



Lower Costs Trading Swap Spreads Using Listed Invoice Contracts

Traders can now trade swap spreads using Eris Exchange Standard Invoice Swap Futures contracts.

- Contracts designed for trading against all listed CBOT US Treasury Futures
 - 2Y, 5Y, 10Y, Ultra 10Y, 30Y, and Ultra 30Y
- Matched terms: Coupons and maturity date match the Cheapest-to-Deliver (CTD) cash treasuries in the deliverable baskets of Treasury Futures
- Eris lists Invoice Swap Futures contracts for trading against each Treasury futures contract's CTD and next most likely to become the CTD
- Both products clear at CME and receive 2-day VaR margining
- Significant margin offsets with all listed CME Group interest rate futures
- Up to 90% capital savings over an OTC invoice swap cleared at LCH
- Equivalent market performance vs OTC cleared position
- Lower FCM fees for futures contracts than for cleared OTC IRS

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Comparison: \$500mm 5Y OTC Invoice Trade vs 5Y Eris Invoice Trade

Trader A

Trader goes long the swap spread on the 5Y tenor for \$500mm. They pay-fixed on \$579mm 5Y invoice swaps with matching terms to the CTD on the CBOT 5Y UST future and buy 5,000 CBOT 5Y UST futures. Trade is DV01 neutral at onset. Total collateral required to support the trade is \$13.85mm if cleared at LCH. At a cost of balance sheet of 8%, the annual cost of margin financing on the position is ~\$1.1mm.

Trader B

Trader effectuates the same trade using 5,790 5Y Eris invoice swap contracts with the same terms as OTC swap and buys 5,000 CBOT 5Y UST futures. Total margin required to support Trader B's position is \$1.43mm. Assuming the same cost of capital, the Eris contracts vs UST futures would cost ~\$115k annually.

Savings of nearly \$2mm per billion/year WITHOUT \$25mm capital drain

Some will argue, "I get better execution OTC and save money versus futures," but the \$2mm cost differential is OVER 3bps in additive cost for trading OTC versus using Futures. Not to mention, the opportunity cost of the extra \$25mm not deployed. These are the hidden REAL costs of OTC vs Futures. Invisible, not insignificant.

The risk of loss in trading futures and/or options is substantial, and each investor and/or trader must consider whether this is a suitable investment. See our full disclaimer at www.rjobrien.com

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