



FX Options

OPTIONS DISCLOSURE

For the sake of simplicity, the examples that follow do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.

Options involve risk and are not suitable for everyone. Prior to buying or selling an option, a person must receive a copy of *Characteristics and Risks of Standardized Options*. Copies may be obtained from your broker, one of the exchanges or The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606 or call 1-888-OPTIONS or visit www.888options.com.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and education purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities. Supporting documentation will be supplied upon written request.

AGENDA

OPTIONS 101

KEY OPTIONS TERMS
AND CONCEPTS

INTRODUCING FX OPTIONS

- INTRO TO FX OPTIONS
- MARKET STRUCTURE
- KEY FEATURES
- TRADING EXAMPLES

RESOURCES

CONTACTS AND
ADDITIONAL
INFORMATION

FX OPTIONS ARE TOOLS

- + FX options give you more ways to execute your Forex market research and strategies
- + FX options make it possible to target a variety of trading objectives:
 - Trade exchange rate fluctuations short & longer term
 - Trade Forex market fundamentals over time
 - Hedge risk in spot (cash) currency positions
 - Increase income in flat markets
- + Currency Options have some unique tradeoffs versus the underlying

WAYS TO ACCESS CURRENCY MARKETS

1. Multi-currency deposits
2. Own foreign stocks or bonds
3. FX ETF's
- 4. FX Options**
5. FX Futures
6. Spot FX

**RISK-
LEVERAGE**

(LOW)

**TIME-
FRAME**

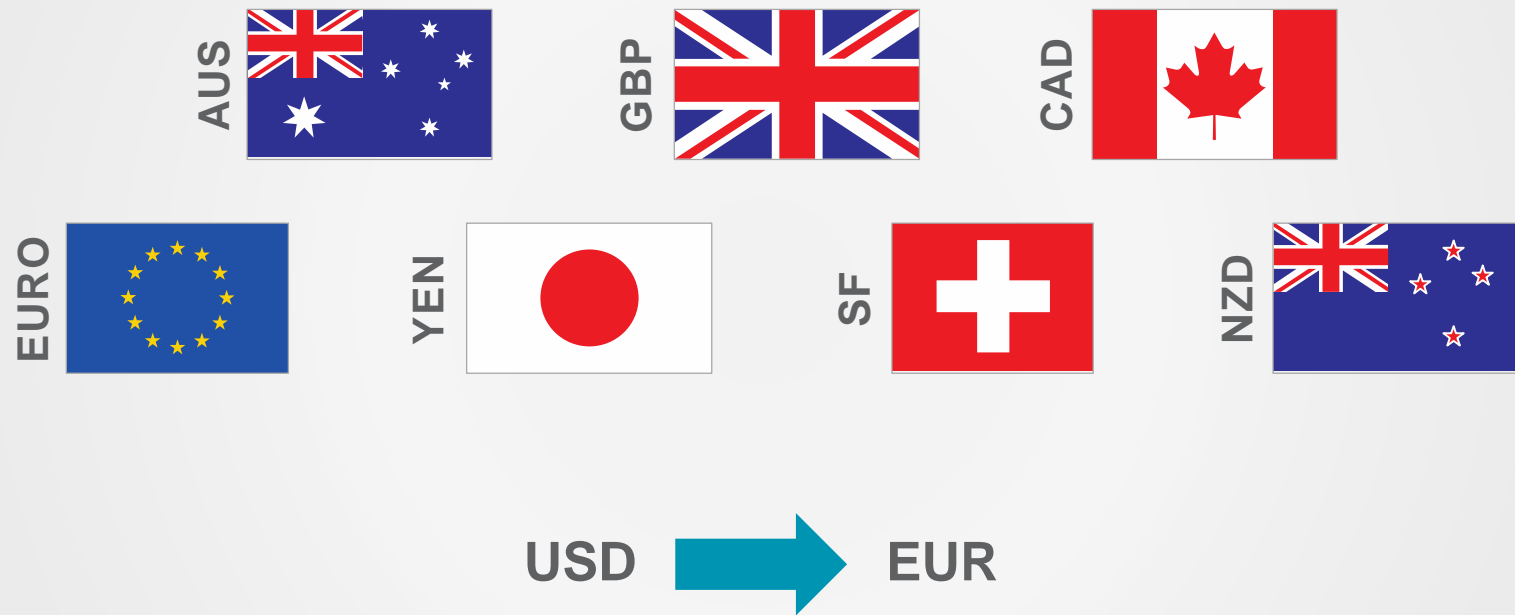
(LONG)

(HIGH)

(SHORT)

FX OPTIONS

Quoted in terms of U.S. Dollars per unit of the underlying currency



How many Dollars does it take to get one Euro?

