Special Executive Report

S-7960 **July 27, 2017**

Transition of Open Interest of E-mini Russell 2000 to CME

Effective on trade date Monday, July 10, 2017, Chicago Mercantile Exchange Inc. ("CME" or Exchange") listed the E-mini Russell 2000® Index futures and options suite for trading on the CME Globex electronic trading platform and for clearing via CME ClearPort (see SER-7877R dated July 5, 2017). CME has the exclusive rights to list futures and options on the index; however, as of July 10, the futures products are dually listed by CME as well as by ICE for a period of time to facilitate the transition of open interest between the exchanges.[1]

Please note, the positions will not be moved to CME without client action.

Three ways to transition Russell 2000 futures from ICE to CME:

1. Using BTIC and TIC functionality

By using BTIC (Basis Trade at Index Close) functionality at CME and TIC (Trade at Index Close) functionality at ICE a client can transition its position in the Russell 2000 futures from one exchange to another. Both of these methods allow a client to trade at a "known basis" to the official cash index close.

One way to minimize slippage when moving contracts between the two exchanges is to do so via negotiating a BTIC block transaction on CME and a TIC block transaction on ICE. The basis quoted in the BTIC and TIC block indications will likely be very similar, if not the same, for contracts with a common maturity date. Additionally, please note that CME offers competitive trading on CME Globex with BTIC pricing.

View BTIC and Block Liquidity Providers

2. Using the SEP-DEC futures roll

A client that is currently long Russell 2000 futures at ICE can use the "roll" to transition their position to CME contracts. This is most easily done by trading the roll in the CME Sep/Dec calendar spread and holding the existing contract at ICE until expiration.

The resulting set of September futures, long at ICE and short at CME, would be equal in size and opposite in direction and will both expire against the same index price on the date of the September futures expiration (September 15, 2017). There is no price risk at expiration and the client may let them expire in an offsetting fashion. Once the September contracts have expired the client's remaining position is the long December futures which would be in the CME contract.

Note the same logic can be applied if the client is currently short Russell 2000 futures on ICE. In this case, one would buy the September contract at CME whilst selling the December contract with CME.

To view the Sep/Dec E-mini Russell 2000 Calendar Spreads please use the following ticker symbols:

- Bloomberg: RTYU7Z7 Index
- Thomson Reuters: RTYU7-Z7
- DTN: @RTYU17-@RTYZ17

3. Using block functionality at CME and ICE

A client who is long Russell 2000 futures at ICE and wishes to transition to CME may enter two separate block trades – one at each exchange. This may be done providing the size of each leg is at least 40 contracts (the current minimum block size at each exchange).

Please note that each block trade must adhere to each respective exchange's rules and regulations concerning block trades.

Cost advantages and incentives of transitioning to CME early

1. Fee Waivers (through September 30, 2017)[2]

- BTIC fees on CME Globex and Block trades
- Calendar spreads
- Outright block trades and Exchange for Physicals (EFPs)

2. Margin offsets

Clients with E-mini Russell 2000 Index future positions at CME may experience margin offsets of up to 75%[3] between the E-mini Russell 2000 index futures and other CME Equity Index futures, such as E-mini S&P 500, E-mini NASDAQ 100 and E-mini S&P MidCap 400, among others.

Margin Benefits at CME

<u>E-mini Russell 2000 Margin Benefits at CME</u>

The initial margin estimate for the E-mini Russell 2000 Index futures (RTY) outright contract is approximately $2,500 (~3.5% of the contract notional value) and $80 for the calendar spread[3]. Clients may achieve even greater capital efficiencies through margin credits between RTY and CME's broad-based index futures contracts as depicted in the table below. This means that any offsetting combination of the below products at their appropriate ratio may receive a certain margin credit, beginning with the pair with the highest credit ratio first.

For example, three long (short) RTY futures contracts held against two short (long) E-mini S&P 500 futures contract (ES) may receive a credit as high as 75%.

