INTEREST RATES

Eris SOFR Swap Futures for Asset/Liability Management

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Simplifying bank and credit union access to FASB-eligible hedges

Higher interest rates and deposit instability highlight the importance of duration hedging. Eris SOFR Swap futures (Eris SOFR) provide banks and national credit unions (NCUs) the simplicity of CME Group exchange-listed futures to hedge exposures to interest rate volatility replacing cumbersome OTC interest rate swaps.

Exchange-listed futures: Transparent, low-cost alternative to OTC swaps

Hedgers use Eris SOFR as a preferred alternative to OTC interest rate swaps. As futures contracts listed by CME Group, Eris SOFR offers market participants the economic performance of a standard, fixed-versus-floating rate interest rate swap and the advantages of using U.S. futures:

- **Straightforward futures paperwork: No ISDA agreements with dealer counterparties**
  Trade using a traditional futures account and broker, the same workflow one would use to trade CME Treasury futures or three-month SOFR Strip futures.
- **Traditional pricing and operational simplicity: Reduce expensive overhead and risk management**
  View independent and transparent prices provided by CME Group, simplify settlement, cash processing, and obtain daily valuation and risk parameters in one easy solution. Execute electronically or via blocks to further refine hedges.
- **Capital-efficient futures margin: Post up to 65% less than cleared swap or uncleared margin**
  Save significant capital by reducing the amount of initial margin posted to collateralize positions.
- **Eligible for FASB hedge accounting (FAS-133/ASC-815)**
  Like interest rate swaps, banks and NCUs may use Eris SOFR Swap futures to reduce income statement volatility by applying fair value or cash flow hedge accounting.

Hedging example: Advantages of Eris SOFR

Use case: Bank enters into a $100 million, five-year swaps/futures position (paying fixed, receiving floating) to reduce the duration of its Available for Sale securities.

ISSUE	HEDGE: ERIS SOFR SWAP FUTURES	HEDGE: OTC INTEREST RATE SWAPS
DOCUMENTATION AND TIMING	One 5-10 page futures agreement with broker (can be agreed upon in less than one week)	Extensive ISDA agreements with each bilateral counterparty (up to six months negotiation)
TRADING COUNTERPARTIES	No counterparty docs; trade with any futures market participant on entry/exit	Trade only with ISDA-signed dealers; must exit trade with dealer used to enter
COST	Fully disclosed exchange, clearing and brokerage fees; pay initial margin 60% less than cleared swap	Fees embedded in price of the trade, marketed as "free"; cleared swap margin more than two times higher than Eris SOFR
VALUATION	Includes daily, independent marks distributed publicly by CME Clearing	Often requires costly third-party valuation service
FASB HEDGE ACCOUNTING	Eligible for hedge accounting treatment, based on hedge-specific circumstances	Eligible for hedge accounting treatment, based on hedge-specific circumstances

Next steps

1. Ask your hedging advisor or futures broker how Eris SOFR can be used for ALM.
2. Ask the product experts at Eris Innovations for more information.
3. Visit erisfutures.com for additional resources.

Eric Leininger is Executive Director of Research and New Product Development for Interest Rates and Equities. The Research and Product Development team develops new risk management products as well as ensuring the continued relevance of our current suite of key benchmarks. The team also produces original research into derivatives and their underlying markets across asset classes and around the world.

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