CME Group Volatility Index (CVOL™) Benchmark Methodology

CME Group Benchmark Administration Limited

Version 1.2.2

Publication Date: August 8th, 2022
## Version Control

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<thead>
<tr>
<th>VERSION</th>
<th>KEY CHANGES</th>
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<td>1.0.0</td>
<td>Initial version</td>
<td>November 3rd, 2020</td>
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<tr>
<td>1.0.1</td>
<td>Added:</td>
<td>December 8th, 2020</td>
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<td>• Tenor Selection Process</td>
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<td></td>
<td>• Up Var and Down Var Yield Conversion</td>
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<td>1.1</td>
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<td>• New Indices</td>
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<td></td>
<td>• New Indices Derivative Indicators (ATM and Convexity)</td>
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<td>Indices Classification (Tenor Selection) annual review</td>
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<td>1.2.2</td>
<td>Minor wording updates</td>
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1. Introduction

This document describes the calculation methodology of the CME Group Volatility Index (CVOL™) family of indices and includes their related derivative indicators. The underlying methodology can be used to create single product indices, that can also be combined to create broad-based indices, described herein.

The components of the CVOL family include:

- Volatility Index value
- Up Variance (Up Var) – Implied volatility of call options
- Down Variance (Down Var) – Implied volatility of put options
- Skew – Difference of Up Var and Down Var
- At the Money Vol (ATM Vol) - Implied volatility of the theoretical at-the-money (ATM) Premium
- Convexity – The degree of curvature of the volatility curve as indicated by the ratio of the Volatility Index value and the ATM Vol.

The table below in CVOL details the mapping between the Derivative Indicators and underlying indices.

Variants of the basic calculation methodology are introduced to calculate CVOL in interest rate yield numeraire, when the underlying options are struck against the price of debt instruments, such as US Treasury Futures or Eurodollar Futures. The modified construction of these is described in Yield-Volatility Methodology and Eurodollar Methodology.

CME Group and CME Group Benchmark Administration Limited

As the world's leading and most diverse derivatives marketplace, CME Group is where the world comes to manage risk. Through its four exchanges, CME, CBOT, NYMEX and COMEX, CME Group offers the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indices, foreign exchange, energy, agricultural products and metals.

CME Group Benchmark Administration Limited (CBA) is authorized and supervised, as a Benchmark Administrator, by the UK Financial Conduct Authority (FCA). CBA is the Benchmark Administrator of the CME Group Volatility (CVOL) Family of Benchmarks, with Chicago Mercantile Exchange Group Inc. providing calculation agent and distribution services.

Bantix Technologies, LLC, operate a suite of products under the QuikStrike name, offering options software applications as well as a set of custom reporting, data retrieval, market collaboration and historical volatility tools and will provide calculation services on behalf of CME Group Inc.

Regulatory and IOSCO Compliance

CVOL is a family of benchmarks, designed on the basis of industry best practices and the IOSCO Principles for Financial Benchmarks. This will include, but is not limited to, the creation of an Oversight Committee and a published methodology.

CVOL is available for use under the UK Benchmark Regulation (BMR)\(^1\).

\(^1\) https://www.fca.org.uk/markets/benchmarks/regulation
2. CME Group Volatility Index (CVOL)

CVOL delivers a view of implied volatility across five different asset classes, derived from the world’s most actively traded options on futures. CVOL provides a measure of the market’s expectation of forward risk, calculated each business day, along with associated derivative indicators.

Designated Contract Markets

A wide range of options on various asset classes, including agriculture, energy, equity, FX, interest rates and metals are actively traded on CME Group Designated Contract Markets (DCMs). Details of the most traded options contracts are available on the CME Group page: CME Group Options.

The entirety of options contracts traded on CME Group DCMs are available on: CME Group All Products – Codes and Slate.

Foreign Exchange

<table>
<thead>
<tr>
<th>Contract</th>
<th>CVOL Group</th>
<th>CVOL Symbol</th>
<th>UpVar Symbol</th>
<th>DownVar Symbol</th>
<th>Skew Symbol</th>
<th>ATM Vol Symbol</th>
<th>Convexity Symbol</th>
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<tr>
<td>EUR/USD (EUU)</td>
<td>Tenor Selection 4</td>
<td>EUVL</td>
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<td>EUSK</td>
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<td>GBP/USD (GBU)</td>
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<td>JPY/USD (JPU)</td>
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<td>JPUP</td>
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<td>MPAM</td>
<td>MPCV</td>
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<td>FX G5 Volatility Index (EUVL, GBVL, JPVL, ADVL, CAVL)</td>
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## Interest Rate

### Interest Rate – Single Product

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<tr>
<th>Contract</th>
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<th>UpVar Symbol</th>
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<th>ATM Vol Symbol</th>
<th>Convexity Symbol</th>
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<tr>
<td>Eurodollar 90-day</td>
<td>Tenor Selection 7 (90 DTE)</td>
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<td>Eurodollar 1-year Midcurve 90-day</td>
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<tr>
<td>Eurodollar 2-year Midcurve 90-day</td>
<td>Tenor Selection 7 (90 DTE)</td>
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<td>G2DN</td>
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<tr>
<td>US 2-year T-Note (OZT) - Price</td>
<td>Tenor Selection 3</td>
<td>TUVL</td>
<td>TUUP</td>
<td>TUDN</td>
<td>TUSK</td>
<td>TUAM</td>
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<tr>
<td>US 2-year T-Note (OZT) - Yield</td>
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<td>US 5-year T-Note (OZF) - Price</td>
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<td>US 5-year T-Note (OZF) - Yield</td>
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<tr>
<td>US 10-year T-Note (OZN) - Price</td>
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<td>TYUP</td>
<td>TYDN</td>
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<td>US 10-year T-Note (OZN) - Yield</td>
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<td>US 30-year T-Bond (OZB) - Price</td>
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<td>US 30-year T-Bond (OZB) - Yield</td>
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### Interest Rate – Broad Based

