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SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 22-003

Organization: The Board of Trade of the City of Chicago, Inc. ("CBOT")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 01/06/22 **Filing Description:** Amendments to Convert Floating Rate from LIBOR to SOFR for all Treasury Invoice Swap Spreads

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|--------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

New Product

Please note only ONE product per Submission.

- | | | |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

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

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

Official Name(s) of Product(s) Affected: Treasury Invoice Swaps

Rule Numbers: CBOT Chapter 58

January 6, 2022

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. Amendments to Convert Floating Rate from LIBOR to SOFR for all Treasury Invoice Swap Spreads. CBOT Submission No. 22-003

Dear Mr. Kirkpatrick:

The Board of Trade of the City of Chicago, Inc. (“CBOT” or “the Exchange”) is certifying to the Commodity Futures Trading Commission (“CFTC” or “Commission”) amendments to Rule 58101.B. (“Swap Elections”) of [CBOT Chapter 58 \(“Treasury Invoice Swaps”\)](#) to change the floating rate option for Treasury Invoice Swap spreads from US Dollar (USD) LIBOR (USD-LIBOR-BBA) to SOFR (USD-SOFR-COMPOUND) as noted in Exhibit 1 below (collectively, the “Rule Amendments”) effective Sunday, January 23, 2022 for trade date Monday, January 24, 2022 (collectively, the “Rule Amendments”).

Exhibit 1

<i>Traded as Intercommodity Treasury Invoice Spread with Referenced Futures Contract</i>	<i>Commodity Code for Swap Instrument</i>	<i>Floating Rate Option</i>	
		<i>Current</i>	<i>Amended</i>
Short Term US Treasury Note (2-Year)	T1A, T2A, T3A	USD-LIBOR-BBA	USD-SOFR-COMPOUND
Medium-Term US Treasury Note (5-Year)	F1A, F2A, F3A	USD-LIBOR-BBA	USD-SOFR-COMPOUND
Long -Term US Treasury Note (6 ½ to 10-Year)	N1A, N2A, N3A	USD-LIBOR-BBA	USD-SOFR-COMPOUND
10-Year US Treasury Note	TNA, TNB, TNC, TND, TNE, TNF	USD-LIBOR-BBA	USD-SOFR-COMPOUND
US Treasury Bond	B1A, B2A, B3A	USD-LIBOR-BBA	USD-SOFR-COMPOUND
Long-Term US Treasury Bond	U1A, U2A, U3A	USD-LIBOR-BBA	USD-SOFR-COMPOUND

Floating Rate Option-LIBOR to SOFR Transition

The UK’s Financial Conduct Authority (FCA) is responsible for regulating LIBOR. FCA Chief Executive Andrew Bailey [has made clear](#) that the publication of LIBOR is not guaranteed beyond 2021, so time is of the essence to prepare for the possibility that the production and availability of LIBOR might cease permanently. The transition from LIBOR is important because the potential disruption or cessation of LIBOR poses a financial stability risk as well as a risk to the individual firms with LIBOR exposures.

While the precise volume of transactions in markets underlying LIBOR is unknown, [estimates show that](#), on a typical day, the volume of three-month wholesale funding transactions by major global banks was about \$500 million. This is a very low number compared to the \$200 trillion of financial contracts referencing USD LIBOR.

Secured Overnight Financing Rate (SOFR)

In November 2014, the Federal Reserve System convened the Alternative Reference Rates Committee (“ARRC”) to (i) identify a set of alternative interest rate benchmarks that would be firmly based on transactions in an active underlying market and that would comply with emerging standards for financial benchmarks, and (ii) to identify an adoption plan with means to facilitate broad acceptance and use of such alternative reference rate benchmarks. The ARRC also was asked to consider the best practices related to financial contract design that would ensure that financial contracts would be resilient to possible cessation or material alteration of existing or new benchmarks.¹

In June 2017, the ARRC identified SOFR as the interest rate benchmark that, in its consensus view, would represent best practice for use as the underlying reference in new US dollar interest rate derivatives and other US dollar-denominated financial contracts.² Since April 2, 2018, the Federal Reserve Bank of New York (“FRBNY”), in cooperation with the US Office of Financial Research, has computed and published a SOFR benchmark value for each US government securities market business day.³

SOFR is a fully transactions-based interest rate benchmark incorporating data on transactions in overnight Treasury collateral repurchase agreements (“repo”) drawn from three sources:⁴

- all tri-party Treasury general collateral repo transactions settled on the books of Bank of New York Mellon. The FRBNY collects such trade-by-trade data directly from Bank of New York Mellon, pursuant to the supervisory authority of the Board of Governors of the Federal Reserve System.
- all tri-party Treasury general collateral repo transactions mediated through the General Collateral Finance (GCF) repo market of the Fixed Income Clearing Corporation (FICC). FRBNY has entered into an agreement with DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation (DTCC), to obtain these transaction data.
- bilateral Treasury repo transactions cleared through the FICC Delivery-versus-Payment (DVP) service. Here too, FRBNY has entered into an agreement with DTCC Solutions LLC to obtain these transaction data.

