

## Chapter 21 Short-Term U.S. Treasury Note Futures (2-Year)

### 21100. SCOPE OF CHAPTER

This chapter is limited in application to trading of Short-Term U.S. Treasury Note futures. The procedures for trading, clearing, delivery, and settlement, and any other matters not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

All times referenced in this chapter are Chicago times and are subject to change by the Exchange.

### 21101. CONTRACT SPECIFICATIONS

#### 21101A. Contract Grade

The contract grade for delivery on futures made under these Rules shall be U.S. Treasury fixed-principal notes which have fixed semi-annual coupon payments, and which have:

- (a) an original term to maturity (i.e., term to maturity at issue) of not more than 5 years 3 months; and
- (b) a remaining term to maturity of not more than 2 years; and
- (c) a remaining term to maturity of not less than 1 year 9 months.

For the purpose of determining a U.S. Treasury note's eligibility for contract grade, its remaining term to maturity shall be calculated from the first day of the contract's named month of expiration, and shall be rounded down to the nearest one-month increment (e.g., 1 year 10 months 17 days shall be taken to be 1 year 10 months). New issues of U.S. Treasury notes that satisfy the standards in this Rule shall be added to the contract grade as they are issued.

If the U.S. Treasury Department auctions and issues a Treasury security that meets these standards, such that said security is a re-opening of an extant Treasury issue that had not previously met these standards, then the extant Treasury issue shall be deemed to be a Treasury note meeting these standards and shall be added to the contract grade as of the issue date of said newly auctioned Treasury security.

Notwithstanding the foregoing, the Exchange shall have the right to exclude any new issue from the contract grade or to further limit outstanding issues from the contract grade.

#### 21101.B. Physical Delivery

Each individual contract lot that is delivered must be composed of one and only one contract grade Treasury note issue. The amount at which the short Clearing Member making delivery shall invoice the long Clearing Member taking delivery of said notes (Rule 21105.A.) shall be determined as:

$$\text{Invoice Amount} = (\$2000 \times P \times c) + \text{Accrued Interest}$$

where

*P* is the contract daily settlement price on the day that the short Clearing Member gives the Clearing House notice of intention to deliver (Rule 21104.A.). *P* shall be expressed in points and fractions of points with par on the basis of 100 points (Rule 21102.C.); and

*c* is a conversion factor equal to the price at which a note with the same time to maturity as said note, and with the same coupon rate as said note, and with par on the basis of one (1) point, will yield 6% per annum according to conversion factor tables prepared and published by the Exchange.

For each individual contract lot that is delivered, the product expression  $(\$2000 \times P \times c)$  shall be rounded to the nearest cent, with half-cents rounded up to the nearest cent.

Example: Assume that *P* is 100 and 25.5/32nds. Assume that *c* is 0.9633. The product expression  $(\$2000 \times P \times c)$  is found to be \$194,195.26259375. The rounded amount that enters into determination of the *Invoice Amount* is \$194,195.26.

In the determination of the *Invoice Amount* for each individual contract lot being delivered, *Accrued Interest* shall be charged to the long Clearing Member taking delivery by the short Clearing Member making delivery, in accordance with 31 CFR Part 306--General Regulations Governing U.S. Securities, Subpart E--Interest. See also Rule 21102.B.

## **21102. TRADING SPECIFICATIONS**

The number of contract expiration months open for trading at a given time shall be determined by the Exchange. Without limiting the foregoing, the Exchange customarily shall list for trading five consecutive expiries in the March-June-September-December quarterly cycle.

### **21102.A. Trading Schedule**

The hours for trading shall be determined by the Exchange. On the last day of trading in an expiring contract (Rule 21102.F.), the close of the expiring contract shall begin at 12:00 noon and trading shall be permitted thereafter for a period not to exceed one minute.

### **21102.B. Trading Unit**

The unit of trading shall be U.S. Treasury notes having a face value at maturity of two hundred thousand dollars (\$200,000) or multiples thereof.

### **21102.C. Price Increments<sup>1</sup>**

Par shall be on the basis of 100 points, with each point equal to \$2,000 per contract. The minimum price fluctuation shall be one-quarter of one thirty-second of one point (equal to \$15.625 per contract), including intermonth spreads. Contracts shall not be made on any other price basis.

### **21102.D. Reserved**

### **21102.E. Position Limits and Position Accountability**

In accordance with Rule 559., no person shall own or control positions in excess of 50,000 contracts in an expiring contract during the contract's last 10 trading days (Rule 21102.F.). No hedge exemptions will be permitted with respect to this position limit.

Position accountability, as defined in Rule 560., will apply to trading of Short-Term U.S. Treasury Note futures.

### **21102.F. Termination of Trading**

The last day of trading in an expiring contract shall be the last business day of the contract's month of expiration. Any contracts remaining open after the last day of trading must be either:

- (a) settled by physical delivery no later than the third business day following the last business day of the contract's named month of expiration (Rule 21103.); or
- (b) liquidated by means of a bona fide Exchange of Futures for Related Position (Rule 538.) no later than 12:00 noon on the business day immediately following the last business day of the contract's named month of expiration.

## **21103. DATE OF DELIVERY**

Delivery of contract grade U.S. Treasury notes may be made by a short Clearing Member upon any business day of the contract delivery month that the short Clearing Member may select. The contract delivery month shall be defined so as to commence on, and to include, the first business day of the contract's named month of expiration, and to extend to, and to include, the third business day following the last business day of the contract's named month of expiration.

## **21104. DELIVERIES ON EXPIRING FUTURES CONTRACTS**

Deliveries against expiring contracts shall be by book-entry transfer between accounts of Clearing Members at qualified banks (Rule 21109.) in accordance with 31 CFR Part 306--General Regulations Governing U.S. Securities, Subpart O--Book-Entry Procedure, and 31 CFR Part 357--Regulations Governing Book-Entry of U.S. Treasury Bonds, Notes and Bills Held in Legacy Treasury Direct®.