<table>
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<tr>
<th>Name</th>
<th>CVOL Symbol</th>
<th>UpVar Symbol</th>
<th>DownVar Symbol</th>
<th>Skew Symbol</th>
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<th>Convexity Symbol</th>
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<td>Treasury Curve Volatility Index - Price (TUVL, FVVL, TYVL, USVL)</td>
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### Metals

#### Metals – Single Product

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<th>Contract</th>
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<td>Copper (HXE)</td>
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#### Metals – Broad Based

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<td>Metals Volatility Index (SIVL, GCVL, HGVL)</td>
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#### Energy – Single Product

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<tr>
<td>WTI Crude Oil (LO)</td>
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<td>CLVL</td>
<td>CLUP</td>
<td>CLDN</td>
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<td>CLAM</td>
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<td>NGUP</td>
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<td>RBUP</td>
<td>RBDN</td>
<td>RBSK</td>
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<td>NY Harbor ULSD (OH)</td>
<td>Tenor Selection 2</td>
<td>HOVL</td>
<td>HOUP</td>
<td>HODN</td>
<td>HOSK</td>
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<tr>
<td>Energy Volatility Index (CLVL, NGVL, RBVL, HOVL)</td>
<td>EVL</td>
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<td>EDN</td>
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## Agriculture

### Agriculture – Single Product

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<tbody>
<tr>
<td>Wheat (OZW)</td>
<td>Tenor Selection 3</td>
<td>WVL</td>
<td>WUP</td>
<td>WDN</td>
<td>WSK</td>
<td>WAM</td>
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<td>Corn (OZC)</td>
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<td>CUP</td>
<td>CDN</td>
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<td>CAM</td>
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<tr>
<td>Soybean (OZS)</td>
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<td>SVL</td>
<td>SUP</td>
<td>SDN</td>
<td>SSK</td>
<td>SAM</td>
<td>SCV</td>
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<tr>
<td>Soybean Oil (OZL)</td>
<td>Tenor Selection 1</td>
<td>SOVL</td>
<td>SOUP</td>
<td>SODN</td>
<td>SOSK</td>
<td>SOAM</td>
<td>SOCV</td>
</tr>
<tr>
<td>Soybean Meal (OZM)</td>
<td>Tenor Selection 1</td>
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<td>SMUP</td>
<td>SMDN</td>
<td>SMSK</td>
<td>SMAM</td>
<td>SMCV</td>
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<tr>
<td>Lean Hogs (HE)</td>
<td>Tenor Selection 6 (60DTE)</td>
<td>HEVL</td>
<td>HEUP</td>
<td>HEDN</td>
<td>HESK</td>
<td>HEAM</td>
<td>HECV</td>
</tr>
<tr>
<td>Live Cattle (LE)</td>
<td>Tenor Selection 6 (60DTE)</td>
<td>LEVL</td>
<td>LEUP</td>
<td>LEDN</td>
<td>LESK</td>
<td>LEAM</td>
<td>LECV</td>
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<td>Class III Milk (DC)</td>
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<td>DCDN</td>
<td>DCSK</td>
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### Agriculture – Broad Based

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<tr>
<td>Agriculture Volatility Index</td>
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### Multi Asset

### Commodity – Broad Based

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<tbody>
<tr>
<td>Commodity Volatility Index</td>
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<td>CMUP</td>
<td>CMDN</td>
<td>CMSK</td>
<td>CMAM</td>
<td>CMCV</td>
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</table>
Input data

The calculation of CVOL is based on the respective option settlement prices, as published by CME Group. Settlement Prices calculation methodologies for each option series are available on CME, CBOT, NYMEX, COMEX Daily Option Settlement Procedures.

For a given product the following input data are required:

- Selected Option Expiration(s) \( T_1, T_2, \ldots, T_N \)
- For Selected Option Expiration, \( T_N \), the vector of all listed strikes, \( K_i \)
- For each strike, \( K_i \), settlement prices for both the call and the put at that strike, \( C_{K_i}, P_{K_i} \), respectively
- Discounting SOFR interest rate corresponding to selected expiration, \( R_N \). The Discount Factors used by the model represent the present value of 1 USD at each future date leveraging SOFR rates as the daily prevailing rate of interest and are generated for each settlement day by CME Clearing.
- Settlement price of the Futures contract, \( F_N \), that underlies the Options at the selected expiration, \( T_N \)

For Yield Volatility Variant:

- DV01 value corresponding to the Treasury Future that underlies a particular vector of Treasury Future Options.

For Broad-Based Index Calculations:

- Total Open Interest Dollar Vega for selected product or complex as calculated and provided by Bantix-QuikStrike
- The contract multiplier for each product included in the Broad-Based Index

Use of Expert Judgement

The CME Group Volatility Index Methodology does not use expert judgement or discretion during the calculation process. Input data are sourced from CME Group Designated Contract Markets and are automatically applied to the calculation algorithm; Indices values are subject to stringent validation as in section Pre-publication reliability checks.

