Chapter 75
30-Year Uniform Mortgage-Backed Securities (UMBS) To-Be-Announced (TBA) Futures

75100. SCOPE OF CHAPTER

This chapter is limited in application to trading of 30-Year UMBS TBA futures ("futures"). In addition to this chapter, futures shall be subject to the general rules and regulations of the Exchange insofar as applicable.

Unless otherwise specified, times referenced herein shall indicate Central Prevailing Time ("CPT").

75101. CONTRACT SPECIFICATIONS

75101.A. Contract Grade

The contract grade for delivery on futures made under these Rules shall be the Depository Trust & Clearing Corporation's (DTCC) Fixed Income Clearing Corporation (FICC) Mortgage-Backed Securities Division (MBSD)-cleared 30-Year UMBS TBA contracts which have the following standards:

1. **Issuers:** Fannie Mae and Freddie Mac
2. **Mortgage Term:** 30-Year
3. **Deliverable Grade and Size:** $100,000 face value of MBSD-cleared 30-Year UMBS TBA at a given coupon rate.
4. **Fixed Rates:** For a given Delivery Month, futures are listed by the Exchange for delivery of specified active (current-production) mortgage coupon rates. Futures contract Fixed Rates set by the Exchange at integer multiple of fifty (50) basis points (i.e., one half of one percent) per annum when such futures contract is initially listed for trading.
5. **Listed Coupon Rates:** 2.0%, 2.5%, 3.0%, 3.5%, 4.0%, 4.5%, 5.0%, 5.5%, 6.0%, 6.5%, 7.0%
6. **Mortgage Loan Criteria:** Must fulfill conforming 30-Year fixed-rate single-family TBA-eligible MBS pools.
7. **TBA Buyer:** Long futures in delivery. Expect to receive conforming agency MBS pools in exchange for fixed rate. Expect to take delivery of agency pass-through securities.
8. **TBA Seller**: Short futures in delivery. Expect to deliver conforming agency MBS pools in exchange for fixed rate. Expect to make delivery of agency pass-through securities.
9. **Last Trading Day (LTD)**: Three (3) Exchange Business Days prior to SIFMA TBA Notification Date.
10. **Delivery Day**: Exchange Business Day immediately following LTD.
11. **Listed Delivery Months**: At least nearest three (3) calendar months at any given time

75102. TRADING SPECIFICATIONS

The number of contract delivery months open for trading at a given time shall be determined by the Exchange. Without limitation to the foregoing, the Exchange customarily shall list for trading futures contracts for delivery in at least each of the three (3) nearest calendar months.

For a given futures contract for a given delivery month, the Exchange shall determine the value of the Fixed Rates that shall standardize the Contract Grade for such futures contract (CBOT Rule 75101.A.4.). The Exchange also shall determine whether, and when, to list for trading any additional futures contract(s) for such delivery month that are standardized to Fixed Rate coupon(s) different from the available Fixed Rate coupons of such futures contract.

75102.A. Trading Schedule

Contracts shall be scheduled for trading during such hours and for delivery in such months as may be determined by the Exchange. On the last day of trading in an expiring contract (CBOT Rule 75102.F.), the close of the expiring contract shall be permitted thereafter for a period not to exceed one (1) minute.

75102.B. Trading Unit

The unit of trading shall be contracts that meet Contract Grade (CBOT Rule 75101.A.) having notional amount of one hundred thousand U.S. dollars ($100,000) or multiples thereof.

75102.C. Price Increments

Par shall be on the basis of 100 points, with each point equal to $1,000 per contract. For trades executed on the CME Globex electronic trading platform, the minimum price fluctuation shall be one-quarter of one thirty-second (1/4 of 1/32nd) of one point (equal to $7.8125 per contract), except for intermonth and intramonth spreads for which the minimum price fluctuation shall be one-eighth of one thirty-second (1/8 of 1/32nd) of one point (equal to $3.90625 per contract). For intermonth spread transactions submitted for clearing through CME ClearPort, the minimum price fluctuation shall be one-sixteenth of one thirty-second (1/16 of 1/32nd) of one point (equal to $1.953125 per contract).

Contracts shall not be made on any other price basis.

75102.D. Special Price Fluctuation Limits

At the commencement of each trading day, the contract shall be subject to special price fluctuation limits as set forth in Rule 589. and in the Special Price Fluctuation Limits and Daily Limits Table in the Interpretations & Special Notices Section of Chapter 5.

