
Market Notice

TO: Eris Exchange Market Participants
FROM: Eris Exchange Control Center
NOTICE: #13-M07
DATE: August 22, 2013
SUBJECT: New Product Introduction: Eris 7Y Standard

This Market Notice serves to notify Participants on Eris Exchange, LLC (“Eris Exchange” or “Exchange”) of the introduction of the Eris 7Y Standard (“7Y Standard” or “7Y Std”) instrument. Subject to all relevant regulatory review periods and completion of operational preparation, the projected launch date of the 7Y Standard is September 16, 2013.

Overview

Effective September 16, the 7Y Standard will be added to the existing suite of Eris Exchange Interest Rate Swap Futures. Product specifications for the 7Y Standard are attached.

Purpose

Like all existing Eris Standards, the 7Y Standard offers users the advantages of trading quarterly futures with pre-determined fixed rates, including automatic netting of offsetting positions, and capital-efficient margin treatment within SPAN.

Products Available for Portfolio Margining	
SPAN Margin Clearing Account	HVAR Margin Clearing Account
Eris Standards	Eris Standards
CME Eurodollars	Eris Flexes
CME Treasury Futures	CME Eurodollars
CME Deliverable Swap Futures	CME Treasury Futures

Impact to firms

Operationally, the 7Y Standards can be handled by market participants in a manner consistent with all existing Eris Standards (2Y, 5Y, 10Y, 30Y). With the release of the 7Y Standard instrument existing Eris Exchange Clearing Firms need to perform the following actions:

1. Initial Setup

- *Product Setup*
Configure back-office systems to accommodate the new 7Y product codes, ZC9107 and ZC9207. Sungard GMI users should consult Sungard Client Service Bulletin when released.

2. Daily Processes

- *PCS Reporting*
Using existing process for Eris Standards instruments, firms designate 7Y Standards positions for margin offsets via PCS reporting under the Clearing Firms' Eris Exchange TMF. Eris Standards are eligible for Margin offsets with CME Eurodollar, CME Treasury futures, and CME Deliverable Swap Future instruments via SPAN credits.
- *HVAR Portfolio Margining – OPTIONAL*
Using existing process for designating Eris Standards for HVAR margining, firms designate 7Y Standards positions for HVAR margin offsets via customer account mapping at CME clearing operations. Eris Standards are eligible for HVAR Margin offsets with Eris Flexes, Eris Standards, CME Eurodollar, and CME Treasury futures.

Testing

7Y Standards testing will be available in Eris Exchange's DEMO and CME New Release environments on the evening of Friday August 30, please contact the Eris Control Center for testing credentials and to schedule testing.

For any questions please contact the Eris Control Center, ErisControlCenter@erisfutures.com, 888-587-2699, Option 1.

Eris Interest Rate Swap Futures:

7Y Standard Contract Specifications

Trading Hours	Eris Exchange standard trading hours are currently 8:20 AM to 4:30 PM Eastern Time.
Contract Structure	\$100,000 notional principal whose value is based upon the difference between a stream of semi-annual fixed interest payments and a stream of quarterly floating interest payments based on 3 month US Dollar LIBOR, over a term to maturity.
Underlying Swap Tenor	7 Years
Contract Short Name	<p>7Y Stnd <Month> <YY>, where the <Month> will be the first three characters of the month of the Effective Date and the <YY> will be last two digits of the year of the Effective Date</p> <p>For example, the 7Y Standard with an Effective Date in December 2013 and a Maturity Date in December 2020 will have a short code of "7Y Stnd Dec 13"</p>
Fixed Rate	<p>Pre-determined rate set by Eris Exchange which will remain static throughout the life of the contract</p> <ul style="list-style-type: none"> • Determined just prior to quarterly listing • Multiple fixed rates may be pre-determined
Contract Size	1 Contract = 1 lot = \$100,000 face
Trading Conventions	<p>Buy = Pay Fixed</p> <p>Sell = Receive Fixed</p>
Swap Futures Leg Conventions	<p>Fixed Leg</p> <ul style="list-style-type: none"> • Reset Frequency: Semi-Annual • Day Count Convention: 30/360 • Currency: USD • Holiday Calendar(s): New York, London • Business Day Convention: Modified Following with adjustment to period end dates <p>Floating Leg</p> <ul style="list-style-type: none"> • Reset Frequency: Quarterly • Day Count Convention: Actual/360 • Currency: USD • Holiday Calendar(s): New York, London • Business Day Convention: Modified Following with adjustment to period end dates

