

The Basis Is the Debit Rate

Why CME's single-stock futures re-price the swap book instead of replacing it — the no-arbitrage argument, worked line by line.

The migration bull case, stated fairly: "Margin on the future is 15% instead of the collateral posted against swaps, and a short future carries no debit rate. Lower margin, no short financing — the futures are materially better, and they will take the whole book."

This note's claim: both halves of that sentence confuse *where a cost is printed* with *whether it exists*. Cash-and-carry arbitrage guarantees that the financing rate on the longs and the borrow fee on the shorts are inside the futures price before anyone trades it. Margin is performance collateral, not position funding — someone's balance sheet still carries 100% of the stock, and that someone charges for it in the basis exactly as the swap desk charges for it in the spread. What the futures actually do is make that price public and competitive on ~55 liquid names. That is margin compression on the thin end of the book. It is not cannibalization of the book.

Daniel Kaufman · kineticalpha.com · July 13, 2026

Companion to "Single-Stock Futures vs. the Swap Desk" (Kinetic Alpha, July 2026). Illustrative examples; day-count 90/360 throughout; not investment advice.

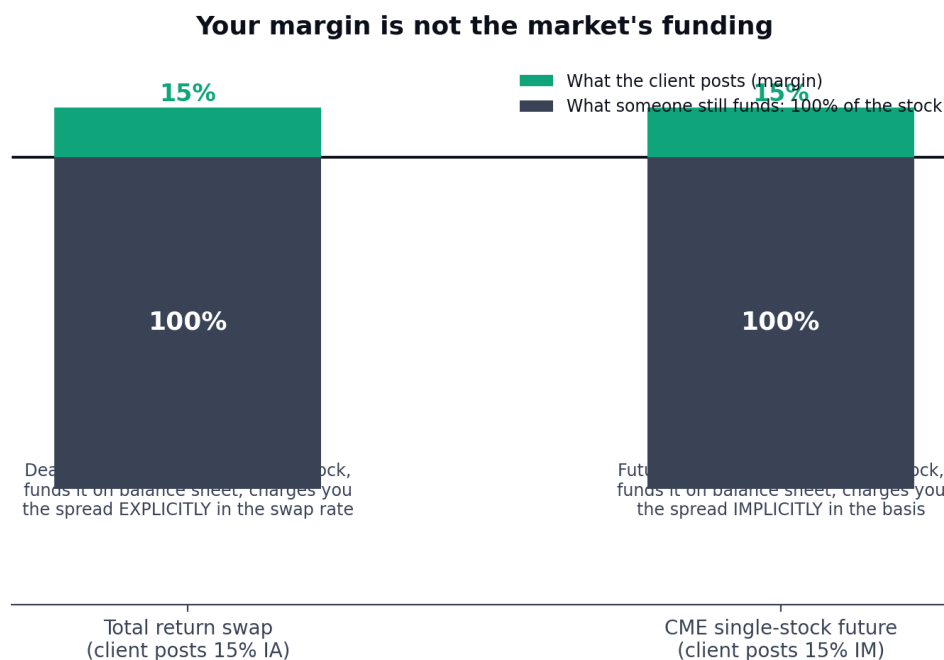
1. The one principle everything else follows from

A futures contract does not eliminate the funding of a position; it **relocates** it. When you buy \$10M of single-stock futures, you post 15% initial margin — but you have not financed \$10M of stock, and neither has the exchange. The market maker who sold you the future hedges by buying \$10M of stock, funded on a dealer balance sheet, at that dealer's cost of funds plus a return on the capital. Competition among market makers pushes the futures price to:

$$F = S \times (1 + (r + s - b) \times t) - PV(\text{dividends})$$

r = risk-free funding (SOFR/OBFR) · s = the market maker's spread — *the same economics as the swap spread* · b = the stock's borrow fee · t = time to expiry.

