

Chapter 902

Interest Rate Swaption Contract Terms

90200. SCOPE OF CHAPTER

The terms and conditions of any IR Swaption shall be defined by this Chapter, as supplemented by the ISDA Definitions, the definitions set out in Section 90002 (*Definitions*) of Chapter 900 (*Interest Rate Products*) and the relevant Contract Elections for IR Swap Options and Underlying IR Swap Contracts, and as further supplemented and amended by the provisions of these Rules.

Capitalized terms in this Chapter that are not otherwise defined in this Chapter shall have the meanings given to such terms in the other Chapters of the Rules. Capitalized terms in this Chapter that are not otherwise defined in either this Chapter or the other Chapters of the Rules shall have the meanings set forth in the ISDA Definitions.

90201. DEFINITIONS

90201.A. Earliest Exercise Time

In respect of an IR Swaption Contract denominated in US dollars, 9:00 a.m. (New York Time) on the specified Expiration Date.

90201.B. Expiration Time

In respect of an IR Swaption Contract denominated in US dollars, 11:00 a.m. (New York Time) on the specified Expiration Date.

90201.C. CME Settlement Rate

The par swap rate for IR Swaps in the currency in which the Underlying IR Swap Contract is denominated on the Exercise Date, as determined by the Clearing House in its sole and absolute discretion at 10:50 a.m. (New York Time).

90202. CONTRACT TERMS

90202.A. Calculation Agent

With respect to any IR Swaption Contract, the Clearing House shall be the sole Calculation Agent for all purposes, and shall not be required to consult with the parties to such IR Swaption Contract prior to making a determination.

90202.B. Minimum Notional Amount for Clearing

For any IR Swaption Product submitted to the Clearing House, the minimum Notional Amount of Underlying IR Swap Contract specified in the Contract Elections for such IR Swaption Product shall be one unit of the Currency of the Underlying IR Swap Contract specified in the Contract Elections for IR Swap Options. *Example:* For an IR Swaption Product exercisable into a US dollar-denominated IRS Contract, the minimum allowable notional size shall be one (1) US dollar.

90202.C. Premium Payment Date

The Premium Payment Date shall be specified as any calendar day that occurs (i) no earlier than the day on which such IR Swaption is submitted for clearing to the Clearing House and (ii) no later than the Clearing Business Day following the IR Swaption Expiration Date specified in the Contract Elections for such IR Swaption.

90202.D. Minimum Premium Increment

For any IR Swaption Contract, the IR Swaption Premium shall be selected in increments no less than 1/100th of the unit of Currency of the Underlying IR Swap Contract. *Example:* For an IR Swaption Product exercisable into an Underlying IR Swap Contract denominated in US dollars, the Minimum Premium Increment shall be \$0.01.

90202.E. Expiration Date

For any IR Swaption Contract, the IR Swaption Expiration Date shall be specified as any calendar day occurring no later than 2 years and 10 calendar days after the Clearing Business Day on which such IR Swaption is submitted to the Clearing House.

90202.F. Exercise Period

An IR Swaption Contract may be exercised on the Expiration Date at any time from and including the Earliest Exercise Time to and including the Expiration Time.

90202.G. Option Style

The Option Style for each IR Swaption Contract shall be European.

90202.H. Settlement Method

The Settlement Method for each IR Swaption Contract shall be Physical Settlement.

90202.I. Expiration Time

An IR Swaption Contract must be submitted for clearing prior to the Expiration Time for the IR Swaption Contract. After the Expiration Time, the Clearing House will no longer accept the IR Swaption Contract for clearing.

90203. EXERCISE AND ASSIGNMENT

90203.A. Exercise

An IR Swaption Contract may be exercised by the Buyer at any time during the Exercise Period on the Expiration Date. To exercise an IR Swaption Contract, the Buyer shall present an irrevocable exercise notice to the Clearing House, in such form and manner as the Clearing House may prescribe, no later than the Expiration Time. In the case of a Swaption Straddle, the exercise notice shall specify whether the exercise shall apply to the Underlying IR Swap Contract that is a Call Swaption or the Underlying IR Swap Contract that is a Put Swaption.

The Fallback Exercise Procedures set out in Rule 90203.A.3 shall apply.

In respect of any IR Swaption Contract, the Clearing House shall disregard any instruction of intent to exercise or intent to abandon or exercise notice that it receives after the Expiration Time.

