Addressing the Five-Year Gap of the U.S. Treasury Bond Futures Delivery Basket

Change to T-Bond Futures Deliverable Grade

On Friday, December 13, 2013, CME Group announced that the 5-3/8s of Feb ’31 will not be eligible for delivery into the June 2015 (Jun ’15), September 2015 (Sep ’15) and December 2015 (Dec ’15) delivery months, in order to address the five-year term-to-maturity gap in the U.S. Treasury Bond (T-Bond) futures Contract Grade. The five-year gap is the result of the absence of 30-Year U.S. Treasury Bond issuance between early 2001 and early 2006.

Excluding this specific bond from delivery eligibility in these three deferred delivery months will prevent a situation of having a single bond isolated as the five-year gap nears the front of the delivery basket. It will also ensure that the changes have only a negligible impact on the overall size of the delivery basket. The following table shows the baskets that will be modified:
CBOT rules provide CME Group the flexibility to exclude issues from the Contract Grade of Treasury futures deliverable baskets. However, CME Group only exercises this authority under unique circumstances.

For example, since February 2009, CME Group has excluded newly auctioned U.S. Treasury 7-Year Notes from being eligible for delivery into 10-Year Treasury Note futures in cases where settlement occurs on or after the last delivery day.

**Timing of the Change**

None of the contracts currently or soon to be listed (Dec ‘13, Mar ‘14, Jun ‘14, Sep. ‘14) will be impacted by the change. The first contract impacted by the change, June 2015 (Jun ’15), will not be listed until September 22, 2014.

**Customer Demand**

On July 18, 2013, CME Group kicked off an extensive evaluation of three proposed paths to address the five-year gap in the Treasury Bond delivery basket. This assessment included canvassing a broad and diverse mix of Treasury Bond futures participants. Based on customer feedback, CME Group determined that the majority of end users prefer that the Treasury Bond futures represent the 15- to 20-year maturity sector. As a result, CME Group concluded that the solution described herein would enable the Treasury Bond futures to continue providing the unique combination of liquidity and duration to market participants.

**Expected Benefits of Solution**

- Minimal change to basket while avoiding a scenario that might induce an inadvertent squeeze
- Maintains the contract’s notional term to maturity exposure at the longer end of the Treasury bond curve (the 15- to 20-year maturity sector)
- Appeals to Long Duration managers who require highly liquid duration management tools along various parts of the long end
- Creates optimal product placement with respect to Ultra T-Bond, T-Bond, and 10-Yr T-Note futures by making T-Bond futures complementary to Ultra T-Bond and 10-Yr T-Note futures
- Gives market participants plenty of time to get ready. June 2015 delivery month will not be listed until September 22, 2014.

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These contacts are listed with, and subject to, the rules and regulations of CBOT.

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