Every term you charge a swap client is in the price. The financing rate ($r + s$) is why the future trades **above** spot; the borrow fee (b) is why a hard-to-borrow future trades **below** where it otherwise would. The client pays both by *entering at that price* and riding the pull-to-spot. Nothing is waived; it is netted.



Client initial margin secures performance; it does not finance the position. In both wrappers a dealer balance sheet carries the full notional — and prices it.

Figure 1 — Initial margin secures performance against the clearinghouse; it does not fund the position. In both wrappers, a dealer balance sheet carries the full notional and prices it. The wrapper changes who prints the charge on a statement — not whether it is charged.

Corollary: the futures can only be persistently cheaper than the swaps if the futures market makers — who are mostly the same delta-one desks, with the same funding costs, the same borrow access, and the same capital charges — systematically underprice you. On a competitive mega-cap, the basis will sit near the tightest institutional swap spread, because it is made by the marginal swap desk. On everything else, it will sit wider. There is no third source of cheap funding hiding inside the clearinghouse.

2. Worked example 1 — the long, line by line

\$10M of a liquid mega-cap for 90 days. SOFR/OBFR at 4.30%. The swap desk quotes the TRS at +50bp; assume the SSF basis clears at +35bp (optimistic for a young contract, but take it). Client holds cash in T-bills at 4.30% in both cases. Dividends ignored for clarity (they pass through the swap and are pre-priced in the future — a wash in expectation, examined in Section 5).

Line item (90 days, \$10M exposure)	Total return swap	CME single-stock future
Exposure acquired	Receive total return on \$10M notional	Buy futures, \$10M notional at $F = S \times (1 + 4.65\% \times 90/360)$
Explicit financing paid	$(4.30\% + 0.50\%) \times 90/360 = 1.200\% =$ \$120,000	None printed
Implicit financing paid	None	Entry premium over spot decays to zero: $4.65\% \times 90/360 = 1.1625\% =$ \$116,250
Collateral posted	15% IA = \$1.5M (in T-bills, yield kept by client)	15% IM = \$1.5M (T-bills at CME, yield kept by client)
Interest earned on full \$10M cash	+\$107,500 ($4.30\% \times 90/360$)	+\$107,500 ($4.30\% \times 90/360$)
Daily cash variation margin	No (periodic swap resets)	Yes — funding volatility, needs a cash buffer
Roll at day 90	No — spread locked to maturity of the swap	Yes — reprice financing in public, 4x per year
Net 90-day cost vs. holding the stock	\$12,500 (= 50bp x 90/360)	\$8,750 (= 35bp x 90/360), before roll slippage

The entire difference between the two columns is **15 basis points of competitive spread** — \$3,750 a quarter on \$10M — and it exists only if the basis actually clears inside the swap quote. The structure of the cost is identical: full notional financed at SOFR-plus-something, collateral earning the cash rate, client keeps the equity return. The future did not remove the financing; it moved it from a confirmation you print to an entry price the client pays. And note what the 15bp buys the client: four public rolls a year, daily cash VM, a 100-share round lot, one expiry cycle, and zero ability to negotiate size in a name that gets tight.

The margin comparison, done honestly. An institutional client's swap IA and the futures IM are both roughly 15% for an institutional account, both typically posted in T-bills, both still earning the client the cash rate. The 30-45% collateral you have seen leveraged single-stock ETFs post is not a swap-wrapper property — it is a *counterparty-risk price for a 2x daily-reset fund on a name that moves 20% overnight*. A future on that name would carry exchange margin far above 15% too (SPAN scales with volatility; the 15% is a floor, not a price). Comparing the most stressed swap collateral to the regulatory minimum futures margin on a calm mega-cap is the apples-to-oranges move powering the whole anxiety.

3. Worked example 2 — the short, and where the debit rate went

This is the half of the argument that feels strongest and is most completely wrong, so we do it slowly. Short \$10M of a name with a **6% borrow fee**. Spot 100, SOFR 4.30%, 90-day future, and — to isolate the carry — assume spot is unchanged at expiry.

Step 1 — price the future.

