Adjusted Interest Rate (AIR) Total Return Futures Explained

TOTAL RETURN EXPOSURE WITH A BUILT-IN FLOATING RATE

Adjusted Interest Rate (AIR) Total Return futures on U.S. indices are designed to give you total return exposure with an Effective Fed Funds Rate (EFFR) overnight floating rate built in. The enhanced contract design provides similar economics to an equity index total return swap with the margin efficiency of listed futures.

AIR S&P 500 Total Return futures are now also available based on SOFR (Secured Overnight Financing Rate).

- Available on S&P 500 (SPTR), Nasdaq-100 (XNDX), Russell 1000 (RU10INTR), Russell 2000 (RU20INTR), DJIA Total Return Index (DJITR) and FTSE 100 Total Return Index (UKXDUK)
- Delivers total return equity swap exposure with the margin efficiency of futures
- Overnight financing rate is based on EFFR or SOFR
- Includes a floating rate set to a term reference rate
- Trades via spread-quoted Basis Trade at Index Close (BTIC) transactions only (CME Globex and ex-pit), with a minimum block size of 500

How AIR Total Return futures work

The AIR TRF has a maturity at a known date, and its valuation has three components: an equity index component; a benchmark financing component that accrues daily; and a financing spread adjustment component.

$$AIR\ TRF = (Equity\ Index\text{-}Accrued\ Financing) + Financing\ Spread\ Adjustment$$

1) **The Equity Index component** – an agreement between two counterparties to pass equity performance from one counterparty to the other. The equity index price of the AIR TRF is always the official index daily close, as the trade is transacted via Basis Trade at Index Close (BTIC)[1].

2) **Accrued Financing component** – the sum of the daily accrued financing (AF). In an equity swap, the accrued financing amount is exchanged at each reset date as a cash flow; in the AIR TRF, the financing amount is accrued daily based upon the benchmark reference rate (e.g. the Effective Fed Funds Rate, EFFR) and the sum is incorporated into the daily settlement of the product.

3) **Financing Spread Adjustment** – when trading the AIR TRF, the counterparties will agree to lock in a spread +/- to the reference rate (TRF Spread) for the remaining maturity of the product. The spread rate will be determined primarily by the rebate value the market ascribes to the value of the underlying stocks in the index. Thus, the TRF spread is equivalent to the spread that would be charged above or below the reference rate in an equity index swap.

FIGURE 1: AIR TRF MECHANICS

Buyer receives SPTR equity index returns (includes dividends within the index) minus EFFR funding.

Buyer pays TRF Spread % amount.

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1   The only exception is trading the futures contract via an EFRP, where the future price level is specified directly.

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AIR Total Return futures quoting and trading notation

Market participants will trade the TRF spread price (st) directly (see "Settlement procedures" in the contract specifications section). The quoting notation will be the TRF spread expressed in basis points (rather than index points). The TRF spread will be available to trade in 0.5 basis point increments. Once the TRF spread is consummated, it will be converted into an AIR TRF price by the exchange. The resulting cleared price of the future is computational and occurs on a trade by trade basis.

Trading mechanism

Tradable via spread-quoted BTIC only (CME Globex and ex-pit). Minimum block size 500.

