

# FX Futures & Options

FX derivatives at Eurex Exchange

June 2014



# Agenda

- Introduction of FX Futures and Options
- Liquidity provision at Eurex Exchange
- Contract specifications
- Fees and margining
- Further information
- Appendix

# Introduction of FX Futures and Options

## Summary

- On 7 July Eurex Exchange will launch exchange-listed FX Futures and Options \* on the following currency pairs EUR/USD, EUR/GBP, GBP/USD, EUR/CHF, USD/CHF and GBP/CHF. Following the launch Eurex Exchange plans to list more currency pairs to complete the G10 currency suite.
- Products will be quoted in standard interbank FX terms, with a harmonized contract size of 100,000 and tenors up to three years, to more effectively manage long-term exposure.
- FX Futures and Options will be physically delivered at expiration through the CLS system in order to minimize settlement risk. As currently no direct CLS settlement membership is available for CCP's, Eurex Clearing will access the CLS system via a CLS Third Party Service Provider.
- Risk-Based Margining will be applied at launch and integrated into Eurex Clearing Prisma at a later stage.

\* Please note: Effective 7 July 2014, FX futures on six currency pairs (EUR/USD, EUR/CHF, EUR/GBP, GBP/USD, GBP/CHF, USD/CHF) will be available for trading through direct access from within the United States on T7, Eurex Exchange's trading architecture, whereas FX options are currently not available for trading by U.S. persons on T7.

# Introduction of FX Futures and Options

## Value proposition

### Transparent marketplace within the European regulatory framework

- Low latency access to the matching engine in Frankfurt
- Level playing field and anonymous trading through Eurex Exchange
- Efficient price discovery facilitated by committed market makers
- Eurex Trade Entry services for bilateral trading

### Global and diversified client base

- Global marketplace with a strong European client base
- One-stop-shop for fixed income, equity, commodity and FX traders

### Competitive transaction costs

- Competitive all-in fees with a strong order-book focus
- Rebates for volume and liquidity distribution
- Attractive fees for agency business
- Reduced margin requirements through trade netting/cross margining

### Superior risk protection /STP/post-trade management

- Full counterparty risk protection until settlement day
- Post-trade reporting
- Physical settlement through CLS

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# Liquidity provision at Eurex Exchange

## Eurex accommodates the widest range of trading needs

### Electronic market:

- Electronic trading and clearing services with quoted screen markets for Futures contracts and Options (calls and puts) as well as option and volatility strategies
- Orders matched in public order books based on price and time priority
- Market Makers respond to quote requests, and provide order flow with electronic eyes, creating executable business beyond quoted sizes

### Pre-arranged market:

- Eurex provides trade entry and clearing services for bilaterally pre-arranged transactions outside the order book
- Eurex Block Trade facility is used for trade entry into Eurex Clearing
- With the Exchange for Physicals (EFP) facility, Members have the possibility to enter the futures leg of a bilateral trade into the clearing system.

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# Contract specifications

## FX Futures



FX Futures						
<b>Contract size</b>	EUR 100,000	EUR 100,000	EUR 100,000	GBP 100,000	GBP 100,000	USD 100,000
<b>Underlying</b>	EUR/USD	EUR/CHF	EUR/GBP	GBP/USD	GBP/CHF	USD/CHF
<b>Minimum price movement</b>	USD 0.00005	CHF 0.00005	GBP 0.00005	USD 0.00005	CHF 0.00005	CHF 0.00005
<b>Tick value</b>	USD 5	CHF 5	GBP 5	USD 5	CHF 5	CHF 5
<b>Contract expiries</b>	up to 3 Years [3 serial, 3 quarterly, 4 semi-annual expiries of Mar/Jun/Sep/Dec cycle]					
<b>Last trading day</b>	15.00 CET on the 3rd Wednesday of the contract month					
<b>Daily settlement price</b>	VWAP of the Futures sales calculated over a 60 second interval ending at 17:30 CET. If less than 5 sales occur, the VWAP of the last five transactions concluded before 17:30 CET within the last 15 minutes or the mid point of bid asks prices in the order-book before 17:30 CET is used					
<b>Final settlement price</b>	VWAP of all transactions executed during the final trading minute ending at 15:00 CET. If no adequate prices are available Eurex Clearing will use the average mid-price of the last displayed bid ask spot prices over a 60 second interval ending at 15:00 CET that are published by the data provider designated by Eurex Clearing					
<b>Settlement</b>	Physical delivery of underlying currencies (t+2) via CLS system					
<b>Trading hours</b>	8:00–22:00 CET (Eurex Block Trade Entry 8:00 –22:00 CET)					
<b>Minimum block trading size</b>	all products: 500 contracts (50 million notional) EURUSD: 1,000 contracts (100 million notional)					



# Contract specifications

## FX Options



### FX Options (European style)

Contract size	EUR 100,000	EUR 100,000	EUR 100,000	GBP 100,000	GBP 100,000	USD 100,000
<b>Underlying</b>	EUR/USD	EUR/CHF	EUR/GBP	GBP/USD	GBP/CHF	USD/CHF
<b>Minimum price movement</b>	USD 0.00005	CHF 0.00005	GBP 0.00005	USD 0.00005	CHF 0.00005	CHF 0.00005
<b>Tick value</b>	USD 5	CHF 5	GBP 5	USD 5	CHF 5	CHF 5
<b>Contract expiries</b>	up to 3 Years [3 serial, 3 quarterly, 4 semi-annual expiries of Mar/Jun/Sep/Dec cycle]					
<b>Strike price interval</b>	0.005 (up to ⇒ year 2)		0.010 (year 3 ⇒ and higher)			
<b>Last trading day</b>	15:00 CET on the 3rd Wednesday of the contract month, Exercise until 16:00 CET					
<b>Daily settlement price</b>	The underlying reference price for FX options contracts is the daily settlement price of the corresponding FX Futures series					
<b>Final settlement price</b>	The final settlement price of the corresponding expiring FX futures contract shall be relevant for the FX options contract					
<b>Settlement</b>	Physical delivery of underlying currencies (t+2) via CLS system					
<b>Trading hours</b>	8:00 – 19:30 CET (Eurex Block Trade Entry 8:00 – 20:00)					
<b>Minimum block trading size</b>	all products: 500 contracts (50 million Notional)		EURUSD: 1,000 contracts (100 million Notional)			

