

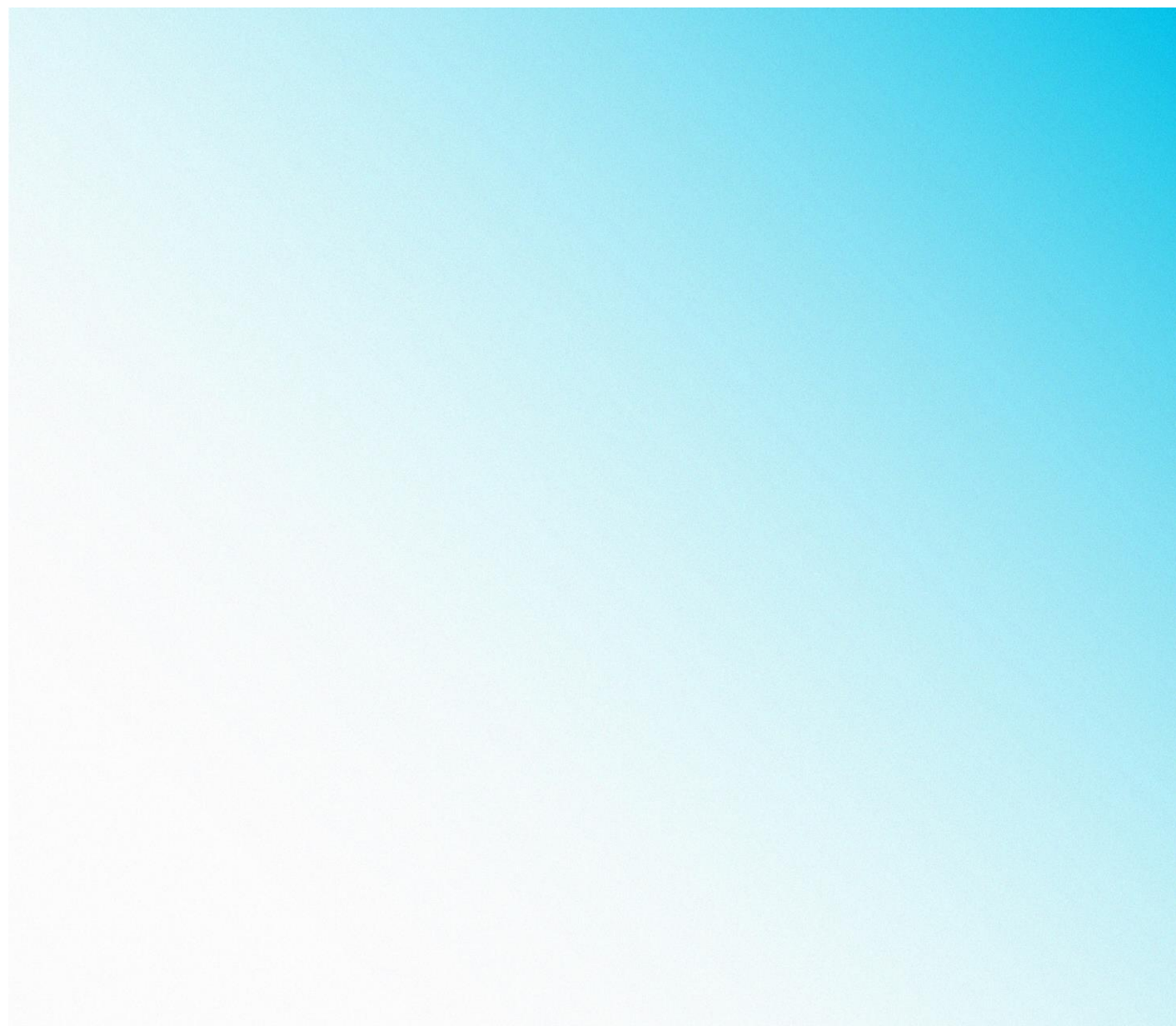
LCH

SwapClear consultation

MXN TIE contract conversion

November 2023

LCH's approach is subject to risk governance and legal and regulatory review or approval and may be subject to change.



LSEG POST
TRADE

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01 Background

On 15th January 2020 Banco de México (“Banxico”) announced its decision to publish a new reference rate known as the Overnight TIIE Funding Rate (F-TIIE or TIIE de Fondeo)¹. On 30th September 2020, the Working Group on Alternative Reference Rates in Mexico was established², sponsored by Banxico and including market professionals relevant to the Mexican market³.