Without a borrow fee, fair value would be $F = 100 \times (1 + 4.30\% \times 90/360) = 101.075$. But arbitrageurs who buy the future and short the stock *earn* only (SOFR – 6%) on the trade, so competition pushes the future down until that arb breaks even: $F = 100 \times (1 + (4.30\% - 6.00\%) \times 90/360) = 99.575$. The 6% borrow fee has moved 1.50 points *into the price* before anyone trades.

Step 2 — enter the short.

You sell the future at 99.575. Notice what just happened: the no-borrow seller would have sold at 101.075. You gave up 1.50 points of entry price — exactly $6\% \times 90/360$ on the notional — at the moment of execution. Nobody sent you a debit-rate ticket. You paid it anyway.

Step 3 — ride to expiry.

Spot sits at 100. The future pulls up from 99.575 to 100 at settlement. Your short loses 0.425 points = **\$42,500** on \$10M — with the underlying flat. Now price the same short in prime brokerage: short proceeds of \$10M earn the rebate, SOFR minus the 6% fee = $-1.70\% \times 90/360 = -\$42,500$. Identical, to the dollar. The rebate you "don't pay" on futures and the pull-to-spot you do pay are the same number wearing different clothes.

"I don't pay a debit rate on my futures shorts" — yes you do

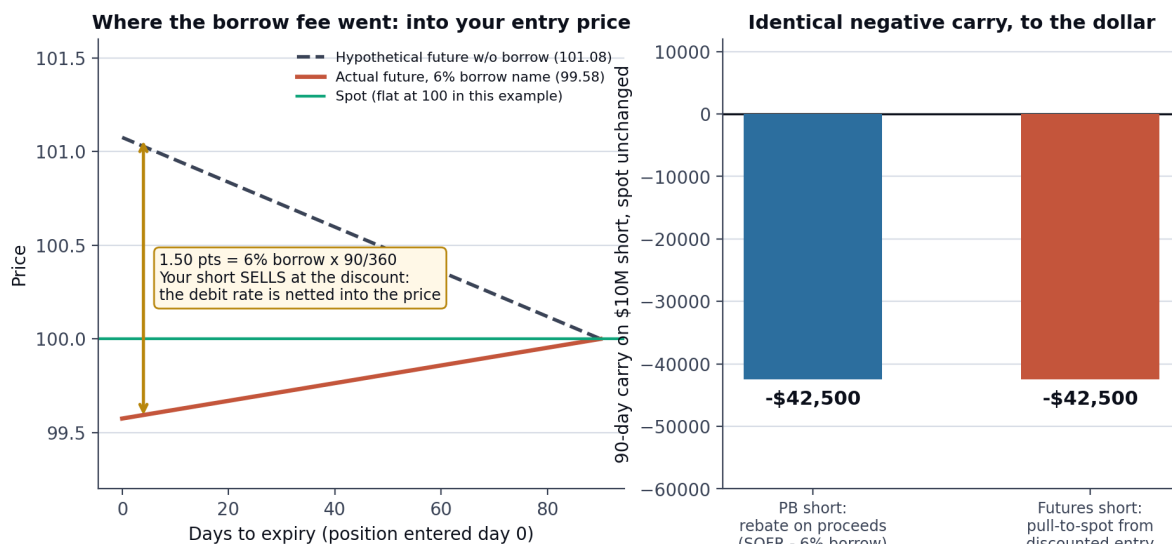


Figure 2 — Left: the borrow fee is netted into the futures entry price (99.58 vs. 101.08 without borrow). Right: 90-day carry on the \$10M short is $-\$42,500$ through either wrapper, with spot unchanged.

