FXOPTIONS

FAQs - FREQUENTLY ASKED QUESTIONS

1. **What are FX Options?** FX Options are exchange-listed securities that are traded on the International Securities Exchange®, the largest equity options exchange in the world. With FX Options, investors have exposure to rate movements in some of the most widely traded currencies and can apply the same trading and hedging strategies they use for equity and index options, including spreads with up to four legs. Currently, FX Options are listed in 10 currency pairs, with dual conventions offered for four pairs. The USD-based, or "per US$," currency convention is available for all ten pairs and allows investors to express their views on the strength or weakness of the U.S. dollar relative to global currencies. The "in US$" currency convention is the inverse of the USD-based convention. FX Options are cash-settled in U.S. dollars, European exercised and can be traded directly from an options-brokerage account.

2. **What are the advantages of exchange-listed options?**

   With exchange-listed options, investors get full price transparency; displayed prices and quote sizes are always actionable. In addition, counter-party credit risk is almost entirely eliminated because FX Options are issued and cleared through the Options Clearing Corporation (OCC). The OCC provides a vital function by acting as a guarantor, ensuring that the obligations of the contracts are fulfilled.

3. **Why trade FX Options versus the Spot FX?**

   One of the primary benefits for trading FX Options versus Spot FX is that options provide investors with tremendous versatility including a wide range of strike prices and expiration months available for trading. Investors can implement single and multi-leg strategies, depending on their risk and reward tolerance. Investors can implement bullish, bearish and even neutral market forecasts with limited risk. FX Options also provide the ability to hedge against loss in value of an underlying asset. Since FX Options are issued and cleared through the OCC, counter-party credit risk is almost entirely eliminated.

4. **Where can I trade these products?**

   FX Options are traded on the International Securities Exchange and may be traded through all options-enabled brokerage accounts. For a partial list of brokers, please visit www.fxoptions.com/brokers.

5. **Where can I get FX Options quotes?**

   FX Options quotes are available on the FX Options website at www.fxoptions.com/quotes. The underlying rates are also available at several market data vendors and financial websites, including Bloomberg, ILX, Reuters, or Yahoo Finance.

6. **Are there any trading or educational tools available?**

   There are many resources available on our website to help get you started, including educational articles by Steve Meizinger (Director of Education at the International Securities Exchange), live weekly webinars, FX Options University, FX Options Weekly Outlook, a Trader Forum, Daily trend reports, Trade Alerts, options quotes and calculator.

7. **What is the benefit of cash settlement and how does it work?**

   Cash settlement eliminates the need to hold the actual foreign currency, making the process much more straightforward. Investors can actually trade out of their positions until expiration Friday, which is the third Friday of the expiration month at 12:00 PM (New York Time). Settlement value is determined on the last trading day (usually a Friday), based on the WM/Reuters intra-day spot rate corresponding to 12 noon New York time.

8. **What options strategies can I implement for FX Options?**

Investors can adopt the same trading strategies they use for equity options, as well as sophisticated spread functionality such as vertical spreads, straddles, strangles, condors and butterflies.

9. **Why are FX Options offered in dual conventions?**

   Investors have different perspectives, some look in terms of the US dollar, while others look in terms of the euro or the British pound. By offering a dual convention, investors now have additional choice and flexibility to hedge their currency exposure. ISE currently lists FX options in 10 currency pairs. The USD-based, or "per US $" is available for all 10 pairs and allows investors to express their views on the strength or weakness of the U.S. dollar relative to global currencies. The "in US $" currency convention is the inverse of the USD-based currency convention. Investors can adopt the same trading strategies they currently use for equity and index options, including spreads with up to four legs.

10. **Do I buy calls or puts to implement my forecast?**

    A simple way to remember what type of option you need to buy is to focus on the base currency, which is the first currency in a currency pair. The second currency is the quote currency (counter-currency). Options prices are derived from the base currency relative to the quote currency. Those who are bullish on the base currency should buy calls. Those who are bearish on the base currency should buy puts. There are several other ways investors can trade their views, depending on the base currency.