On 20th December 2022, Banxico issued a communication in relation to the transition from MXN TIIE with tenors greater than one business day (28, 91 and 182 days) to F-TIIE⁴. This announcement is relevant to LCH since its SwapClear service provides clearing for MXN swaps which use TIIE with a tenor of 28 days (28D-TIIE) as their contractual reference. In particular, Banxico announced two things: i) a prohibition on the use of 28D-TIIE as reference for new contracts entered into by financial entities regulated by Banxico as from 1st January 2025; and ii) a change to the methodology for the calculation of the 28D-TIIE rate. This change in methodology had the purpose of ensuring that contracts referencing 28D-TIIE and still outstanding beyond 1st January 2025 would not require legal amendment for their fulfilment. On 13th April 2023 Banxico published Circular 3/2023 and Circular 4/2023 in the Official Gazette of the Federation⁵, which LCH understands give effect to these changes as from 1st January 2025.

Under the new methodology the MXN 28D-TIIE rate will be calculated by taking the F-TIIE rate “of the day prior to the reference day being determined, compounded by the number of days of the corresponding term [28 days in this context], plus a historical spread adjustment” of 24 basis points.

This consultation document sets out LCH’s proposals with regards to the potential conversion of outstanding MXN 28D-TIIE SwapClear Contracts into (or replacement with) MXN F-TIIE contracts. LCH is seeking feedback from its users in the areas highlighted below (Section 02.4) by Friday 15th December 2023.

¹ [{A3CFC638-5913-1C42-1843-360A95F89A92}.pdf \(banxico.org.mx\)](#)

² <https://www.banxico.org.mx/publications-and-press/other-announcements/%7B24C11AC6-7368-9BC4-DCE7-6FAD5103ADAA%7D.pdf>

³ LCH is not a direct member of the Working Group on Alternative Reference Rates in Mexico.

⁴ <https://www.banxico.org.mx/markets/mexican-alternative-reference-rates-working-group/d/%7B2D6F5896-CF86-3F28-0C02-98D17B7542B9%7D.pdf>

⁵ <https://www.banxico.org.mx/marco-normativo/normativa-emitida-por-el-banco-de-mexico/circular-3-2012/%7BBB1D52FA-99B1-E6A9-5769-F12BC5C8401E%7D.pdf>

02

MXN 28D-TIE Cleared Swap Transition

1. Key considerations regarding previous benchmark transitions

LCH strongly supports initiatives at the international level to transition away from *IBOR rates towards more robust alternatives. LCH's SwapClear service (following extensive consultation with its users) has conducted several contractual conversion processes whereby SwapClear Contracts linked to the outgoing *IBOR benchmark have been replaced with contracts linked to the corresponding recommended risk-free rate ("RFR"). A recent example is SwapClear's USD LIBOR conversion process which occurred in H1 2023⁶.

Importantly, these conversion processes have been preceded by coordinated statements made by relevant regulators, benchmark administrators and ISDA in relation to the **cessation** of relevant tenors of that benchmark following a specified final publication date. In the context of USD LIBOR, in a series of coordinated statements made in March 2021 by the UK Financial Conduct Authority (FCA)⁷ and by ICE Benchmark Administration⁸ the discontinuation of 5 representative USD LIBOR settings (ON, 1M, 3M, 6M & 12M) was confirmed following their final publication on 30th June 2023. Critically, ISDA then confirmed that such announcement constituted an Index Cessation Event⁹ under the ISDA IBOR Fallbacks Supplement and Fallback Protocol¹⁰.

Notably, the provisions in the IBOR Fallbacks Supplement and the associated BISL IBOR Fallback Rate Adjustments Rulebook are incorporated into SwapClear Contracts as a function of LCH's position announced on 20th December 2018¹¹. Consequently, the Index Cessation Event triggered an economic transformation of the portion of each USD LIBOR leg reliant on any USD LIBOR fixings beyond 30th June 2023 into one whose return could be modelled as a backward-shifted backward-looking compounded SOFR projection to which a non-compounded spread would be added ("Fallback-style SOFR")¹².

