

INTEREST RATE PRODUCTS

Options On Interest Rate Swap Futures

Coming July 13, 2009

Overview

Options on Interest Rate Swap futures are a valuable addition to the risk management toolbox of investment and risk managers, especially those with portfolios exposed to the optionality of mortgages, mortgage securities and certain corporate bonds. Covering futures on the 5-year, 7-year, 10-year and 30-year tenors, these contracts offer corporate treasurers, asset managers, mortgage traders, mortgage servicers and bank treasurers an effective vehicle for accurately controlling medium- and long-term interest rate exposure. For hedge funds, these options offer a flexible, efficient way to express opinions about LIBOR-based volatility while incurring less exposure to basis risk and fewer administrative costs than OTC alternatives.

About the Contracts

Following cash market conventions, options on Interest Rate Swap futures feature European-style exercise, meaning that options can only be exercised on their expiration dates. This provides the marketplace with a familiar tool that has the added benefits of transparency and central counterparty clearing. Options that expire in-the-money are automatically exercised, unless contrary instructions are given to CME Clearing by 6:00 p.m. Central Time (CT) on the last day of trading.

Options on Interest Rate Swap futures are listed with four quarterly and two serial expirations. Quarterly options expire on the same day as the corresponding underlying futures contract, and serial options expire the Friday before the third Wednesday of the option month.

Options on Interest Rate Swap futures are quoted in points (\$1,000 per one point) with a minimum tick size of 1/64th (\$15.625 per

contract). Strike prices are listed in one-point increments to bracket the previous day's settlement price in the underlying futures contract, with the exception of options on 5-Year Swap futures which are listed in one-half point increments. The pricing of these options is analogous to the pricing of the familiar options on U.S. Treasury futures and derives from the pricing of the underlying futures.

Benefits

Efficiency – The credit guarantee and financial safeguards of CME Clearing makes Interest Rate Swap options comparable to the strongest credits in the OTC market, reducing the need for frequently cumbersome bilateral collateralization agreements.

Volatility – Options on 5-, 7-, 10- and 30-Year Swap futures are one of the best ways to accurately take a view on the volatility of mid-term or long-term swap rates. This makes these contracts invaluable tools for trading volatility relationships at different points along the yield curve or across the trading calendar.

Convexity – Of all exchange-traded derivatives, these options best capture the yield-to-price convexity relationship of the underlying swaps. As a result, they give investors a more accurate means to manage the convexity exposure inherent in mortgage securities, mortgage servicing portfolios, swap books and holdings of callable and puttable corporate bonds.

Transparency – By making price information available for all to see, Interest Rate Swap options speed the time and lower the costs of transactions associated with managing the risks of long-dated LIBOR exposure.

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

- Corporate Treasurers
- Asset Managers
- Hedge Funds
- Mortgage Passthrough Traders
- Mortgage Servicers
- Bank Treasury Officers

OPTIONS ON INTEREST RATE SWAP FUTURES CONTRACT SPECIFICATIONS

Contract Reference Size	One 5-Year, 7-Year, 10-Year or 30-Year Interest Rate Swap futures contract of a specified delivery month												
Minimum Fluctuation	Option premium shall trade in Interest Rate Swap futures price points (\$1,000 per contract), with a minimum increment of 1/64th of one point (\$15.625 per contract), rounded up to the nearest cent per contract. For cabinet transactions only, the minimum increment shall be \$1, from a minimum of \$1 to a maximum of \$15 per option contract.												
Strike Prices	<p><i>5-Year Swap options:</i> The minimum strike price range shall be 31 price levels in increments of ½ of one price point, comprising the at-the-money strike price (i.e., closest to the latest futures daily settlement price), plus the next 15 consecutively higher price levels and the next 15 consecutively lower price levels.</p> <p><i>7-Year, 10-Year or 30-Year Swap options:</i> The minimum strike price range shall be 51 price levels in increments of one price point, comprising the at-the-money strike price (i.e., closest to the latest futures daily settlement price), plus the next 25 consecutively higher price levels and the next 25 consecutively lower price levels.</p>												
Contract Months	Four quarterly expiries corresponding to the first four futures delivery months in the Mar-Jun-Sep-Dec quarterly cycle, plus two monthly serial expiries.												
Last Trading Day	<p><i>Mar-Jun-Sep-Dec quarterly expiries:</i> Trading shall terminate at same hour and on same day as the corresponding Interest Rate Swap futures contract.</p> <p><i>Monthly Serial Expiries:</i> 4:00 p.m. CT on Friday before third Wednesday of option expiration month.</p>												
Exercise	European style, i.e., at expiry only. Any option expiring in-the-money shall be automatically exercised, unless specific instructions to the contrary are given to CME Clearing by 6:00 p.m. CT on its last day of trading.												
Expiration	Unexercised options shall expire at 7:00 p.m. CT on their last day of trading.												
Trading Hours	<p>Open Outcry: 7:20 a.m. – 2:00 p.m. CT, Monday – Friday</p> <p>CME Globex: 5:30 p.m. – 4:00 p.m. CT, Sunday – Friday</p>												
Ticker Symbols	<table border="0"> <tr> <td>5-Year:</td> <td>CME Globex: OSA</td> <td>Open Outcry: NGC, NGP</td> </tr> <tr> <td>7-Year:</td> <td>CME Globex: O7I</td> <td>Open Outcry: 7IO</td> </tr> <tr> <td>10-Year:</td> <td>CME Globex: OSR</td> <td>Open Outcry: NIC, NIP</td> </tr> <tr> <td>30-Year:</td> <td>CME Globex: OI3</td> <td>Open Outcry: ONZ</td> </tr> </table>	5-Year:	CME Globex: OSA	Open Outcry: NGC, NGP	7-Year:	CME Globex: O7I	Open Outcry: 7IO	10-Year:	CME Globex: OSR	Open Outcry: NIC, NIP	30-Year:	CME Globex: OI3	Open Outcry: ONZ
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Daily Price Limit	None												
Block Trade / All-or-None Transaction Minimums	500 contracts / 1,000 contracts												
Position Limits / Position Accountability / Reportable Position Levels	None / 15,000 contracts / 5-Year and 10-Year Swap options: 500 contracts. 7-Year and 30-Year Swap options: 25 contracts												

For more information on options on Interest Rate Swap futures, visit www.cmegroup.com/swaptions.

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