



Special Executive Report

S-7249

2 December 2014

CBOT Announces Launch of Treasury Invoice Swaps

Effective **Sunday, 14 December 2014**, for first trade date of Monday, 15 December 2014, the Board of Trade of the City of Chicago, Inc. (CBOT or Exchange) shall launch the following new interest rate swap (IRS) products –

Two-Year Treasury Invoice Swaps (Clearing Codes T1A, T2A, T3A),
Five-Year Treasury Invoice Swaps (Clearing Codes F1A, F2A, F3A),
Ten-Year Treasury Invoice Swaps (Clearing Codes N1A, N2A, N3A),
Treasury Bond Invoice Swaps (Clearing Codes B1A, B2A, B3A), and
Long-Term Treasury Bond Invoice Swaps (Clearing Codes U1A, U2A, U3A)

(collectively, Treasury invoice swaps).

A Treasury invoice swap is a forward-starting Libor-reference IRS such that:

The **fixed interest rate** is set with reference to a given Treasury delivery invoice yield (the yield to maturity associated with the delivery invoice price for a specified Treasury futures contract, fulfilled by delivery of a specified deliverable-grade Treasury security, on a specified futures contract delivery date).

Fixed-rate interest payment dates, which occur semiannually subject to 30/360 day count, are scheduled so as to align with the coupon payment dates for the specified deliverable-grade Treasury security (typically, but not always, the Treasury issue that is either cheapest to deliver (CTD) or a close contender for CTD status, in fulfillment of the specified Treasury futures contract).

Floating-rate interest payment dates, which occur quarterly subject to actual/360 day count, also are scheduled so as to align with the coupon payment schedule for the specified deliverable-grade Treasury security.

The Treasury invoice swap is priced, quoted, and dealt in terms of the **swap spread**, the spread between the Treasury delivery invoice yield and the fixed interest rate for the Treasury invoice swap.

CBOT Treasury invoice swaps shall be listed for trading on the CME Globex electronic trading platform (CME Globex) solely in the form of intermarket spreads known as invoice spreads. An invoice spread transaction characteristically entails the simultaneous execution of a Treasury invoice swap and the corresponding relevant CBOT Treasury futures contract. Such invoice spreads shall be listed for trading on CME Globex (Sun-Fri, 5pm to 4pm, Chicago time) and shall be identified by the Clearing Codes cited above. Additionally, market participants may notify the Exchange of block transactions in such invoice spreads via CME ClearPort (Sun-Fri, 5pm to 4:15pm, Chicago time).

Initial listings shall include Treasury invoice swaps for which the corresponding relevant CBOT Treasury futures contracts are for March 2015 delivery.

In the following, Section 1 sets forth the legal and regulatory background relevant to the Exchange's decision to list Treasury invoice swaps for trading as components of intercommodity spreads. Section 2 summarizes contract features and discusses contract structure and function. (Appendix A presents the text of CBOT Rulebook Chapter 58, which sets forth contract terms and conditions.)

Section 3 describes requisite amendments to CBOT Rulebook Chapter 5 in regard to position accountability standards and to non-reviewable ranges that will apply to trading in CBOT Treasury invoice

swap contracts on CME Globex. Section 4 addresses standards that will apply to block trading in invoice spreads that entail Treasury invoice swap contracts and related CBOT Treasury futures contracts. Section 5 summarizes the CME Globex and CME Clearing fees that will apply to CBOT Treasury invoice swap contracts.

(1) Legal and Regulatory Background

CBOT Treasury invoice swaps shall be listed for trading on CME Globex solely in the form of intermarket spreads known as invoice spreads. An invoice spread transaction characteristically entails the simultaneous execution of a Treasury invoice swap and its corresponding relevant CBOT Treasury futures contract. The fixed-rate payer (receiver) exposure in such Treasury invoice swap is counterposed against a long (short) position in the specified relevant Treasury futures contract, such that the interest rate sensitivity of the Treasury invoice swap exposure is approximately equal in magnitude, and opposite in sign, to the aggregate interest rate sensitivity of the Treasury futures exposure.¹

Invoice spreads involving CBOT Treasury futures contracts generally are executed as privately negotiated, voice-mediated package transactions pursuant to CBOT Rule 538, which permits certain Exchange of Futures for Related Position (EFRP) transactions.² Under CBOT Rule 538 an EFRP transaction involves a privately negotiated off-exchange execution of an Exchange-listed futures or option contract and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of the cash product, by-product, related product, or OTC derivative instrument corresponding to the asset underlying the Exchange contract.³

Upon launch of CBOT Treasury invoice swaps, a market participant will be able execute an invoice spread *via* any of the following four means:⁴

- (1) an intercommodity spread competitively executed on the CBOT,
- (2) a privately negotiated block transaction in an intercommodity spread subject to CBOT Rule 526,

¹ Market practitioners generally gauge such interest rate sensitivities in terms of the corresponding DV01s, where the DV01 is the (absolute) dollar value of a change of one basis point per annum, up or down, in the prevailing level of market yields.