On any given day, prior to pooling transaction data from these three sources, the FRBNY ranks the day’s FICC DVP bilateral repo transaction volumes by their transaction rates, from lowest to highest, and then filters out 25 percent of trading volume corresponding to the lowest transaction rates. The object of such filtering is to remove repo transactions in which Treasury collateral is likeliest to be trading “special,” in order

¹ For more information about the Alternative Reference Rates Committee, visit: <https://www.newyorkfed.org/arrc/index.html>

² See ARRC Agenda, Minutes, and Presentation for June 16, 2017, and ARRC Agenda, Minutes, and Press Release for June 22, 2017 at: <https://www.newyorkfed.org/arrc/meetings-events>

³ The SOFR value for any US government securities market business day is published at approximately 7:00am Chicago time on the next following such business day.

⁴ See Federal Reserve System, *Request for Information Relating to Production of Rates*, 82 FR 41259, August 30, 2017, available at: <https://www.federalregister.gov/documents/2017/08/30/2017-18402/request-for-information-relating-to-production-of-rates>, and Federal Reserve System, *Production of Rates Based on Data for Repurchase Agreements*, 82 FR 58397, December 12, 2017, available at: <https://www.federalregister.gov/documents/2017/12/12/2017-26761/production-of-rates-based-on-data-for-repurchase-agreements>

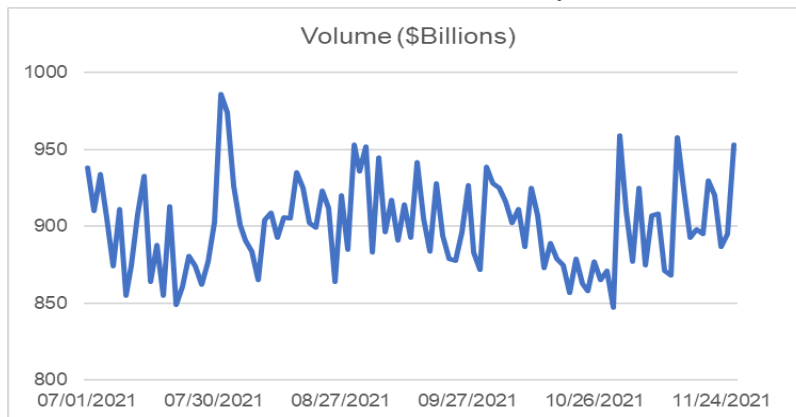
to achieve a residual set of bilateral repo data that largely (if not purely) reflects general collateral transactions.

After filtering the FICC DVP bilateral repo transaction data, the FRBNY pools the data from all three sources, ranks all repo transaction volumes by their transaction rates, from lowest to highest, and then computes the transaction-weighted median repo rate, i.e., the repo trade rate for which half of the day's repo transaction volume is made at transaction rates that are equal to it or less than it, and for which the other half of the day's repo transaction volume is made at transaction rates that are equal to it or greater than it. The transaction-weighted median repo rate becomes the day's SOFR benchmark value.

The ARRC has identified the SOFR as the rate that represents best practice for use in certain new US dollar derivatives and other financial contracts. To support the transition to SOFR, the ARRC developed the [Paced Transition Plan](#), with specific steps and timelines designed to encourage adoption of SOFR. In order to develop sufficient liquidity, the ARRC is focused on supporting the launch and usage of SOFR-based financial products in the market and creating a forward-looking term rate based on SOFR.

Exhibit 2 depicts the history of aggregate daily transaction volumes that have entered into daily SOFR settings. Critical from the standpoint of benchmark reliability and robustness is the magnitude of minimum daily transaction volume. In the five (5) months from July 1 through November 29, 2021, for instance, this is \$847 billion. Median and maximum levels for the same interval are \$900 billion and \$986 billion, respectively.

Exhibit 2 – Transaction Volumes for SOFR, July 1 to November 29, 2021 US



Source: [FRBNY Website](#)

The Exchange reviewed the designated contract market (“DCM”) core principles (“Core Principles”) as set forth in the Commodity Exchange Act and identified that the Rule Amendments may have some bearing on the following Core Principles:

- **Contracts Not Readily Subject to Manipulation:**
The SOFR benchmark is supported by a demonstrably massive transaction pool, drawn from a diverse set of data sources. Moreover, the statistical measure employed to produce the benchmark value on any given day – the transaction-volume-weighted median repo rate -- is highly robust.

Final floating rates for the Three-Month SOFR index shall be based on multiple daily values of the SOFR benchmark-spanning an interval of approximately 13 weeks.