75102.E. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559. for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

75102.F. Termination of Trading

Trading in an expiring futures contract shall terminate three (3) Exchange Business Days before the Notification Day for Class A instruments defined by the Securities Industry and Financial Markets Association (SIFMA) in the MBS Notification Settlement Dates section on the TBA Market Governance website.

75102.G. Final Settlement Price

On the expiring contract's last day of trading, the Exchange shall determine a Final Settlement Price based upon market activity from multiple sources. The Final Settlement Price will be used for deliveries of open positions.

75102.H. Final Settlement

Clearing Members holding open long or short positions in a contract month at the time of termination of trading in such contract shall make payment to or receive payment from the Clearing House in accordance with normal variation performance bond procedures based on a settlement price equal to the Final Settlement Price (CBOT Rule 75102.G.).

75103. DATE OF DELIVERY

Subject to CBOT Rule 75104., delivery on an expiring futures contract shall be made by a short MBSD clearing member, and shall be taken by a long MBSD clearing member, on the Exchange Business Day immediately following the last trading day of the futures delivery month (CBOT Rule 75102.).

75104. DELIVERIES ON EXPIRING FUTURES CONTRACTS

75104.A. Requirements for Participation in Delivery

For an account carried by a Clearing Member to make or accept delivery on an expiring futures contract, the holder of such account is required to be:

1. an Eligible Contract Participant, as that term is defined in Section 1a(18) of the Commodity Exchange Act; and

2. capable of fulfilling futures delivery through a "Full" FICC MBSD clearing member ("MBSD clearing member") that is either an affiliated or unaffiliated Exchange Clearing Member. Limited Member for Electronic Pool Notification (EPN) Service is insufficient.

Subject to these requirements and to CBOT Rules 75104.B. and 75104.C., upon Termination of Trading in such expiring futures (CBOT Rule 75102.F.), the holder of each such account that holds a long interest in such futures contract shall be required to provide confirmation to the Clearing House establishing position of TBA Buyer of one contract that meets Contract Grade (CBOT Rule 75101.A.) and the holder of each such account that holds a short interest in such futures contract shall be required to provide confirmation to the Clearing House establishing position of TBA Seller of one contract that meets Contract Grade.

75104.B. Clearing Member Obligations in Delivery

Subject to the provisions of Exchange Rulebook Chapters 7, 8, and 9, as of the termination of trading in an expiring futures contract (CBOT Rule 75102.F.), each Clearing Member that carries accounts holding long or short interest in such expiring futures contract shall submit and:

1. ensure that the requirements set forth in CBOT Rule 75104.A. are met;

2. in accord with the requirements set forth in CBOT Rule 75104.B., ensure that the holder of each such account has designated (a) the MBSD Account(s) in which the holder shall make or accept any deliveries on expiring futures contracts and (b) the MBSD clearing member(s) carrying such MBSD Account(s);

3. ensure that any MBSD clearing member carrying such MBSD Account(s) as may be designated pursuant to CBOT Rule 75104.C.2. has been notified of such designation; and

4. obtain acknowledgement from each MBSD clearing member designated pursuant to CBOT Rule 75104.C.2. that such MBSD clearing member shall guarantee and assume complete responsibility for the performance of all delivery requirements in respect of such expiring futures (CBOT Rule 75104.E.).

Where a Clearing Member carries accounts holding interest both long and short in such expiring futures contract, the Clearing Member must fulfill CBOT Rule 75104.C. so as to procure that delivery shall be made by all such accounts holding short interest and shall be accepted by all such accounts holding long interest.

75104.C. Clearing Member Reporting Obligations Prior to Delivery

Each Clearing Member that carries accounts holding long or short interest in an expiring futures contract shall report to the Clearing House, on each of the last three (3) days of trading prior to the Last Trading Day in such expiring futures, an accurate inventory of such long and short interest, in such manner and at such times as the Clearing House may prescribe, provided that such inventory must include, for each account holding long or short interest:

1. declaration of the number of expiring futures contracts held long, and the number of expiring futures contracts held short, in such account;

2. confirmation whether such account meets the requirements set forth in CBOT Rule 75104.A.

75104.D. Notification of DTCC FICC MBSD Clearing Members in Delivery

Intention Day

Not later than 3:00 p.m. on the last day of trading, long and short Clearing Members must submit to the Clearing House intentions for delivery on a form prescribed by the Clearing House. The notice of intention for delivery shall include quantity and EPN Pool ID and any other information as may be required by the Exchange.

The Clearing House shall allocate Notices of Intention to Clearing Members on a pro rata basis with open long futures positions as TBA Buyer, and open short positions as TBA Seller.

