction, Maturity Date, Payment Periods, etc.) as the Pre-Conversion EONIA Swap except that the Floating Rate Option shall be EUR-EuroSTR-OIS Compound.

Calculation of Cash Adjustment Amount

The difference in the NPV of each Pre-Conversion EONIA Swap and the corresponding Conversion €STR Swap on the 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 Conversion, CME will apply a Cash Adjustment amount equal and opposite to the change in NPV resulting from the Conversion to each Conversion €STR Swap.

The Cash Adjustment amount will be calculated by CME based on the difference between the NPV of the EONIA Swap and the NPV of the Conversion €STR Swap on the Conversion Date as follows (the “Conversion Calculation”):

- Prior to the Conversion, on or shortly after COB on the Conversion Date, the Clearing House will conduct a standard valuation calculation during the end of day clearing cycle, to determine the NPV for each Pre-Conversion EONIA Swap, calculated utilizing CME’s closing curve marks on the Conversion Date for each position account.
- Upon establishment of each Conversion €STR Swap within the clearing system, on or shortly after COB on the Conversion Date, the Clearing House will conduct an additional calculation to determine the NPV for each Conversion €STR Swap calculated utilizing CME’s closing curve marks on the Conversion Date for each position account.
- The difference between the two NPV calculations for each Pre-Conversion EONIA Swap and the Corresponding €STR Swap represents the change in NPV arising from the Conversion of the reference rate exposure of that position in an Affected Contract from EONIA to €STR.

The relevant Cash Adjustment amount to be applied to each Conversion €STR Swap in each position account shall be equal and opposite to the change in NPV calculated by CME in the Conversion Calculation in relation to such Conversion €STR Swap. As the Cash Adjustment for each Conversion €STR Swap will be equal and opposite to the change in NPV calculated by CME, it may therefore be a positive or negative amount depending on the position.

For example, where the holder of a Conversion €STR Swap had benefited from a change in NPV, i.e. where the Conversion €STR Swap NPV is greater than the corresponding Pre-Conversion EONIA Swap NPV, the Cash Adjustment would be a negative amount equal to that change in NPV and would be applied to the Conversion €STR Swap as an upfront fee which would be due and paid from the position holder at the next

clearing cycle on Monday, October 18, 2021. Where the holder of a Conversion €STR Swap experiences a negative change in NPV, the Cash Adjustment would be a positive amount and would be applied to the Conversion €STR Swap as an upfront fee which would be due and paid to the position holder at the next clearing cycle.

No spread or fixed rate adjustment is applied to the Conversion €STR Swap or taken into account when determining the Cash Adjustment (€STR flat). The Cash Adjustment has no spread component to account for the spread between EONIA and €STR).¹⁹

Payment of Cash Adjustment Amount

The Cash Adjustment amount will be applied by CME as an upfront fee to each Conversion €STR Swap.

The Cash Adjustment amount will be banked by CME on Monday, October 18, 2021 for each Conversion €STR Swap in each position account in the form of an upfront fee (which may be a positive or negative amount) representing the Cash Adjustment on such Conversion €STR Swap.

The Cash Adjustment amount will neutralize the change in NPV for the relevant position holder of a Conversion €STR Swap arising from the Conversion.

Clearing of Conversion €STR Swaps

Each Conversion €STR Swap will be cleared by CME in accordance with the CME Rules.

From the completion of the end of day clearing cycle on the Conversion Date, each Conversion €STR Swap 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.

Delisting of Affected Contracts Following Conversion

From COB on the Conversion Date, CME Clearing will cease to accept for clearing trades in the Affected Contracts.

Operational Messaging and Reporting

In legal and contractual terms, the Conversion process will amend the terms of cleared trades in CME cleared EONIA Swaps, resulting in the establishment of replacement cleared trades in the form of the Conversion €STR Swaps. This is reflected in operational terms by the reporting of each Conversion €STR Swap by CME to CME SDR with reference to the "Prior USI" of the relevant corresponding EONIA Swap. From an operational perspective within the CME clearing system, the Conversion will be processed by CME as a termination of each relevant EONIA Swap and the establishment of a new corresponding cleared trade within the clearing system in the form of the relevant Conversion €STR Swap.

To reflect the operational processes within the clearing system, CME will send:

- a termination message to relevant CME clearing firms in respect of the termination of each relevant EONIA Swap; and

¹⁹ The current EMMI basis for calculation of EONIA as €STR plus a fixed spread of 8.5 basis points makes it unnecessary to perform any additional adjustment processing.

- a clearing confirmation message to relevant CME clearing firms in respect of the establishment of each new relevant Conversion €STR Swap.

As part of the Conversion process, all relevant Trade IDs on the EONIA Swaps will be carried over to the relevant Conversion €STR Swaps. In order to identify the link between each EONIA Swap and the relevant Conversion €STR 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 result of the Conversion to CME SDR in accordance with the requirements of the CFTC’s Part 45 Regulations, to reflect the conversion of each EONIA Swap into each corresponding Conversion €STR Swap. With regard to reporting data submitted to SDR in respect of each Conversion €STR Swap, CME will populate the “Prior USI” field with the USI of the relevant EONIA Swap to reflect the nature of the Conversion process. For SDR reporting purposes, reporting rows will be generated and submitted to CME SDR terminating the USI of each EONIA Swap and CME will ensure that each Conversion €STR Swap will be reported as a “New Trade”.