Single Product CVOL Calculation

For the Single Product indices, the following Single Tenor formula is used to calculate CVOL:

\[
\text{Single Tenor Index} = \sigma_N = 100 \times \sqrt{\frac{2}{T} \sum_{i=m}^{n} \frac{\Delta K_i}{F_N^i} e^{R_{NT_N} Q(O_{K_i})}}
\]

Determining the futures contract settlement price

The futures contract settlement price for the CVOL indices is determined as follows:

1. A synthetic future using the strike where the put and call premiums are closest but nonzero is calculated using Put-Call Parity (in the instance where there are two strikes with equally distant premium, the lower strike is chosen):
   - The strike \( K \) is determined as the strike for \( \text{Min} \left( |C_{K_i} - P_{K_i}| \right) \)
   - The synthetic future price \( F_S \) is calculated as \( F_S = K + C_K - P_K \)

2. The synthetic future price calculated \( F_S \) is compared to the published settled futures price \( F_N \); if the absolute difference between the two is greater than two times the minimum option price tick \( z \), the synthetic price \( F_S \) is used instead of \( F_N \):
   - If \( |F_S - F_N| > 2z \):
     - \( F_S \) is used as the contract settlement price.
   - Otherwise:
     - \( F_N \) is used as the contract settlement price.

Determining the discount rate

Because CME Group options are fully funded at the time of purchase, their values are a “present value” of a future contingent cashflow. This means that the option prices collectively will understated the expected variance and will need to be adjusted to represent the contingent cashflow at the time of expiry. Each option price will need to be multiplied by \( e^{R_{NT_N}} \) with \( T_N \) representing the expiry of the option and \( R_N \) being a rate appropriate for \( T_N \) and \( R_N T_N \) will represent the product of the appropriate rate for the appropriate time.

Each date’s discount factor \( (D_{f_N}) \) is drawn from a CME discounting curve and converted into a growth factor, as described in the Input Data section. The discount factors will be inverted to represent the corresponding growth factor; \( \frac{1}{D_{f_N}} = e^{R_{NT_N}} \). 
Determining Delta \( K \)

If the option is the highest struck Call:  \( \Delta K = K_i - K_{i-1} \)

If the option is the lowest struck Put:  \( \Delta K = K_{i+1} - K_i \)

If the option is the \( K_0 \) struck Call:  \( \Delta K = K_1 - K_0 \)

If the option is the \( K_0 \) struck Put:  \( \Delta K = K_0 - K_{-1} \)

Otherwise:  \( \Delta K = (K_{i+1} - K_{i-1})/2 \)

Where:

- \( K_0 = F \)

Determining the Set of Options Included in the Calculation

The forward price determined in many implied volatility calculations requires a Put and a Call of the same tenor with the same strike. Because CME Group options deliver an actual future at expiry, the implied forward does not need to be calculated because the price of the Future itself serves this purpose and will be designated as \( F \).

When determining a constant forward-looking implied volatility measure using more than one tenor of options strips, \( F \) will be designated with subscripting such as \( F_1 \) and \( F_2 \), even if the two tenors of options are both predicated on the same underlying future; in which case \( F_1 \) and \( F_2 \) will be equal to one another.

Options to be included:

- Any Call Option with a Strike that is equal to or greater than the underlying Future’s price and having a settlement price greater than zero.
- Any Put Option with a Strike that is equal to or less than the underlying Future’s price and having a settlement price greater than zero.

CVOL Index Classification

Each CVOL index will be assessed at launch and classified into a Tenor Selection Group based on the following criteria:

- Availability of contract tenors
- Seasonality impacts on the instruments and related markets
- Consistency with other CVOL indices of the same asset class
- Liquidity and availability of settlement data

Please refer to CME Group Volatility Index (CVOL) section for the current classification of CVOL instruments.

The Tenor Selection Groups are used to determine the tenor selection applied to each CVOL calculation. The classification of each CVOL index will be reviewed at least annually by the Administrator and the Oversight Committee, with ad-hoc reviews performed as necessary.
In circumstances where, based on a review of the criteria, a CVOL index is determined to be classified into a different Tenor Selection Group, the Administrator will provide stakeholders with at least 1 (one) month notice.

**Tenor Selection Groups**

**Tenor Selection 1**

If there is a Monthly where DTE = 30, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

**Far contract selection**

- The Monthly expiration > 30 DTE and greater than the DTE of the Near contract (if the Near expiry is > 30 DTE) and is the closest monthly to 30 DTE.

**Near contract selection**

- The Monthly expiration closest to 30 DTE and < 30 DTE and ≥ 10 DTE.
- If there is no contract 10 DTE ≤ Monthly < 30 DTE, then select the closest expiration to 30 DTE.
- If the selected contract has no settlement values present to generate a CVOL value, that contract is ignored. The next closest monthly contract is selected. This step recurs until either a monthly contract is found or if no contract is found, in which case the previous days rate is republished.

**Tenor Selection 2**

If there is a Monthly where DTE = 30, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

**Far contract selection**

- The Monthly expiration > 30 DTE and greater than the DTE of the Near contract (if the Near expiry is > 30 DTE) and is the closest monthly to 30 DTE.

**Near contract selection**

- The Monthly expiration closest to 30 DTE and < 30 DTE and ≥ 10 DTE.
- If there is no contract 10 DTE ≤ Monthly < 30 DTE, then select the closest expiration to 30 DTE.
Tenor Selection 3

If there is a Monthly where DTE = 30, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

Far contract selection

- The Monthly contract expiration > 30 DTE and closest to 30 DTE.

Near contract selection

- The Monthly contract expiration 14 ≤ DTE < 30 and closest to 30 DTE.