The Clearing House shall provide delivery notices to Clearing Members after 4:00 p.m. on the last trading day in an expiring futures contract (CBOT Rule 75102.F.), the Clearing House shall notify each MBSD clearing member carrying one or more MBSD Accounts that are required to make or accept delivery in fulfillment of such expiring futures, as designated pursuant to CBOT Rule 75104.C. For each such MBSD clearing member, such Clearing House notification shall include:

1. identification of MBSD Accounts, carried by such MBSD clearing member, that are required to accept delivery on long futures positions; the size of each such long futures position; and the identity of the MBSD clearing member(s) carrying the account(s) in which each such long futures position is held; and /or

2. identification of MBSD Accounts, carried by such MBSD clearing member, that are required to make delivery on short futures positions; the size of each such short futures position; and the identity of the MBSD clearing member(s) carrying the account(s) in which each such short futures position is held.

75104.E. DTCC FICC MBSD Clearing Member Obligations in Delivery

Every futures contract that is delivered shall be a MBSD cleared TBA. To fulfill the delivery obligation for a long futures position of a TBA contract, the TBA confirmation must demonstrate that a MBSD cleared TBA Buyer has been established for the same Contract Grade (Fixed Rate, Delivery Month). To fulfill the delivery obligation for a short futures position of a TBA contract the TBA confirmation must demonstrate that a MBSD cleared TBA Seller has been established for the same Contract Grade (Fixed Rate, Delivery Month).

The TBA confirmation must include the following details: product (issuer, coupon, term), trade date, quantity, price, direction (buy/sell), and settlement date of the TBA trade.

TBA Buyer and TBA Seller are required to provide confirmation of TBA transfer by 3:00 p.m. on the delivery day or as may be prescribed by the Clearing House.

In the event that an MBSD clearing member disputes such notification of delivery on expiring futures as it may receive from the Clearing House, pursuant to CBOT Rule 75104.E., such MBSD clearing member shall promptly notify the Clearing House, and the dispute must be settled prior to 4:00 p.m. on the Delivery Date in fulfillment of such expiring futures (CBOT Rule 75104.D.),

Matched TBA Buyers and TBA Sellers for Delivery

1. By holding open positions into the Intention Day that are matched for delivery, the matched TBA Buyer and TBA Seller are deemed to have entered into a transaction as a single, separate and independent legally binding agreement. Each transaction is a valid and legally binding obligation of, and shall be enforceable against the parties.
2. TBA Buyer and TBA Seller agree and understand that all responsibility for any TBA delivery obligation remains solely with the TBA Buyer and TBA Seller.
3. TBA deliveries shall be deemed completed with confirmations that verify establishing MBSD positions that fulfill the futures delivery obligations.
4. All deliveries shall be conducted in conformity with the FICC-MBSD Clearing Rules and the good delivery guidelines of SIFMA's Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities (CBOT Rule 75104.B.) (CBOT Rule 75104.C.) (CBOT Rule 75104.D.).

75104.F. Additional DTCC FICC MBSD Processes

Comparison and Verification of Confirmations

1. Discrepancies in Confirmations

Upon receipt of a confirmation for either a TBA or a specified transaction, each party to the transaction is responsible for comparing and verifying the confirmation to ascertain whether any discrepancies exist. The party discovering any such discrepancy should promptly communicate the discrepancies to the contra party, and both parties should promptly attempt to resolve them.

2. Unrecognized Trades

If a party receives a confirmation for a transaction that it does not recognize, it should promptly seek to ascertain whether a trade occurred and the terms of the trade.

a. If the receiving party determines that a trade did occur and the confirmation received was correct, the receiving party should immediately notify the confirming party by telephone and, within one (1) Exchange Business Day thereafter, send a confirmation of the transaction to the confirming party.

b. If the receiving party cannot confirm the trade, the receiving party should immediately notify the confirming party by telephone to that affect.

3. Failure to Receive a Confirmation

If a party has sent a confirmation of a transaction, but fails to receive a confirmation or a nonrecognition notice from the contra party within five (5) calendar days of the trade date, the confirming party should, but is not obligated to, promptly seek to ascertain whether the confirmation was received by immediately notifying the nonconfirming party by telephone that a confirmation for a trade has been sent to it and no response has been received, and, within one (1) Exchange Business Day thereafter, sending a notice to the nonconfirming party indicating failure to confirm.