Cash Adjustment Example

Based on feedback from market participants and to ensure alignment with previous relevant industry initiatives, such as the industry-wide PA/Discounting transition in USD IRS to the Secured Overnight Financing Rate (“SOFR”) in October 2020 and the July 2020 transition to €STR PA/Discounting for EUR IRS²⁰, the Cash Adjustment is designed to neutralize value transfers attributable to the Conversion, to ensure that gains/losses in valuations between the Pre-Conversion EONIA Swaps and the Conversion €STR Swaps within a position account does not result in a value transfer between swap participants with cleared trades in Affected Contracts.

Cash Adjustment Example for Conversion

The example below demonstrates the operational processing of the Conversion and Cash Adjustment processes by CME, reflecting the operational characterization of the process as a “termination” of the Pre-Conversion EONIA Swap and establishment of a “new” Conversion €STR Swap. As noted above, in the legal terms, the Conversion is treated as an amendment of the terms of the relevant cleared trade.

As of COB on Friday, October 15, 2021

	Cleared Trade ID	Floating Rate Option	Status	NPV	NPV Adj.	Previous NPV Adj.	Variation Margin	Cash Adjustment	Fee Payment Date
Pre-Conversion EONIA Swap	12345	EUR-EONIA-OIS-COMPOUND	TERMINATED	0	0	769,000.00	-769,000.00		
Conversion €STR Swap	67891	EUR-EuroSTR-OIS Compound	CLEARED	770,000.00	775,000.00	0	775,000.00	-5,000.00	10/18/2021

*Cash Adjustment Calculation**

EONIA Swap NPV Adj. = 770,000.00

Conversion €STR Swap NPV Adj. = 775,000.00

Cash Adjustment = 770,000.00 – 775,000.00 = -5,000.00

** Note: In this example, the cash adjustment offsets the gain of \$5,000 between the Pre-Conversion EONIA Swap and the Conversion €STR Swap*

²⁰ See CME Clearing Advisory at <https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2020/10/Chadv20-391.pdf>.
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As of COB on Monday, October 18, 2021

Value Date	Cleared Trade ID	Floating Rate Index	Status	NPV	NPV Adj.	Previous NPV Adj.	Variation
Conversion €STR Swap	67891	EUR-EuroSTR-OIS Compound	CLEARED	778,000	778,000.00	775,000.00	3,000.00

Where the holder of the position in a cleared trade in an Affected Contract receives a positive change in NPV of that position resulting from the Conversion to the €STR Floating Rate Option (which represents a change in value which must be paid to the account holder from the Clearing House as central counterparty and therefore party to the other side of the cleared trade), the Cash Adjustment will operate to provide an equal and opposite offsetting adjustment amount which must be paid from the position holder to the Clearing House (again, in its capacity as central counterparty acting as the other party to the cleared trade) in the form of an upfront fee. Given that the change in NPV and the Cash Adjustment are equal and opposite, the net cash flow for each account with respect to each cleared trade is zero.

The position holder on the other side of the cleared trade receives a negative change in NPV of that position resulting from the Conversion to the €STR Floating Rate Option which must be paid from the account holder to the Clearing House (as central counterparty and party to the other side of the cleared trade), the Cash Adjustment provides for an equal and opposite offsetting adjustment amount which must be paid to the position holder 2 from the Clearing House in the form of an upfront fee. Again, the net cash flow for each account with respect to each cleared trade is therefore zero.

The Cash Adjustment amount will be applied by the Clearing House to each relevant position account as an upfront fee during the end of day clearing cycle following the Conversion Date during which settlement variation for positions in the Conversion €STR Swaps will be determined and outstanding exposures and payments netted and settled in accordance with CME Rule 814. Given that the change in NPV calculated by the Conversion Calculation is offset exactly by the Cash Adjustment amount, indicated by the figure in the “Offsetting Adjustment” column in the examples in the table above, the net cash flow with respect to the Conversion change is zero on both a per account basis and an overall product basis for the Clearing House.

The Cash Adjustment process is a mandatory process that will apply only to cleared trades in Affected Contracts at the Clearing House as of COB on the Conversion Date that do not mature on or before the Conversion Date.

CME’s approach to “compensation” through the Cash Adjustment process is widely supported by market participants. The process has been discussed with clearing firms and their customers and is understood to be consistent with the needs and expectations of market participants, and consistent with wider industry initiatives.

Fees for Conversion Process

In supporting transition to RFRs, CME will apply a transaction fee per line item for conversion of any CME cleared interest rate swaps that reference EUR, GBP, CHF or JPY where such swaps are converted by the Clearing House into equivalent overnight index swaps referencing the relevant nominated successor RFR rate to EONIA, GBP LIBOR, CHF LIBOR or JPY LIBOR respectively (a “Conversion Fee”). In each case the Conversion Fee shall be a fee of \$10 which shall be applied by the Clearing House per line item subject to the conversion and shall apply on the resulting RFR-referencing replacement swap transactions.²¹

²¹ The Conversion Fee shall not apply to single unit trades booked for the specific purposes of preserving additional payments.
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Fee Type	Trade Types	Products	Source, Terminate Reason (TR), Create Reason (CR)	HOUSE FM / NONFM	CUSTOMER Standard Client Schedule	High Turnover (HTS)
RFR Conversion Fee	All	All	CR = Index Conversion	\$10 per line item*	\$10 per line item*	\$10 per line item*

*This fee will be charged on the resulting RFR trades with the exception of single unit trades booked for the specific purposes of preserving additional payments, which will not be charged.²²

Note: for bilateral swaption exercise that result in a cleared swap under the legacy index reference rate (e.g. GBP LIBOR, etc), CME will conduct a daily conversion of these trades to the respective RFR rate. A charge of \$10 per converted trade will be applied to the position in addition to new trade clearing fees.²³

As a result, CME will apply a Conversion Fee of \$10 for each Conversion €STR Swap that is established as a result of the Conversion process.