These fallback arrangements provided legal certainty with regards to contractual performance and fulfilment beyond the USD LIBOR Index Cessation Effective Date. As such, they represented an unambiguous baseline against which to calculate cash compensation to cover the (small) differences in NPV between input and

⁶ <https://www.lch.com/membership/ltm-membership/ltm-member-updates/lchs-consultation-conversion-outstanding-usd-libor#:~:text=A%20majority%20of%20Consultation%20respondents,of%20the%20original%20LIBOR%20contract>.

⁷ <https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf>

⁸ https://s2.q4cdn.com/154085107/files/doc_news/ICE-Benchmark-Administration-Publishes-Feedback-Statement-for-the-Consultation-on-Its-Intention-to-Cease-the-Publication-of-LIBOR-Set-Z2E0P.pdf

⁹ https://www.isda.org/a/dlFTE/ISDA-Guidance-on-FCA-announcement_LIBOR-Future-Cessation-and-Non-Representativeness-April-Update.pdf

¹⁰ https://www.isda.org/a/dlFTE/ISDA-Guidance-on-FCA-announcement_LIBOR-Future-Cessation-and-Non-Representativeness-April-Update.pdf

¹¹ [LCH's position in respect of ISDA's recommended Benchmark Fallback Approaches | LCH Group](https://www.lch.com/membership/ltm-membership/ltm-member-updates/lchs-consultation-conversion-outstanding-usd-libor#:~:text=LCH's%20position%20in%20respect%20of%20ISDA's%20recommended%20Benchmark%20Fallback%20Approaches%20|%20LCH%20Group)

¹² <https://assets.isda.org/media/34b2ba47/c5347611-pdf/>

output contracts which SwapClear exchanged with all affected counterparties upon performing the contractual conversion.

2. Key common and key divergent considerations in relation to MXN 28D-TIE transition

As stated previously, Banxico has announced a new methodology for MXN 28D-TIE and a prohibition of use of MXN 28D-TIE in new contracts, with both changes to be effective as from 1st January 2025.

Focussing first on the prohibition, this promises to create liquidity conditions which are common to those anticipated and then experienced as a result of prior LIBOR/*IBOR cessations. LCH SwapClear would therefore make common arguments about the need to convert contracts away from reliance on 28D-TIE.

As a second common consideration, LCH SwapClear would expect its users to prefer conversion into output contracts for which liquidity and fungibility are maximised. To this end, LCH SwapClear would make common arguments for using backward-looking F-TIE contracts, modelled to the greatest extent possible on MXN F-TIE OIS conventions, as conversion outputs. In line with prior conversions, and to minimise contractual NPV differences, we would expect to incorporate a fixed spread adjustment on these OIS-style outputs.

As a third common principle, we believe it is vital to use the right baseline valuation methodology for determining cash compensation. We believe that the valuation of the conversion outputs is not contentious: they will be F-TIE OIS contracts valued using the F-TIE curve. This allows us to focus on the implications of Banco de Mexico's methodology change to the valuation of the input contracts.

As noted previously, the new methodology involves calculating the 28D-TIE rate as a forward-looking value by compounding F-TIE on the day prior to the reference day being determined and adding a spread adjustment of 24 basis points.

Now, there is no ambiguity that the 28D-TIE rates calculated and published in this way are required to be used for fulfilling outstanding LCH-cleared swap contracts beyond the end of 2024 were there to be no conversion. By extension, we do not see any ambiguity that the projections of such fixings should be used when determining the NPV of each 28D-TIE contract ("Input Contract") for the purpose of calculating the cash compensation.

However, the divergence between: (i) the single F-TIE fixing relevant for the coupon projection for a given period of an Input Contract; and (ii) the multiple F-TIE fixings relevant for the coupon projection for the same period of the associated Output Contract is problematic¹³. All else equal, these differences mean that curve construction choices are much more important in determining contract NPVs and therefore cash compensation. In order to mitigate this effect, longer Overlays¹⁴ can be used to lengthen the period before which compensation is necessary i.e. to delay the point at which the cashflows on the amended contract differ from those of the original.

¹³ In prior *IBOR conversions, the sets of RFR fixings in this context have been highly convergent.

¹⁴ See Section 4.2 for a definition of Overlays.