- If the shorted dated monthly contract(s) expiration is/are DTE < 14 OR DTE > 30, then Friday Weekly 14 ≤ DTE ≤ 21 and closest to 30 DTE is selected.

- If a Friday Weekly contract is selected and there are no settlement values present to generate a CVOL value, that contract is ignored. The next Friday Weekly contract with 14 < DTE and the shortest expiry is chosen.

- If the next Friday Weekly selected as above has no settlement values, the longest dated Monthly or Friday Weekly contract 10 ≤ DTE with settlement values available, is taken as the front tenor.

Tenor Selection 4

If there is a Monthly where DTE = 30, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

Far contract selection

- The Monthly contract expiration > 30 DTE and closest to 30 DTE.

Near contract selection

- The Monthly contract expiration 14 ≤ DTE < 30 and closest to 30 DTE.

- If the shorted dated monthly contract(s) expiration is/are DTE < 14 OR DTE > 30, then Friday Weekly 14 ≤ DTE ≤ 21 and closest to 30 DTE is selected.

Tenor Selection 5

If there is a Monthly, Weekly or EOM where DTE = 30, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

Far contract selection

- The Monthly, Weekly or End-of-Month (EOM) expiration > 30 DTE and closest to 30 DTE.

Near contract selection

- The Monthly, Weekly or EOM expiration < 30 DTE and closest to 30 DTE.
Tenor Selection 6 (60 DTE)

In some instruments, the market dynamics cause the practical utility of the option contract to cease approximately one month before expiry. In these markets, a 60 day horizon is used as it is effectively equivalent to the 30 day horizons employed in the other CVOL indices.

If there is a Monthly where DTE = 60, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

Far contract selection

- The Monthly expiration > 60 DTE and greater than the DTE of the Near contract (if the Near expiry is > 60 DTE) and is the closest monthly to 60 DTE.

Near contract selection

- The Monthly expiration closest to 60 DTE and < 60 DTE and ≥ 20 DTE.
- If there is no contract 20 DTE ≤ Monthly < 60 DTE, then select the closest expiration to 60 DTE.

Tenor Selection 7 (90 DTE)

In some instruments, the underlying future of the option contract has a quarterly expiration. In these markets, a 90 day horizon is used as it is effectively equivalent to the 30 day horizons employed in the other CVOL indices.

If there is a Monthly where DTE = 90, that single component expiration is used for index calculation.

Otherwise contracts will be selected as follows:

Far contract selection

- The Monthly expiration > 90 DTE and greater than the DTE of the Near contract (if the Near expiry is > 90 DTE) and is the closest monthly to 90 DTE.

Near contract selection

- The Monthly expiration closest to 90 DTE and < 90 DTE and ≥ 50 DTE.
- If there is no contract 50 DTE ≤ Monthly < 90 DTE, then select the closest expiration to 90 DTE.

Tapering

In order to establish option inclusion boundaries, the calculation methodology looks for three consecutive options that are priced at the smallest pricing increment for that product. In the event that this occurs, prices will be adjusted or tapered. The tapering process attributes decreasing weight to the second and third option prices of the three consecutive prices at such increment and does not incorporate any prices beyond these.

The price of the second option at the smallest pricing increment is weighted 50% of its settlement price and the price of the third option is weighted 25% of its settlement price.
Determining Time

The time $T$ for each strip of options is the amount of time as a fraction of a year (365 days) from the current time until the expiry of those options.

$$T_1 = \expiry_1 - t$$

When determining a constant forward-looking implied volatility measure using more than one tenor of options strips, then $T$ will be designated with subscripting such as $T_1$ and $T_2$.

Each tenor of options will have its own variance metric, and these two-variance metrics will be time-weighted to a specific time horizon (for example 30 days $T_H$, where $H = 30$ DTE). The time weighting applied is defined as follows:

$$\sigma_H = \sqrt{\frac{(T_2 - T_H) \cdot (\sigma_1^2) + (T_H - T_1) \cdot (\sigma_2^2)}{(T_2 - T_1)}}$$

Where:

- $T_1$ is the time to expiry of the front tenor
- $T_2$ is the time to expiry of the back tenor
- $\sigma_1$ is the variance of the front tenor
- $\sigma_2$ is the variance of the back tenor
- $\sigma_H$ is the time-weighted variance
4. Broad-Based Index Construction (Vega)

The calculation of broad-based indices uses a combination of the CVOL calculations, Open Interest of the associated contracts, and the Vega of the options within the strips. The Vega is calculated by Bantix-QuikStrike, in line with industry standards. The first component (i.e. Implied Volatility calculation) uses current day data while the other two components (i.e. Open Interest and Vega) are provided by End-of-Day (EOD) data from the most recent five days prior to today.

The Broad-Based Indices are calculated as the sum of their respective Implied Volatility Calculations, weighted by the Dollar Vega Open Interest ($\textit{VOLI}$). The dollar Vega Open Interest for a single day can be defined as follows:

\[
\textit{VOLI}_T = M \sum_{t=0}^{T} \sum_{k=0}^{j} v_{T,t,k} \times OI_{T,t,k}
\]

We then use five days of $\textit{VOLI}$ to arrive at a five-day moving average as defined below:

\[
MA_{T=0} = \frac{\sum_{T=-1}^{-5} \textit{VOLI}_T}{5}
\]

Where:

- $t$ is tenor of a given option.
- $T$ is the day of a given $\textit{VOLI}_T$, where $T_{-5}$ is five settlement days prior to the current calculation day.
- $k$ is the strike of a given option.
- $v_{T,t,k}$ is the Vega of the option at time $t$ with strike $k$ (both calls and puts) for day $T$ .
- $OI_{t,k}$ is the Open Interest of the option at time $t$ with strike $k$ (both calls and puts) for day $T$.
- $M$ is the contract multiplier associated with the particular option product.