Implementation of Conversion

No amendments to the Affected Contract terms or the Rules are necessary to implement the Conversion. The Conversion will be implemented via Advisory Notice published by the Clearing House setting out the terms of the Conversion, in the form set out in Exhibit 1. The Advisory Notice will be made available to Clearing Members, market participants and the general public via the CME website. The Advisory Notice will be binding on position holders in all Affected Contracts on and after the Conversion Date of October 15, 2021.

From COB on the Conversion Date, CME will cease to accept transactions in the Affected Contracts for clearing. The product rules for EONIA Swaps will be removed from Chapter 901 of the CME Rules as illustrated in Exhibit 2 which is attached hereto²⁴. The removal of the product rules and attendant non-substantive conforming revisions to Chapter 901 to remove “EUR-EONIA-OIS-COMPOUND” and “EUR-EONIA-OIS Compound” from the list of interest rate swaps rate options accepted for clearing by CME is reflected in amendments to Rule 90102.E.1. (“Interest Rate Swaps Rate Options”). Exhibit 2 below provides amendments to Rule 90102.E.1. in blackline format.

The Conversion and the Cash Adjustment process are each a mandatory process and market participants will be notified in the Advisory Notice that the Conversion will apply to all positions in Affected Contracts on the Conversion Date, except those maturing on or before the Conversion Date. Market participants will be reminded that they should consider the terms and impact of the Conversion as set out in the Advisory Notice and take appropriate action prior to the Conversion Date. Position holders that do not wish to participate in the Conversion must close out any cleared trades in Affected Contracts prior to the Conversion Date.

In addition to the information provided in the Advisory Notice, the Clearing House will provide the following information applicable to positions in the Affected Contracts on the Conversion Date, or as otherwise specified below:

²² Note that CME does not create single unit trades as part of the Conversion of EONIA swaps and therefore this is not applicable to the Conversion.

²³ Note that CME will not accept swaps referencing EONIA after the Conversion Date and therefore will not accept cleared swaps referencing EONIA arising from bilateral swaptions arising after the Conversion Date.

²⁴ Exhibit 2 shows Chapter 901 in its form as of October 4, 2020 following [CME Submission No. 21-431](#).

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- 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 for Pre-Conversion EONIA Swaps and Conversion €STR Swaps; and
- EONIA to €STR Cash Compensation Report made available by the Clearing House only to IRS Clearing Members and clients via an sFTP site, illustrating the NPV for each EONIA Swap and the revised NPV for each Conversion €STR Swap 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 beginning on Monday, September 20, 2021 until Friday, October 15, 2021. The actual Cash Adjustment amounts will be indicated in the IRS Trade Register at COB on the Conversion Date.

Governance, Industry Consultation, Comments/Opposing Views:

CME recognizes that the Conversion will have an impact on market participants holding open positions in Affected Contracts. As noted above, CME has engaged in discussions with Clearing Members and market participants with respect to the proposed CME Conversion process, both specifically in relation to EONIA discontinuance and as part of wider discussions around transition away from IBORs to alternative risk-free reference rates. CME first informed IRS Clearing Members of the intention to run an EONIA to €STR Conversion cycle in late 2020 and first presented the operational processing mechanics to IRS Clearing Members in March 2021. A summary of the Conversion was provided to market participants and made publicly available in May 2021 and further details were provided by CME to market participants in August 2021, followed by operational testing and additional support prior to the proposed date of implementation.²⁵

The proposed process for the Conversion builds upon the experience and feedback from the USD IRS PA/Discounting Transition and the EUR IRS PA/Discounting Transition that both took place in 2020. The Conversion and the text of the Advisory Notice is a product of the feedback provided by market participants during these consultation processes.

As part of the preparations for the Conversion, CME has provided market participants with information, reporting tools and rehearsals for operational readiness to ensure that CME clearing members and their customers understand the operational processes of the Conversion and are operationally ready for the Conversion Date:

- as noted above, in order to illustrate the NPV for each EONIA Swap and the revised NPV for each Conversion €STR Swap and the Cash Adjustment at the trade level for each position account, CME will publish an “Indicative Analysis Report” in the CME Production Environment on a daily basis beginning on Monday, September 20, 2021 until Friday, October 15, 2021 to assist firms in understanding the impact of the Conversion ahead of the Conversion Date;
- CME operated an operational “Dress Rehearsal” for the Conversion process on September 10, 2021, to simulate the processes for the Conversion Date. All open EONIA Swaps in the “New Release” Environment (not Production) were converted to €STR Swaps on that date to enable market participants to take part in a “test” portfolio Conversion simulation. CME provided the ability to upload an optional EONIA test portfolio to NR position accounts prior to the dress rehearsal.

²⁵ The public overview is available on the CME Group website at: [€STR OIS Clearing and EONIA OIS Conversion CME OTC Clearing \(cmegroup.com\)](https://www.cmegroup.com/OTC/OTC-Clearing-and-EONIA-OIS-Conversion-CME-OTC-Clearing.aspx) CME operated an operational “Dress Rehearsal” for the Conversion process on September 10, 2021 and will provide Indicative Analysis Reporting in Production from September 20, 2021.