Notwithstanding the above, the certainty provided by Banco de Mexico regarding the applicability of the new methodology means that the current pricing of MXN 28D-TIE swaps, as reflected in their prevailing market rates, should incorporate and embed the new methodological relationship to F-TIE forward projections. This will allow LCH SwapClear to use prevailing market rates for generic 28D-TIE swaps as inputs into our cash compensation calculator.

3. Central Features of the proposed MXN 28D-TIE conversion

This section outlines the core functionality of LCH's previous conversion processes that would be replicated in the context of MXN 28D-TIE conversion. LCH is not seeking feedback on these features. We believe that it would be in LCH's and SwapClear members' and clients' best interest to align the central features of the MXN 28D-TIE conversion to those used previously, and to minimise the number of changes needed (operational, technological, reporting, etc.) in relation to the core conversion functionality and processes. This would build on and benefit from the experience stemming from previous LCH conversions.

Concurrently, there are a number of MXN conversion-specific elements on which LCH is seeking feedback from its users. We outline our proposals in these areas in Section 4.

3.1 Trade attributes: Input MXN 28D-TIE IRS, generic MXN F-TIE OIS, and LCH Conversion Standard F-TIE Output Contract

As noted in the previous section, LCH SwapClear would make common arguments for using backward-looking F-TIE contracts as target conversion Output Contracts, modelled to the greatest extent possible on MXN F-TIE OIS conventions¹⁵. The table below provides details around the differences between generic MXN 28D-TIE IRS trades, generic MXN F-TIE OIS trades and Conversion-Standard F-TIE Output trades, i.e., those contracts that would result from the LCH conversion process. The logic for the target design principles for Conversion-Standard MXN F-TIE Output contracts mirrors LCH's implemented solution for USD LIBOR conversion and other previous IBOR conversions.

It is important to note that from an economic perspective LCH converts IBOR trades to their corresponding RFR-based contracts using the same interest calculation period as the original IBOR contract and applies a payment lag as per the OIS conventions. As a result, in the context of MXN 28D-TIE conversion, a 2-day payment lag would be applied to the floating leg of the converted F-TIE trade, as per underlying OIS conventions.

Trade attribute, FLT leg	Typical MXN 28D-TIE IRS (Input Contract)	F-TIE OIS, generic market trading	Conversion-Standard F-TIE Output Contract	Rationale for Output Contract attribute
<i>Floating Rate Option (FRO)</i>	MXN-TIE-Banxico; or MXN-TIE	MXN-TIE ON-OIS Compound	MXN-TIE ON-OIS Compound	28D-TIE prohibition of use and change in methodology

¹⁵ We note that LCH plans to launch the MXN OIS (F-TIE) clearing capability in 2024 in advance of the MXN conversion event in line with the MXN F-TIE OIS conventions agreed by the market.

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<i>Floating Rate Spread</i>	None vs 28D-TIIE, but implicit to F-TIIE via methodology change	None	Spread Adjustment (please refer to section below)	Ongoing cashflow & NPV alignment vs Input Contract
<i>Interest Period Frequency</i>	28D	28D	Inherited from the Input Contract	Respects Input Contract frequency
<i>Payment Frequency</i>	28D	28D	Inherited from the Input Contract	Respects Input Contract frequency
<i>Payment lag</i>	Zero	2 Business Days	2 Business Days	Preserves Input Contract accrual period
<i>Fixing Lag</i>	1 Mexican business days prior to Reset Date	n/a (zero)	n/a (zero)	Aligns with OIS conventions
<i>Effective Date</i>	Deal specific	Deal specific	Inherited from the Input Contract	Respects Input Contract terms
<i>Termination Date</i>	Deal specific	Deal specific	Inherited from the Input Contract	Respects Input Contract terms

3.2 Legal, operational and reporting considerations

From a legal perspective, LCH will characterise the conversion as a legal amendment to the existing MXN 28D-TIIE contract, notwithstanding its operational treatment as a close-out of the existing contract and the registration of a new contract. This approach mirrors the approach embedded in the LCH Rulebook in relation to the USD LIBOR and other conversion processes.

From an operational perspective, and distinct from the legal characterisation, LCH will terminate the MXN 28D-TIIE booking and will create a new F-TIIE booking with a new LCH ID (different to the original 28D-TIIE trade). This new ID is required in order to conform with the existing established data model in LCH (and middleware provider) systems for workflows such as compression events, portfolio transfers and economic amendments. With regards to reporting, all conversion-related bookings will be reported using new UTIs. LCH's view remains that this is the most reliable operational workflow, and it intends to rely on the well-established LCH messaging infrastructure (e.g., Clearlink, ATSS synchronisation) for the purpose of MXN 28D-TIIE conversion.