Summing the product of the above components as shown in the definition will produce the Dollar Vega Open Interest for a given option product. It is important to note that all outstanding contracts will be used in the calculation from the most recent five EOD data files.

The weighting is used to capture the overall risk profile in volatility terms for each product represented through the product of Vega and Open Interest. This is then normalized using the product's contract multiplier $M$. 
Using the Dollar Vega Open Interest, we formulate the weighting for each product using the following definition:

$$W_n = \frac{MA_n}{\sum_{n=1}^q MA_n}$$

Where $q$ is the number of products being combined into the index.

With the weightings calculated, we take the final step and calculate the index by combining the weightings and Implied Volatility values $\sigma_n$ for each respective product in the following manner:

$$\sigma_{\text{index}} = \sum_{n=1}^q \sigma_n \times W_n$$
5. Derivative Indicators

In addition to the Index Value a set of derivative indicators, as described in the Introduction section, is calculated and published.

**Derivative Indicators Calculation Methodology**

**Up Variance (Up Var)**

Up Var is the Implied Volatility of the ATM and OTM calls and can be defined as follows:

\[
xxUP = 100 \times \sqrt{2 \times \frac{2}{T} \sum_{i=m}^{n} \frac{\Delta K_i}{F_N} e^{RNTN} Q(C_{K_i}) + \frac{1}{F_N} e^{RNTN} \times (adjVA_{1N})}
\]

Where “xx” represents the first two letters of the Index Symbol.

This follows the definition provided previously with the exception that the entirety of the option strip \(O\) is replaced with \(C\) which refers solely to the call strip.

**Down Variance (Down Var)**

Down Var is the Implied Volatility of the ATM and OTM puts and can be defined as follows:

\[
xxDN = 100 \times \sqrt{2 \times \frac{2}{T} \sum_{i=m}^{n} \frac{\Delta K_i}{F_N} e^{RNTN} Q(P_{K_i}) + \frac{1}{F_N} e^{RNTN} \times (adjVA_{-1N})}
\]

This follows the definition provided previously with the exception that the entirety of the option strip \(O\) is replaced with \(P\) which refers solely to the put strip.

**Skew**

Skew refers to the difference of Up Var and Down Var to serve as an indication of the direction of volatility relative to the put or call wings. Skew is therefore defined as:

\[
xxSK = xxUP - xxDN
\]

**ATM Volatility (ATM Vol)**

The theoretical ATM option price is used to estimate the ATM Vol (Brenner and Subrahmanyam - 1988):

\[
\sigma_{atm} \approx 100 \times \frac{2\pi \times O_0}{\sqrt{T \times F}}
\]
Where:

- $\sigma_{atm}$ is the ATM Vol
- $T$ is the time to expiry in terms of years (365 days)
- $O_0$ is the synthetic ATM option price (as defined in Derivative Indicators Input Data)

**Convexity**

Convexity refers to the degree of curvature of the volatility curve as indicated by the ratio of the Volatility Index value and the ATM Vol. The expression to calculate the convexity is as follows:

\[
\text{Convexity} = \frac{\sigma_n}{\sigma_{atm}}
\]

Where:

- $\sigma_n$ refers to the Volatility Index value of a given product
- $\sigma_{atm}$ refers to the ATM Vol as specified by the ATM Vol calculation above.

**Derivative Indicators Input Data**

**Synthetic ATM Option Price**

In order to determine the ATM Price and Volatility, the following are considered.

- When there is a strike that is exactly ATM.
- When there is a strike that is closer to the strike of the first out-of-the-money (OTM) Put in the option strip.
- When there is a strike that is closer to the strike of the first OTM Call in the option strip.
- When there is a strike exactly half-way between the closest OTM Call and OTM put.

If there is no exact ATM option, a synthetic ATM option price is generated using an assumed delta and a nearby existing option price, according to the following four scenarios:

**ATM**: the Call and Put prices at the strike are averaged as follows:

If the Call and Put prices are non 0 then:

\[
O_0 = \frac{O_{c_0} + O_{p_0}}{2}
\]

If the Put price is 0 then:

\[
O_0 = O_{c_0}
\]

If the Call price is 0 then:

\[
O_0 = O_{p_0}
\]
Put: where the closest strike to ATM is below the Future, we define $O_0$ as follows:

$$O_0 = O_{K-1} + 0.50 \times (F - K_{-1})$$

Call: where the closest strike to ATM is above the Future, we define $O_0$ as follows:

$$O_0 = O_{K+1} + 0.50 \times (K_1 - F)$$

Mid-price: where $F$ is a mid-price between $K_{-1}$ and $K_1$, we define $O_0$ as follows:

$$O_0 = \frac{\frac{(O_{K-1} + 0.50 \times (F - K_{-1}))}{2} + \frac{(O_{K+1} + 0.50 \times (K_1 - F))}{2}}{2}$$

Since $(F - K_{-1}) = (K_1 - F)$, the expression is simplified as follows:

$$O_0 = \frac{O_{K-1} + 0.50 \times (K_1 - K_{-1}) + O_{K+1}}{2}$$

$K_0 = F$ is the theoretical ATM strike; the value of $\Delta K_0$ for the ATM option is defined as follows:

ATM $\Delta K$: where there is a strike that is exactly ATM, the $\Delta K_0$ is already known.