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As noted above, market participants have expressed a clear preference for CME to transition to €STR a short period ahead of the last publication of EONIA on January 3, 2022, rather than rely on the contractual fallbacks that would otherwise apply under the CME Rules on the event of the scheduled permanent discontinuation of EONIA. Market participants have also requested that CME should ensure that the timing for its Conversion process should be aligned with that of other major EU and UK CCPs in order to minimize market disruption and operational congestion for cash and derivatives market participants and CCPs in late December 2021.

The Conversion has been designed to meet the needs of market participants. The Conversion will provide a simple and efficient mechanism to effect the transition to €STR for positions in the Affected Contracts with minimal operational complexity for market participants and provides for a simple Cash Adjustment mechanism to neutralize the one-time valuation change arising from the switch to €STR.

During the consultation process, there were no substantive opposing views raised by market participants with respect to the proposals for the Conversion as set out in the text of the Advisory Notice.

The Clearing House IRS Risk Committee reviewed the Conversion proposal in the July 2021 meeting of the IRS Risk Committee and no objections were raised to the Conversion proposals. The Clearing House Oversight Committee (“CHOC”) reviewed the Conversion proposal in the September 2021 meeting of the CHOC and no objections were raised to the Conversion proposals.²⁶

CME is not aware of any other substantive opposing views with respect to the Conversion or the text of the Advisory Notice.

Derivatives Clearing Organization Core Principles (“DCO Core Principles”) Analysis in Connection with the Conversion and Advisory Notice

CME reviewed the DCO Core Principles as set forth in the CEA. During the review, CME identified the following DCO Core Principles as potentially being impacted:

DCO Core Principle D – Risk Management: Following extensive market consultation, the implementation of the Conversion via the Advisory Notice by CME has been designed to closely follow certain operational elements utilized by CME to effect the successful previous industry initiatives in 2020 to move from EONIA to €STR PA/Discounting for OTC EUR interest rate swap products and from EFRR to SOFR PA/Discounting for OTC USD interest rate swap products. The mandatory Cash Adjustment process to the relevant position accounts of participants with positions in Affected Contracts at COB on the Conversion Date is designed to address the valuation changes arising from the conversion to €STR. Based on extensive outreach to customers, CME understands that market participants support CME’s approach and the close alignment with the approach of other CCPs.

DCO Core Principle L – Public Information: The implementation of the Conversion via the Advisory Notice and the operational elements of the Conversion will change the interest rate environment of each of the Affected Contracts from EONIA to €STR. A summary of the Conversion was provided to market participants and made publicly available in May 2021 and further details were provided by CME to market participants in August 2021.²⁷ CME has taken appropriate steps to provide market participants with sufficient information to enable those market participants to identify and evaluate effectively the risk associated with holding positions in the Affected Contracts at the time of Conversion and thereafter. The operational workflows and

²⁶ CME will effect the Rule amendments under the authority of CME under Chapter 2 (Government) of the CME Rulebook which provides (at Rule 230.(j)) that the CME Board of Directors shall “make and amend the Rules; provided the Board may also delegate authority to make and amend the rules as it deems appropriate.”

²⁷ The public overview is available on the CME Group website at: [€STR OIS Clearing and EONIA OIS Conversion CME OTC Clearing \(cmegroup.com\)](https://www.cmegroup.com/OTC-Clearing-and-EONIA-OIS-Conversion)

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legal basis for the Conversion have been made publicly available. As noted above, as part of the preparations for the Conversion, CME has provided market participants with:

- an “Indicative Analysis Report” in the CME Production Environment on a daily basis beginning on Monday, September 20, 2021 until Friday, October 15, 2021 to assist firms in understanding the impact of the Conversion ahead of the Conversion Date;
- an operational “Dress Rehearsal” for the Conversion process took place on September 10, 2021, to simulate the processes for the Conversion Date.

DCO Core Principle N – Antitrust Considerations: The Conversion will not result in any unreasonable restraint of trade or impose any material anticompetitive burden. The Conversion reflects implementation of the remaining elements of an industry-wide initiative to transition interest rate swaps and other products from EONIA to €STR, in line with the objectives of market participants and industry working groups, which is widely supported by market participants as promoting the orderly transition to €STR. CME has engaged with market participants to obtain feedback on the processes for the Conversion and has not received any comments regarding antitrust/fair competition concerns.

The text of the CME Clearing Advisory Notice is attached hereto in Exhibit 1.

The Clearing Advisory Notice shall be effective on October 15, 2021.

Pursuant to Section 5c(c)(1) of the CEA and CFTC Regulation 40.6(a), CME certifies that rule modifications in the form of the Clearing Advisory Notice complies with the CEA and the regulations thereunder.

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

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director & Chief Regulatory Counsel

Attachment: Exhibit 1 – CME Clearing Advisory Notice
Exhibit 2 – Non-Substantive Amendments to CME Chapter 901 (blackline format)

Exhibit 1 CME Clearing Advisory Notice



TO: Clearing Member Firms
Back Office Managers

DATE: [], 2021

FROM: CME Clearing

NOTICE #: 21-[]

SUBJECT: **Modification of Cleared Euro Overnight Index Average (“EONIA”) Overnight Index Swaps to Reference Euro Short Term Rate (“€STR”) Ahead of Scheduled Discontinuation of EONIA**

Background

EONIA is scheduled to be discontinued on January 3, 2022 and therefore market participants must transition any remaining over the counter (“OTC”) Euro (“EUR”) swaps that reference EONIA to the successor €STR reference rate before this time.¹ CME currently supports EONIA overnight index swaps (“OIS”) (“EONIA Swaps”) and also supports €STR OIS and €STR /EURIBOR Basis Swaps in order to support firms seeking to transition to €STR.