In addition, and in line with previous conversion events, the Conversion-Standard F-TIIE Output trades will have a Cleared Registration Date equal to the Monday following the conversion event weekend, and a Trade Date equal to the Friday before the conversion event weekend.

LCH will also make available to members and clients the range of Portal functionality and reporting tools that have supported users in the context of previous conversions. These will enable them to: i) observe on a given day the indicative results of a (simulated) conversion in relation to the outstanding MXN 28D-TIIE book, in preparation for the real conversion event and to increase familiarity with the expected results; and ii) reconcile their books and records with LCH following the final (real) conversion event. In this context, reports such as

REP315 and REP72FB will be updated to cater for the MXN conversion specificities, providing users with (indicative/final) information regarding NPVs and cash compensations fees at the trade level and cash-flow level, respectively.

4. Features specific to MXN 28D-TIIE conversion

LCH is seeking feedback from SwapClear users on all the areas outlined below.

As mentioned previously, whilst MXN 28D-TIIE is not being discontinued, we anticipate the emergence of liquidity conditions which are common to those anticipated and then experienced as a consequence of prior LIBOR/*IBOR cessations and we make common arguments about the need to transition SwapClear Contracts away from reliance on MXN 28D-TIIE. However, in light of the absence of an Index Cessation Event, we have more freedom to balance the illiquidity risk against the cash compensation complications.

As a result, we propose to perform the MXN 28D-TIIE conversion event in line with Banxico's timeline, i.e. by 31st December 2024. At the same time, in an effort to preserve more prolonged cashflow continuity between the original contracts and the amended trades produced upon conversion (including overlay bookings), we propose to adjust our conversion scope and related conversion logic as articulated in the following paragraphs.

4.1 Conversion scope

In scope products	Out of scope
MXN 28D-TIIE Interest Rate Swaps	Any MXN 28D-TIIE trade that is either: 1) fully fixed before 31 st Dec 2025; or 2) matures before 31 st Dec 2025, will not be eligible for conversion.

4.2 Overlay booking model

Over the conversion weekend, all in-scope MXN 28D-TIIE trades will be converted to F-TIIE equivalents. Overlay bookings will be used as an operational device to achieve cashflow continuity/preservation on each trade that involves payments in respect of 28D-TIIE periods that are already fixed or will fix ahead of 31st December 2025. In practice, the overlay bookings will offset the duplicative element of the Conversion-Standard F-TIIE Output trade/leg, while reinstating the 28D-TIIE in the exact form of the Input Contract for all the periods on the original trade that rely on a fixing occurring on or prior to 31st December 2025.

LCH will use a 2-Overlay booking model as per following structure:

- i) Both House and Client accounts will receive pairs of outright MXN 28D-TIIE vs Fixed (0%) and F-TIIE vs Fixed (0%) bookings.

- ii) The effective date of the overlay booking will match that of the original MXN 28D-TIIE, which will facilitate reconciliation;
- iii) The maturity date of the overlay booking(s) will be shorter than that of the original MXN 28D-TIIE swap. Overlays will mature on the period end date relating to the last MXN 28D-TIIE fixing occurring on or prior to 31st December 2025;
- iv) The periodicity (28D) will be inherited from the floating leg of the original MXN 28D-TIIE swap;
- v) The Fixed leg day count fraction will be inherited from the fixed leg of the original MXN 28D-TIIE swap.

Similar to previous conversions, LCH will provide the information necessary to link overlays to the Conversion-Standard F-TIIE Output contracts running for the full length of the 28D-TIIE Input Contract. The use of overlay bookings is a purely operational matter, and their legal status for previous IBOR conversions was addressed in LCH's Rulebook and will be applied to MXN 28D-TIIE conversion in an equivalent manner.

4.3 Illustrative mapping approach for converting a MXN 28D-TIIE IRS into a Conversion-Standard F-TIIE Output

Based on the elements articulated in the previous section, the following table provides an illustrative mapping for the conversion of a MXN 28D-TIIE vs. fixed IRS.