SPOT EURO

Daily > EUR=FX C:1.3598 Chg -0.0081



Price 1.3600



NASDAQ OMX FX EURO – XDE

Daily XDE-X C: 135.99 Chg: -0.80



WHY A CALL OR A PUT?

Why Buy FX Call Options?

- Take advantage of a currency appreciating in value vs. the USD (dollar selloff)
- Limited cash outlay
- Limited, defined risk

Why Buy FX Put Options?







- Benefit from a currency depreciating in value vs. the USD (dollar rally)
- Limited cash outlay
- Limited, defined risk


MARKET STRUCTURE

- + Easy to understand, easy to trade, easy to manage
- + Tradable in any Options approved brokerage account
- + Fully electronic trading.
 - Including Complex Orders “Spreads”
- + Liquid markets, penny pricing, options leverage & risk management
- + Bullish, bearish & flat market strategies
 - One-year expiry Options available

CONTRACT SPECIFICATIONS EXAMPLE

Currencies Available:

10,000 UNITS	SYMBOL	
AUSTRALIAN DOLLAR	XDA	
BRITISH POUND	XDB	
CANADIAN DOLLAR	XDC	
EURO	XDE	
SWISS FRANC	XDS	
NEW ZEALAND DOLLAR	XDZ	

1,000,000 UNITS	SYMBOL	
JAPANESE YEN	XDN	

Size: Option is on 10,000 units of foreign currency (1,000,000 for XDN)

Trading Symbol: XDE

Exercise Style: European

Cash-Settled Options: No physical currency

Premium Quotation: One point = \$100. Thus, a premium quote of 2.10 is \$210. Penny increment trading.

Trading Hours: 9:30 A.M. to 4:00 P.M. E.T.

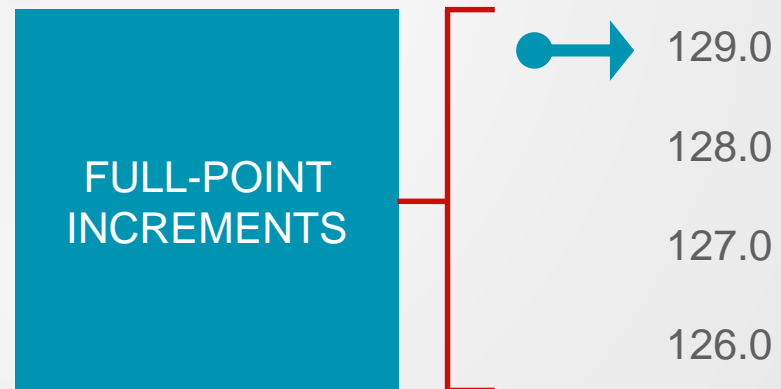
FX OPTIONS CALCULATIONS

THE MATH

- ▶ \$100 multiplier for premium and P & L calculation
- ▶ **BID**: 2.10 - Offer 2.14
- ▶ **PREMIUM** = $2.14 \times 100 = \$214.00$ per contract

STRIKE PRICES

1.2900 (spot) = 129.0



COMPLEX ORDERS SPREAD STRATEGY

- ▶ A Complex Order spread strategy involves two to six option positions taken simultaneously involving the same underlying currency
- ▶ Spreads can be bullish, bearish or neutral and can be constructed with all calls or puts or combinations of calls and puts
- ▶ Spreads provide the ability to trade with known risk/reward parameters
- ▶ Spreads often offer better risk/reward payoffs than outright long or short options positions in certain market conditions
- ▶ Spreads can be used to trade “events”, gain income or trade market movement

EUROPEAN-STYLE EXERCISE

If .01 in-the-money, the option will automatically be exercised on last trading day prior to expiration:

- Cash settlement (credit for gains; debit for losses)
- No Delivery Risk
- Can buy or sell at any time
- Positions can be closed on any business day

FX OPTIONS HEDGING EXAMPLE BRITISH POUND

NASDAQ OMX FX BRITISH POUND – XDB



TRADING FX OPTIONS

The Trade: Part I

BEARISH BRITISH POUND HEDGE (Trade Date 6/17/2013)

- Buy Puts to hedge exposure to 1 million Pounds
- December 2013 (expiration month & year)
- British Pound Puts (underlying currency & option type)
- End Position = Short pounds/Long USD
- Rationale: long term expectation that the Pound will drop in value vs. the USD (US Dollar strengthens vs. GBP)