In order to further assist market participants in the transition from EONIA to €STR, subject to regulatory review, CME shall effect a single step conversion of CME cleared trades in EONIA OIS from the EONIA Floating rate option to the €STR Floating rate option, with a cash adjustment mechanism to compensate for any resulting change in valuation (the “Conversion”), to take effect at close of business (“COB”) on Friday, October 15, 2021 (the “Conversion Date”). The Conversion process and the Conversion Date have been determined by CME based on discussions with market participants and to ensure alignment with wider industry initiatives for transition of cleared EONIA interest rate swaps (“IRS”) products.

Conversion of EONIA to €STR

In September 2018 the European Central Bank (“ECB”) convened a private sector working group on Euro risk free rates (the “ECB Working Group”),² which determined that €STR should replace EONIA as the new EUR risk free rate for all cash and derivative market products and contracts, with EONIA due to be discontinued on January 3, 2022. €STR is calculated by the ECB and provides a broad measure of the cost of borrowing unsecured EUR cash on an overnight basis in wholesale markets based on a large number of banks contributing data and a significant transaction volume.³

On July 24, 2020, as part of an industry-wide transition for EUR IRS, CME completed the transition of the PA/Discounting protocol for CME cleared EUR interest rate swap products from EONIA to €STR (the “EUR

¹ In May 2019, EMMI announced that EONIA would be permanently discontinued from 3 January 2022, see https://www.emmi-benchmarks.eu/assets/files/D0194C-2019%20EONIA_consultation_feedback_press_release.pdf

² The ECB Working Group was also convened by the Financial Services and Markets Authority (“FSMA”), the European Securities and Markets Authority (“ESMA”) and the European Commission.

³ Further details on the administration of €STR are available on the ECB website at www.ecb.europa.eu.

IRS PA/Discounting Transition”). In order to complete the transition from EONIA to €STR before the scheduled discontinuation of EONIA on January 3, 2022, CME will implement a single step conversion of CME cleared trades in EONIA Swaps from the EONIA Floating rate option to the €STR Floating rate option, with a cash adjustment mechanism to compensate for any resulting change in valuation, to take effect on the Conversion Date.

Summary of Conversion Process

CME will transition all CME cleared EONIA Swaps to the €STR Floating rate option on the Conversion Date, utilizing a mandatory conversion process under which all continuing cleared trades in EONIA Swaps will be converted by CME in a single step, one time, conversion to €STR OIS, as summarized below:

- With the exception of EONIA Swaps that mature on the Conversion Date, CME will convert each CME cleared trade in EONIA OIS that is open at COB on the Conversion Date by amending the terms of the swap, converting the cleared trade into a corresponding €STR OIS (a “Conversion €STR Swap”);
- In each case, the Conversion €STR Swap will be cleared as a CME cleared €STR OIS, with the same economic terms as the corresponding pre-Conversion EONIA Swap except that the Floating Rate Option of the converted cleared trade will be EUR-EuroSTR-OIS Compound, the €STR OIS reference rate;
- In order to neutralize the value transfer from the Conversion of the economic position of each EONIA Swap into each Conversion €STR Swap, CME will calculate a cash adjustment amount that will be applied by CME to each Conversion €STR Swap (the “Cash Adjustment”). In the case of each pre-Conversion EONIA Swap, the Cash Adjustment amount will be calculated by CME based on the difference between the net present value (“NPV”) of the pre-Conversion EONIA Swap and the NPV of the Conversion €STR Swap on the Conversion Date. The Cash Adjustment for each Conversion €STR Swap 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 amount will be applied by CME to each Conversion €STR Swap in a position account in the form of upfront “fees” on each trade. Cash flows relating to the Cash Adjustment will be applied in the next end of day clearing cycle following the Conversion Date on Monday, October 18, 2021, and will be settled the following morning. The Cash Adjustment will ensure that net cash flows for position holders impacted by the change of floating rate option from EONIA to €STR are zero;
- No spread or fixed rate adjustment will be applied to the Conversion €STR Swap; the Conversion will convert EONIA to €STR on a “flat” basis, with no spread component to account for the spread between EONIA and €STR);
- CME will report the close-out of each EONIA Swap and the establishment of each Conversion €STR Swap in the account of the relevant position holder to the CME Swap Data Repository (“SDR”) under Part 45 of the CFTC’s Regulations. The “Prior USI” field for each Conversion €STR Swap report will reference the Unique Swap Identifier (“USI”) of the relevant corresponding EONIA Swap, reflecting the nature of the Conversion process.

Each Conversion €STR Swap will be cleared by CME subject to the terms of the CME Rules. In legal terms, the Conversion will amend the terms of cleared trades in CME cleared EONIA Swaps which reference EONIA, converting each relevant cleared trade to reference the €STR Floating Rate Option, on the terms of a CME cleared €STR OIS. From an operational perspective within the CME clearing system, to aid operational processing by clearing firms, the Conversion will be processed by CME as a “termination” of each relevant EONIA Swap and the establishment of a “new” corresponding cleared trade in €STR OIS within the clearing system. This is reflected in operational terms by the reporting of each Conversion €STR Swap by CME to CME SDR with reference to the “Prior USI” of the relevant corresponding EONIA Swap.