Any SwapClear users for whom the attributes of LCH's proposed Conversion-Standard F-TIIE Output contracts described below are not suitable or not preferred should strongly consider amending their 28D-TIIE contracts well ahead of LCH's conversion event.

Converted Swap Leg	Feature	Comment
<i>Fixed Leg</i>	All details to remain the same	To note, the fixed leg of the converted F-TIIE trade will retain the 0 business days payment lag of the original contract.
<i>F-TIIE Floating Leg</i>	Notional	Same as the original MXN 28D-TIIE trade
	Roll Convention	Same as the original MXN 28D-TIIE trade
	Effective Date	Same as the original MXN 28D-TIIE trade
	Maturity Date	Same as the original MXN 28D-TIIE trade
	Business Day Convention	Same as the original MXN 28D-TIIE trade, including Adjusted/Unadjusted specification.
	Spread	Any original contractual spread will be applied/persisted on the F-TIIE leg, same as it was on the original MXN 28D-TIIE trade (i.e., no adjustment). A spread adjustment (SA) will be populated on the F-TIIE leg in addition to any contractual spread. Please refer to the section below.

Treatment for stubs: the F-TIE trade will carry over the regular period SA, not an interpolated SA¹⁶.

Index	The new index will become the corresponding F-TIE to the converted MXN 28D-TIE and will be booked under the ISDA 2021 FRO label.
Day Count Fractions	Same as the original MXN 28D-TIE.
IBOR Coupon Preservation	MXN 28D-TIE coupons with fixings occurring on or before 31 st December 2025 will be preserved through the use of overlays.
Fixings	As per vanilla OIS conventions, i.e., no offsets/lags/backward shifts. For 28D-TIE trades with non-standard fixing lags, these will be converted to standard fixing for the F-TIE trade, i.e., 0 days.
Fixing Centres	MXMC – as per default convention for F-TIE index. Additional fixing centres will not be persisted onto the new F-TIE trade.
Payment Lag	2 business days payment lag as per underlying F-TIE index payment convention.
Payment Calendar	Same calendar as the original MXN 28D-TIE trade. Additional payment calendars included in the original contract will also be persisted.
Fees with future payment dates	Same as original MXN 28D-TIE trade

4.4 Spread Adjustment relevant to Conversion-Standard F-TIE Output bookings

We propose to apply a spread adjustment of 24 basis points to the Conversion-Standard F-TIE Output trades that are booked as part of the conversion event. LCH believes that this approach would be consistent with the new methodology determined by Banxico.

4.5 Cash Compensation

Central to LCH RFR conversion processes is the provision of cash compensation calculated as the difference in present value between the pre-conversion 28D-TIE trade (“Input Contract”) and its Conversion-Standard F-TIE Output (“Output Contract”), which in this context includes the present value of any overlay bookings. The present value of the Input and Output Contract will be calculated in line with the principles articulated in Section 2 that can be represented as follows:

$$\text{Cash compensation amount} = \sum_i \left[\text{NPV}_i^{\text{Input}} - \left(\text{NPV}_i^{\text{RFR}} + \text{NPV}_i^{\text{Overlay}} + \text{NPV}_i^{\text{Overlay}_2} \right) \right] \cdot \frac{1}{\text{DF}_{\text{Spot}}^{\text{RFR}}}$$

NPV Input = NPV of the Input 28D-TIE contract valued using the 28D-TIE curve cashflow projections;

NPV RFR = NPV of the Conversion-Standard F-TIE Output contract valued using the F-TIE curve;

NPV Overlay = NPV of the overlay used to preserve the relevant 28D TIE payments.

¹⁶ Whilst stubs are supported by LCH as part of the MXN 28D-TIE IRS eligibility criteria, stubs interpolation is not supported. Hence the 28-day TIE index is applied to all stubs in relation to MXN IRS. This specificity will be reflected in the context of MXN conversion.

Any NPV changes between the (28D-TIE) Input Contract and the (F-TIE) Output Contract for all periods relying on 28D-TIE fixing occurring on or prior to 31st December 2025 will be neutralised by the use of overlays. Any NPV changes between the Input 28D-TIE Contract and the Output F-TIE Contract for all periods relying on 28D-TIE fixings as from 1st January 2026 will be handled by cash compensation.

The difference of NPV will be capitalised from the Friday prior to conversion weekend to Settlement date using the SOFR discounting curve, and cash compensation will also account for differences between Input Contracts and Output Contracts such as the introduction of the payment lag.

