

INTEREST RATE PRODUCTS

Interest Rate Swap Futures

Overview

Interest Rate Swap futures fill a vital need for exchange-traded derivative contracts that reference intermediate- and long-term swap rates. Covering the 5-Year, 7-Year, 10-Year, and 30-Year tenors, these contracts provide institutional investors with efficient and effective vehicles for hedging credit and interest rate exposure. Interest Rate Swap futures provide users with simple, transparent means to structure and manage a variety of credit spreads and yield curve trades.

Interest Rate Swap futures provide price/yield characteristics comparable to those of a plain vanilla swap, but without the administrative costs. Moreover, the guarantee of CME Clearing mitigates credit risk by serving as the ultimate counterparty to all trades, making it comparable to the strongest credits in the over-the-counter (OTC) market.

About the Contracts

Interest Rate Swap futures employ an internal rate of return formula to express the fixed rate of a forward-starting swap as the price of a 4 percent coupon note. The underlying contract reference is the interest rate for a forward-starting IMM-date interest rate swap. Specifically, it is the par rate for a plain vanilla interest rate swap that exchanges semi-annual fixed-rate payments for 3-month floating-rate payments, and that settles on the third Wednesday (the IMM Wednesday) of the contract's expiration month. Contract specifications call for each contract to be cash-settled with reference to the pertinent ISDA Benchmark Rate on the last day

of trading, the Monday before the third Wednesday of the contract expiration month. ISDA Benchmark Rates are published daily, around 11:30 a.m. Eastern Time (ET), under the sponsorship of the International Swaps and Derivatives Association, Inc.¹

The notional size of each Interest Rate Swap futures contract is \$100,000. They trade in price terms and are quoted in points (\$1,000 per one point), and halves of 32nds of points (\$15.625), with a par price of 100 points per contract. As with

U.S. Treasury futures, the expiration cycle for swap futures is March, June, September and December.

Block Trading

Block trading is now available for Interest Rate Swap futures. Visit www.cmegroup.com/blocks for more information, including minimum thresholds. They are also eligible for a variety of other bilaterally negotiated off-exchange transactions. For more information, consult Rule 538 "Exchange of Futures for Related Positions," in Chapter 5 of the CBOT Rulebook.

Benefits

Standardization – Standardization offers market participants a convenient device for gauging the relative utility and effectiveness of alternative positions and strategies.

Transparency – By making price information available for all to see, Interest Rate Swap futures provide a reference point – and a daily mark-to-market – with unmatched transparency.

Administrative Convenience and Low Operational Cost – Administrative costs and liabilities frequently required in maintaining a book of OTC swaps are eliminated. Moreover, the cash settlement feature means there are no trailing contractual obligations after the futures contract has expired.

High-Grade Credit Exposure – The credit guarantee of CME Clearing makes Interest Rate Swap futures comparable to the strongest

credits in the OTC market, reducing the need for frequently cumbersome bilateral collateralization agreements.

Capital Efficiency – The elimination of credit risk obviates the need for users to reserve significant amounts of capital against the risk of adverse market moves.

Market Participants

- Asset managers
- Hedge funds
- Pension funds
- Banks
- Proprietary trading desks
- Mortgage pass-through traders
- Mortgage originators and services
- Fixed-income portfolio managers
- Users of OTC interest rate swaps

1. ISDA is a registered trademark, and ISDAFIXSM is a registered service mark, of the International Swaps and Derivatives Association, Inc. ISDA Benchmark mid-market par swap rates are collected at 11 a.m. ET by Reuters Limited and ICAP plc and are published on Reuters page ISDAFIX1. Source: Reuters Limited

INTEREST RATE SWAP FUTURES CONTRACT SPECIFICATIONS

Contract Size	The notional price of the fixed-rate side of a 5-Year, 7-Year, 10-Year, or 30-Year interest rate swap, with notional principal equal to \$100,000, that exchanges semiannual interest payments at a fixed rate of 4 percent per annum for floating interest rate payments based on 3-month LIBOR.
Price Basis	Points (\$1,000.00) and halves of 1/32 of one point (\$15.625) of the notional principal of a swap having notional par value of \$100,000. Par is on the basis of 100 points.
Tick Size	Minimum price fluctuations shall be in multiples of one-half of one thirty-second (1/32) point per 100 points (\$15.625 per contract rounded up to the nearest cent) except for intermonth spreads, where minimum price fluctuations shall be in multiples of one-fourth of one thirty-second point per 100 points (\$7.8125 per contract).
Contract Months	The first three consecutive contracts in the March, June, September and December quarterly cycle.
Last Trading Day	The second London business day preceding the third Wednesday of the delivery month. Trading in expiring contracts ceases at 11:00 a.m. ET on the last trading day.
Delivery Standard	The notional price of the trading unit on the last day of trading, based upon the ISDA Benchmark Rate for a 5-Year, 7-Year, 10-Year, or 30-Year U.S. dollar interest rate swap on the last day of trading, as published at approximately 11:30 a.m. ET on Reuters page ISDAFIX1.
Settlement Price	Cash settlement. The final settlement value, measured in price basis points, will be determined as: 5-Year: $100 * [4/r5 + (1 - 4/r5)*(1 + r5/200)^{10}]$ 7-Year: $100 * [4/r7 + (1 - 4/r7)*(1 + r7/200)^{14}]$ 10-Year: $100 * [4/r10 + (1 - 4/r10)*(1 + r10/200)^{20}]$ 30-Year: $100 * [4/r30 + (1 - 4/r30)*(1 + r30/200)^{60}]$ r5, r7, r10, and r30 represent, respectively, ISDA Benchmark Rates for 5-Year, 7-Year, 10-Year and 30-Year U.S. dollar interest rate swaps on the last day of trading, expressed in percent terms. (For example, if the ISDA Benchmark Rate is five and one quarter percent, then r is equal to 5.25.) The final settlement price shall be the final settlement value rounded to the nearest one quarter of one thirty-second of one point.
Trading Hours	Open Outcry: 7:20 a.m. to 2:00 p.m. Central Time (CT), Monday – Friday* CME Globex: 5:30 p.m. to 4:00 p.m. CT Sunday – Friday *7-Year Interest Rate Swap futures contract is traded exclusively on CME Globex.
Ticker Symbols	5-Year: Open outcry: NG CME Globex: SA 7-Year: Open outcry: n/a CME Globex: 7I 10-Year: Open outcry: NI CME Globex: SR 30-Year: Open outcry: NZ CME Globex: I3

For information on Interest Rate Swap futures, visit www.cmegroup.com.

CME GROUP HEADQUARTERS

20 South Wacker Drive
Chicago, Illinois 60606
cmegroup.com
info@cmegroup.com
800 331 3332
312 930 1000

CME GROUP REGIONAL OFFICES

New York	212 299 2000	Houston	713 658 9292	Washington D.C.	202 638 3838
London	+44 20 7796 7100	Singapore	+65 6322 8595	Tokyo	+81 3 5403 4828
São Paulo	+55 11 2565 5999				

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

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