Upon receipt of telephone notice from the confirming party, the nonconfirming party should check its records and respond to the confirming party as follows:

a. If the nonconfirming party determines that a trade did occur, it should immediately notify the confirming party by telephone to that effect and, within one (1) Exchange Business Day thereafter, send a confirmation of the transaction to the confirming party.

b. If the nonconfirming party cannot confirm the trade, it should immediately notify the confirming party by telephone to that effect and, within one (1) Exchange Business Day thereafter, send a notice to the confirming party indicating nonrecognition of the transaction.

4. Content of Notices Regarding Verifications

Any notice indicating nonrecognition of a transaction or failure to confirm a transaction should contain sufficient information to enable the recipient to identify the transaction and confirmation to which the notice relates. The notice should include the information required in confirmations for TBA transactions or specified transactions, as the case may be, as well as the confirmation number.

Additionally, the notice should specify the date and identify the firm and person providing the notice. The requirements of this paragraph may be satisfied by providing a copy of the confirmation of an unrecognized transaction, marked “don’t know, (“DK”)” together with the date and the name of the firm and person providing the notice.

5. Settlement by Parties Prior to Verification

Parties may settle transactions prior to receipt of confirmations, provided that each party to the transaction will be responsible for sending the other party, within one (1) Exchange Business Day of settlement, a confirmation evidencing the terms of the transaction. For example, where parties enter into a specified trade on Monday for settlement Tuesday, the parties may settle on Tuesday even though they have not received each other’s confirmations, provided they agree to the terms of the transaction. In other words, a party cannot “DK” a transaction that it recognizes simply for failure to receive a confirmation. However, a party may “DK” an unrecognized trade.

C. Errors and Omissions

Minor errors or omissions in the transmission of information that do not affect the TBA Buyer’s right to redeliver the securities (e.g., an error in the issuer’s name or month of maturity) shall not result in a postponement of delivery or payment.

Net TBA Sellers are required to inform net purchasers of the specific mortgage pools being allocated at least 48 hours before delivery to meet TBA contract obligations.

D. Pool Notification for the Settlement of TBA Trades

In accordance with the 48-Hour requirement (CBOT Rule 75104.F.C.), the TBA Seller must first communicate to the TBA Buyer the following information:

1. the identification of the firm sending the information;
2. the number of trades and “good-delivery millions”;
3. the coupon rate and product;
4. the trade date and settlement date; and
5. the price.

After the above information has been provided, the following information is required to be provided by the TBA Seller to the TBA Buyer:

1. the pool or group number;
2. the original face for each pool or group number within the transaction; and
3. identification of pools issued in the current month as “new,” or the issue date and maturity date of such pools.

If the information required is not communicated within the time frames specified in the 48-hour requirement (CBOT Rule 75104.F.C.), the TBA Seller cannot make delivery earlier than two (2)

Exchange Business Days after the date on which such information is transmitted in accordance with these time frames, unless otherwise agreed to by the TBA Buyer.

If the mode of pool notification is via EPN, the procedures detailed in the MBSD-FICC User Guide should be followed. *

75104.G. DTCC FICC MBSD Disruption Contingency Plans

1. This guideline sets forth contingency procedures to be followed in the event that FICC-MBSD experiences a system disruption. Pool notification extensions would be triggered only by a notification from FICC-MBSD that FICC systems are experiencing a disruption in service.

a. **The Association's Good-Delivery Cut-Off Time -** Unless FICC-MBSD provides a notification that FICC systems are experiencing a system disruption and requests that the 48-Hour requirement (CBOT Rule 75104.F.C.) will remain in effect. In the event MBSD-FICC notifies the Association of a FICC system disruption and requests an extension, the 48-Hour requirement (CBOT Rule 75104.F.C.) will be superseded by the pool notification extension guideline described in subsection 2 below.

b. **The Association's Cancel-Correct Cut-Off Time -** Unless FICC-MBSD provides a notification that FICC systems are experiencing a disruption and requests an extension, the Association's recommended cancel-correct cutoffs as set forth in Section C of this chapter will remain in effect. In the event MBSD-FICC notifies the Association of a FICC system disruption and requests an extension, the guidelines in Section C of this chapter will be superseded by the extension guideline described in CBOT Rule 75104.G.2.

c. **Notification of Extension -** In the event that FICC-MBSD experiences a FICC system disruption and requests an extension, the Association will effect a broad notification throughout the industry of such extension and the ultimate resolution of such a disruption.

2. **Guideline Concerning Industry-Wide Extension of the 48-Hour Rule for Pool Notification** This guideline is designed to address 'typical' disruptions of FICC's systems. It is not intended to address extraordinary circumstances. In such instances the association will facilitate emergency discussions with relevant industry participants, FICC, and other parties to determine the appropriate course of action.