

DATE: October 17, 2022
TO: Clearing Member Firms
FROM: CME Clearing

ADVISORY #: 22-399

SUBJECT: **Clearing Processing for €STR Basis Spread Futures “BTIC+”
Conversion to €STR 3-Month Futures**

On October 31 2022, CME will launch trading in several new products, called **Euro €STR Short-Term Rate Futures (ESR)** and **Euro €STR Short-Term Rate Three-Month Single Contract Basis Spread Futures (EUS)**. They have been available in CME’s “New Release” testing environment since Monday, October 10, 2022.

This advisory describes these new products and explains how they use the BTIC+ processing to convert the €STR Basis Spread Future into the €STR Short-Term Rate Future using a Trade at Marker (TAM). The new Euro Basis Spread Future product is simply a future that **delivers** into a TAM trade.

- €STR Basis Spread futures represents the difference between expected 3-Month Euribor and compounded €STR over the same IMM period and will settle by assigning contract holders into €STR futures of the same month code at a price determined by the final closing price of the spread future and the prevailing 3-Month Euribor benchmark rate. The ESR Spread will expire at 11am London time on IMM Monday.
- €STR 3-Month futures will be cash-settled to the Euro Short-Term Rate compounded and realized in arrears. €STR is a measure of the wholesale euro unsecured overnight borrowing costs of banks located in the euro area.

The Basis Spread futures will allow you to put on a position that will expire into a future-dated quarterly or serial €STR 3-Month futures contract. This is accomplished by trading the EUS contract for the same period code as the desired €STR 3-Month futures product code ESR.

As an example, the **EUS 202211** future, which will deliver into a TAM trade on the November ESR 202211 future on Tuesday November 15. The last day of trading of this EUS future will be the business day immediately prior to the delivery day, namely Monday November 14.

On Friday November 11 you buy 10 contracts in this 202211 EUS future, at a trade price of +0.5075 which is 50.75 basis points, and at the end of the day the contract’s settlement price is +0.6025. Settlement variation is calculated as:

- Settlement price of +0.6025, less trade price of +0.5075, or +0.0950
- Times trade quantity of 10
- Times contract value factor of 2500

yielding a settlement variation amount of 2375.00 EUR.

On the following day, Monday November 14 the final daily settlement price from Friday November 11 will be carried over to the following Monday as the final settlement price such that there will be no subsequent settlement variation calculated on the Basis Spread futures position. Note that any trades done through Monday’s last trade date may result in a cash flow.

Monday November 14 is the last day of trading for the EUS 202211 future, and the final position is long ten contracts. This position will now make delivery of ten contracts – BTIC trades, at a trade price equal to the final settlement price of +0.6025 of the EUS 202211 future.

At approximately 11:00pm CT on Monday November 14, a BTIC trade will be booked in the clearing system for trade date Tuesday November 15, in the November ESR futures contract, with a trade quantity of 10 (a buy), at a BTIC differential price of +0.6025 (the final settlement price of the basis spread contract) plus 100 minus the 3-month Euribor benchmark rate published on Monday November 14, resulting in an ESR assignment price of 99.3555.

This “hybrid transfer” BTIC trade behaves exactly as any other BTIC trade done on Tuesday, November 15. At the end of the day, if the closing value of the 3-month Euribor benchmark rate was determined as 1.247% your final absolute price on your trade in the November ESR future is determined as $100 - 1.247 + 0.6025$ (the differential BTIC trade price), or 99.3555. A FIXML confirmation message will be transmitted to the firm with this as the trade price.

Trade Price = $+0.6025 + (100 - 1.247) = 99.3555$

The FIXML trade confirmation messages provide the trade type as **3** (a “hybrid transfer” – for example **TrdTyp="3"**.) As with any BTIC trade, the trade subtype will be provided as **43**, indicating that this is generically a TAM (Trade-At-Marker) transaction - for example, **TrdSubTyp="43"** – and the product code of the marker contract is provided as **ERM**, indicating that this is a BTIC trade on the Euribor benchmark rate – for example **AltID="ERM" AltIDSrc="112"**.

As with the delivery process for the daily BTIC+ contracts, on the last day of trading, firms may (but are not required to) provide “transformation instructions” for their positions in the expiring Basis Spread futures contracts, specifying a customer account number for each such instruction. If so, the customer account number on the hybrid transfer transaction that establishes the BTIC trade will reflect the value provided on the instruction. The hybrid transfer transaction for any final position for which instructions are not provided, will have the clearing firm’s position account id provided in the customer account field. The client order ID will be **TRANSFORMATION** – for example **CIOrdID="TRANSFORMATION"**.

Also, as with the conversion process for the daily BTIC+ contracts, no fee will be charged for the delivery transfer transaction, indicated using a Transfer Reason Code of **P** – for example, **TrnsfrRsn="P"**

Performance bond (initial margin) requirements for positions in EUS and ESR contracts will be calculated normally using SPAN®.

For further information, please see:

New Contract Notice #19-999 for €STR Basis Spread Futures “BTIC+” Conversion to €STR 3-Month Futures, at:

Special Executive Report S-9059, published September 26, 2022, at:
<https://www.cmegroup.com/content/dam/cmegroup/notices/ser/2022/09/SER-9059.pdf>

Understanding BTIC Trading, at:
<https://www.cmegroup.com/education/courses/trading-at-a-basis-to-an-index-btic-taco/understanding-basis-trade-at-index-close-btic.html>

Basis Trade at Index Close, at:
<https://www.cmegroup.com/trading/equity-index/btic-transactions.html>

Hybrid Transfers and Conversion from Transformation

<https://www.cmegroup.com/clearing/files/hybrid-transfer-workflow-and-specs.pdf>

<https://www.cmegroup.com/clearing/files/BTIC+Hybrid-transfers-samples-real-time-and-FIXML-TR.txt>

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