² Treasury invoice swaps used in the trading of invoice spreads are subject to the clearing requirement of CEA Section 2(h)(1), but are not currently subject to the trade execution requirement of CEA Section 2(h)(8) (Made Available To Trade Rule, or MAT Rule). Thus, while market participants clear these swaps through derivatives clearing organizations (DCOs), current trading practice is generally to establish invoice spread exposures through the privately-negotiated EFRP mechanism.

³ A long-standing requirement of CBOT Rule 538 is that any swap used as the related position component of an EFRP, among other requirements, must be an over-the-counter swap (the OTC requirement). In light of regulatory changes affecting the swap market as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the Commission's regulations implementing the statute, CBOT clarified this requirement on 31 March 2014 in the FAQ component of its Rule 538 Market Regulatory Advisory Notice (MRAN), which was deemed approved by the Commission under CFTC regulation 40.5 after an extended public comment period. Question and Answer 3 of that FAQ explains, specifically, that because of the OTC requirement swaps executed on or subject to the rules of a SEF or a DCM cannot be used as the related position components of EFRPs.

⁴ Although Treasury invoice swaps are made predominantly with reference to and in connection with CBOT Treasury futures contracts, other invoice spread markets may exist or develop where a Treasury invoice swap is traded as a spread against a Treasury futures contract listed for trading on a DCM other than the CBOT. Thus, the four CBOT transaction avenues outlined here are not exhaustive.

- (3) a (legged) spread transaction in which the futures component is competitively executed on the CBOT and the swap component is executed independently (but at approximately the same time) on a swap execution facility (SEF) or on designated contract market (DCM) other than the CBOT,⁵ or
- (4) a privately negotiated EFRP transaction subject to CBOT Rule 538.

If Treasury invoice swaps were to become subject to the trade execution requirements for swaps codified in the Dodd-Frank Act, then execution of an invoice spread involving a CBOT Treasury futures contract via CBOT Rule 538 may no longer be feasible for many market participants. Specifically, in conjunction with the determination of swaps to be made available to trade (MAT determinations) earlier this year, the staff of the Division of Market Oversight of the Commodity Futures Trading Commission (CFTC or Commission) commented that package trades in which one or more components are MAT swaps are not *per se* excluded from the Dodd-Frank Act trade execution requirements. The Commission subsequently issued no-action relief exempting certain package transactions that include MAT swaps from the trading protocols applicable to MAT swaps.⁶ Currently, such no-action relief applies to the invoice spreads described herein through 14 November 2015.⁷ If a MAT determination for Treasury invoice swaps were to become effective thereafter, market participants required to comply with this CFTC requirement would, at such time, no longer be able to execute the swap leg of a Treasury invoice spread – or the invoice spread itself – via a privately negotiated OTC transaction pursuant to CBOT Rule 538.

Even if CBOT Treasury invoice swaps were to become subject to a MAT determination after 14 November 2015, the applicable rules and regulations noted herein would not prohibit market participants from executing invoice spreads that incorporate CBOT Treasury futures. The array of means by which such invoice spreads could be executed, however, would change for some market participants. Notably, the EFRP mechanism would no longer be available for market participants who are required to comply with the CFTC's trade execution requirement. Such market participants would continue to have access, however, to the remaining three avenues of trade execution identified above.

Importantly, CBOT does not seek a MAT determination with respect to the Treasury invoice swaps that it intends to list for trading. Therefore, absent an eventual MAT filing by another trading venue (either a SEF or a DCM other than the CBOT), and absent the Commission's agreement that such products should be subject to the trade execution requirements, market participants could continue to execute invoice spread transactions involving CBOT listed futures as they do today -- as privately negotiated EFRP transactions compliant with the CEA, CFTC regulations, and CBOT Rule 538.

The CBOT Treasury futures leg of any such invoice spread will be executed on the CBOT DCM, which is required by Section 4(a) of the CEA. CBOT's invoice spread offering described herein will, therefore, comply with all applicable swaps and futures rules and regulations.

⁵ Though this method introduces the potential for "price slippage," spreading technology is widely used for trading strategies that involve execution of two or more different instruments traded on different markets.

⁶ In respect of the class of invoice spreads that are the subject of this Special Executive Report, on 10 February 2014 the CFTC granted such no-action relief on a time-limited basis through 15 May 2014. See CFTC No-Action Letter No. 14-12, available at <http://www.cftc.gov/ucm/groups/public/@newsroom/documents/letter/14-12.pdf>

⁷ In respect of the class of invoice spreads that are the subject of this Special Executive Report, on 1 May 2014 the CFTC extended its earlier grant of no-action relief through 15 November 2014. See CFTC No-Action Letter No. 14-62, available at <http://www.cftc.gov/ucm/groups/public/@llettergeneral/documents/letter/14-62.pdf>. On 10 November 2014 the CFTC further extended such no-action relief through 14 November 2015. See CFTC No-Action Letter No. 14-137, available at <http://www.cftc.gov/ucm/groups/public/@llettergeneral/documents/letter/14-137.pdf>

(2) Treasury Invoice Swaps: Contract Specifications and Design

Exhibits 1 and 2 summarize CBOT Treasury invoice swap contract specifications. (All times of day referenced there and elsewhere in this memorandum are Chicago time, unless otherwise noted.)

