

To: Clearing Member Firms; Back Office Managers

From: CME Clearing

Advisory #: 16-438

Date: October 21, 2016

Subject: **Volatility-Quoted FX Options – Launching November 14, 2016**

Effective Sunday, November 13, 2016 for trade date Monday, November 14, 2016, and pending all relevant CFTC regulatory review periods, CME will list volatility-quoted foreign currency options for trading on the CME Globex® electronic trading platform. Volatility-based quoting facilitates “delta-neutral” trading, reducing the execution risk that is inherent to trading in premium-quoted options.

Volatility-quoted options will be available in both American- and European-style 2:00 pm expiration options on the following FX products:

- Australian Dollar
- British Pound
- Canadian Dollar
- EuroFX
- Japanese Yen
- Swiss Franc

Note that **there are no new products/codes in clearing and in bookkeeping systems.** When you execute a volatility-quoted options trade, you will receive trade confirmation messages for the **exact same product** as if you had done a regular premium-quoted option trade. For example, you can buy an option on Globex with a volatility-quoted trade, and liquidate that option position with a regular premium-quoted trade done either on Globex or on the floor.

Clearing Implications of Volatility-Quoted Options

As described above, volatility-quoted options traded on CME Globex will load to the clearing and bookkeeping systems as trades with prices in regular premium terms. While volatility-quoted options have a separate Globex code for order entry purposes, after being converted by the clearing system they will be carried on the books of clearing members as premium-based foreign currency options on futures transactions.

For example, a volatility-quoted Australian Dollar option will go into CME Globex with a Globex product code of V6A. However, the clearing system will send a FIXML trade confirmation message to the clearing firm with the clearing product code of AD.

In the FIXML trade confirmation messages:

- Clearing firms will be able to identify these trades as resulting from volatility-quoted options orders by a value of "r" (the lower-case letter R) in the FIXML Execution Instruction attribute. For example: ExecInst="r". This value will be provided on both the option and futures legs.
- Both the option and futures legs will contain the Order Number (ClOrdID attribute) from the original order, and can be tied together using this value if firms so desire.
- On the option leg, the normal price field (the LastPx attribute) will contain the price in premium terms.
- Also, on the option leg only, an additional Vol attribute will be added to provide firms with the volatility price. For example: Vol="2.37". Volatility prices will be in percent, will have a maximum of two decimal places, and will tick in units of 0.01 percent.

FIXML Giveup-API messages ("allocation reports"), which result from the give-up of options or futures from vol-quoted orders, will also have the ExecInst="r" attribute. So you'll be able to identify not only the trades resulting from vol-quoted orders, but also any give-ups of those trades.

The volatility price is information that firms may choose to ignore, or to pull into their bookkeeping system. It won't drive any processing in clearing or in books.

The premium price for the options leg of a volatility-quoted trade will be 1/10th of a normal tick (vol to premium tick), which is a smaller tick increment than that for a normal trade. The smaller tick is already in place for the options listed below.

There are no changes to the current tick and DPL for the existing premium-quoted products listed below.

Product	Clearing Codes	Half-Tick	Normal Tick	Vol to Prem Tick (1/10th)
Australian Dollar Options – 2 pm Fix (American and European Style)	AD – Amer. Style ADU – Eur. Style	0.00005 = \$5.00	0.0001 = \$10.00	0.00001 = \$1.00
British Pound Options – 2 pm Fix (American and European Style)	BP – Amer. Style GBU – Eur. Style	N/A	0.0001 = \$6.25	0.00002 = \$1.25
Canadian Dollar Options – 2 pm Fix (American and European Style)	C1 – Amer. Style CAU – Eur. Style	0.00005 = \$5.00	0.0001 = \$10.00	0.00001 = \$1.00
Euro FX Options – 2 pm Fix (American and European Style)	EC – Amer. Style EUU – Eur. Style	0.00005 = \$6.25	0.0001 = \$12.50	0.00001 = \$1.25
Japanese Yen Options – 2 pm Fix (American and European Style)	J1 – Amer. Style JPU – Eur. Style	0.0000005 = \$6.25	0.000001 = \$12.50	0.0000001 = \$1.25
Swiss Franc options – 2 pm Fix (American and European Style)	E1 – Amer. Style CHU – Eur. Style	0.00005 = \$6.25	0.0001 = \$12.50	0.00001 = \$1.25

Globex Codes for Volatility-Quoted Options

Volatility-Quoted Options			
Product	Expiration Style	Maturity	Product Code
Australian Dollar	American	Monthly	V6A
	European	Monthly	VXA
		Weekly	VAA-VAE
British Pound	American	Monthly	V6B
	European	Monthly	VXB
		Weekly	VBA-VBE
Canadian Dollar	American	Monthly	V6C
	European	Monthly	VXC
		Weekly	VCA-VCE
Swiss Franc	American	Monthly	V6S
	European	Monthly	VXS
		Weekly	VSA-VSE
EuroFX	American	Monthly	V6E
	European	Monthly	VXT
		Weekly	VTA-VTE
Japanese Yen	American	Monthly	V6J
	European	Monthly	VXJ
		Weekly	VJA-VJE

For more information about volatility-quoted options trading on CME Globex, please see: <http://www.cmegroup.com/trading/fx/vol-quoted-fx-options.html>.

For complete technical details about volatility-quoted options trading on CME Globex, please see the Volatility-Quoted Options Client Impact Assessment document at:

<http://www.cmegroup.com/education/volatility-quoted-options-client-impact-assessment.html>.

For the Globex Notice please see: <http://www.cmegroup.com/notices/electronic-trading/2016/10/20161017.html>.

For more information, please contact CME Clearing at (312) 207-2525. Thank you.