# Clearing and settlement

## Delivery process at expiry

- FX Futures and Options will result in a physical delivery once per month (payment vs. payment)
  - Two days after the last trading day (T+2) of the expiring contract month
  - Eurex European-style options expire on the same day as futures contracts
  - Open futures and options positions at expiry will result in payments which will be settled through CLS
- The respective currency payments in each product are consolidated per Clearing Member and Non-Clearing Member as well as per segregated customer\*
- Final payment instructions will be generated by Eurex Clearing
  - Will be sent via SWIFT as F/X “Trade” confirmation MT300 to the Clearing Members
- Each Eurex Clearing Member needs to instruct the mirror settlement instructions via SWIFT to obtain a matching of settlement instructions
  - Eurex Clearing delivers templates via the F/X “Trade” confirmation MT300

\* Only for individually segregated Registered Customers

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# Fees and margining

## Pricing levels

Pricing		M-Accounts*		P-Accounts		A-Account	
Product	Fee currency	Regular fee	OTC fee	Regular fee	OTC fee	Regular fee	OTC fee
EUR/USD	USD	0.15	0.225	0.15	0.225	0.30	0.45
EUR/CHF	USD	0.15	0.225	0.15	0.225	0.30	0.45
EUR/GBP	USD	0.15	0.225	0.15	0.225	0.30	0.45
GBP/USD	USD	0.15	0.225	0.15	0.225	0.30	0.45
GBP/CHF	USD	0.15	0.225	0.15	0.225	0.30	0.45
USD/CHF	USD	0.15	0.225	0.15	0.225	0.30	0.45

\* Qualify for fee rebates if Market Maker obligations are fulfilled

- Eurex offers a competitive and transparent pricing scheme.
- The scheme incentivizes order book activity and rewards liquidity provision long-term.

# Fees and margining

## Risk-Based Margining

- Standard Risk-Based Margining (RBM) is applied, i. e. one margin class is set up for each currency pair.
- FX derivatives will be integrated into Eurex Clearing Prisma at a later stage.

Products	Yesterday to today		Today to tomorrow	
	Premium margin	Variation margin	Additional margin	Futures spread margin
FX Options	✓		✓	
FX Futures		✓	✓ for Non-spreads	✓ for spreads

- Option pricing model used is Garman Kohlhagen (technically Black 76).
- Margin parameter (MP) based on an EWMA volatility (30 or 250 days) and on a liquidity factor.
- Margin offsets are granted by margin class i.e. for futures and options on the same currency pairs whereas by margin group are not granted i.e. for futures and options on different currency pairs (inherent risks in the settlement procedure).
- FX derivatives are included in the standard clearing fund.
- The foreign exchange derivatives have been approved within the new products presentation on the Risk Committee as of 1 December 2011 in Eschborn and were reconfirmed on 31 July 2013.

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## Further information – wholesale offering

Eurex FX derivatives can also be traded outside the order book on a bilateral basis, and subsequently booked to Eurex Clearing through the use of our Eurex Trade Entry facilities

### Eurex Block Trades

- Members are able to enter bilaterally agreed transactions into the trading and clearing system.
- Registered trades are then automatically cleared like regular exchange transactions.
- The Eurex Block Trade facility is fully electronic and integrated into Members' processes (the exchange defines a minimum number of contracts for an Block Trade – see below.)

### Eurex Vola Trades

- An Eurex Vola Trade is a futures trade delta-hedging an existing options trade on the same underlying instrument. The options can be traded either in the order book or as a block trade (in which case they have to meet the minimum block size above).
- However, the size of the futures trade is NOT subject to a minimum block trade size and depends solely on the delta of the options position.

## Further information

- **Circulars FX derivatives**

<https://www.eurexchange.com/exchange-en/resources/circulars/607604/>

- **Trading fees**

<http://www.eurexchange.com/exchange-en/trading/trading-fees-prices/>

<https://www.eurexclearing.com/clearing-en/resources/circulars/607652/>

- **Trading calendar**

<http://www.eurexchange.com/exchange-en/trading/trading-calendar/>

- **Eurex Block Trade Parameters**

<http://www.eurexchange.com/exchange-en/trading/eurex-otc-trade-entry/trade-entry-parameters/>



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# Other incentives

## Trader Development Program for FX

- The new FX Futures and FX Options will be included in the Trader Development Program.
- The Program is divided into three geographic regions. Namely, the Americas, Europe, Asia, the Middle East and Africa.
- Incentives are based on a per-trader basis.
- There are three rebate tiers dependent on the monthly turnover of the individual trader. The higher the monthly turnover, the higher the rebate up to 35,000 contracts a month.
- Registration for the extended period for new users is from 1 January 2014–31 December 2014, and each individual trader will be incentivised for 12 months from registration.
- The program is for proprietary business only, and permits only those traders who haven't been registered with Eurex before. Algorithmic business is not eligible.

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