Exhibit 1 – CBOT Treasury Invoice Swaps

Trading Unit	USD forward-starting Libor-reference interest rate swap, cleared by CME Clearing, traded on CME Globex, and standardized with reference to: (a) a specified related CBOT Treasury futures contract; (b) coupon rate per annum and maturity date of a specified related Treasury security eligible for delivery into related futures contract (a); and (c) a specified related delivery date allowable under the terms of related futures contract (a).		
Swap Tenors	Related CBOT Treasury Futures Contract	Approximate IRS Tenor	
	UB IS	Long Term "Ultra" Treasury Bond (UB)	25 yrs
	US IS	Treasury Bond (US)	20 yrs
	TY IS	10-Year Treasury Note (TY)	6 yrs 6 mos
	FV IS	5-Year Treasury Note (FV)	4 yrs 3 mos
	TU IS	2-Year Treasury Note (TU)	1 yr 9 mos
Effective Dates	Either first (F) or last (L) delivery date for the related CBOT Treasury futures contract		
		F	L
	UB IS	First bus day of	Last bus day of
	US IS	Mar, Jun, Sep, or Dec	Mar, Jun, Sep, or Dec
	TY IS		Mar: 3 rd bus day of Apr
	FV IS	First bus day of	Jun: 3 rd bus day of Jul
	TU IS	Mar, Jun, Sep, or Dec	Sep: 3 rd bus day of Oct
			Dec: 3 rd bus day of Jan
Price Basis	Swap spread, quoted in basis points per annum		
Minimum Price Increment	1/10 th of one basis point per annum, eg, 11.8, 11.9, 12.0, 12.1		
Termination of Trading	Coincident with termination of trading in the related Treasury futures contract, if the related delivery date is the futures contract's last delivery date.		
	Close of trading on second business day before first delivery date of the related Treasury futures contract, if the related delivery date is the futures contract's first delivery date.		
Swap Elections	See Exhibit 2.		
Trading Hours	CME Globex: 5pm to 4pm, Sun-Fri. CME Globex Trade Match Algorithm: First In First Out (FIFO) CME ClearPort: 5pm to 4:15pm, Sun, Fri. For submission of block trades only.		
Commodity Codes	Initial Contract Listing	Secondary Contract Listing	Tertiary Contract Listing
	UB IS	U1A	U2A
	US IS	B1A	B2A
	TY IS	N1A	N2A
	FV IS	F1A	F2A
	TU IS	T1A	T2A
			U3A
			B3A
			N3A
			F3A
			T3A

Exhibit 2 – CME Clearing Elections for CBOT Treasury Invoice Swaps

Effective Date	Either first delivery date or last delivery date allowable for a specified related CBOT Treasury futures contract.
Currency	USD
Notional Amount	Minimum increments of \$0.01
Business Day(s)	New York and London
Business Day Convention	Modified Following
Termination Date	Maturity date for a specified related Treasury security eligible for delivery into the related CBOT Treasury futures contract
Fixed Rate Payment Dates	All semiannual period dates made with reference to Termination Date, within interval starting with (and excluding) Effective Date and ending with (and including) Termination Date.
Fixed Rate	(Treasury futures contract delivery invoice yield) + (Treasury invoice swap spread / 100).
Fixed Rate Day Count	30/360
Floating Rate Payment Dates	All quarterly period dates made with reference to Termination Date, within interval starting with (and excluding) Effective Date and ending with (and including) Termination Date.
Floating Rate Option	USD-LIBOR-BBA
Floating Rate Designated Maturity	3-Month except for Initial Floating Rate Payment
Floating Rate Day Count	Actual/360
Floating Rate Spread	None
Compounding	None
Initial Floating Rate Payment	(a) Set by linear interpolation, on the basis of actual/360 day count, with respect to New York and London Business Days subject to Modified Following Business Day Convention, (b) applied to two (2) USD-LIBOR-BBA values for notional settlement on Effective Date, (c) where one such USD-LIBOR-BBA value is for the standardized Designated Maturity date next preceding the date of the Initial Floating Rate Payment, and the other such USD-LIBOR-BBA value is for the standardized Designated Maturity date next following the date of the Initial Floating Rate Payment. Interpolation typically will be applied to pairs of USD-LIBOR-BBA values for Designated Maturities of two (2) months and three (3) months, or of one (1) month and two (2) months, or of one (1) week and one (1) month.

(2.1) Swap Structure

Each CBOT Treasury invoice swap listed for trading on CME Globex shall be tradable solely in the form of intermarket spreads known as invoice spreads and shall be standardized in terms of: (a) a specified related CBOT Treasury futures contract, (b) the coupon rate per annum and maturity date of a specified related Treasury security eligible for delivery in fulfillment of the related futures contract (a), and (c) a specified delivery date allowable under the terms of the related futures contract (a). Each such Treasury invoice swap shall be designated by an alias that conveys these attributes.