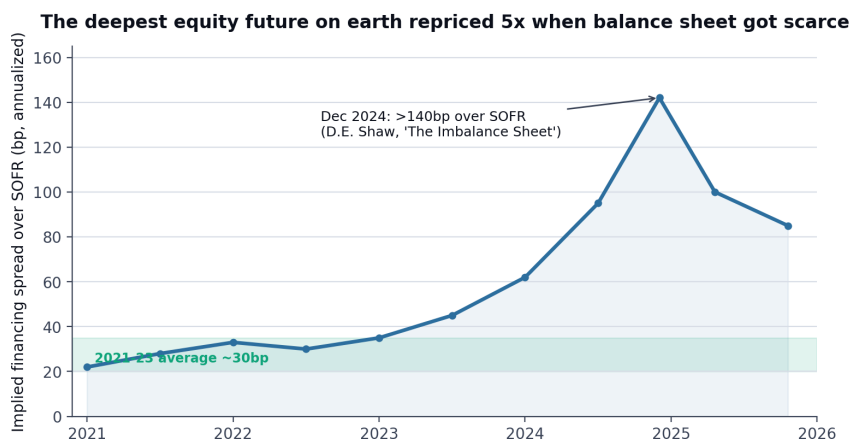
	PB short (stock)	Futures short
Debit / borrow charge printed on statement	Yes: rebate = SOFR – 6%	No

	PB short (stock)	Futures short
Entry price vs. no-borrow fair value	Sell spot at 100.00	Sell future at 99.575 — 1.50 pts below the no-borrow forward
Carry over 90 days, spot unchanged	–\$42,500 (negative rebate)	–\$42,500 (pull-to-spot from discounted entry)
If borrow tightens 6% to 12% mid-trade	Rebate reprices daily against you	Next roll prices 3.00 pts of quarterly discount — same hit, taken lumpy at the roll
If the name gets recalled / un-borrowable	PB negotiates, sources, or buys in	Basis dislocates; roll liquidity evaporates precisely when you need it

The last two rows are the part to sit with. A visible debit rate is repriced *continuously and privately*; the futures short repriced *quarterly and publicly*, in a contract whose market makers all face the same borrow squeeze at the same moment. On genuinely hard names the listed short is not cheaper — it is the same price with worse timing control and no relationship to lean on. Which is why the borrow-driven segment of the book (the most profitable segment) is the least exposed to this launch: **a clearinghouse cannot lend shares it does not hold.**

4. "Fine in theory — but the listed price will just be tighter." Will it?

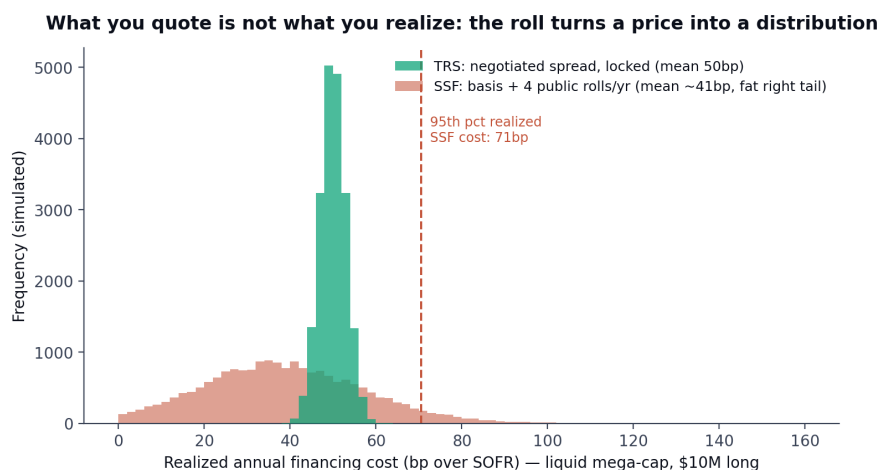
The empirical record says listed financing is not structurally cheap; it is structurally **market-clearing**, and it blows out exactly when balance sheet is scarce — i.e., exactly when swap clients most need capacity. The cleanest print: S&P 500 futures — the deepest equity futures market in existence, with decades of arbitrage infrastructure — carried an implied financing spread of roughly 30bp over 2021-23 and then repriced **above 140bp over SOFR in December 2024** (D.E. Shaw, "The Imbalance Sheet"). Levered arbitrageurs could not close the gap because the gap was the price of their own balance sheet. If that happens at index scale, a day-one single-stock contract does not price tighter than the swap desk; it prices at that desk's own marginal cost, plus a novelty premium, plus roll risk.



