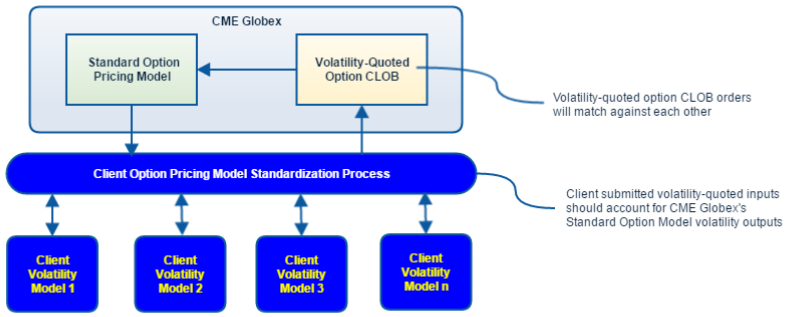
Volatility-Quoted Options

Volatility-quoted options is a functionality that allows CME Globex clients to trade an option contract with an 'auto-hedge' into the corresponding quarterly month of the underlying futures contract. When a volatility trade occurs, CME uses a standardized option pricing model to create a delta neutral combination of premium options and futures, and exchange these between the buyer and seller. In addition, volatility-quoted options eliminate the volatility-to-premium conversion and ongoing price modifications previously required to trade options volatility in premium markets. Clients can choose to participate in the volatility-quoted options and/or the premium-quoted options. It is important to note that the option instrument—whether traded in volatility or in premium terms—is the *same contract,* allowing for optimal margin efficiency. A contract traded in volatility can subsequently be traded in premium and vice versa.

CME Globex uses an option pricing model to calculate the assigned premium-quoted option and covering futures after a volatility-quoted option matches. Clients submitting volatility-quoted orders should be aware of the option pricing model that CME Globex uses in conjunction with post-volatility quote match assignment process.



Volatility-quoted options are not available for pre-negotiated trades on CME ClearPort and floor-based trading. Volatility quotes will not be displayed on the trading floor.

See Also

- Volatility-Quoted Options Product Attributes
- Volatility-Quoted Options Match and Messaging Scenario
- Volatility-Quoted Options Messaging Changes

Volatility-quoted options have a separate Globex code for order entry, but **are not** separate products in CME Clearing; for a volatility-quoted options trade, a trade confirmation message is sent for the premium-quoted option product.