Effective Dates	<p>Quarterly IMM Dates (3rd Wednesday of each March, June, September, December)</p> <p>Monthly dates as provided by the Exchange in an Exchange Advisory.</p>
Cash Flow Alignment Date ("CFAD")	<p>The date used for aligning all fixed and floating Reset Dates, and for determination of the Maturity Date.</p> <p>CFAD can be derived by adding 7 Years to the Effective Date.</p> <p>For example, an Eris Interest Rate Swap Future with an Effective Date of 09/19/2012 and a tenor of 7 years implies a Cash Flow Alignment Date of 09/19/2019. Note that the Cash Flow Alignment Date may fall on any calendar day, including weekends and holidays. The CFAD is used to determine the Maturity Date, but the two terms are distinct, as the Maturity Date must fall on a valid business day from the joint holiday calendar.</p>
Maturity Date	<p>The final date to which fixed and floating amounts accrue. The last date of the contract.</p> <p>Maturity Date is determined by applying the Modified Following rule to the Cash Flow Alignment Date. If the Cash Flow Alignment Date is a non-business day in either NY or London, go forward to the next day that is a business day in both NY and London. If the next valid business day is in the following month, the preceding valid business day on both the NY and London holiday calendars will be the Maturity Date.</p> <p>Eris PAITM accrues up to and including the Maturity Date.</p> <p>The Maturity Date may also be referred to as Termination Date.</p>
Underlying Tenor	The duration of time from the Effective Date to the Cash Flow Alignment Date.
Remaining Tenor	The duration of time from today to the Cash Flow Alignment Date.
Reset Dates	<p>Dates utilized to determine fixed and floating amounts throughout the life of the Contract. Reset Dates define the beginning and end of fixed and floating interest accrual periods. Floating Rate Reset Dates facilitate the determination of the LIBOR Fixing Dates.</p> <p>The Cash Flow Alignment Date will be used as the basis for determining Reset Dates. Each Reset Date is subject to adjustment based on Modified Following convention.</p>

	<ul style="list-style-type: none"> For example, if the CFAD is 09/19/2019, the Reset Dates will be on the 19th of December, March, June and September, subject to the Modified Following convention.
Last Trading Day	The last day on which the Contract can be traded is the NY business day preceding the Maturity Date.
First LIBOR Fixing Date	2 London business days prior to the Effective Date.
Other LIBOR Fixing Dates	For all periods other than the first floating rate period, the LIBOR Fixing Date is 2 London business days prior to each Reset Date.
Floating Rate Index	3 Month USD LIBOR announced by the British Bankers' Association.
Daily Settlement Price (Futures-Style Price)	<p>Eris Interest Rate Swap Futures are priced on a basis of 100, similar to market practice for bonds and other futures contracts.</p> <p>The settlement value for each Contract is defined as:</p> $S_t = 100 + A_t + B_t - C_t$ <p> S_t = settlement price at time t A_t = net present value of the future cash flows at time t, based on OIS discounting B_t = value of the historical fixed and floating amounts since contract inception C_t = Eris Price Alignment Interest (or Eris PAITM). </p> <p>Eris Exchange and CME Clearing calculate Daily Settlement Price to 4 decimals of precision (e.g., 100.1234).</p> <p>Eris PAITM is a cumulative value calculated daily by applying the overnight Fed Funds effective rate to the contract's NPV, using an Actual/360 daycount convention. Eris PAITM will start accruing on the first listing date.</p>
Final Settlement Price	$S_{final} = 100 + B_{final} - C_{final}$ <p> S_{final} = Settlement price at maturity B_{final} = Historical fixed and floating amounts since contract inception through maturity C_{final} = Eris PAITM, at maturity </p>
Quoting Convention	<p>Net Present Value (NPV) per Contract will be used for trade execution.</p> <p>NPV is expressed in per contract terms for the Buyer (fixed rate payer).</p>

