



28 May 2020

No. 044/2020 EurexOTC Clear service: Transition from FedFunds to the US dollar short-term rate (SOFR)

1. Introduction

In 2014, the Federal Reserve convened the Alternative Reference Rates Committee (ARRC) and tasked the group with identifying an alternative to US dollar LIBOR. In 2017, the ARRC fulfilled the mandate by selecting the Secured Overnight Financing Rate, or SOFR, as the new overnight nearly risk-free rates (RFRs).

From **27 July 2020**, SOFR-linked OTC swaps will be eligible for clearing. All EurexOTC Clear derivatives denominated in US dollar, including SOFR swaps, reside in an FedFunds-based PAI and discounting regime.

The switch from FedFunds to SOFR in production is planned to take place over the weekend of 17/18 October 2020:

- **16 October 2020:** last day on which FedFunds PAI (PAA) based calculations are applied
- **19 October 2020:** first day on which SOFR-based PAI (PAA) calculations are applied.

This circular outlines changes and future steps envisaged to support and facilitate a successful transition from FedFunds to SOFR for Eurex Clearing, its Clearing Members and their clients.

2. Required action

There are no required actions for the participants as of now.

3. Details of the initiative

All EurexOTC Clear derivatives denominated in US dollar reside in an FedFunds-based PAI (PAA) and discounting regime. An important step in the market wide transition process to SOFR as the new US dollar risk-free rate is the transition of the FedFunds-based PAI (PAA) to a PAI (PAA) based on SOFR. Market consensus is to have it ideally carried out on the same date across the cleared market and the clearing houses. Eurex Clearing supports the industry transition efforts and has consulted on various aspects of transitioning the PAI (PAA) and the discounting to SOFR with its members.

Eurex Clearing plans to implement the following for its EurexOTC Clear service:

- Transition the PAI (PAA) and the discounting based on FedFunds to SOFR in a single step.

- Compensate via a US dollar cash only mechanism any credit or debit deriving from changes in the present values of US dollar OTC derivatives across the PAI (PAA) discounting switch date (e.g. via one-time cash fee instructions; trade level reporting transparency targeted). This mitigates profit-and-loss impact (positive or negative) due to resulting variation margin payments.
- Perform the switch across the weekend of 17/18 October 2020. This means that Friday, 16 October 2020 will be the last day with FedFunds PAI (PAA) and Monday, 19 October 2020 the first day with SOFR-based PAI (PAA) calculations.

Details regarding the methodology and technical impacts of the switch are available in the [Member Section](#) of Eurex Clearing under the path:

Risk & Collateral Management > Benchmark Transition Information

Please be aware that in the next days, a new folder "USD: FedFunds-SOFR Transition" will be created under the path mentioned above. Once created, all documentation concerning the PAI/discounting switch from FedFunds to SOFR will be available in the new folder.

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

Further information

Recipients: All Clearing Members, FCM Clearing Members, Basic Clearing Members, Disclosed Direct Clients of Eurex Clearing AG, vendors and other affected counterparties

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