Stylized reconstruction of S&P 500 futures-implied financing from D.E. Shaw published anchor points (2021-23 avg ~30bp; Dec 2024 peak >140bp). A day-one single-stock future prices wider and rolls noisier.

Figure 3 — Stylized reconstruction from D.E. Shaw published anchor points. When leverage demand exceeded dealer supply, the LISTED channel became the expensive one — 5x its baseline.

And the quote is not the realization. A swap locks its spread contractually; the future re-auctions its financing every quarter, in public, in a contract where everyone can see that daily-reset funds and hedgers must roll. Four rolls a year turn a price into a distribution — with a fat right tail that shows up precisely in stressed quarters:



Illustrative Monte Carlo (20k paths). SSF path: mean basis 35bp with roll slippage and episodic squeezes (cf. Dec 2024 at index level, where hedged users COULD NOT arb it away). TRS: contractual spread.

Figure 4 — Illustrative Monte Carlo: realized annual cost of a \$10M mega-cap long. The SSF's mean is lower (35bp vs. 50bp negotiated), but its 95th percentile is materially worse once roll slippage and squeeze episodes are priced. Clients who care about worst-case funding — which is who the swap book is made of — pay up for the lock.

5. Six things the client gives up leaving the swap book

- **The borrow itself.** The future prices borrow; it does not source it. Recalls, buy-ins, locates, specials inventory — the entire short-side franchise — stays with whoever holds lender relationships. (This is also why the futures market maker on an HTB name is, in the end, calling the swap dealer's stock-loan desk.)
- **Netting.** A long/short book on swaps margins as a portfolio; the same book in futures margins leg by leg at 15% per side with no customer cross-margining against equities, options, or swaps. For any hedged client, the "lower margin" flips sign: the futures replication posts *more* collateral, not less.
- **Dividend precision.** The swap passes through *actual* dividends; the cash-settled future carries an *expected* dividend in the price. Every surprise special, cut, or timing change is tracking error the future-holder eats and the swap-holder doesn't.
- **Corporate actions.** ISDA equity definitions hand the client a negotiated, precedented treatment for mergers, spins, tenders, delistings. The exchange hands them a contract adjustment committee decision, take it or leave it.
- **Size and discretion.** A \$500M position rolls through a swap desk without a footprint. The same position in a listed quarterly contract advertises its roll to every prop desk in the market, four times a year, forever.
- **Names.** Fifty-five contracts. The swap book is not 55 names, and the names generating the widest spreads — the MSTR-class capacity trades, the pre-IPO adjacents, the hard borrows — are precisely the ones no exchange will list soon (and precisely the ones where, per Section 3, listing wouldn't transfer the economics anyway).

6. So what does the desk actually lose? The honest waterfall

None of the above means zero impact — it means *bounded* impact, concentrated where spreads are already thinnest. Decompose the single-name swap wallet:

