

FTSE 100 Adjusted Interest Rate (AIR) Total Return futures

UK EQUITY INDEX TOTAL RETURN SWAP EXPOSURE, NOW WITH A FLOATING RATE

FTSE 100 Adjusted Interest Rate (AIR) Total Return futures (TRF) are designed to give you total return exposure with an overnight floating rate built in, using SONIA as the financing reference rate. Offering European equity benchmark exposure, the enhanced contract design provides similar economics to an equity index total return swap with the margin efficiency of listed futures.

KEY FEATURES



Reduce UMR-related risks

Capital-efficient total return equity index swap exposure with a low initial margin and curtailed dividend risk.



Replicate OTC TRS market exposure

Trading convention reminiscent of the OTC TRS market through use of Basis Trade at Index Close (BTIC) transactions.



Increase capital efficiency

Save on potential margin offsets with other benchmark CME Group Equity Index products.



Add versatility to manage total return exposure

Expand your trading choices with our growing suite of Total Return futures, including vanilla Total Return futures, S&P 500 AIR TRF, and new FTSE 100 AIR TRF.

How AIR Total Return futures work

AIR Total Return futures have a known maturity date, and its valuation will be based on three key components: the underlying equity index, accrued financing rate, and a financing spread adjustment that follows this basic formula:

- **Equity index value** – will always be the official index daily close.
- **Accrued financing** – represents the sum of the daily accrued financing from the product's listing date, accrued daily based upon the benchmark reference rate (SONIA).

The sum is incorporated into the daily settlement of the product and netted with the equity index performance as shown above – giving the AIR TRF buyer the index exposure minus the sum of the accrued daily financing to date.

- **Financing spread adjustment** – represents the amount the counterparties will agree to lock into a spread +/- to the reference rate (TRF spread) for the remaining time to maturity.

The spread rate will be determined primarily by the rebate value the market ascribes to the value of the underlying index's stocks. Thus, the TRF spread is equivalent to the spread that would be charged above or below the benchmark reference rate in an equity index swap.

Figure 1: FTSE 100 AIR TRF Mechanics

Buyer receives FTSE equity index returns (includes dividends within the index) minus SONIA funding



AIR Total Return futures quoting and trading notation

Market participants will trade the TRF spread price (st) directly (see "settlement procedures" in the contract specifications section). The quoting notation will be the TRF spread expressed in basis points (rather than index points). The TRF spread will be available to trade in 0.5 basis point increments. Once the TRF spread is consummated, it will be converted into an AIR TRF price by the exchange. The resulting cleared price of the future is computational and occurs on a trade by trade basis.

Trading mechanism

Tradable via spread-quoted BTIC only (CME Globex and ex-pit). Minimum block size is 50.

CONTRACT SPECIFICATIONS	
CONTRACT UNIT	£10 x FTSE 100 AIR Total Return Index Price
UNDERLYING INDEX	FTSE 100 Total Return Index (UKXDUK)
REFERENCE RATE	Sterling Overnight Index Average (SONIA)
TRADING QUOTATION	TRF spread in basis points expressed as an annualized number
TRADING HOURS	CME Globex: Outright: Sunday - Friday 5:00 p.m. - 4:00 p.m. Central Time (CT) BTIC: Sunday - Friday 5:00 p.m. (CT) - 4.30 p.m. London Time (10:30 a.m./11:30 a.m. (CT) Clearport: Outright: Sunday - Friday 5:00 p.m. - 5:45 p.m. (CT) BTIC: Sunday - Friday 5:00 p.m. (CT) - 4.30 p.m. London Time (10:30 a.m./11:30 a.m. CT)
MINIMUM PRICE FLUCTUATION	0.5 basis points in terms of TRF spread The resultant cleared AIR TRF future price will be rounded to two decimals. Outright futures = 0.01 index points
PRODUCT CODE	CME Globex: AFR CME ClearPort: AFR Clearing: AFR BTIC: AFT
LISTED CONTRACTS	Quarterly contracts listed for nine quarters and five additional December contract months.
SETTLEMENT METHOD	Financially settled
TERMINATION OF TRADING	Trading terminates on the third Friday of the contract month. BTIC: Trading terminates on the business day prior to the third Friday of the contract month.
SETTLEMENT PROCEDURES	Daily settlement price of contract shall be determined based on the following formula: $= (UKXDUK_t - AF_t) + UKXDUK_t \times \tau_t \times s_t^{settle}$ where the Spread Settle (s_t^{settle}) for the day shall be determined based on market activities (quotes, traded price) or prior day settle if no market activities and AF_t is the sum of accrued daily overnight financing until settlement. Final settlement price shall be determined based on the following formula: $UKXDUK_T^{EDSP} - AF_T$
BLOCK MINIMUM	50

To learn more about FTSE 100 AIR Total Return futures, including a detailed methodology of the contract, visit cmegroup.com/FTSE100AIRTRF

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