90203.A.1. Instructions of Intent to Exercise or Abandon

Notwithstanding the provisions of Rule 90202.F, at any time from when the Clearing House permits instructions of intent to exercise or abandon to be delivered to the Clearing House until the expiration of the Exercise Period for an IR Swaption Contract, the IRS Participant that is the Buyer in respect of the IR Swaption Contract may instruct the Clearing House that it intends to exercise or that it intends to abandon the IR Swaption Contract in such form and manner as the Clearing House may prescribe. A Buyer may change its intent to exercise or abandon by withdrawing and/or resubmitting the instruction of intent to exercise or abandon (as relevant) at any time up to and including the Expiration Time in such form and manner as the Clearing House may prescribe, and the Clearing House will only act in accordance with the last instruction provided to the Clearing House in accordance with these Rules and all prior instructions will be disregarded. If the Clearing House has received an instruction of intent to exercise prior to the expiration of the Exercise Period and no instruction of intent to abandon has been subsequently received prior to the Expiration Time, the Clearing House shall deem such instruction of intent to constitute an irrevocable exercise notice delivered by the IRS Participant immediately prior to the Expiration Time. If the Clearing House has received an instruction of intent to abandon prior to the expiration of the Exercise Period and no instruction of intent to exercise or exercise notice has been subsequently received prior to the Expiration Time, the Clearing House shall deem the IR Swaption Contract abandoned immediately prior to the Expiration Time.

90203.A.2. Partial Exercise

Provided that Partial Exercise is elected as being applicable in the Contract Elections for an IR Swaption Contract, the buyer of such an IR Swaption Contract may elect to exercise less than all the Notional Amount of the corresponding Underlying IR Swap Contract within the specified Exercise Period, *provided that* the amount exercised must be no less than the Minimum Notional Amount for Clearing.

90203.A.3. Fallback Exercise Procedures

In respect of any IR Swaption Contract in respect of which the Clearing House is not the Buyer, Fallback Exercise procedures shall apply if the IR Swaption Contract has not been exercised or abandoned prior to the Expiration Time. If Fallback Exercise procedures apply, such IR Swaption Contract shall be exercised automatically if it is deemed by the Clearing House, in its sole discretion as the Calculation Agent, to be "in the money" by one tenth of a percentage point (0.10% or .001) or greater.

A Put Swaption shall be deemed to be "in the money" if the CME Settlement Rate exceeds the Fixed Rate for such Underlying IR Swap Contract at 10:50 a.m. (New York Time) on the Expiration Date.

A Call Swaption shall be deemed to be "in the money" if the CME Settlement Rate is less than the Fixed Rate for such Underlying IR Swap Contract at 10:50 a.m. (New York Time) on the Expiration Date.

90203.B. Assignment

IR Swaption Contracts in respect of which the Clearing House is not the Buyer that are exercised on the Expiration Date (whether by acceptance by the Clearing House of an exercise notice or by operation of the Fallback Exercise Procedures), shall be assigned solely by the Clearing House to IR Swaption Contracts in respect of which the Clearing House is the Buyer as soon as technologically practicable after the Expiration Time (i) first, to equal and opposite positions of the same IRS Swaptions Clearing Member and (ii) second, to equal and opposite positions of all other IRS Swaptions Clearing Members through a process of random selection, and such assignment shall constitute an effective exercise of such IR Swaption Contracts. A Seller whose IR Swaption Contract has been exercised in this manner shall be notified thereof by the Clearing House as soon as technologically practicable after such assignment.

Following the exercise of a Call Swaption, the Underlying IR Swap Contract shall become effective and shall constitute an IR Swap Contract, with the Clearing Effective Date of such Underlying IR Swap Contract being the Exercise Date. Where the Buyer in respect of such Call Swaption is the Clearing House, the Clearing House shall be the Floating Rate Payer and the IRS Participant shall be the Fixed Rate Payer.

Following the exercise of a Put Swaption, the Underlying IR Swap Contract shall become effective and shall constitute an IR Swap Contract, with the Clearing Effective Date of such Underlying IR Swap Contract being the Exercise Date. Where the Buyer in respect of such Put Swaption is the Clearing House, the Clearing House shall be the Fixed Rate Payer and the IRS Participant shall be the Floating Rate Payer.

90204. CONTRACT MODIFICATIONS

90204.A. CME Rules

The terms of IR Swaption Contracts may be modified by CME in accordance with the Rules, with such modification to become part of these Rules and to be applicable to all IRS Swaption Contracts that are entered into subsequent to the relevant date of modification.

90204.B. Change in Law or Regulation

If any governmental agency or body with jurisdiction over CME issues an order, ruling, directive or law that conflicts with the requirements of these Rules, CME shall make such amendments and modifications to these Rules as it deems appropriate in its sole discretion in order to reflect the application of such order, ruling, directive or law, and such changes to these Rules shall be applicable to all IRS Swaption Contracts that are open as of, or entered into subsequent to, the relevant effective date of the order, ruling, directive or law.