Examples

2-Year Treasury Invoice Swap: TUU4F015030JUN16

The swap is specified in terms of CBOT 2-Year Treasury Note futures for Sep 2014 delivery, on the premise that the related Treasury note to be delivered in fulfillment of contract will be 1-1/2% of 30 June 2016, and that the related futures delivery date (and swap effective date) will be the futures contract's first allowable delivery day, 2 September 2014. The swap tenor (from the swap

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effective date, 2 September 2014, to the related Treasury security's maturity date, 30 June 2016) is approximately 1 year 10 months.

TUU4 Related Treasury futures contract:
 CBOT 2-Year Treasury Note futures (TU) for delivery in September 2014 (U4).

0150 Indicates that coupon rate per annum of related Treasury note is 1-1/2%.

30JUN16 Indicates that maturity date of related Treasury note is 30 June 2016.

F Related futures delivery date = Swap effective date:
 First (F) delivery date for TUU4 (Tue, 2 September 2014).

16-Year Treasury Invoice Swap: USU4L062515MAY30

The swap is specified in terms of CBOT Treasury Bond futures for Sep 2014 delivery, on presumption that the related Treasury bond to be delivered in fulfillment of contract will be 6-1/4% of 15 May 2030, and that the related futures delivery date (and swap effective date) is the futures contract's last delivery day, 30 Sep 2014. The resultant swap tenor (from the swap effective date, 30 September 2014, to the related Treasury security's maturity date, 15 May 2030) is approximately 15 years 7-1/2 months.

USU4 Related Treasury futures contract:
 CBOT Treasury Bond futures (US) for delivery in September 2014 (U4).

0625 Indicates that coupon rate per annum of related Treasury note is 6-1/4%.

15MAY30 Indicates that maturity date of related Treasury note is 15 May 2030.

L Related futures delivery date = Swap effective date:
 Last (L) delivery date for USU4 (Tue, 30 September 2014).

For each CBOT Treasury invoice swap structure listed for trading, the three elements of standardization identified above shall be set by the Exchange when the swap is initially listed, and shall stand unchanged through termination of trading in such swap on the CBOT.

Each such CBOT Treasury invoice swap shall be identified by a Clearing Code. As noted in the summary of contract specifications on page 4 above, moreover, the Exchange defines multiple (initial, secondary, and tertiary) Clearing Codes. These enable the Exchange to list multiple Treasury invoice swap structures in connection with any given Treasury futures contract, to accommodate the needs of market participants.

For example, for (a) a given CBOT 10-Year Treasury Note futures contract for a given delivery month, the Exchange might initially list a Treasury invoice swap (N1A) standardized in terms of (b) the coupon rate per annum and maturity date of the deliverable-grade Treasury note that is, at the time, cheapest to deliver (CTD) into the futures contract, for (c) forward start on the futures contract's last delivery date. If market conditions subsequently change so that a second deliverable-grade Treasury note emerges as the futures contract's CTD issue, the Exchange would have the capability to list a secondary Treasury invoice swap (N2A) corresponding to the same futures contract, for the same contract delivery date, that is standardized in terms of coupon rate and maturity date of the successor CTD security.

(2.2) Swap Fixed Interest Rates

The fixed interest rate for any CBOT Treasury invoice swap would be based on the invoice swap rate, r , established through centralized and competitive trading of the corresponding invoice spread package as follows:

$$r = y + s$$

r Treasury invoice swap fixed rate per annum, accruing on 30/360 day count basis.

y forward starting yield to maturity of the related Treasury security, for forward start on the related futures delivery date, with the yield based upon the CME Last (C-Last) price of the Treasury invoice swap's related Treasury futures contract, as of the timestamp of the Treasury invoice swap transaction.⁸

s Treasury invoice swap spread

The Treasury invoice swap spread, s , is the price measure by which a CBOT Treasury invoice swap is quoted and transacted. (Because the invoice swap spread is quoted in basis points per annum, s is the quoted spread divided by 100.)

Examples

On an arbitrarily chosen date in February 2014, consider a hypothetical Treasury invoice swap specified in terms of delivery of 3-5/8% of 15 Feb 2021 Treasury note, in fulfillment of March 2014 10-Year Treasury Note futures (TYH4), on 31 March 2014 (TYH4's last delivery date). Assume TYH4 is priced so that the forward-starting yield to maturity for the specified related Treasury note (based on the delivery invoice amount for the Treasury note implied by the futures contract's market price) is 2.2515 percent per annum (where the forward start date is the specified related Treasury futures contract's last delivery date, 31 March 2014). Assume the related invoice swap spread is priced at 11.0 basis points (equal to 0.11 percent) per annum. The resultant Treasury invoice swap is booked at a fixed rate of 2.3615 percent per annum, equal to the Treasury delivery invoice yield of 2.2515 percent plus a swap spread of 0.1100 percent.