With regards to the operational details, in line with previous conversion events, cash compensation will be delivered via a single net cash compensation F-TIE swap at the clearing account level, with a minimum remaining term to maturity and notional of 1 MXN. The registration date will be the Monday following the conversion weekend, with payment and settlement date being the following day (Tuesday) since MXN is a PPS+1 currency. Trade level breakdown and reporting will be available to ensure correct attribution is possible for any users wishing to break the fee down to a detailed level.

Simplified Projected Rate Worked Example

Although there are several inputs into the cash compensation calculation, we wish to provide a worked example of the projected rates that determine the projected cashflows for both the 28D-TIE Input Contract and the Conversion-Standard F-TIE Output Contract. The sum of these cashflow differences, aggregated across the contracts and adjusted for their timing, will determine the overall NPV difference at the trade level to be compensated.

For this example, let us assume that LCH's MXN 28D-TIE conversion will occur in November 2024. For simplicity, we focus on the calculation of the projected rate differential related to a single period occurring after 1st January 2026.

Step 1: Define a common set of input F-TIE projections

Date	F-TIE Projection		Compounding at T	Cumulative compounding
29-Jan-26	5.00%		-	1
30-Jan-26	5.00%		1.00013889	1.00013889
02-Feb-26	5.00%		1.00041667 ¹⁷	1.00055561 ¹⁸
03-Feb-26	5.00%		1.00013889	1.00069458
04-Feb-26	5.00%		1.00013889	1.00083356
05-Feb-26	5.00%		1.00013889	1.00097257
06-Feb-26	5.00%		1.00013889	1.00111159
09-Feb-26	5.00%		1.00041667	1.00152872
10-Feb-26	5.00%		1.00013889	1.00166782
11-Feb-26	5.00%		1.00013889	1.00180695
12-Feb-26	5.00%		1.00013889	1.00194608
13-Feb-26	5.00%		1.00013889	1.00208524

¹⁷ Please note: $1.0041667 = [(1+5.00\%*(3/360))]$.

¹⁸ Please note: $1.00055561 = (1.00041667*1.00013889)$.

16-Feb-26	5.00%		1.00041667	1.00250278
17-Feb-26	5.00%		1.00013889	1.00264202
18-Feb-26	5.00%		1.00013889	1.00278127
19-Feb-26	5.00%		1.00013889	1.00292055
20-Feb-26	5.00%		1.00013889	1.00305984
23-Feb-26	4.00%		1.00041667	1.00347778
24-Feb-26	4.00%		1.00011111	1.00358928
25-Feb-26	4.00%		1.00011111	1.00370079
26-Feb-26	4.00%		1.00011111	1.00381231
27-Feb-26	4.00%		1.00011111	1.00392385
02-Mar-26			1.00033333	1.00425849

Step 2 – Determine the Input Contract 28D-TIIE Projected Rate

Based on Banxico's communications, the 28D-TIIE rate applicable to the Input Contract will be computed as a forward-looking value by compounding F-TIIE on the day prior to the reference day being determined and adding a spread adjustment of 24 basis points. As such, LCH will need to look first at the F-TIIE rate projections for the period in question¹⁹ and then derive the corresponding 28D-TIIE projection. Based on the illustrative F-TIIE projections above, and focussing on the period starting on 2 February 2026 and terminating on 2 March 2026 (highlighted in blue in the table):

28D-TIIE projection for the period starting on 2 Feb 2026: 5.24939% (inclusive of 24bp spread adjustment)

Step 3 - Determine the Conversion Standard F-TIIE Output Contract Projected Rate

The projected rate applicable for the same period of the Output Contract is a backward-looking OIS-style formulation, with no observation period shift and with the application of the market standard payment lag. Assuming a spread of 24 basis points and based on the same illustrative F-TIIE projection above:

F-TIIE projection for the period starting on 2 Feb 2026: 4.99820% (inclusive of 24bp spread adjustment)

Step 4 – Determine the Rate Differential

Finally, we determine the differential between the two projected rates, which LCH will need to compensate for (noting that, for simplicity, we did not include in our calculation additional elements such as the payment lag).