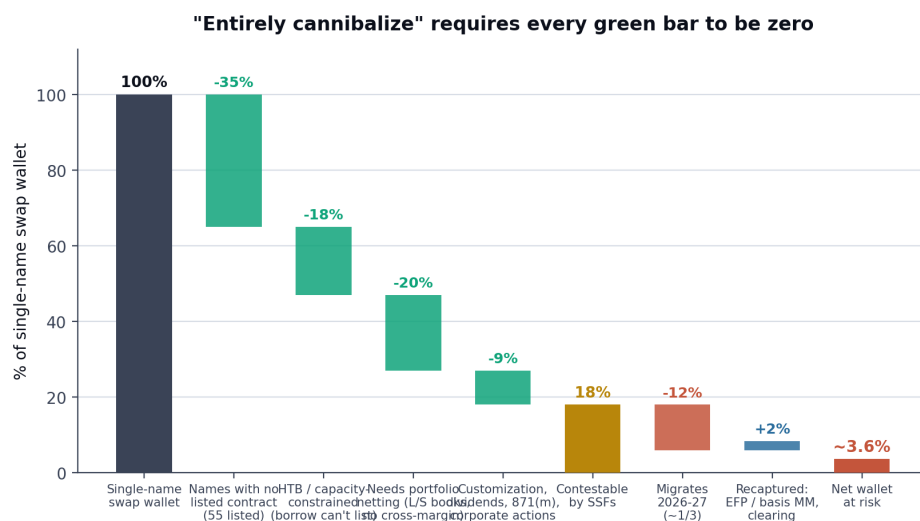


Figure 5 — Illustrative. Green bars are structurally non-contestable with the July 2026 product (no listed contract, borrow-driven, netting-dependent, or customization-dependent). Of the contestable slice, roughly a third plausibly migrates near-term, and part of that returns as EFP/basis market-making and clearing revenue.

Call it **3-4% of wallet at genuine near-term risk, concentrated in vanilla mega-cap delta-one** — plus, more importantly, a repricing effect: clients will wave the screen at the desk in every negotiation, and the tightest

institutional spreads compress toward the visible basis. That is real P&L pressure. It is also the exact dynamic index desks lived through with total return futures — where flow futurized and *dealers kept the revenue in a different shape*: Eurex TRF and CME AIR TRF market-making, basis warehousing, roll facilitation, and clearing are dealer businesses today. The \$365B of AIR TRF open interest did not un-bank the financing; it re-wrapped it.

7. The swap desk playbook

- **Make the EFP/BTIC market from day one.** The bridge between stock, swap, and future is an EFP — a dealer product. Owning the switch means you monetize migration in both directions and keep the client conversation.
- **Quote swap-vs-future switches proactively.** Offer clients the basis trade before they discover it. The desk that shows the comparison honestly keeps the relationship (and the harder, wider-spread legs of the book).
- **Warehouse the roll.** Daily-reset funds and hedgers will pay to avoid the public roll — a guaranteed-roll or roll-lock product is a swap in futures clothing, at swap-like economics.
- **Re-anchor pricing on what the future can't do:** borrow sourcing, netting, dividends, corporate actions, size. Unbundle the quote so the client sees the 15bp screen discount buys none of it.
- **Watch the two real threats, not this one:** (i) the June 2026 SEC-CFTC portfolio-margining RFC — customer-level cross-margining is the only development that changes the netting math; (ii) any US authorization of single-stock *perpetuals* at sub-15% margin — that is the retail-scale product. Quarterly 15%-margin cash-settled futures on 55 mega-caps are, competitively, the gentlest possible version of this future.

Bottom line. The margin in the bull case is collateral, not funding — the funding is in the basis, priced by desks with the same cost structure. The debit rate that seems to disappear is 1.50 points of entry price on the worked example above, to the dollar. The launch compresses spreads on the thinnest, most commoditized slice of the book and leaves the borrow-driven, netting-driven, customized core — which is where the margin is — structurally intact. The desk should respond like the index desks did in 2016-2023: make the new market, own the switch, and charge properly for everything the screen can't replicate. The thing to lose sleep over is the cross-margining rulemaking, and that one comes with a comment period.

Assumptions & anchors: SOFR/OBFR 4.30%; 90/360 day count; TRS mega-cap spread +50bp (institutional context; GraniteShares disclosed ~1.5% all-in embedded cost for its 2x funds); SSF basis +35bp assumed (no live print exists pre-launch — CME lists July 27, 2026); MSTR-class TRS prints OBFR +13-17% (Defiance MSTX N-PORT, 1/31/25); SSF margin floor 15% (85 FR 75126); S&P implied financing per D.E. Shaw "The Imbalance Sheet"; TRF precedent per FIA MarketVoice (May 2023) and CME (Sep 2025). Full sourcing in the companion piece: kineticalpha.com/research/single-stock-futures.