

Stock Tracking Futures

23 April 2021



Stock Tracking Futures

Introduction

- Traditional Single Stock Futures (SSF) embed a dividend risk/exposure, if the estimated dividend payment of the underlying stocks differs from the actual dividend paid. This is an undesired effect for stock performance investors
- The Stock Tracking Futures (STF) adjusts for regular dividend payments during its lifetime, thus reduces dividend (“change”) risk (daily settlement price will be derived from the underlying stock + cost of carry)
- On ex-date ‘Calculate Mark to Market’ service which is used for daily settlement will be enhanced to consider the aggregate amount of all regular dividends for STF. On ex-date, the gross dividend amount will be reduced from previous day settlement price of STF via the Price Correction Process. This ensures the dividend price move in the stock does not affect the value of open positions in the futures contract
- The „start of day position“ of each client will be booked out at the original previous day settlement price and booked back in at the adjusted previous day settlement price. The resulting margin payments offset the impact of the dividend payment on the variation margin (example next page)

Flavors in equity financing

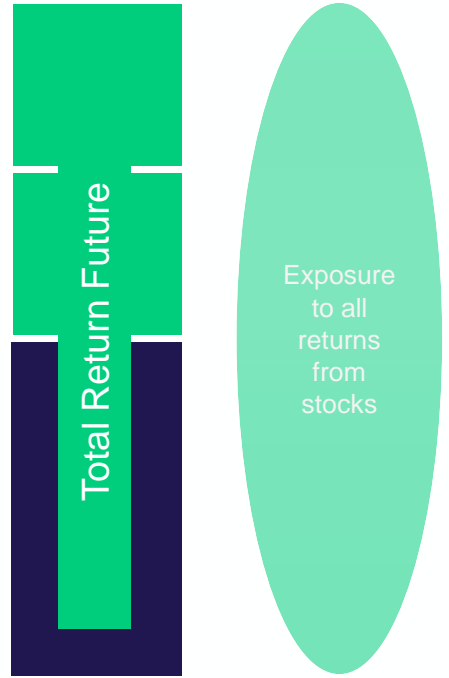
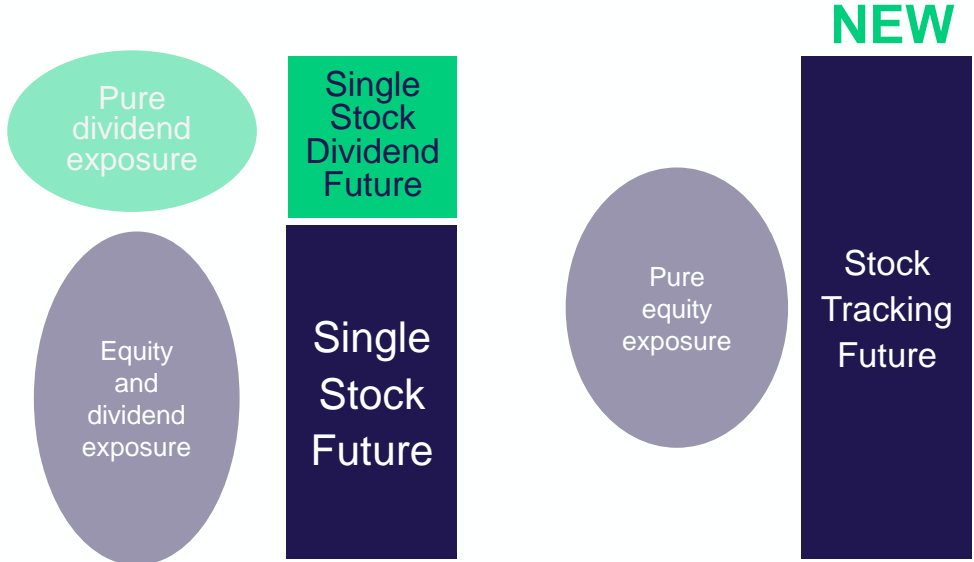
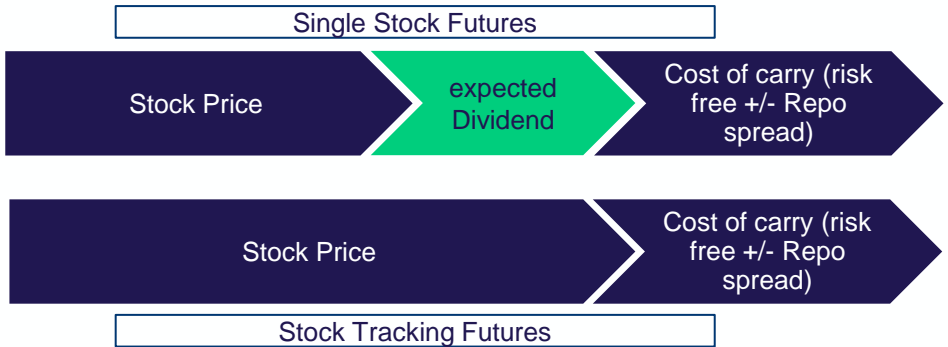
Equity as Collateral

- Index Total Return Futures
- NEW**
Basket Total Return Futures
- NEW**
Single Name Total Return Futures

Funded Equity Exposure

- Index Futures
- Single Stock Futures
- Dividend Futures
- NEW**
Stock Tracking Futures

New risk profile in single equity derivatives



Stock Tracking Futures

Product Outline

Trading

- Trading in futures at futures Prices
- Futures price = Stock price + cost of carry