Projected Rate Differential for LCH to Compensate = (5.24939% - 4.99820%) = 0.25119%

4.4 Conversion Timing

LCH proposes the conversion of all (in-scope) outstanding MXN 28D-TIIE contracts to be performed in a single event on Saturday 23rd November 2024, based on the population of contracts that would be outstanding

¹⁹ In practice, LCH will assume that these F-TIIE projections are implied within the quoted swap rates for the instruments it uses as inputs to the compensation calculation.

on EOD Friday 22nd November 2024. The proposed contingency date for the conversion event is Saturday 7th December 2024.

The timeline mentioned above will cater for the time needed for LCH to launch the clearing capability for MXN F-TIE OIS in advance of the conversion event and will allow for a greater time/opportunity for the required liquidity in such contract to develop. As per previous conversion processes, the conversion event in the production environment proposed in November 2024 will be preceded by a dress rehearsal in the LCH test environment (UAT), with a precise date in H2 2024 that will be determined at a later stage.

LCH proposes to withdraw the prevailing clearing eligibility of MXN 28D-TIE IRS following the conversion event.

03

Request for feedback

The proposed process outlined in this consultation aims to provide a robust, transparent and standardised back-stop outcome for LCH-cleared MXN 28D-TIE contracts that remain outstanding at or shortly before 31st December 2024. The conversion process must be applied consistently to all relevant MXN 28D-TIE contracts and, therefore, cannot provide for any optionality at trade or account level. Customers needing or wanting a tailored approach should make their own arrangements. LCH encourages pro-active transition of customers' MXN 28D-TIE trades ahead of LCH's conversion process and believes that providing clarity and certainty over these back-stop outcomes will assist SwapClear participants with their prioritisation and planning.

Please note that as with LCH's previous transition processes, there will be a charge for any MXN 28D-TIE trades subject to it. The applicable pricing structures will be part of a separate communication by LCH.

We strongly encourage SwapClear participants to respond to this consultation and to express their opinion in order that LCH has the widest set of feedback on which to determine how to proceed. LCH will be supporting this consultation with a number of briefings and with additional materials. Please contact your LCH Sales & Relationship manager should you require further information about these.

To participate in this consultation, please reply to MXNConversion@lseg.com and we will send you a link to complete the on-line survey by **Friday 15th December 2023**. Individual responses received by this date will be kept CONFIDENTIAL and will be considered by LCH in determining which approach should be adopted. Any responses received after this date may not be considered.

Consultation questions

- 1) Do you agree that LCH should convert any MXN 28D-TIIE trades outstanding at (or shortly before) 31st December 2024, leveraging the core functionality successfully deployed in past conversions? (Yes/No) If No, please outline your preferred alternative.
- 2) Do you agree with the proposed conversion scope whereby MXN 28D-TIIE trades relying on fixings occurring after 31 December 2025 will be subject to LCH conversion, with overlay bookings generated accordingly? If No, please outline your preferred alternative.
- 3) Do you agree with the target design principles proposed by LCH in relation to the Conversion Standard Output F-TIIE trades, including the application of a 24 basis points spread to them? If No, please outline your preferred alternative.
- 4) Do you agree with LCH's proposal outlined in this consultation for the valuation of the Input MXN 28D-TIIE contracts and related cash compensation methodology? (Yes/No) If No, please outline your preferred alternative.
- 5) Do you agree with LCH's proposed conversion timing (conversion date of 23rd November 2024 and contingency date of 7th December 2024)? (Yes/No) If No, please outline your preferred alternative.
- 6) Are there any other factors not identified in this consultation that LCH should consider in association with the impact of the MXN 28D-TIIE transition to F-TIIE in relation to cleared swaps?

We are extremely grateful for your engagement with this consultation, and we thank you in advance for your participation. Implementation of any proposal is subject to ongoing legal review, regulatory approval and risk governance and may be subject to further change. Should you have any questions not addressed here, please do not hesitate to contact your regular LCH representative or email MXNConversion@lseg.com.

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Disclaimer – Consultation Document:

The contents of this paper are for informational purposes only and set out LCH Limited's proposals in connection with MXN 28D-TIIE conversion. All proposals herein remain subject to LCH Limited's internal Risk and Legal approval and external regulatory review or approval. The proposals set out herein are subject to change based on feedback or otherwise. LCH Limited expressly disclaims, to the extent permitted by law, any liability in connection with this document and its contents. Clearing Members and their clients should take their own legal and other advice regarding Benchmark reform.

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