The Conversion is a mandatory process and will apply to all cleared trades in EONIA Swaps on the Conversion Date with the exception of those EONIA Swaps that mature on the Conversion Date.

From COB on the Conversion Date, CME will cease to accept EONIA Swaps for clearing and CME will amend Chapter 901 of the CME Rules accordingly to remove the product rules for EONIA Swaps, as set out in CME Submission 21-413.

Further details on the Conversion are provided below.

CME has consulted with a diverse cross-section of market participants to obtain feedback on the operational processes for the Conversion. In late 2020, CME first informed IRS Clearing Members of the intention to run an EONIA to €STR Conversion cycle and first presented the operational processing mechanics to IRS Clearing Members in March 2021. A summary of CME's Conversion plan was provided to market participants and made publicly available in May 2021 and further details were provided by CME to market participants in August 2021, followed by operational testing and additional support prior to the proposed date of implementation.⁴

Market participants expressed a clear preference for CME to transition to €STR a short period ahead of the last publication of EONIA on January 3, 2022, rather than rely on the contractual fallbacks that would otherwise apply under the CME Rules on the event of the scheduled permanent discontinuation of EONIA.⁵ Furthermore, in CME's engagement with market participants, these stakeholders have expressed a clear preference that CME's approach to the EONIA to €STR transition should be aligned as closely as possible with the wider industry approach, and specifically that of the UK and EU CCPs responsible for clearing the overwhelming majority of EONIA Swaps, each of which have expressed their intention to effect a single

⁴ The public overview is available on the CME Group website at: [€STR OIS Clearing and EONIA OIS Conversion CME OTC Clearing \(cmegroup.com\)](https://www.cmegroup.com/OTC-Clearing/EONIA-to-EURSTR-Conversion). As part of the preparations for the Conversion, CME has provided market participants with:

- an "Indicative Analysis Report" in the CME Production Environment on a daily basis beginning on Monday, September 20, 2021 until Friday, October 15, 2021 to assist firms in understanding the impact of the Conversion ahead of the Conversion Date;
- an operational "Dress Rehearsal" for the Conversion process on September 10, 2021, to simulate the processes for the Conversion Date.

⁵ Contractual "fallbacks" within the CME Rules provide a mechanism that would provide for CME cleared EONIA Swaps to "fall back" to the €STR rate on the permanent discontinuation of EONIA, on the relevant "Index Cessation Effective Date" for the purposes of the relevant ISDA fallback documentation set out in the ISDA IBOR Fallbacks Supplement and the "Permanent Cessation Fallbacks" incorporated into the CME Rules set out in [CME Submission No. 21-431](#), in force from October 4, 2021. However, as permitted by CME Rule 90102.H (Application of Permanent Cessation Fallbacks) within those same rules in force from October 4, 2021, CME is able to exercise its discretion not to apply the "Permanent Cessation Fallbacks" from the ISDA 2021 Definitions incorporated into the CME Rules. In the case of the permanent discontinuation of EONIA, in response to market participant feedback, CME does not propose to apply the "Permanent Cessation Fallbacks" within the ISDA 2021 Definitions and CME Rule 90102.H to EONIA Swaps cleared by CME. In CME's engagement with market participants in relation to the specific question of EONIA transition during the first half of 2021, market participants expressed a clear preference for CME to convert EONIA Swaps to standardized €STR OIS a short period ahead of the last publication of EONIA on January 3, 2022, rather than rely on the contractual fallbacks that would otherwise apply under the CME Rules to transition EONIA Swaps to €STR on the event of the scheduled permanent discontinuation of EONIA. The industry consensus communicated to CME by market participants indicates that the significant majority of cleared market participants prefer such an "early" transition of cleared EONIA Swaps to €STR on the basis that a CCP-led conversion could effect the transition into standardized €STR Swaps, which would not be the case with a "fallback" approach where the resulting positions referencing €STR would not be on the same terms as, and therefore not directly fungible with, standardized €STR Swaps. As a result, based on consultations with market participants and consistent with broader cleared industry initiatives, CME proposes to effect the Conversion in relation to the conversion of EONIA Swaps into €STR OIS on the Conversion Date, over two months prior to the relevant scheduled Index Cessation Effective Date in respect of EONIA. As a result, the amendments to the terms of the CME Rules set out in this Clearing Advisory in respect of the Conversion effectively disapply the Permanent Cessation Fallbacks set out in CME Rule 90102.H. for the purposes of the Conversion in relation to EONIA.

step conversion of EONIA Swaps to reference €STR on October 15, 2021.⁶ Given the feedback from market participants, CME has determined to convert EONIA Swaps to €STR ahead of the last publication of EONIA, and to align its approach and proposed timing for the Conversion as closely as possible with that of the other major UK/EU CCPs clearing EONIA IRS.

Exchange Fees for Conversion Process

In supporting transition to RFRs, CME will apply a transaction fee per line item for conversion of any CME cleared interest rate swaps that reference EUR, GBP, CHF or JPY where such swaps are converted by the Clearing House into equivalent overnight index swaps referencing the relevant nominated successor RFR rate to EONIA, GBP LIBOR, CHF LIBOR or JPY LIBOR respectively (a “Conversion Fee”). In each case the Conversion Fee shall be a fee of \$10 which shall be applied by the Clearing House per line item subject to the conversion and shall apply on the resulting RFR-referencing replacement swap transactions.⁷

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

*This fee will be charged on the resulting RFR trades with the exception of single unit trades booked for the specific purposes of preserving additional payments, which will not be charged.⁸

Note: for bilateral swaption exercise that result in a cleared swap under the legacy index reference rate (e.g. GBP LIBOR, etc), CME will conduct a daily conversion of these trades to the respective RFR rate. A charge of \$10 per converted trade will be applied to the position in addition to new trade clearing fees.⁹

As a result, CME will apply an Exchange Fee of \$10 for each €STR Swap that is established as a result of the Conversion.

