CME Group
A CME/Chicago Board of Trade Company

INTEREST RATE PRODUCTS

CBOT Interest Rate Swap Futures

Overview

CBOT Interest Rate Swap futures fill a vital need for exchange-traded derivative contracts that reference intermediate- and long-term swap rates. These contracts covering the 5-year, 10-year and 30-year tenors 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 represent a single point on the swap curve as the price of a 6 percent coupon. The contracts 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 6 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 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. New York Time, 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), 32nds of points ($31.25) 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.

Off-Exchange Trading

Interest Rate Swap futures are eligible for a wide variety of bilaterally negotiated off-exchange transactions. These include Wholesale, Exchange-for-Physical (EFP), Exchange-for-Swap (EFS) and Exchange-for-Risk (EFR) trades. Consult Chapter 5 of the CBOT Rulebook as the authoritative source regarding permissible off-exchange transactions.

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 passthrough traders
- Mortgage originators and services
- Fixed-income portfolio managers
- Users of OTC interest rate swaps

1. ISDA is a registered trademark and ISDAFIX[SM] 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. New Yortk Time by Reuters Limited and ICAP plc and are published on Reuters page ISDAFIX1. Source: Reuters Limited.

CBOT INTEREST RATE SWAP FUTURES CONTRACT SPECIFICATIONS

Contract Size	The notional price of the fixed-rate side of a 5-Year, 10-Year or 30-Year interest rate swap that has notional principal equal to $100,000 and that exchanges semi-annual interest payments at a fixed rate of 6 percent per annum for floating interest rate payments, based on 3-month LIBOR
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). Par shall be on the basis of 100 points. Contracts shall not be made on any other price basis
Price Quote	Points ($1,000.00) and one-half of 1/32 of one point of the notional principal of a swap having notional par value of $100,000. Par is on the basis of 100 points
Contract Months	The first three consecutive contracts in the March, June, September, December quarterly cycle
Last Trading Day	The second London business day preceding the third Wednesday of the delivery month. Trading in expiring contracts close at 11:00 a.m. Eastern Time (ET), on the last trading day
Settlement	The notional price of the Trading Unit on the last day of trading, based upon the ISDA Benchmark Rate for a 5-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* *ISDA Benchmark mid-market par swap rates collected at 11:00 a.m. ET by Reuters Limited and Garban Intercapital plc and published on Reuters page ISDAFIX1. Source: Reuters Limited
Settlement Price	Cash settlement. The final settlement value, measured in price basis points, will be determined as: 5-Year: $\$100{,}000 * [\, 6/r5 + (1 - 6/r5)*(1 + 0.01* r5/2)^{-10} \,]$ 10-Year: $\$100{,}000 * [\, 6/r10 + (1 - 6/r10)*(1 + 0.01* r10/2)^{-20} \,]$ 30-Year: $\$100{,}000 * [\, 6/r30 + (1 - 6/r30)*(1 + 0.01* r30/2)^{-60} \,]$ r5, r10 and r30 represent, respectively, ISDA Benchmark Rates for 5-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
Ticker Symbols	5-Year: Open outcry: NG CME Globex: SA 10-Year: Open outcry: NI CME Globex: SR 30-Year: Open outcry: NZ CME Globex: QS

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

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