



Advisory Notice

Clearing House

10-311

Date: July 22, 2010

To: Clearing Member Firms
Chief Financial Officers
Back Office Managers

From: CME Clearing

Subject: Clearing and Bookkeeping Processing For Eris Interest-Rate Swap Futures

On **Monday July 26**, CME Clearing will begin clearing processing for **Eris Exchange, LLC ("Eris") Interest-Rate Swap Futures**. Eris is a separate entity and is not part of CME Group Inc. Eris is an exempt board of trade ("EBOT"), and because it is an EBOT, Eris is not registered with, or recognized, designated, licensed or approved by the CFTC.

Eris contracts will trade on the **Eris platform (erisfutures.com)**. All transactions executed on Eris will be submitted for clearing to CME Clearing.

At launch, customer positions will be cleared through the **30.7 Secured** regulatory status. Customers must be Eligible Contract Participants (ECPs) under CFTC regulations to trade Eris products.

A distinguishing feature of Eris Interest-Rate Swap Futures is that **all periodic cash flows will be subsumed within daily variation margin processing**. In other words, from a functional point of view, these products work **exactly like any other cash-settled futures product**:

- Each day all new cleared trades are marked from trade price to that day's end-of-day settlement price.
- Similarly, each day the start-of-day position is marked from the previous day's settlement price to the new day's settlement price.
- The total of all of these mark-to-market amounts is banked in cash as normal settlement variation ("variation margin").
- You can liquidate your position simply by clearing an offsetting future with any counterparty.

To further simplify processing for clearing member firms, these products will flow through clearing and bookkeeping systems **exactly like any other cash-settled futures product**.

- The product type will be **FUT** and the product exchange will be **CME**.
- Individual contracts will be identified and made unique by a six-byte **clearing product code** and an eight-digit **contract period code**. The product code will begin with a **Z** and be followed by five numeric digits – for example **Z00123**. The contract period code will identify the end date – for example **20150623** for a contract ending on June 23, 2015.
- Prices will be quoted in percent-of-par out to the fourth decimal digit – for example, **105.1234**.
- Each contract will represent a notional quantity of one million USD. Because of this, and because prices are quoted out to the fourth digit of a percent, therefore **the contract value factor is 10,000**, and the monetary value of a tick is equal to one dollar.
- A long position represents a **receiver of fixed**.

So for example, suppose on July 20, 2010, you clear a spot-starting five-year deal at a fixed rate of 4.23%, and you are a receiver of fixed for a notional quantity of 25M USD:

- Following standard conventions (T+2), the start date would be July 22, 2010, and the end date would be July 22, 2015.
- Let's say the product code for the deal is assigned as **Z00987**. The contract period code would be the end date of **20150722**.
- The trade would be recorded as a **buy of quantity 25**. (receiving fixed on 25M notional)
- In the vast majority of cases, trade prices will be par at the time of execution – *ie*, the market yield will equal the coupon – and hence the trade price will be par, *ie*, **100.0000**.
- At the end of day, if the prevailing market yield has increased above the 4.23 coupon, then the end of day settlement price will be below par – below 100 – for example 99.6234.

The bottom line: trades in these products will flow through the clearing system, and be processed in bookkeeping systems, **exactly like any other futures product**.

Trades will be captured on the Eris platform – **not** on CME ClearPort. As with CME ClearPort, however, clearing firms will explicitly authorize each customer they wish to clear, and the Eris platform will enforce customer-specified credit and position limits. Also, any customer wishing to clear Eris contracts will need to execute the CME ClearPort Exchange User License Agreement (“EULA”), at www.cmegroup.com/clearport, if they have not already done so.

Note that **clearing firms will not need to explicitly claim individual trades**. The clearing guarantee will apply as soon as the trade has been received and accepted by CME Clearing, except in two special cases: (a) the trade was done prior to the current business day and is only now being submitted to clearing, or (b) the mark-to-market amount for the trade at the time it is received is \$10 million or more. If either of these two special cases has occurred, then the clearing guarantee applies once the clearing firm has fulfilled its settlement obligations at the next settlement cycle.

Participating clearing firms will be assigned special firm ID's (“TMF's”) for processing Eris trades.

The trade type will be **OPNT**. In addition to the special product code, Eris trades can be distinguished by an **input source** value of **ERIS**.

Messaging will utilize FIXML exclusively. Average-pricing will not be supported. But except for averaging, all other post-execution processing, including giveups, will be supported and will work as for any other product.

Positions will be margined in SPAN® normally. The combined commodity code for all Eris contracts will be **ERIS**.

PCS should be submitted for positions in Eris futures as for any other product. Large Trader reporting is **not** required at launch.

Deal notifications, and identifying deal details: at launch, the contract period code will provide the end date, but the FIXML trade confirmation message provide neither the start date nor the fixed rate.

This information will be provided to clearing firms via a spreadsheet (CSV-format) file named **Eris_Futures.csv**, which will be published every day at <ftp.cmegroup.com/pub/settle>, and in the **pub/settle** directory on the Firm FTP Server. The daily CSV file will contain the following data elements:

Bus_Date	Business Date to which the file pertains
Source	Data Source = ERIS
Exch	Clearing product exchange = CME
Prod_Code	The clearing product code, for example,
Period	Contract period code, for example, 20150723 , <i>ie</i> , an end date of July 23, 2015
Start_Date	The start date, for example 07/23/2010 .
End_Date	The end date, for example 07/23/2015 .
Fixed_Rate	The fixed rate in percent, for example 4.23
SDT	The “clearing settlement date”
LDT	Last day of trading – <i>ie</i> , the last day on which a trade may be cleared
FDT	First day of trading – <i>ie</i> , the first day a trade in this contract was cleared
Price	The current day’s end-of-day settlement price for this contract.

Testing: clearing firms may test with Eris contracts in the New Release environment at any time.

For more information, please contact Eris Exchange at 888-587-2699, or CME Clearing at 312-207-2525.

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