Deliveries against an expiring contract can be made no earlier than the first business day of the contract's named month of expiration, and no later than the third business day following the last business day of the contract's named month of expiration (Rule 21103.).

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<sup>1</sup> Revised March 2008; January 2009.

All deliveries must be assigned by the Clearing House.

**21104.A. Day of Intention**

No later than 6:00 p.m. on the second business day preceding the intended day of delivery, the short Clearing Member must tender to the Clearing House all notices of intention to make delivery such as it has received from its customers who are short.

Where a futures commission merchant, as a Clearing Member, has an interest both long and short for customers on its own books, it must tender all such notices of intention to deliver.

To each short Clearing Member who has issued a notice of intention to make delivery, the Clearing House shall assign long Clearing Members who shall be obligated to take delivery. Upon making such assignment, the Clearing House shall promptly furnish to each short Clearing Member making delivery the names of the long Clearing Members assigned to take delivery from such short Clearing Member.

**21104.B. Day of Delivery**

No later than 7:30 a.m. on the day of delivery, the long Clearing Member taking delivery must make funds available, and must notify its bank to accept contract grade U.S. Treasury notes (Rules 21101.A. and 21105.A.) and to remit federal funds to the account of the short Clearing Member making delivery, at the short Clearing Member's bank.

In the event the long Clearing Member taking delivery does not agree with the terms of the invoice received from the short Clearing Member making delivery (Rule 21105.A.), the long Clearing Member must notify the short Clearing Member, and the dispute must be settled no later than 9:30 a.m. on the day of delivery.

No later than 10:00 a.m. on the day of delivery, the short Clearing Member making delivery must have contract grade U.S. Treasury notes (Rules 21101.A. and 21105.) in place at its bank, in delivery form that is acceptable to its bank, and must notify its bank to transfer said U.S. Treasury notes by book entry, on a delivery versus payment basis (Rule 21107.), to the account of the long Clearing Member taking delivery, at the long Clearing Member's bank.

No later than 1:00 p.m. on the day of delivery, contract grade U.S. Treasury notes must be transferred, and payment must be made.

**21105. SELLER'S INVOICE NOTIFICATION TO BUYER**

**21105.A. Invoice Terms**

Each short Clearing Member making delivery shall prepare invoices addressed to each long Clearing Member assigned to take delivery from such short Clearing Member (Rule 21104.A.). Said invoices shall:

- (a) identify the U.S. Treasury notes that the short Clearing Member shall tender to said long Clearing Member; and
- (b) show the amounts which said long Clearing Member must pay to said short Clearing Member in settlement of the actual delivery of said U.S. Treasury notes, based on the delivery prices established by the Clearing House, and adjusted for accrued interest (Rule 21101.B.).

**21105.B. Day of Notification**

In the case of deliveries to be made prior to the last permissible day of delivery (Rule 21103.), each short Clearing Member making delivery shall submit said invoices to the Clearing House by 2:00 p.m. on the business day preceding the day of delivery. In the case of deliveries to be made on the last permissible day of delivery, the short Clearing Member shall submit such invoices to the Clearing House by 3:00 p.m. on the business day preceding the day of delivery. Upon receipt of such invoices, the Clearing House shall promptly furnish them to the long Clearing Members to whom they are addressed.

**21106. BUYER'S BANKING NOTIFICATION TO SELLER**

No later than 4:00 p.m. on the business day preceding the day of delivery, the long Clearing Member taking delivery shall provide the short Clearing Member making delivery with a Banking Notification form which shall include:

- (a) date of delivery;
- (b) identification number and name of the long Clearing Member taking delivery;
- (c) notification number of the Clearing House delivery assignment;

- (d) identification number and name of the short Clearing Member making delivery;
- (e) quantity of the contract being delivered; and
- (f) the long Clearing Member's bank, account number, and specific Federal Wire instructions for the transfer of U.S. Treasury securities.

**21107. PAYMENT**

No later than 1:00 p.m. on the day of delivery, the long Clearing Member assigned to take delivery must take delivery and make payment. In the case of banking holidays, said long Clearing Member must take delivery and make payment no later than 9:30 a.m. on the next banking business day.

Payment shall be made in federal funds on a delivery versus payment basis. That is, payment shall not be made until the U.S. Treasury notes to be tendered for delivery (Rule 21105.A.) are delivered. Adjustments for differences between contract prices and delivery prices established by the Clearing House shall be made with the Clearing House in accordance with its rules, policies, and procedures.

**21108. WIRE FAILURE**

In the event that delivery cannot be accomplished because of a failure of the Federal Reserve wire, or because of a failure of either the long Clearing Member's bank or the short Clearing Member's bank to access the Federal Reserve wire, delivery shall be made before 9:30 a.m. on the next business day on which the Federal Reserve wire, or bank access to it, is operable.

In the event of such failure, the short Clearing Member making delivery shall remit to the long Clearing Member taking delivery such interest on the U.S. Treasury notes being delivered as accrues between the day on which the notes were originally to be delivered and the day on which the notes are actually delivered. Both the long Clearing Member and the short Clearing Member must provide to the Exchange documented evidence that they gave instructions to their respective banks in accordance with Rules 21104. and 21107. and that they complied with all other provisions of Rules 21104. and 21107.

**21109. BANKS**

For purposes of these Rules "qualified bank" (Rule 21104.) shall mean a U.S. commercial bank (either Federal or State charter) that is a member of the Federal Reserve System and that has capital (capital, surplus and undivided earnings) in excess of one hundred million dollars (\$100,000,000).