Similarly, consider a hypothetical Treasury invoice swap for which the specified related futures contract is the same (TYH4), and the specified related delivery date is the same (TYH4's last delivery date), but for which the specified related Treasury note is 2-5/8% of 15 Nov 2020. Assume market conditions, including TYH4's price, are such that the forward-starting yield to maturity for the Treasury note (calculated, as before, on the basis of the delivery invoice amount for the Treasury note, as implied by the market price of the futures contract) is 2.2080 percent per annum. Assume as before that the price of the invoice spread is 11.0 bps per annum. The Treasury invoice swap is booked at a fixed rate 2.3180 percent per annum, equal to the Treasury delivery invoice yield of 2.2080 percent plus 0.1100 percent.

⁸ The C-Last price for a CBOT Treasury futures contract is the contract's latest trade price, or actionable price indication, or settlement price. Specifically, the C-Last price is the most recent of:

- (i) the contract's latest CME Globex transaction price, or
- (ii) the CME Globex bid price that betters the bid side of the market, or
- (iii) the CME Globex asking price that betters the ask side of the market, or
- (iv) the contract's latest daily settlement price.

In respect of items (ii) and (iii), a bid that betters the market is understood to be a bid to buy at a higher price than the incumbent C-Last price. Similarly, a better ask price is an offer to sell at a price below the preceding C-Last price.

(2.3) Trading Treasury Invoice Swaps

Any party entering an order for or executing a transaction in any CBOT Treasury invoice swap, or in any intercommodity spread that entails a CBOT Treasury invoice swap, shall be required to be either a CME IRS Clearing Member or an IRS Participant registered with CME. CBOT Treasury invoice swaps shall not be available for trading in open outcry.

Trading in CBOT Treasury invoice swaps shall be subject, moreover, to three provisional restrictions, codified as interpretations and special notices to the contract terms and conditions. See Appendix A.

First, CBOT Treasury invoice swap contracts shall be permitted to trade *only* as components of intercommodity spreads with the corresponding related Treasury futures contracts, until such time as the Exchange may decide, in light of the needs of market participants among other considerations, to enable outright trading in Treasury invoice swaps. Specifically, any party entering a CBOT Treasury invoice swap as the payer of fixed-rate interest shall be required to be a purchaser of the related Treasury futures contract through an intercommodity spread. Conversely any party entering a CBOT Treasury invoice swap as the receiver of fixed-rate interest shall be required to be a seller of the related Treasury futures contract.

Second, the trading unit for any Treasury swap shall be prescribed by the Exchange from time to time so that the order of magnitude of such swap's notional principal amount is comparable to the order of magnitude of the unit of trade for the corresponding related Treasury futures contract. Without limitation, the intent of this restriction is to enable the Exchange to establish a Treasury invoice swap's unit of trade so that the DV01 of the swap structure is approximately comparable to the DV01 of the related Treasury futures contract exposure.

Third, the *only* admissible price basis for quoting or trading a CBOT Treasury invoice swap contract shall be the corresponding Treasury invoice swap spread, as described and exemplified in Section (2.2) above. Any Treasury invoice swap transacted at a given Treasury invoice swap spread shall be submitted to CME Clearing for clearing and guarantee at fixed rate interest rate equal to the sum of (a) the swap spread (in percent per annum terms) plus (b) the forward-starting yield to maturity of the related Treasury security, for forward start on the related futures delivery date, where such yield to maturity shall be based upon the C-Last price of the swap's related Treasury futures contract as of the timestamp of the Treasury invoice swap transaction.

(3) Position Accountability Standards and Globex Non-Reviewable Trading Ranges

CBOT Treasury invoice swaps shall not be subject to position limits. Any Treasury invoice swap executed on the CBOT shall be subject to a position accountability threshold of \$1, expressed in terms of the US dollar value of swap notional principal value. Non-reviewable ranges for trading in CBOT Treasury invoice swaps on CME Globex shall be as set forth in Exhibit 3.

Exhibit 3 – Amendments to CBOT Rule 588.H. Globex Non-Reviewable Trading Ranges

(Additions are shown in underline font.)

Interest Rate Swaps

Instrument	Globex Symbol	Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Ticks
...
<u>Two-Year Treasury Invoice Swap</u>	<u>T1A, T2A, T3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<u>Five-Year Treasury Invoice Swap</u>	<u>F1A, F2A, F3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<u>Ten-Year Treasury Invoice Swap</u>	<u>N1A, N2A, N3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<u>Treasury Bond Invoice Swap</u>	<u>B1A, B2A, B3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<u>Long-Term Treasury Bond Invoice Swap</u>	<u>U1A, U2A, U3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
...

(4) Block Trade Standards

Intermarket spreads that combine CBOT Treasury invoice swaps and the corresponding relevant CBOT Treasury futures will be eligible for execution as privately negotiated block trades, subject to the following two conditions.

First, for any block transaction in an intercommodity spread comprising a CBOT Treasury invoice swap and a related CBOT Treasury futures contract, the minimum size for each leg of such block transaction shall be no less than the minimum size threshold for block transactions in such CBOT Treasury invoice swap (where minimum size shall be understood to apply to the aggregate of contract notional face value in the case of the CBOT Treasury futures component of such intercommodity spread, and to the size of swap notional principal in the case of the CBOT Treasury invoice swap component of such intercommodity spread).