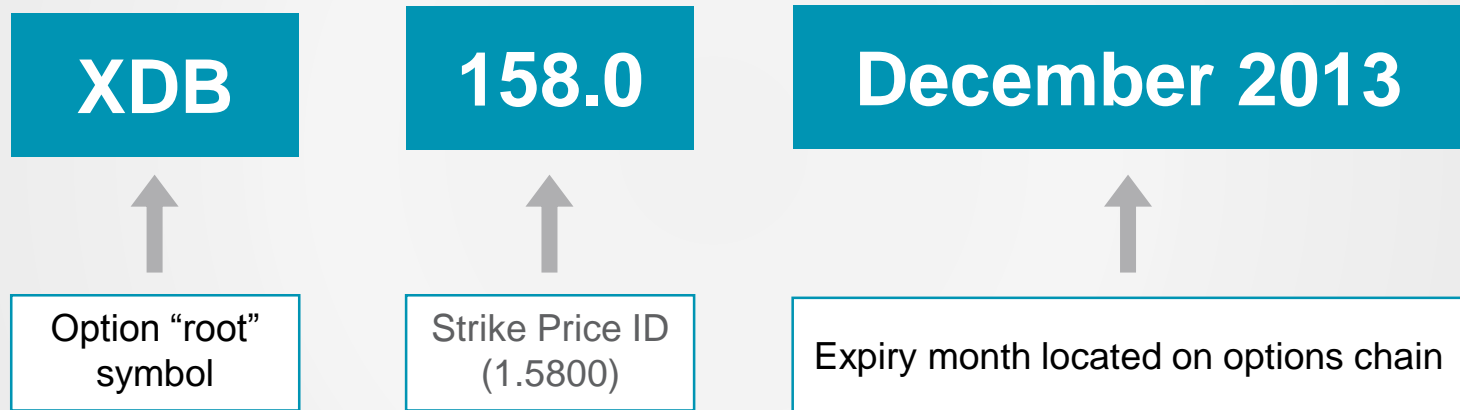
NOTE: All examples do not include commissions or taxes and are not intended to be recommendations.

TRADING FX OPTIONS

Continued

THE TRADE: PART II

Option Trading Symbol



When entering a trade, this symbol sequence will contain all the information needed.

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TRADING FX OPTIONS

The Trade: Part III

- The Symbol XDB 158.0 Put represents the following FX Option
 - A Put Option on the British Pound vs. the USD
 - Expires on December 20, 2013
 - Strike (spot) price of 158.0 (1.5800)

Next – Paying for the option

Market Price is 7.50 per option
Or $7.50 \times \$100 = \750 per option purchased

Note: All examples do not include commissions or taxes and are not intended to be recommendations.

TRADING FX OPTIONS

The Trade: Part IV

- Buying December 2013 British Pound 158 Put (XDB 158) options for 7.50 (\$750) or better per option to **open**
 - The Math
 - Expectation that the Pound will move below 158 (1.5800) at or before the option expires in December of 2013
-

If we buy 100 contracts @ \$7.50 each

- Multiplier is \$100, so each contract costs $7.50 \times \$100 \times 100 = \$75,000$ net investment (Maximum Risk) in the trade.

We would breakeven at 150.50 (1.5050): $158.0 - 7.50$

*****Please note the investor may lose 100% of their upfront paid premium (investment) in addition to commissions.**

Note: All examples do not include commissions or taxes and are not intended to be recommendations.

TRADING FX OPTIONS

The Trade: Part V

- 7/9/13 British Pound Spot = 148.50 (1.4850)
- We bought Dec 2013 British Pound 158 Puts - XDB 158 - for 7.50 (\$750) per option
- XDB Dec 2013 158 Put Options quoted at - 14.60 bid / 14.70 offer

$14.60 - 7.50 = 7.10 \times \100 or **\$710 profit potential per option**

Our \$75,000 Hedge Cost is now worth \$146,000
or
Up 95% in less than 1 months
And the options still have over 5 months left.

*****Regardless of this open market profit, if the market reverses direction, the investor may lose 100% of their upfront paid premium (investment) in addition to commissions.**

Note: All examples do not include commissions or taxes and are not intended to be recommendations.

FX OPTIONS: SUMMARY

- + Can be traded in an options approved account that is approved for foreign currency options
- + All option strategies can be done with FX Options (except the covered call)
- + Expiration is the same as equity options
- + Expiration style is European
- + Long FX Call = Long Foreign Currency / Short USD
- + Long FX Put = Short Foreign Currency / Long USD
- + Options are cash settled in US Dollars

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DERIVATIVES**
NASDAQTRADER.COM/FXOPTIONS
+1 215 496 1266

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