	<p>Each Swap Future negotiated in NPV terms has an implicit futures-style trade price of</p> $\text{Trade Price} = 100 + A_{\text{negotiated}} + B_t - C_t$ <p>where $A_{\text{negotiated}}$ is the NPV per Contract agreed upon between the counterparties (divided by 1,000 to normalize units to \$100 face amount), B_t is the value of the historical fixed and floating amounts, and C_t is Eris PAI™ at time t. The B and C components are calculated once daily and applied by the Exchange, and are not subject to negotiation by the counterparties.</p> <p>The NPV per Contract can be negotiated in the following increments/tick sizes:</p> <ul style="list-style-type: none"> • \$1 for Contracts where the lesser of Remaining Tenor/Underlying Tenor is less than two years. • \$2 for Contracts where the lesser of Remaining Tenor/Underlying Tenor is greater than or equal to 2 years and less than 4 years. • \$5 for Contracts where the lesser of Remaining Tenor/Underlying Tenor is greater than or equal to 4 years and less than 7 years. • \$10 for Contracts where the lesser of Remaining Tenor/Underlying Tenor is greater than or equal to 7 years and less than 20 years.
Listed Spreads	Listed Spreads (or Discrete Spreads), composed of Standard Contracts, may be traded using the SwapBook Discrete Spread functionality
Block Trades	<p>Eris Interest Rate Swap Futures are eligible to be traded as privately negotiated, off-exchange Block Trades and reported to Eris Exchange.</p> <p>Block Trades must be executed and reported pursuant to Rule 601 in the Eris Exchange Rulebook.</p>
Exchange of Derivatives for Related Positions	<p>Eris Interest Rate Swap Futures are eligible to be traded as privately negotiated, off-exchange Exchange of Derivatives for Related Positions (EDRPs) and reported to Eris Exchange.</p> <p>EDRPs must be executed and reported pursuant to Rule 602 in the Eris Exchange Rulebook.</p>
Ticker Symbol Convention	<p>Maturity Code (Period Code) will be YYYYMMDD</p> <p>Product Code: ZC9107; initial contract fixed rate Product Code: ZC9207; secondary contract fixed rate</p>

	For example, the 7Y contract with Product Code of ZC9107 and Maturity Date of 12/19/19 will have a ticker symbol of ZC910720191219
--	--

Certain elements of the contract design and pricing construct are patent-pending.

Eris Exchange, LLC – Legal Notice 08/22/13

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade. All references to options refer to options on futures.

Trading on Eris Exchange is limited to those persons who are "eligible contract participants" as defined in § 1a (12) of the Commodity Exchange Act.

Notice to individuals located in the United Kingdom. The materials contained in this communication are directed only at persons with investment experience (i.e., "investment professionals"). Persons who do not have professional experience in matters relating to investments should not rely on any of the information herein. The investment activities to which these materials relate are only available to persons with investment experience. Any request to engage in the investment activities to which these materials relate, by persons other than those with investment experience, shall be denied.

Eris Exchange and the Eris Logo are registered trademarks of Eris Exchange, LLC. Eris SwapBook, Eris BlockBox, and Eris PAI are trademarks of Eris Exchange, LLC.

The information within this document has been compiled by Eris Exchange for general purposes only. Eris Exchange assumes no responsibility for any errors or omissions. Additionally, all examples in this document are hypothetical situations, used for explanation purposes only, and should not be considered investment advice, legal advice, or the results of actual market experience. The information contained within this document does not constitute legal or investment advice.

All matters pertaining to rules and specifications herein are made subject to and are superseded by official Eris Exchange rules. Current rules should be consulted in all cases concerning contract specifications.

Copyright © 2012 Eris Exchange LLC. All rights reserved.