In view of these considerations, both the SOFR benchmark itself and its application in connection with the contracts possess more than sufficient integrity to deflect attempted cornering,

manipulation, crowding, or exertion of undue influence upon daily fixing of the Three-Month SOFR index.

- **Prevention of Market Disruption:**

Trading in Treasury Invoice Swap Spreads is subject to CBOT Rulebook Chapters 4, 7, and their respective rulebook chapters, which include prohibitions on manipulation and price distortion. As with any product listed for trading on a CME Group DCM, trading activity in the Treasury Invoice Swap contracts shall be subject to monitoring and surveillance by CME Group's Market Regulation Department.

- **Position Limits or Accountability:**

Treasury Invoice Swap Spreads are financially-settled contracts that are based on an excluded commodity. Accordingly, these swaps shall not be subject to Exchange-set position limits. Rather, any such Treasury Invoice Swap Spread executed on the CBOT DCM shall be subject to a position accountability threshold of \$1, expressed in terms of the US dollar value of swap notional principal value.

- **Availability of General Information:**

The Exchange shall publish on its website information regarding futures contract specifications, terms, and conditions, as well as daily trading volume, open interest, and price information. In addition, the Exchange shall publish on the CME Group website a Special Executive Report ("SER") regarding the Rule Amendments.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the Rule Amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to this proposal.

The Exchange certifies that this submission has been concurrently posted on the Exchange'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 CMEGSubmissionInquiry@cmegroup.com.

Amendments to Rule 58101.B. are provided in Appendix A below in blackline format.

Sincerely,

/s/Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachment: Appendix A - CBOT Rulebook Chapter 58 (blackline format)

Appendix A
CBOT Rulebook
Chapter 58
Treasury Invoice Swaps

(additions underscored; deletions ~~struck through~~)

58101. CONTRACT SPECIFICATIONS

58101.B. Swap Elections

Any contract made under these Rules shall be an Interest Rate Swap Contract ("IRS Contract" per CME Rule 90002.J.) that is accepted for clearing by the Clearing House subject to CME Rulebook Chapters 8F, 8G, 900, and 901, and that is subject to the following Contract Elections (CME Rule 90002.F.):

1. Effective Date: A specified Related Futures Delivery Date (Rule 58101.A.4.) for a specified Related Futures Contract (Rule 58101.A.2.).
2. Currency: US dollars (CME Rule 90102.B.).
3. Notional Amount: Any integer multiple of \$0.01.
4. Business Day(s): New York ~~and London~~.
5. Business Day Convention: Modified Following.
6. Termination Date: Maturity date of a given Related Treasury CUSIP (Rule 58101.A.3.).
7. Fixed Rate Payment Dates: All semiannual period dates, made with reference to a given Termination Date (Rule 58101.B.6.), in the interval beginning with and not including the Effective Date (Rule 58101.B.1.) and ending with and including such Termination Date.
8. Fixed Rate: See Rule 58102.C.
9. Fixed Rate Day Count: 30/360.
10. Float Rate Payment Dates: All quarterly period dates, made with reference to a given Termination Date (Rule 58101.B.6.), in the interval beginning with and not including the Effective Date (Rule 58101.B.1.) and ending with and including such Termination Date.
11. Floating Rate Option: ~~USD-LIBOR-BBA~~ USD-SOFR-COMPOUND (CME Rule 90102.E.1.).
12. Designated Maturity: Three (3) months, subject to Rule 58101.B.16.
13. Floating Rate Day Count: Actual/360.
14. Spread: None.
15. Compounding: None.
16. Initial Float Rate Payment: The floating rate for determination of the Initial Floating Rate Payment shall be set:
 - (a) by linear interpolation, on the basis of Actual/360 Floating Rate Day Count (Rule 58101.B.13.) with respect to New York ~~and London~~ Business Days (Rule 58101.B.4.) subject to the Modified Following Business Day Convention (Rule 58101.B.5.),

- (b) applied to two (2) ~~USD-LIBOR-BBA~~ **USD-SOFR-COMPOUND** values for notional settlement on the Effective Date (Rule 58101.B.1.),
- (c) where one such ~~USD-LIBOR-BBA~~ **USD-SOFR-COMPOUND** value is for the standardized Designated Maturity date next preceding the date of such Initial Floating Rate Payment, and the second such ~~USD-LIBOR-BBA~~ **USD-SOFR-COMPOUND** value is for the standardized Designated Maturity date next following the date of such Initial Floating Rate Payment.

Without limitation to the foregoing, such interpolation typically will be applied to pairs of ~~USD-LIBOR-BBA~~ **USD-SOFR-COMPOUND** values for Designated Maturities of two (2) months and three (3) months, or of one (1) month and two (2) months, or of one (1) week and one (1) month.

[End of Rule.]