Put $\Delta K$: where the closest strike to ATM is below the Future, $\Delta K_0$ is defined as follows.

$$\Delta K_0 = \left(\frac{K_{-1} + K_1}{2}\right) - F$$

Call $\Delta K$: where the closest strike to ATM is above the Future, $\Delta K_0$ is defined as follows.

$$\Delta K_0 = F - \left(\frac{K_{-1} + K_1}{2}\right)$$

Mid-price: where $F$ is a mid-point between $K_{-1}$ and $K_1$, no adjustment is needed as $\Delta K$ would be zero in the two instances above.

Where:

- $K_{-1}$ is the nearest to-the-money Put strike and $K_1$ is the nearest to-the-money Call strike
- $\Delta K$ is assumed to be 0.5
- $K_{-1}$ or $K_1$, depending on which strike is used
- $\Delta K_{-1}$ is the delta $K$ for the nearest to-the-money Put (as defined in ‘Determining Delta $K$’)
- $\Delta K_1$ is the delta $K$ for the nearest to-the-money Call (as defined in ‘Determining Delta $K$’)
- $O_{Ki}$ is the option premium at either strike $K_{-1}$ or $K_1$, depending on which strike is used
- $O_{c0}$ is the option premium for the ATM Call
- $O_{pu}$ is the option premium for the ATM Put
Time Weighting

Derivative indicators are time weighted; the two specific tenors of options each produce its own variance estimate up to the expiry of those options. These two variance estimates are time weighted with the time horizon \( T_{T_H} \).

\[
\sigma_H = \sqrt{\frac{(T_2 - T_H) \cdot (\sigma_1^2) + (T_H - T_1) \cdot (\sigma_2^2)}{(T_2 - T_1)}}
\]

Each of the derivative indicators are appropriately time weighted, as described above.

ATM Variance Adjustment

To correctly attribute variances, adjustments are applied to the following scenarios.

The Variance Area is defined as follows:

\[
VA_i = \Delta K_i \cdot O_i
\]

The ATM Variance Area is specified as follows:

\[
VA_0 = \Delta K_0 \cdot O_0
\]

The following notation is assigned to the Adjusted Variance Area:

Adjusted Variance Area = \( \text{adj}VA_i \)

In the instance where the closest strike to ATM is below the Future, the calculated ATM variance from the Put wing is added to the Call wing. This is defined as follows:

\[
\text{adj}VA_{-1} = VA_{-1} - VA_0 \\
\text{adj}VA_1 = VA_1 + VA_0
\]

In the instance where the closest strike to ATM is above the Future, the calculated ATM variance from the Call wing is subtracted and added to the Put wing. This is defined as follows:

\[
\text{adj}VA_1 = VA_1 - VA_0 \\
\text{adj}VA_{-1} = VA_{-1} + VA_0
\]

In the previous section, we represent the permutations described above as they apply to either the Call or Put wings using the following notation:

(1) \( \text{adj}VA_{+1} \)

(2) \( \text{adj}VA_{\pm1} \)

Where (1) indicates the Adjusted Variance Area being either subtracted or added to the Call wing and (2) indicates the Adjusted Variance Area being either subtracted or added to the Put wing.
Due to the nature of the Eurodollar Futures market, the Eurodollar based CVOL indices require an alternative calculation methodology. The calculation of the single tenor volatility value is derived from the CME Implied Volatility methodology and is shown below:

\[
Single \ Tenor \ Index = \sigma_N = 100 \times \sqrt{\frac{2}{T} \sum_{i=m}^{n} \Delta K_i e^{RNT} Q(O_{K_i})}
\]

**Up Var and Down Var Eurodollar Conversion**

When calculating the Up Var and Down Var for a Eurodollar volatility, the derivative metrics are inverted when compared to other CVOL indices.

Call options on the price will behave like Put options on the yield, and vice versa. An Up Var calculation on the price (which uses Call options on said Future) is equivalent to the Down Var calculation on the yield.

This also affects the calculation of skew for yield volatilities. So, when skew is positive (or above one) for the price volatility, the equivalent Eurodollar skew would be negative (or below one).

Up Var for Eurodollar CVOL indices can be defined as follows:

\[
xxUP = 100 \times \sqrt{2 \times \frac{2}{T} \sum_{i=m}^{n} \Delta K_i e^{RNT} Q(C_{K_i}) + e^{RNT} \ast (adjVA_{\pm 1N})}
\]

Down Var for Eurodollar CVOL indices can be defined as follows:

\[
xxDN = 100 \times \sqrt{2 \times \frac{2}{T} \sum_{i=m}^{n} \Delta K_i e^{RNT} Q(P_{K_i}) + e^{RNT} \ast (adjVA_{\pm 1N})}
\]

**ATM Vol Eurodollar Calculation**

The theoretical ATM option price is used to estimate the ATM Vol for the Eurodollar CVOLs is defined as follows:

\[
\sigma_{atm} \approx 100 \ast \sqrt{\frac{2\pi}{T} \ast O_0}
\]
7. Yield-Volatility Methodology

For Treasury products, in order to render the price-based volatility as an annualized basis point (BP) volatility the DV01 of the cheapest-to-deliver bond (CTD) is used; DV01 is the change of a bond price for a 1 basis change of the rate associated with that bond.

