CME Group | Advisory Notice

DATE: July 26, 2019
TO: Clearing Member Firms
FROM: CME Clearing

ADVISORY #:   19-240

SUBJECT: **Clearing Processing for Forward BTIC (BTIC+) Futures**

On September 9, 2019, CME will launch trading in several new products, called **Forward BTIC Futures** and **Forward TACO Futures**. They will be available in CME's "New Release" testing environment beginning on Monday, August 12, 2019.

This advisory describes these new products and explains how they relate to BTIC (Basis Trade Index Close) or TACO (Trade At Cash Open) trades on equity index futures. The new products are simply futures that **deliver** into a BTIC or TACO trade. They will also be called **BTIC+ Futures** and **TACO+ Futures**.

Following is an example of how BTIC trading works. At 10:00am Chicago time on Friday, August 16, 2019, you wish to execute a trade on the September 2019 ES (E-Mini S&P 500) future at a price of four points less than that day's closing value of the S&P 500 index:

- You execute a trade on Globex, or report a block trade through Clearport, in the September 2019 **EST** future, at a trade price of -4.0. The **EST** code is the "traded as" symbol for BTIC trades on the E-Mini S&P 500 future.

- The S&P 500 index at that time is at 2885.0. You receive a trade confirmation message for the September **ES** future, which indicates that this trade was the result of a BTIC transaction using the **EST** "traded as" contract. The preliminary value of the absolute trade price is calculated as 2885.0 (the current value of the index), plus -4.0 (the traded-as differential price), yielding 2881.0.

- At the end of day, the S&P 500 index closes at 2888.0. The absolute trade price is recalculated as 2888.0 (the closing value of the index), plus -4.0 (the differential price), or 2884.0. You receive an updated trade confirmation message, indicating that the final value of the trade price is 2884.0.

Forward BTIC futures will allow you to execute a BTIC trade for a given business day, **in advance of** that day. CME will list two forward-starting products for BTIC trading on the S&P 500 index, **ES1** (for a forward-starting BTIC trade on the nearest non-expired E-Mini S&P 500 futures contract), and **ES2** (for a forward-starting BTIC trade on the second nearest non-expired future.) They are daily futures, with a contract period code specific to a given business day.

As an example, the **20190816 ES1** future, which will deliver into a BTIC trade on the September 2019 ES future on Friday August 16. The last day of trading and final settlement date of this ES1 future will be the business day immediately prior to the delivery day, namely Thursday, August 15.

On Wednesday August 14 you sell 10 contracts in this 20190816 ES1 future, at a trade price of -2.0, and at the end of the day the contract's settlement price is -3.0. Settlement variation is calculated as:

- Settlement price of -3.0, less trade price of -2.0, or -1.0.
- Times trade quantity of -10
- Times contract value factor of 50

yielding a settlement variation amount of +500.00 USD.

On the next day, Thursday August 15, the contract settles at -4.0. Settlement variation on this open position is calculated normally as:

- Today's settlement price of -4.0, less yesterday's settlement price of -3.0, or -1.0.
- Times trade quantity of -10
- Times contract value factor of 50

Yielding a total settlement variation, again, of +500.00 USD.

Thursday August 15 is the last day of trading and final settlement date for the 20190816 ES1 future, and the final position is short ten contracts. This position will now make delivery of ten contracts – BTIC trades, at a trade price equal to the final settlement price of -4.0 of the 20190816 ES1 future.

At approximately 2:30am CT on Friday August 16, a BTIC trade will be booked in the clearing system, in the September ES futures contract, with a trade quantity of -10 (a sell), at a BTIC differential price of -4.0 (the final settlement price of the forward contract). A FIXML confirmation message will be transmitted to the firm.

The FIXML trade confirmation messages provide the trade type as **3** (a "delivery transfer" – for example **TrdTyp="3"**.) As with any BTIC trade, the trade subtype will be provided as **43**, indicating that this is generically a TAM (Trade-At-Marker) transaction - for example, **TrdSubTyp="43"** – and the product code of the marker contract is provided as **ESI**, indicating that this is a BTIC trade on the E-Mini S&P 500 future – for example **AltID="ESI" AltIDSrc="112".**

This "delivery transfer" BTIC trade behaves exactly as any other BTIC trade done on Friday, August 16. At the end of the day, if the closing value of the S&P 500 index was determined as 2888.0, your final absolute price on your trade in the September ES future is determined as -4.0 (the differential BTIC trade price), plus that closing value of the index (2888.0), or 2884.0.

To summarize: a forward BTIC contract is a regular future, for delivery into a BTIC trade on a given day, that expires on the immediately preceding day. The same delivery process is also used for monthly NYMEX power contracts that deliver into a strip of daily futures.

As with the delivery process for those monthly NYMEX power contracts, on the last day of trading, firms may (but are not required to) provide delivery intents for their positions in the expiring forward BTIC contracts, specifying a customer account number for each such intent. If so, the customer account number on the delivery transfer transaction that establishes the BTIC trade will reflect the value provided on the intent. The delivery transfer transaction for any final position for which intents are not provided, will have a generic value of **DLVRY** provided in the customer account field. The client order ID will be **DLVR** – for example **ClOrdID="DLVR".**

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

At launch, as indicated above, CME will list two contracts for forward BTIC trades on the E-Mini S&P 500 future – **ES1**, for delivery into a BTIC trade on the nearest ES future, and **ES2**, for delivery into a BTIC trade on the second nearest ES future. CME will also list contracts for forward TACO trades on the first E-Mini S&P 500 future, with a product code of **EQ1**.

Performance bond (initial margin) requirements for positions in forward BTIC contracts will be calculated normally using SPAN®.

For further information, please see:

New Contract Notice #19-235 for Forward BTIC Futures, at:
https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2019/07/Chadv19-235.pdf

Special Executive Report S-8146, published July 19, 2019, at:
https://www.cmegroup.com/content/dam/cmegroup/notices/ser/2019/07/SER-8146.pdf

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

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

Clearing Advisory 18-163: Clearing Processing for TACO (Trade At Cash Open) Trades
https://www.cmegroup.com/content/dam/cmegroup/notices/clearing/2018/04/Chadv18-163.pdf

Trade At Settlement, Trade At Market, and Basis Trade Index Close, at:
https://www.cmegroup.com/clearing/files/tas-tam-btic.pdf

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