

Adjusted Interest Rate (AIR) Total Return Futures Explained

Total return exposure with a built-in floating rate

CME Group is expanding our Equity Total Return futures line-up with a new offering: Adjusted Interest Rate Total Return futures (AIR TRFs), which deliver total return exposure enhanced with a built-in floating rate to accommodate financing costs.

- First trade date: September 21, 2020
- Available on S&P 500 (SPTR)
- Delivers total return equity swap exposure with the margin efficiency of futures
- Includes a floating rate set to a term reference rate
- Trades via spread-quoted Basis Trade at Index Close (BTIC) transactions only (CME Globex and ex-pit), with a minimum block size of 500

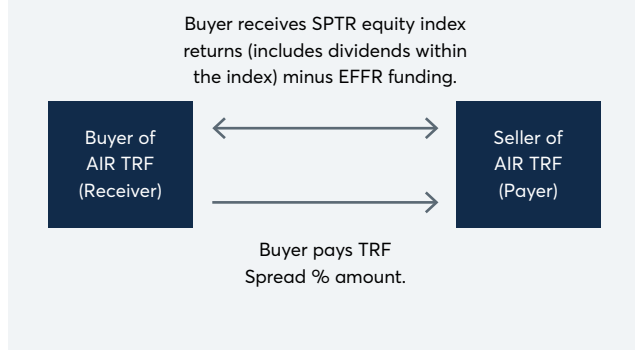
How AIR Total Return futures work

The AIR TRF has a maturity at a known date, and its valuation has three components: an equity index component; a benchmark financing component that accrues daily; and a financing spread adjustment component.

$$\text{AIR TRF} = (\text{Equity Index-Accrued Financing}) + \text{Financing Spread Adjustment}$$

- 1) **The Equity Index component** – an agreement between two counterparties to pass equity performance from one counterparty to the other. The equity index price of the AIR TRF is always the official index daily close, as the trade is transacted via Basis Trade at Index Close (BTIC)¹.
- 2) **Accrued Financing component** – the sum of the daily accrued financing (AF). In an equity swap, the accrued financing amount is exchanged at each reset date as a cash flow; in the AIR TRF, the financing amount is accrued daily based upon the benchmark reference rate (e.g. the Effective Fed Funds Rate, EFRF) and the sum is incorporated into the daily settlement of the product.
- 3) **Financing Spread Adjustment** – when trading the AIR TRF, the counterparties will agree to lock in a spread +/- to the reference rate (TRF Spread) for the remaining maturity of the product. The spread rate will be determined primarily by the rebate value the market ascribes to the value of the underlying stocks in the index. Thus, the TRF spread is equivalent to the spread that would be charged above or below the reference rate in an equity index swap.

FIGURE 1: AIR TRF MECHANICS



AIR Total Return futures quoting and trading notation

Market participants will trade the TRF spread price (s_t) 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 500.

1 The only exception is trading the futures contract via an EFRP, where the future price level is specified directly.

CONTRACT SPECIFICATIONS

Contract unit	\$25 x AIR S&P 500 Total Return Index Price						
Underlying index	S&P 500 Total Return Index (SPTR)						
Reference rate	Effective Fed Funds Rate (EFFR)						
Trading quotation	TRF spread in basis points expressed as an annualized number.						
Trading hours	CME Globex: BTIC: Sunday – Friday 6:00 p.m. – 4:00 p.m. Eastern Time (ET) CME ClearPort: BTIC Sunday 5:00 p.m. – Friday 5:45 p.m. (no reporting Monday – Thursday 5:45 p.m. – 6:00 p.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 2 decimals.						
Product code	Index Futures Contracts	Underlying Equity Index (Bloomberg)	CME BTIC Ticker (Tradeable)	CME Outright Ticker (Non-Tradeable)	Bloomberg BTIC Front Month	Refinitiv Front Month (Non-tradeable)	Refinitiv BTIC Front Month (Tradeable)
	AIR S&P 500 Total Return Index futures	SPTR Index	AST	ASR	AXWA Index	1ASJ	1AYT
Listed contracts	Quarterly contracts listed for 13 quarters and 4 additional December contract months						
Settlement method	Financially settled						
Termination of trading	Trading terminates on the 3rd Friday of the contract month. BTIC: Trading terminates on the business day prior to 3rd Friday of the contract month.						
Settlement procedures	Daily settlement price of contract shall be determined based on the following formula: $= (SPTR_t - AF_t) + SPTR_t \times \tau_t \times S_t^{settle}$ where the <i>Spread Settle</i> (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: $SPTR_t^{SOO} - AF_t$						
Block minimum	500						

*Pending relevant regulatory reviews.

To learn more about AIR Total Return futures, visit cmegroup.com/airtrf

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