MC	CPhase	Contract	Curr	CPrevSetlPrc	CVol	CBQty	CBid	CAsk	CAQty	CLst
+	Cont	1SAP Jul19	EUR	118.469200		20	118.7096	118.9446	20	

Clearing

- Real time clearing in futures at futures Prices
- P&L generation via daily variation margin

Adjustment method

- Price Correction Method: start of day position will be booked out at the previous day settlement price and booked back in at the adjusted previous day settlement price
- Only regular dividends are adjusted. Corporate actions are treated via R-factor before the Price Correction Method is applied

Example

	ex-date - 1	Start of day position	ex-date step 1	ex-date step 2
Position	Long 1 STF	Long 1 STF	Book out: short 1 STF	Book in: long 1 STF
Settlement Price	119	113	113	113
Absolute (Regular) Dividend Amount		4	4	4
Previous day settlement price for STF	118		technical trade at 119	(technical trade at 119-4)=115
Contract trade unit	100	100	100	100
Variation Margin	$[(119-118)*100]*1=100$	$(113-119)*100*1=(-600)$	$(113-119)*100*(-1)=600$	$(113-115)*100*1=(-200)$

¹⁾ Regular dividends = gross (100%) of declared dividends, paid either in cash or shares. Share dividends are usually included at the cash equivalent amount

Contract Specifications

Eurex offers STF covering the European market (starting with EuroStoxx 50 components)

Specification	Stock TrackingFutures
Contract Name	i.e Allianz Dividend Adjusted Futures
Product ID/Type	Product ID: 1ALV (in case of CA the successor product ID will be “2ALV”, “3ALV” etc.) Product Type: FSTK
Underlying ISIN	DE0008404005
Contract size	1, 10, 100 or 1000 shares (depending on the underlying)
Minimum price change	EUR 0.0001, CHF 0.0001/ 0.001, GBp 0.0001, USD 0.0001
Contract Months	Up to 36 months: the 13 nearest successive calendar months as well as the two following annual months of the December cycle thereafter
Cash Settlement	Cash settlement, payable on the first exchange day following the last trading day
Daily settlement price	The Daily Settlement Price is established by Eurex. The Daily Settlement Price is derived from the closing price of the underlying determined during the closing auction of the corresponding domestic cash market
Last trading day and final settlement day	Last trading day is the final settlement day. Final settlement day is the third Friday, if this is an exchange day at the Eurex Exchanges immediately preceding the expiration day. Close of trading in the maturing STF on the last trading day is at 17:45 CET
Final settlement price	The Final Settlement Price is established by Eurex, based on the closing price determined within the electronic trading system of the domestic cash market for the respective underlying on the Last Trading Day.
Trading hours	9:00 – 17:45 CET (same as SSF)
Eurex Trade Entry Services	Block Trades Flexible Futures –cash settlement only
Dividend Handling	On ex-dividend day positions are adjusted for the gross regular dividend announced by the underlying company
CA Handling	As determined for SSFs & SSDFs

Clearing process

- As mentioned above, the adjustment of the previous day settlement price takes place via the Price Correction Service of Eurex Clearing
- The Price Correction Service uses “technical trades” to perform the adjustment:
 - Technical trade #1 unwinds each members start of day position (by account) at the previous day settlement price
 - Technical Trade #2 re-establishes the start of day position at the previous day settlement price, ADJUSTED by the gross regular dividend, paid by the issuing company
- As a result, three variation margins are generated
 - The start of day position is margined based on the end of day and previous day settlement price $\rightarrow (113-119)=-600$
 - The unwind of this position is margined based on the unwind price (previous day settlement price) and the end of day settlement price $\rightarrow (119-113)=600$
 - The re-booking is margined based on the adjusted previous day settlement price and the end of day settlement price $\rightarrow (113-115)=-200$

Processing

Start of day
– prior to open for trading

Booking of technical trades:

- All futures expiries
- Only affected positions as of start of day

	Exchange	Instrument Group	Booking Out Price	Booking In Price	Price Difference
<input type="checkbox"/>	XEUR	FCIB JUN 2014	121.000000	117.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB SEP 2014	121.000000	117.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB DEC 2014	119.000000	115.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB MAR 2014	121.000000	117.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB JUN 2015	119.000000	115.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB FEB 2014	121.000000	117.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB JAN 2014	121.000000	117.000000	4.000000
<input type="checkbox"/>	XEUR	FCIB DEC 2013	121.000000	117.000000	4.000000

Eurex Clearing Member View
→ Start of day position

Results in technical trades:

- Sell to close 246 FCIB DEC 2014 @ 119
- Buy to open 246 FCIB DEC 2014 @ 115

Account Name	Curr	Product Type	Instrument Symbol	Instrument Type	Exercise Style	Flex Contract ID	Settlement Method	Business Date	Long Qty Start of Day	Short Qty Start of Day
A2	CHF	FSTK	FCIB DEC 2014	STANDARD_CONTRACT	NO_EXERCISE		PHYSICAL	2013-12-18	246	0

Messages and Reports

Real time

FIXML Message:

- TransferReason (tag 830). New value: 131 Price Correction
- TrdType (tag 828). New value: 63 Technical Trade

C7 Clearing GUI:

- Tran Type. New value: 131 Price Correction
- Orig Trade Type. New value: D – Technical

End of day

CRE Reports:

- Trn Typ. New Value: 131 Price Correction
- Trd Typ. New Value: D Technical Transaction

Thank you!

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