
# Options on currency futures

As a leading market maker and liquidity provider in the FX market, Standard Bank: Global Foreign Exchange is able to provide hedgers and investors with innovative solutions to manage their FX exposures. Options on currency futures are one of the tools that can be used for this purpose.

## What are options on currency futures (OCFs)?

These are derivative contracts that grant the purchaser the right, but not the obligation, to trade a currency futures contract at a predetermined date and at a prearranged price. Participants are able to buy and sell OCFs (note: a seller's risk profile is the opposite of a buyer's, namely sellers are potentially obligated to trade). Contracts available are the South African rand against EUR, USD, GBP, AUD and JPY.

There are two types of options — a call option and a put option. A call option provides the purchaser the right, but not the obligation, to buy the underlying currency future, while a put option provides the purchaser the right, but not the obligation, to sell the underlying currency future. A premium is payable for this right.

## Key features

- Premium is a function of movements in the underlying futures price and volatility
- Premium paid over the life of the contract
- Competitive pricing
- Protection against FX volatility
- Liquid market
- Earn market-related interest on margin
- High gearing
- Minimum contract size is one contract that is 1 000 foreign currency nominal, for example USD1 000.
- Cash settled in rand
- Market integrity — the settlement of contracts is guaranteed by Yield-X exchange, once matched
- Intraday and overnight stops and orders (on the underlying) are available for deals of 250 contracts or more by prior arrangement

## Why trade OCFs?

- Provides an additional hedging solution for FX risk
- To hedge traditionally non-permissible exchange control commitments, for example:
  - Currency movements during a tender process
  - Translation of balance sheet exposure
  - Dividends
- For an option purchaser, the downside is limited to the premium paid
- Investor tool used to diversify portfolios
- Investor exposure to directional play
- Travel allowance

## Who should trade OCFs?

Options on currency futures can be traded by various participants, for example, companies hedging their FX commitments, individuals hedging their travel allowance or investors trading FX as an asset class. The qualifying market participants include:

- Individuals — who can trade without restriction outside of their R4 000 000 foreign capital allowance
- Pension funds — subject to their 20% foreign portfolio investment allowance
- Asset managers and registered collective investment schemes — subject to their 30% foreign allocation limit
- SA companies (including limited or unlimited, private or public, close corporations, trusts and partnerships) — which are now able to trade options on currency futures without restriction.

| | OCFs | Options (OTC) |
|---|---|---|
| Trade | Through a regulated exchange | Over the counter (OTC) direct with Standard Bank |
| Contracts | Standardised | Tailor made |
| Settlement | Rand cash settled and marked-to-market on a daily basis | Physically settled |
| Liquidity | Market makers allow for easy entry and exit | Can be traded out with cash flow implications |
| Counterparty risk | No, guaranteed by the SAFCOM (JSE clearing house) | Yes |
| Limitations on companies | No SARB approval necessary | SARB regulated |
| Firm and ascertainable commitment | No | Yes |

# Currency futures contracts

To find out how to start trading options on currency futures, contact Standard Bank's Forex Relationship Centre on 08000 FOREX (36739) toll free or email forex@standardbank.co.za

## Summary specifications

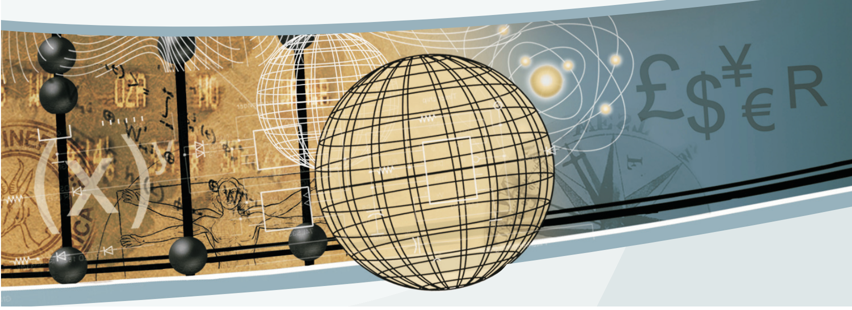
| | |
|---|---|
| Name | j-Rand: currency derivatives |
| Contract | Currency option contracts |
| Underlying instrument | Currency futures contracts |
| Contract months | March, June, September and December |
| Listing programme | Near, middle and far contracts; specials on demand |
| Expiry dates and times | 10am in New York |
| | 4pm in SA winter months; 5pm in SA summer months |
| Expiration valuation method | Arithmetic average of the underlying spot taken every 60 seconds (30 iterations) between 3.31pm and 4pm (SA winter months); 4.31pm and 5pm (SA summer months) |
| Types | Calls and puts, naked and delta options |
| Contract size | One currency futures contract = $1 000 nominal |
| Quotations | Naked options (premium): rands per contract |
| | Delta trades: volatility to two decimal places |
| Strike prices | Expressed in rands per one unit of foreign currency |
| Strike price intervals | Strike price intervals are set at a minimum of R0,05 |
| Option premiums | As determined by the modified Black option formula |
| Premium quotation | Option premiums are quoted in rands per contract |
| Minimum price movement | R0,05/$ x $1 000 x 1/100 = R0,50 |
| | Delta trades: R0,0001 |
| Exercise style | European style. Options may be exercised only on the expiration contract |
| Exercise settlement | Cash settled in ZAR |
| Initial margin requirements | As determined by JSE portfolio scanning methodology |
| Mark-to-market | Explicit daily |
| Market times | As determined by Yield-X (9am to 5pm) |
| Automatic exercise | All options "in the money" at expiry are automatically exercised by the exchange |
| Exchange fees | ZAR0,57 (incl. VAT) per contract |

## Disclaimer



Authorised financial services provider

The Standard Bank of South Africa Limited (Reg. No. 1962/000738/06). SBSA 811144 12/08

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