To convert a futures price volatility into a BP volatility, the transformation happens at the variance level.

\[ \sigma_{bp}^2 = \frac{F_t^2}{DV01_T^2} \sigma_T^2 \]

Where \( \sigma_T^2 \) is the variance calculation of the single tenor \( T \).

From the prior calculation

\[ \sigma_H = \sqrt{(T_2 - T_H) \times (\sigma_1^2) + (T_H - T_1) \times (\sigma_2^2)} \]

Substituting the DV01 formula

\[ \sigma_{hp} = \sqrt{(T_2 - T_H) \times \left(\frac{F_1^2}{DV01_1^2}\right) \times (\sigma_1^2) + (T_H - T_1) \times \left(\frac{F_2^2}{DV01_2^2}\right) \times (\sigma_2^2)} \]

Up Var and Down Var Yield Conversion

When calculating the Up Var and Down Var for a yield volatility, the derivative metrics are inverted relative to the price volatility.

Call options on the price will behave like Put options on the yield, and vice versa. An Up Var calculation on the price (which uses Call options on said Future) is equivalent to the Down Var calculation on the yield.

This also affects the calculation of skew for yield volatilities. So, when skew is positive (or above one) for the price volatility, the equivalent yield skew would be negative (or below one).
8. Publication and Error Policy

Publication

The CVOL and related Derivative Indicators are generated from CME Group options settlement prices, as published according to CME, CBOT, NYMEX, COMEX Daily Option Settlement Procedures.

Settlement prices will be available by 07:00pm ET; in the event that SOFR or DV01 input values are unavailable, the previous day values will be applied.

The CVOL and derivative indicators are calculated as soon as the input data are available and are subject to rigorous reliability checks before publication.

Once the pre-publication reliability checks are fully satisfied, Indices are published by 09:00pm ET same day. Indices are published to CME Group DataMine and CME Group QuikStrike, where historical values for the last two years are available subject to a license agreement. Daily values are also published to the CME Group website.

Pre-publication reliability checks

Indices are validated for publication if the following conditions are met in full:

- Each fixing value for each product or broad-based index (Index fixing, UpVar fixing, DownVar fixing, Skew fixing) must be a non-zero value;
- Each fixing value must be a double-precision floating point format value, i.e. not an integer;
- For each of the following values, a tolerance check will be performed:
  - CVOL Index: the value must be within +/- 30% of the same day’s closing CM_30\(^2\) Implied Volatility level for that product as calculated by QuikStrike
    - For the US Treasury Yield Volatility version, this same check will apply by using the US Treasury Yield Volatility CM_30 value as calculated by QuikStrike
    - For CVOL Indices classified into Tenor Selection 6 (60DTE), this same check will apply by using the same day’s closing CM_60 Implied Volatility level as calculated by QuikStrike.
    - For CVOL Indices classified into Tenor Selection 7 (90 DTE), this same check will apply by using the same day’s closing CM_90 Implied Volatility level as calculated by QuikStrike.
  - UpVar – DownVar (i.e. Skew): \((0.5)*(UpVar^2) + (0.5)*(DownVar^2)\) must be within +/- 30% of CVOL Index\(^2\)

In the event that any of the above conditions are not met, the Calculation Agent will check the integrity of the input data and re-run the calculation. If the error persists, the index value will be the previous day published value.

If the input data (settlement prices) for that day are unavailable, the previous day index value will be published.

\(^2\) The QuikStrike CM_30 value is the result of the interpolation of ATM volatilities derived from widely adopted option pricing models.
The published values include a timestamp; instances where the prior day’s calculation is re-published will be indicated in an additional field.

If the previous day value is used for more than three consecutive business days, the Administrator must promptly convene the Oversight Committee to assess available remedial actions.

**Error policy**

If a calculation error in an Index is identified post publication and prior to the publication of next day values, the Administrator will investigate and re-run the calculation where necessary. Re-calculation, reliability checks and re-publication, follow the same rules stated in Publication and Error Policy. Where the difference between re-calculated index and the original calculation is greater than 5% the index will be re-published.

If an error is identified after next day Index value has been published, no re-publication will occur.
9. Governance

The Administrator operates under a comprehensive Risk and Control Framework, providing clear policies on Governance, Oversight, Benchmark Design and Calculation, Outsourcing, Operations, Reporting of Infringements and Business Continuity.

CBA has in place a "Three Lines of Defence" model, enabling close cross-monitoring of the governance process - this being business, compliance and audit who all have a key role in ensuring that CBA meets its regulatory requirements.

Oversight Committee

An Oversight Committee is appointed by the Administrator to review the integrity of the benchmark, in accordance with the CBA Terms of Reference for Oversight Committees.

The Oversight Committee will provide independent oversight of, and challenge to the Administrator on all aspects of the Benchmark determination process. The Oversight Committee approves proposed changes to the Calculation Methodology including, but not limited to, the structure of the Benchmark, input data used and all aspects of the Calculation Methodology. The minutes of the Oversight Committee are made available on the Administrator's website.

The Oversight Committee will escalate to the CBA Board if required.

Review of the Methodology

The Administrator constantly monitors the Benchmark Methodology and its consistency with the stated objectives. The Benchmark Methodology is reviewed annually by the Administrator and the Oversight Committee.

The Oversight Committee approves proposed changes to the Benchmark Methodology including, but not limited to, the structure of the Benchmark, input data used and all aspects of the Calculation Methodology.

The Oversight Committee may direct the Administrator to consult on any changes to the methodology with Stakeholders and the wider market.

Consultation Process

The Administrator will engage relevant stakeholders and end users on material changes to the Benchmark Methodology, if required by regulation, or where the Oversight Committee requests such consultation.