Second, contingent trade in CME Cleared interest rate swaps, including CBOT Treasury invoice swaps, is prohibited, irrespective of the trading venue in which such CME Cleared interest rate swaps may be executed, for which the effect of such contingent trade would be to circumvent minimum quantity requirements for block trades in outright CBOT Treasury futures.

Standards for block trades in such intermarket spreads are displayed in Exhibit 4.

Exhibit 4 – Block Trade Standards for CBOT Treasury Invoice Swaps and Swap Spreads

<i>Intercommodity Spread</i>	<i>Minimum Block Trade Threshold -- Invoice Swap Notional Principal Amount (\$ mlns)⁹</i>	<i>Minimum Block Trade Threshold – Treasury Futures Contracts</i>
Two-Year Invoice Spread	460	2,300
Five-Year Invoice Spread	240	2,400
Ten-Year Invoice Spread	170	1,700
Treasury Bond Invoice Spread	120	1,200
Ultra Bond Invoice Spread	120	1,200

⁹ See 17 CFR Part 43, Procedures To Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades, 31 May 2013, effective 30 July, 2013, available at <http://www.cftc.gov/LawRegulation/DoddFrankAct/Dodd-FrankFinalRules/ssLINK/2013-16938a>

(5) Exchange Fees

The fees that will apply to trading and clearing CBOT Treasury invoice swaps are summarized below –

CME Globex execution fees

A CME Globex transaction fee of \$0.10 per swap contract side shall be levied per \$100,000 of principal amount of any CBOT Treasury invoice swap that is transacted. This fee shall apply as a flat rate, irrespective of the CBOT membership category of any party to such transaction.

CME Clearing fees

Any CBOT Treasury invoice swap shall be subject to such CME IRS Clearing fees (ie, the High Turnover Schedule, the Standard Fee Schedule, or the Magellan Dealer schedule) as may apply to any party to a transaction in such Treasury invoice swap. CME OTC Cleared IRS Customer Fee Details that are in effect at any given time are available at:
<http://www.cmegroup.com/trading/interest-rates/files/CME-IRS-Customer-Fee.pdf> or at
<http://www.cmegroup.com/trading/interest-rates/cleared-otc-irs-customer-fees.html>

Block trade surcharges

A surcharge of \$0.25 per swap contract side shall be levied per trading unit of any CBOT Treasury invoice swap made through a block transaction.

Any CBOT Treasury futures contract that is traded through an intercommodity spread with a CBOT Treasury invoice swap shall be subject to such applicable CBOT transaction fees, surcharges, and clearing fees as are in effect at the time of transaction. The CBOT Transaction Fee Schedules for Financial Products, and for Ex-Pit Surcharges, Non-Trades, and Clearing Fees that are in effect at any given time are available at <http://www.cmegroup.com/company/clearing-fees/>

Please refer questions on CBOT Treasury invoice swaps and invoice spreads to:

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Appendix A CBOT Rulebook Chapter 58 – Treasury Invoice Swaps

58100. SCOPE OF CHAPTER

This chapter is limited in application to trading of Treasury Invoice Interest Rate Swaps (“Treasury Invoice Swaps”). Procedures for trading, clearing, settlement, and any other matters not specifically covered herein, shall be governed by the general rules of the Exchange and of Chicago Mercantile Exchange (“CME”) Rulebook Chapters 8F, 8G, 900, and 901, as applicable (“Rules”).

Capitalized terms in this Chapter that are not otherwise defined in this Chapter shall have the meanings given to such terms in other Chapters of the Rules. Except as noted, references in this Chapter to Rules or Chapters shall be to the Rules of the CBOT or to the Chapters of the CBOT Rulebook. Capitalized terms in this Chapter that are not otherwise defined in this Chapter or in the other Chapters of the Rules shall have the meanings set forth in the ISDA Definitions (CME Rule 90002.N.).

Except as noted, all times referenced in this Chapter are Chicago times and are subject to change by the Exchange.

58101. CONTRACT SPECIFICATIONS

58101.A. Definitions

1. CBOT Treasury Futures Contract

Short-Term U.S. Treasury Note (2-Year) futures (Chapter 21), Medium-Term U.S. Treasury Note (5-Year) futures (Chapter 20), Long-Term U.S. Treasury Note (6 ½ to 10-Year) futures (Chapter 19), U.S. Treasury Bond futures (Chapter 18), or Long-Term U.S. Treasury Bond futures (Chapter 40) listed for trading on the CBOT.

2. Related Futures Contract

For a given Treasury Invoice Swap made under these rules, a given CBOT Treasury Futures Contract (Rule 58101.A.1.) for a given delivery month as specified in the Swap Elections for such Treasury Invoice Swap, including but not limited to the Effective Date (Rule 58101.B.1.), Fixed Rate Payment Dates (Rule 58101.B.7.), Floating Rate Payment Dates (Rule 58101.B.10.), and Initial Floating Rate Payment (Rule 58101.B.16.).