Leg 1	vs. Leg 2	Ratio	Margin Credit
RTY	ES	3:2	75%
RTY	NQ	3:2	65%
RTY	YM	3:2	70%
RTY	ME	4:1	75%
RTY	N1	3:2	65%
RTY	NK	3:2	65%
RTY	RS1	5:6	75%
RTY	RSG	5:6	55%
RTY	RSV	3:4	70%

Example:

Suppose an investor holds three long (short) Russell 2000 futures contracts and two short (long) E-mini S&P 500 futures contract at CME. The tables below depict the margin for holding the Russell 2000 positions at ICE (Scenario 1) compared to holding both positions at CME (Scenario 2).

Scenario 1		
Contract	**Exchange**	**Initial Margin per Leg**
Russell 2000 Futures	ICE	$3,685
E-mini S&P 500 Futures	CME	$4,600
Offset		**N/A**
Total Margin		**$20,255**

Scenario 2		
Contract	**Exchange**	**Initial Margin per Leg**
E-mini Russell 2000 Futures	CME	$2,500
E-mini S&P 500 Futures	CME	$4,600
Offset		**75%**
Total Margin w/Offset		**$4,175**

Product Trading Codes

E-mini Russell 2000® Index futures and options				
Futures Contracts	**Underlying Index (Bloomberg)**	**CME Globex**	**Bloomberg Front Month**	**Thomson Reuters Front Month**
Outright Futures				
E-mini Russell 2000 Index Futures	RTY Index	RTY	RTYA Index	RTYc1
E-mini Russell 2000 Growth Index Futures	RUO Index	R2G	RGLA Index	R2Gc1
E-mini Russell 2000 Value Index Futures	RUJ Index	R2V	RVLA Index	R2Vc1
BTIC Futures				
BTIC E-mini Russell 2000 Index Futures	RTY Index	RLT	RLBA Index	RTLc1
BTIC E-mini Russell 2000 Growth Index Futures	RUO Index	2GT	RGRA Index	RTGc1
BTIC E-mini Russell 2000 Value Index Futures	RUJ Index	2VT	RVRA Index	RTVc1
Options on Futures Contracts	**Underlying Index (Bloomberg)**	**CME Globex**	**Bloomberg Options Monitor**	**Thomson Reuters Chain**
Quarterly Expiration	RTY Index	RTO	RTYA Index OMON	0#1RTY+
End-of-Month Expiration	RTY Index	RTM	RMEA Index OMON	0#1RMX+
Weekly Expiration	RTY Index	R1E, R2E, R3E, R4E	RUWA Index OMON	0#1RTYW+

The minimum block trade thresholds for all Russell 2000 futures and options is 40 contracts. All contracts denominated in USD.

Any questions concerning this Special Executive Report may be emailed to EquityProducts@cmegroup.com

1.ICE will no longer be legally capable of listing new expirations as of July 1, 2017

2. This applies to Russell 1000 Futures, Russell 1000 Value Futures and Russell 1000 Growth Futures as well as Russell 2000 Futures, Russell 2000 Growth Futures and Russell 2000 Value Futures (subject to change in the future).
3. As of June 30, 2017 and subject to change. Generally speaking, CME uses a Historical Value-at-Risk (VaR) methodology called SPAN to ensure that margins are set to cover 99 percent of potential price moves. CME considers several factors to compute the gains and losses a portfolio would incur under different market conditions: Historical price changes at the contract level, seasonality, correlations between products.

Other pertinent factors may also impact the performance bond requirements. CME strives to cover 99 percent of price moves over the course of a calendar year when setting margins for all contracts and portfolios. During periods of high volatility, we will reevaluate how well our margins did relative to the 99 percent target coverage and reevaluate for increases (or decreases after periods of low volatility).

More information can be found here: Margins FAQ and SPAN methodology.
Please contact the CME Risk Team for additional questions. Clearing.riskmanagement@cmegroup.com +1 312 648 3888.

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434.