This Advisory Notice sets out the binding rules and operational processes under which CME Clearing will implement the Conversion, including the operational termination of EONIA Swaps, the establishment of post-conversion €STR Swaps, and the Cash Adjustment process which will be implemented by CME with respect to open cleared trades in affected CME cleared products at the Conversion Date.

Capitalized terms used but not defined in this Advisory Notice shall have the meaning set out in the CME Rules.

⁶ On March 5th, 2021, the FCA made an announcement regarding the future cessation or loss of representativeness of all LIBOR benchmarks. As a result, CHF, GBP, JPY and EUR LIBOR rates will cease permanently on December 31, 2021. CCPs and market participants are expected to seek to transition away from these rates during December 2021. See FCA announcement at <https://www.fca.org.uk/news/press-releases/announcements-end-libor>. Market participants have indicated that an “early” transition of EONIA Swaps to €STR could be scheduled outside the end-December 2021 / early January 2022 time period which is anticipated to be subject to significant operational congestion for cash and derivatives market participants and CCPs due to the scheduled cessation of certain LIBOR benchmarks on December 31, 2021.

⁷ The Conversion Fee shall not apply to single unit trades booked for the specific purposes of preserving additional payments.

⁸ Note that CME does not create single unit trades as part of the Conversion of EONIA swaps and therefore this is not applicable to the Conversion.

⁹ Note that CME will not accept swaps referencing EONIA after the Conversion Date and therefore will not accept cleared swaps referencing EONIA arising from bilateral swaptions arising after the Conversion Date.

CME Cleared Contracts Subject to the Conversion and this Advisory Notice

The Conversion will apply to all cleared trades in CME cleared EONIA Swaps that reference EONIA¹⁰ as the interest rate swap rate option (the "Floating Rate Option") and that are open at COB on the Conversion Date and that do not mature on the Conversion Date (the "Affected Contracts").

Terms and Operation of Conversion Process

1. At or shortly after COB on the Conversion Date, CME Clearing will:
 - (a) amend the terms of each cleared trade in the Affected Contracts that is open at COB on the Conversion Date in the account of the relevant position holder (each cleared trade, a "Pre-Conversion EONIA Swap") such that the cleared trade shall be converted into a corresponding €STR OIS (a "Conversion €STR Swap") in the position account of the relevant position holder. The economic terms of the Conversion €STR Swap will be the same as the corresponding Pre-Conversion EONIA Swap except that the Floating Rate Option of the converted cleared trade will be EUR-EuroSTR-OIS Compound, the €STR OIS reference rate; and
 - (b) for each position account, calculate the difference in net present value ("NPV") at COB on the Conversion Date (at closing curve levels on the Conversion Date) between:
 - a. each Pre-Conversion EONIA Swap; and
 - b. the corresponding Conversion €STR Swap,(the "Conversion Calculation").
2. CME Clearing will determine settlement variation for each Conversion €STR Swap on the Conversion Date (at closing curve levels on the Conversion Date) for valuation for the end of day clearing cycle on the Conversion Date.
3. At the next end of day clearing cycle following the Conversion Date, for each Conversion €STR Swap, CME Clearing will:
 - (a) apply as an upfront fee to each Conversion €STR Swap an offsetting cash compensation amount that is equal and opposite to the difference in NPV between the Conversion €STR Swap and the corresponding Pre-Conversion EONIA Swap, as determined by CME Clearing during the Conversion Calculation (the "Cash Adjustment"):
 - i. where the Conversion Calculation determines that the NPV of a Conversion €STR Swap is greater than the NPV of the corresponding Pre-Conversion EONIA Swap, the Cash Adjustment applied to the Conversion €STR Swap will be negative;
 - ii. where the Conversion Calculation determines that the NPV of a Conversion €STR Swap is less than the NPV of the corresponding Pre-Conversion EONIA Swap, the Cash Adjustment applied to the Conversion €STR 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 each

¹⁰ EONIA Swaps include any CME cleared EUR IRS referencing "EUR-EONIA-OIS-COMPOUND" or "EUR-EONIA-OIS Compound" as the Floating Rate Option.

Conversion €STR Swap such that the net cash flow in respect of the Conversion will be zero for each cleared trade in such Affected Contract per account.

4. Following the Conversion Date, each Conversion €STR Swap will be cleared by CME subject to the terms of the Rules applicable to €STR OIS.
5. CME will apply a fixed conversion surcharge of \$10 (the Conversion Fee) for each Conversion €STR Swap that is established as a result of the Conversion process.
6. CME will not apply the Permanent Cessation Fallbacks in CME Rule 90102.H (Application of Permanent Cessation Fallbacks) in respect of any IRS Contract referencing EONIA.
7. The terms of this Advisory Notice and the Conversion process are binding on Clearing Members and position holders in all Affected Contracts, effective October 15, 2021. To the extent that there is any conflict between the Rules and the terms of this Advisory Notice with respect to the 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.