Changes to the Methodology are deemed material on the basis of an assessment conducted by the Administrator and submitted to the Oversight Committee for advice and feedback.

The Administrator will publish notice of the consultation on its website, inviting feedback from stakeholders and the wider market. Notice of a consultation will be posted at least 1 (one) month prior to the deadline for responses. The notice will include the details of the proposed material change, the timeline and the rationale for the change.

Findings of the consultation process and proposed changes to the Benchmark Methodology, recommended as a result of the consultation, will be presented by the Administrator to the Oversight Committee for its consideration.
Feedback to a consultation is considered confidential, however the Administrator will publish an anonymized summary with its conclusions, as soon as is practical, but before implementation of any changes.

**Cessation**

The Administrator constantly monitors the representativeness of the Benchmark. If the Benchmark is deemed to be unrepresentative of the underlying economic reality due to paucity of input data or systemic changes in the related markets, the Administrator will engage the Oversight Committee at the earliest opportunity. These cessation arrangements are designed to mitigate cessation and transition risks.

The Oversight Committee may direct the Administrator to consult with Stakeholders as described in the Review of the Methodology - Consultation Process section.

As a last resort, if no alternative arrangements are feasible, the Oversight Committee may instruct the Administrator to discontinue the Benchmark, providing Stakeholders at least 6 (six) months’ notice and assistance to explore alternative reference instruments.

The Administrator will endeavour to identify alternative benchmarks; however, this might not always be possible due to Regulations, market conditions or suitable alternatives.

Users of the benchmark are recommended to ensure that they have adequate fallback policies and procedures in the event of the Benchmark becoming unrepresentative of its economic interest.

**Records Retention**

The Administrator has in place policies for the retention of any relevant evidence and documentation related to the determination and dissemination of the Benchmark, either in paper or in electronic format, for at least the mandatory term of 5 (five) years.

**Auditing**

An internal audit process is undertaken regularly, to ensure adherence to the stated Methodology, the IOSCO principles and regulatory requirements.

External audits can be requested at any time by the Administrator’s board, the Oversight Committee or the internal audit function.

**Data Licensing and Distribution**

The Benchmark is made available subject to execution of an Information License Agreement (ILA) together with the appropriate Schedules. Market participants that intend to subscribe to the benchmark should contact the Administrator at the following email address: datasales@cmegroup.com

**Complaints Procedures**

The CME Group EMEA / APAC Complaints Procedures sets out details on the management of customer complaints to ensure that they are handled fairly and effectively, in a prompt and transparent manner and in accordance with applicable regulatory requirements.

Complaints will be dealt with by a senior member of staff not directly involved with the benchmark calculation and dissemination.
Information related to complaints will be stored in a restricted access area and kept for a period of at least 5 (five) years following the date when the complaint was first lodged. Complaints can be submitted at internationalcompliance@cmegroup.com
### 10. Appendix I – Key Terms & Definitions

<table>
<thead>
<tr>
<th>TERM</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrator</td>
<td>CME Group Benchmark Administration Limited</td>
</tr>
<tr>
<td>ATM</td>
<td>At-the-Money</td>
</tr>
<tr>
<td>ATM Vol</td>
<td>At-the-Money Volatility</td>
</tr>
<tr>
<td>BMR</td>
<td>UK Benchmark Regulation (Regulation (EU) 2016/2011, as retained in UK law under the European Union (Withdrawal) Act 2018, as amended from time to time)</td>
</tr>
<tr>
<td>BP</td>
<td>Basis Point (0.01%)</td>
</tr>
<tr>
<td>CBA</td>
<td>CME Group Benchmark Administration Limited</td>
</tr>
<tr>
<td>CDT</td>
<td>Cheapest to deliver</td>
</tr>
<tr>
<td>Convexity</td>
<td>The degree of curvature of the volatility curve</td>
</tr>
<tr>
<td>CVOL&lt;sup&gt;tm&lt;/sup&gt;</td>
<td>CME Group Volatility Index</td>
</tr>
<tr>
<td>DCM</td>
<td>Designated Contract Market</td>
</tr>
<tr>
<td>Down Var</td>
<td>Implied volatility of put options</td>
</tr>
<tr>
<td>DTE</td>
<td>Days to Expiry</td>
</tr>
<tr>
<td>DV01</td>
<td>Dollar Value of a Basis Point</td>
</tr>
<tr>
<td>EOD</td>
<td>End of Day</td>
</tr>
<tr>
<td>EOM</td>
<td>End of Month</td>
</tr>
<tr>
<td>FCA UK</td>
<td>Financial Conduct Authority (UK)</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
</tr>
<tr>
<td>Skew</td>
<td>Difference of Up Var and Down Var</td>
</tr>
<tr>
<td>SOFR</td>
<td>Secured Overnight Financing Rate</td>
</tr>
<tr>
<td>Up Var</td>
<td>Implied volatility of call options</td>
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# 11. Appendix II – ESG Disclosures

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Answer</th>
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<tr>
<td>Item 1</td>
<td>Name of the benchmark administrator.</td>
<td>CME Group Benchmark Administration Limited</td>
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<td>Item 2</td>
<td>Type of benchmark or family of benchmarks.</td>
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<td>Item 3</td>
<td>Name of the benchmark or family of benchmarks.</td>
<td>CME Group Volatility Index</td>
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<td>Item 4</td>
<td>Does the benchmark methodology for the benchmark or family of benchmarks take into account ESG factors?</td>
<td>No</td>
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