3. Related Treasury CUSIP

A given Treasury security designated by the Exchange as eligible for delivery in fulfillment of the Related Futures Contract (Rule 58101.A.2.).

4. Related Futures Delivery Date

A given date allowable for delivery of Treasury securities in fulfillment of the Related Futures Contract (Rule 58101.A.2.). Without limitation to the foregoing, such Related Futures Delivery Date typically shall be either the first delivery date or the last delivery date allowable under the terms of such Related Futures Contract.

58101.B. Swap Elections

Any contract made under these Rules shall be an Interest Rate Swap Contract (“IRS Contract” per CME Rule 90002.J.) that is accepted for clearing by the Clearing House subject to CME Rulebook Chapters 8F, 8G, 900, and 901, and that is subject to the following Contract Elections (CME Rule 90002.F.):

1. Effective Date: A specified Related Futures Delivery Date (Rule 58101.A.4.) for a specified Related Futures Contract (Rule 58101.A.2.).

2. Currency: US dollars (CME Rule 90102.B.).
3. Notional Amount: Any integer multiple of \$0.01.
4. Business Day(s): New York and London.
5. Business Day Convention: Modified Following.
6. Termination Date: Maturity date of a given Related Treasury CUSIP (Rule 58101.A.3.).
7. Fixed Rate Payment Dates: All semiannual period dates, made with reference to a given Termination Date (Rule 58101.B.6.), in the interval beginning with and not including the Effective Date (Rule 58101.B.1.) and ending with and including such Termination Date.
8. Fixed Rate: See Rule 58102.C.
9. Fixed Rate Day Count: 30/360.
10. Float Rate Payment Dates: All quarterly period dates, made with reference to a given Termination Date (Rule 58101.B.6.), in the interval beginning with and not including the Effective Date (Rule 58101.B.1.) and ending with and including such Termination Date.
11. Floating Rate Option: USD-LIBOR-BBA (CME Rule 90102.E.1.).
12. Designated Maturity: Three (3) months, subject to Rule 58101.B.16.
13. Floating Rate Day Count: Actual/360.
14. Spread: None.
15. Compounding: None.
16. Initial Float Rate Payment: The floating rate for determination of the Initial Floating Rate Payment shall be set:
 - (a) by linear interpolation, on the basis of Actual/360 Floating Rate Day Count (Rule 58101.B.13.) with respect to New York and London Business Days (Rule 58101.B.4.) subject to the Modified Following Business Day Convention (Rule 58101.B.5.),
 - (b) applied to two (2) USD-LIBOR-BBA values for notional settlement on the Effective Date (Rule 58101.B.1.),
 - (c) where one such USD-LIBOR-BBA value is for the standardized Designated Maturity date next preceding the date of such Initial Floating Rate Payment, and the second such USD-LIBOR-BBA value is for the standardized Designated Maturity date next following the date of such Initial Floating Rate Payment.

Without limitation to the foregoing, such interpolation typically will be applied to pairs of USD-LIBOR-BBA values for Designated Maturities of two (2) months and three (3) months, or of one(1) months and two (2) months, or of one (1) week and one (1) month.

58102. TRADING SPECIFICATIONS

For Treasury Invoice Swap contracts made under these Rules, the number of Effective Dates (Rule 58101.B.1.) and Termination Dates (Rule 58101.B.6.) open for trading at a given time shall be determined by the Exchange.

Trading in any Treasury Invoice Swap contract made under these Rules shall be subject to the Interpretations & Special Notices Relating to Chapter 58.

58102.A. Trading Schedule

The hours of trading shall be determined by the Exchange.

58102.B. Trading Unit

The contract quantity shall be an integer multiple of \$0.01 of Notional Amount (Rule 58101.B.3.), subject to the Interpretations & Special Notices Relating to Chapter 58.

58102.C. Price Basis

Any price quoted or made in connection with creation of a Treasury Invoice Swap contract under these Rules shall be in terms of the Fixed Rate for such swap (Rule 58101.B.8.), subject to the Interpretations & Special Notices Relating to Chapter 58.

58102.D. Position Limits and Position Accountability

The applicable position limits and/or accountability levels are set forth in the Position Limit and Position Accountability Table in the Interpretations & Special Notices Section of Chapter 5.

A person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

58102.E. Termination of Trading

Trading on CBOT in any Treasury Invoice Swap made under these Rules shall terminate with termination of trading in the Related Futures Contract (Rule 58101.A.2.) corresponding to such Treasury Invoice Swap.

58103. CLEARING GUARANTEE

58103.A. Requirements for Market Participation

Any party entering an order for, or executing a transaction in, any Treasury Invoice Swap made under these Rules shall be either an IRS Clearing Member (CME Rule 90002.I) or an IRS Participant registered with CME pursuant to CME Rule 90005.A or CME Rule 90005.B, respectively.