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

Delisting of Affected Contracts Following Conversion

From COB on the Conversion Date, CME Clearing will cease to accept for clearing trades in the Affected Contracts. The product rules for EONIA Swaps will be removed from Chapter 901 of the CME Rules. The removal of the product rules and attendant non-substantive conforming revisions to Chapter 901 to remove “EUR-EONIA-OIS-COMPOUND” and “EUR-EONIA-OIS Compound” from the list of interest rate swaps rate options accepted for clearing by CME is reflected in amendments to Rule 90102.E.1. (“Interest Rate Swaps Rate Options”) set out in **CME Submission No. 413**.

Operational Information

CME Clearing will provide the following information in relation to Affected Contracts:

- 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 for Pre-Conversion EONIA Swaps and Conversion €STR Swaps; and
- EONIA to €STR Cash Compensation Report made available by the Clearing House only to IRS Clearing Members and clients via an sFTP site, illustrating the NPV for each EONIA Swap and the revised NPV for each Conversion €STR Swap 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 beginning on Monday, September 20, 2021 until Friday, October 15, 2021. The actual Cash Adjustment amounts will be indicated in the IRS Trade Register at COB on the Conversion Date.

To reflect the operational processes within the clearing system, CME will send:

- a termination message to relevant CME clearing firms in respect of the termination of each relevant EONIA Swap; and
- a clearing confirmation message to relevant CME clearing firms in respect of the establishment of each new relevant Conversion €STR Swap.

As part of the Conversion process, all relevant Trade IDs on each EONIA Swap will be carried over to the relevant Conversion €STR Swap. In order to identify the link between each EONIA Swap and the relevant Conversion €STR Swap, CME will add a replacement Trade ID and Original Trade ID respectively in the History section of the clearing confirmation messages.

CME will report the result of the Conversion to CME SDR in accordance with the requirements of the CFTC's Part 45 Regulations, to reflect the conversion of each EONIA Swap into each Conversion €STR Swap. With regard to reporting data submitted to SDR in respect of each Conversion €STR Swap, CME will populate the "Prior USI" field with the USI of the relevant EONIA Swap to reflect the nature of the Conversion process. For SDR reporting purposes, reporting rows will be generated and submitted to CME SDR terminating the USI of each EONIA Swap and CME will ensure that each Conversion €STR Swap will be reported as a "New Trade".

Additional details regarding the Conversion may be viewed in ***CME Submission No. 413***.

Inquiries regarding the aforementioned may be directed to:

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Steve Dayon - OTC Products	steven.dayon@cmegroup.com	312.466.4447

**Exhibit 2
CME Rulebook**

(additions underscored; deletions ~~overstruck~~)

**Chapter 901¹¹
Interest Rate Swap Contract Terms**

90102. CONTRACT TERMS

90102.E. Rate Options

90102.E.1. Interest Rate Swaps Rate Options

With respect to an IRS Contract, the Rate Option elected by the IRS Clearing Participant in accordance with Rule 90002.F from the following Rate Options or combination of Rate Options:

	ISDA 2006 Definitions Floating Rate Option (“FRO”) Label	ISDA 2021 Definitions FRO Label
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.	EUR-EONIA-OIS-COMPOUND	EUR-EONIA-OIS Compound
7. 6.	GBP-LIBOR-BBA	GBP-LIBOR
8. 7.	GBP-SONIA-COMPOUND	GBP-SONIA-OIS Compound
9. 8.	JPY-LIBOR-BBA	JPY-LIBOR
10. 9.	JPY-TONA-OIS-COMPOUND	JPY-TONA-OIS Compound
11. 10.	CHF-LIBOR-BBA	CHF-LIBOR
12. 11.	CAD-BA-CDOR	CAD-CDOR
13. 12.	CAD-CORRA-OIS-COMPOUND	CAD-CORRA-OIS Compound
14. 13.	AUD-BBR-BBSW	AUD-BBSW
15. 14.	AUD-AONIA-OIS-COMPOUND	AUD-AONIA-OIS Compound
16. 15.	SEK-STIBOR-SIDE	SEK-STIBOR
17. 16.	DKK-CIBOR-DKNA13	DKK-CIBOR
18. 17.	DKK-CIBOR2-DKNA13	DKK-CIBOR2
19. 18.	NOK-NIBOR-NIBR	NOK-NIBOR
20. 19.	NOK-NIBOR-OIBOR	NOK-NIBOR
21. 20.	HKD-HIBOR-HKAB	HKD-HIBOR
22. 21.	NZD-BBR-FRA	NZD-BKBM FRA
23. 22.	SGD-SOR-VWAP	SGD-SOR
24. 23.	HUF-BUBOR-Reuters	HUF-BUBOR
25. 24.	PLN-WIBOR-WIBO	PLN-WIBOR
26. 25.	CZK-PRIBOR-PRBO	CZK-PRIBOR
27. 26.	ZAR-JIBAR-SAFEX	ZAR-JIBAR
28. 27.	MXN-TIIE-Banxico	MXN-TIIE
29. 28.	USD-SOFR-COMPOUND	USD-SOFR-OIS Compound
30. 29.	EUR-EuroSTR-COMPOUND	EUR-EuroSTR-OIS Compound

¹¹ Exhibit 2 shows the changes to Chapter 901 with the original text from date October 4, 2021 following implementation of the changes to Chapter 901 in CME Submission 21-431.

31. 30.	CHF-SARON-OIS-COMPOUND	CHF-SARON-OIS Compound
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[Remainder of Rule unchanged.]