CONTRACT SPECIFICATIONS

CONTRACT NAME	ADJUSTED INTEREST RATE S&P 500 TOTAL RETURN (EFFR) FUTURES	ADJUSTED INTEREST RATE NASDAQ-100 TOTAL RETURN (EFFR) FUTURES	ADJUSTED INTEREST RATE RUSSELL 1000 TOTAL RETURN FUTURES	ADJUSTED INTEREST RATE RUSSELL 2000 TOTAL RETURN FUTURES	ADJUSTED INTEREST RATE DOW JONES INDUSTRIAL AVERAGE TOTAL RETURN FUTURES	ADJUSTED INTEREST RATE S&P 500 TOTAL RETURN (SOFR) FUTURES
CONTRACT UNIT	$25 x S&P 500 AIR Total Return Index Price	$10 x Nasdaq-100 AIR Total Return Index Price	$10 x Russell 1000 AIR Total Return Index Price	$10 x Russell 2000 AIR Total Return Index Price	$2 x DJIA AIR Total Return Index Price	$25 x S&P 500 AIR Total Return Index Price
UNDERLYING INDEX	S&P 500 Total Return Index (SPTR)	Nasdaq 100 Total Return Index (XNDX)	Russell 1000 Total Return Index (RU10INTR)	Russell 2000 Total Return Index (RU20INTR)	DJIA Total Return Index (DJITR)	S&P 500 Total Return Index (SPTR)
REFERENCE RATE	Effective Fed Funds Rate (EFFR)					Secured Overnight Financing Rate (SOFR)
TRADING QUOTATION	TRF spread in basis points expressed as an annualized number					
TRADING HOURS	CME Globex: BTIC: Sunday - Friday 6:00 p.m. - 4:00 p.m. Eastern Time (ET) ClearPort: BTIC: Sunday - Friday 6:00 p.m. - 4:00 p.m. ET					
MINIMUM PRICE FLUCTUATION	0.5 Basis Points in terms of TRF Spread The resultant cleared AIR TRF future price will be rounded to 2 decimals.					
PRODUCT CODE*	CME Globex: ASR CME ClearPort: ASR Clearing: ASR BTIC: AST	CME Globex: AQR* CME ClearPort: AQR* Clearing: AQR* BTIC: AQT	CME Globex: ARR* CME ClearPort: ARR* Clearing: ARR* BTIC: ART	CME Globex: A2R* CME ClearPort: A2R* Clearing: A2R* BTIC: A2T	CME Globex: ADR* CME ClearPort: ADR* Clearing: ADR* BTIC: ADT	CME Globex: ASPR* CME ClearPort: ASPR* Clearing: ASPR* BTIC: ASPT
	*not tradable (except as BTIC) and will be available only for margining and position assignment (EFRP)					

CONTRACT SPECIFICATIONS *(CONTINUED)*

CONTRACT NAME	ADJUSTED INTEREST RATE S&P 500 TOTAL RETURN (EFFR) FUTURES	ADJUSTED INTEREST RATE NASDAQ-100 TOTAL RETURN (EFFR) FUTURES	ADJUSTED INTEREST RATE RUSSELL 1000 TOTAL RETURN FUTURES	ADJUSTED INTEREST RATE RUSSELL 2000 TOTAL RETURN FUTURES	ADJUSTED INTEREST RATE DOW JONES INDUSTRIAL AVERAGE TOTAL RETURN FUTURES	ADJUSTED INTEREST RATE S&P 500 TOTAL RETURN (SOFR) FUTURES
LISTED CONTRACTS	Quarterly contracts (Mar, Jun, Sep, Dec) listed for 13 consecutive quarters, 1 nearest January contract and 7 additional Dec quarterly contracts	Quarterly contracts listed for the 9 nearest quarters on the March Quarterly cycle (March, June, September and December) and 5 additional December contract months.				December 2026 and the following 7 additional Dec quarterly contracts
SETTLEMENT METHOD	Financially settled					
TERMINATION OF TRADING	Trading terminates on the 3rd Friday of the contract month. BTIC: Trading terminates on the business day prior to 3rd Friday of the contract month.					
SETTLEMENT PROCEDURES	Daily settlement price of contract shall be determined based on the following formula:					
	$= (SPTR_t - AF_t) + SPTR_t \times \tau_t \times s_t^{settle}$	$= (XNDX_t - {}_t\text{-}AF_t) + XNDX_t \times \tau_t \times s_t^{settle}$	$= (RU10INTR_t - AF_t) + RU10INTR_t \times \tau_t \times s_t^{settle}$	$= (RU20INTR_t - AF_t) + RU20INTR_t \times \tau_t \times s_t^{settle}$	$= (DJITR_t - {}_t\text{-}AF_t) + DJITR_t \times \tau_t \times s_t^{settle}$	$= (SPTR_t - AF_t) + SPTR_t \times \tau_t \times s_t^{settle}$
	where the Spread Settle (s_t^{settle}) for the day shall be determined based on market activities (quotes, traded price) or prior day settle if no market activities and AF_t stands for Accrued Financing. It is the sum of accrued daily overnight financing until settlement specific to this product only. Final settlement price shall be determined based on the following formula:					
	$SPTR_T^{SOQ} - AF_T$	$XNDX_T^{SOQ} - AF_T$	$RU10INTR_T^{SOQ} - AF_T$	$RU20INTR_T^{SOQ} - AF_T$	$DJITR_T^{SOQ} - AF_T$	$SPTR_T^{SOQ} - AF_T$
BLOCK MINIMUM	250	250	50	50	250	250

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To learn more about AIR Total Return futures, visit cmegroup.com/airtrf

London	**New York**	**Singapore**	**Stockholm**	**Tokyo**
+44 20 7382 2200	+1 646 744 0400	+65 6372 8181	+46 8 545 25 130	+81 35511 6688

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