58103.B. IRS Product Account Registration

Any order for, or transaction in, a Treasury Invoice Swap made under these Rules must be identified with an IRS Product account number that identifies the holder of such IRS Product account, and that specifies whether such IRS Product account is either (1) a proprietary account of an IRS Clearing Member or (2) held by a customer registered with CME by an IRS Clearing Member as an IRS Participant (CME Rule 8F009. and CME Rule 90005.B.). Such IRS Clearing Member shall guarantee and assume complete responsibility for the financial obligations of the party on whose behalf such order or trade is entered.

58103.C. Clearing House Financial Safeguards

Any Treasury Invoice Swap made under these Rules shall be an IRS Product subject to the Clearing House financial safeguards provided by the IRS Guaranty Fund.

INTERPRETATIONS & SPECIAL NOTICES RELATING TO CHAPTER 58

1. Trading Specifications

Until such time as the Exchange shall enable outright trading in Treasury Invoice Swap contracts made under these Rules, trading in any such Treasury Invoice Swap contract shall be permitted only where such Treasury Invoice Swap contract is traded as a component of an intercommodity combination with the corresponding Related Futures Contract (Rule 58101.A.2.) in which (a) any party entering such Treasury Invoice Swap as the payer of Fixed Rate interest (Rule 58101.B.8.) shall be a purchaser of such Related Futures Contract, and (b) any party entering such Treasury Invoice Swap as the receiver of Fixed Rate interest shall be a seller of such Related Futures Contract.

2. Trading Unit

Subject to Special Notice 1. for Trading Specifications of these Interpretations & Special Notices, the Trading Unit for any Treasury Invoice Swap contract made under these Rules shall be as prescribed by the Exchange from time to time.

Without limitation to the foregoing, the Exchange typically shall prescribe the Trading Unit for such Treasury Invoice Swap contract so that the order of magnitude of the corresponding Notional Amount (Rule 58101.B.3.) shall be comparable to the order of magnitude of the Trading Unit for the corresponding Related Futures Contract. (See CBOT Rule 21102.B. where such Related Futures Contract is Short-Term U.S. Treasury Note (2-Year) futures, CBOT Rule 20102.B. where such Related Futures Contract is Medium-Term U.S. Treasury Note (5-Year) futures, CBOT Rule 19102.B. where such Related Futures Contract is Long-Term U.S. Treasury Note (6 ½ to 10-Year) futures, CBOT Rule 18102.B. where such Related Futures Contract is U.S. Treasury Bond futures, or CBOT Rule 40102.B. where such Related Futures Contract is Long-Term U.S. Treasury Bond futures.)

3. Price Basis

Subject to Special Notice 1. for Trading Specifications of these Interpretations & Special Notices, the Price Basis for any Treasury Invoice Swap contract under these Rules shall be the corresponding Swap Spread. Such Swap Spread shall be quoted and made as an integer multiple of one tenth (1/10) of one interest rate basis point per annum (1/100th of one percent per annum), on the basis of 30/360 day count (Rule 58101.B.9.), with semiannual compounding of interest (Rule 58101.B.7.). Any such Swap Spread shall be quoted in a minimum increment of one tenth (1/10) of one basis point per annum (eg, 10.9, 11.0, 11.1, or 11.2 basis points per annum).

Where a Treasury Invoice Swap contract is made at a given Swap Spread:

3.a. The **Fixed Rate** of interest (Rule 58101.B.8.) for such Treasury Invoice Swap contract shall be the sum of such Swap Spread, re-expressed in terms of interest rate per annum, plus the corresponding Treasury Delivery Invoice Yield.

Example: Assume that a given CBOT Treasury Invoice Swap trades at a price equal to 11.2 basis points per annum or, equivalently, 0.112 percent per annum. Assume moreover that for the corresponding Related Futures Contract, Related Treasury CUSIP, and Related Futures Delivery Date, the Treasury Delivery Invoice Yield is equal to 2.550 percent per annum. Then such Treasury Invoice Swap shall be submitted to CME Clearing for centralized clearing and guarantee at a Fixed Rate of 2.662 percent per annum, equal to 2.550 percent plus 0.112 percent.

3.b. Such **corresponding Treasury Delivery Invoice Yield** shall be defined as the yield to maturity that corresponds to the delivery invoice amount implied by the market price of the corresponding Related Futures Contract (Rule 58101.A.2.), to be fulfilled by delivery of the corresponding Related Treasury CUSIP (Rule 58101.A.3.) for settlement on the corresponding Related Futures Delivery Date (Rule 58101.A.4.).

3.c. Such **market price of the corresponding Related Futures Contract** shall be defined as the CME Last price of such Related Futures Contract, as indicated on the CME Globex electronic trading platform at the time of transaction of such Treasury Invoice Swap contract. Without limitation to the foregoing, for a given Related Futures Contract the CME Last price shall be the most recent of:

- (i) such Related Futures Contract's latest CME Globex transaction price, or
- (ii) the CME Globex bid price that betters the bid side of the market, or
- (iii) the CME Globex asking price that betters the ask side of the market, or
- (iv) such Related Futures Contract's latest daily settlement price.