    The USD-based, or "per USD", FX Options allow investors to trade their views on the U.S. dollar relative to the Canadian dollar (Symbol: CDD). When trading this product, an investor who is bullish on the U.S. dollar and, therefore, bearish on the Canadian dollar, would buy CDD calls. Conversely, an investor who is bearish on the U.S. dollar and bullish on the Canadian dollar would buy CDD puts.

    If an investor wanted to trade using "in US$" currency convention for the Euro (Symbol: EUU), and was bullish on the Euro - the base currency - and bearish on the U.S. dollar, they would buy EUU calls. An investor who is bearish on the Euro and bullish on the U.S. dollar would buy EUU puts.

11. **How can the Greeks be applied to FX Options?**

    The Greeks can help investors better understand the risk and potential reward of an FX Option position and provide a way to measure the sensitivity of an (FX) option's price to quantifiable factors. The options models (Greeks) allow investors to quantify various risks for options, the most popular of which is the "Delta". Delta measures the rate of option value with respect to changes in the underlying pair price. The other Greeks also apply in a similar fashion to equity options (Gamma, Theta, Rho and Vega). To view the Greeks and use our FX Options calculator, just visit: www.fxoptions.com/quotes.

12. **What impacts the FX Options currency pair movement?**

    Currency valuations are a product of many factors, not just a single input. The currency market is impacted by macro-economic factors such as interest rates, GDP, productivity and investment flows. A symbiotic relationship exists between these critical fundamental factors and the currency markets.

13. **How do I make my price forecast for FX Options?**

    This is a personal choice for every investor. Some employ fundamental analysis, while others look to technical analysis (charts) such as Fibonacci, Candle Sticks or Moving Averages. Some investors use a mixture of both fundamental and technical analysis.

14. **I understand that FX Options are "Exercised" on a European Style basis but can they be bought and sold prior to expiration in order to lock-in a profit or cut a loss like equity options?**

Yes, FX Options can be traded throughout the day and do not need to be held till expiration. Since they are European Style, meaning they cannot be exercised till expiration, investors that are short an option, do not have to worry about early exercise risks. Whether you are long or short, you can trade out of your position at any time prior to expiration.

15. **How are the FX Options pair values calculated?**

Spot prices are based on the exchange rates reported by Reuters. The rates are scaled using modifiers, as show below, so the underlying value reflects a price level similar to that of a stock or index.

Underlying rate = rate x rate modifier

Convention	Symbol	Rate Modifier	Rate Examples*	
USD/AUD	AUX	100	125.57	(1.2557 x 100)
USD/BRL	BRB	100	175.91	(1.7591 x 100)
USD/CAD	CDD	100	116.12	(1.1612 x 100)
USD/CHF	SFC	100	108.71	(1.0871 x 100)
USD/EUR	EUI	100	77.82	(0.7782 x 100)
USD/GBP	BPX	100	61.24	(0.6124 x 100)
USD/JPY	YUK	1	96.09	(96.09 x 1)
USD/MXN	PZO	10	133.46	(13.346 x 10)
USD/NZD	NZD	100	158.16	(1.5816 x 100)
USD/SEK	SKA	10	79.57	(7.957 x 10)

Convention	Symbol	Rate Modifier	Rate Examples	
AUD/USD	AUM	100	86.68	(0.8668 x 100)
EUR/USD	EUU	100	147.04	(1.4704 x 100)
GBP/USD	GBP	100	160.06	(1.6006 x 100)
NZD/USD	NZO	100	71.79	(0.7179 x 100)

** Rates may vary*

16. **Which strike price should I buy, given a certain view on a currency pair?**

Options give so many investment choices, you need to find the right balance, depending on your risk and reward trade-off. ITM (in-the-money) call or put options cost more, but are the most responsive to the underlying exchange rate (Delta), while OTM (out-the-money) options have less dollar risk but also lower deltas, which mean they have the lowest responsiveness to the underlying exchange rate. ATM (At-the-money) is a hybrid of the two.

17. **What expiration periods are available for FX Options?**

FX Options are available for up to four near-term months, plus up to four months from the March quarterly cycle (March, June, September and December). FX Options are also available for up to 10 long-term months, none further out than 36 months.

18. **How is the actual premium amount calculated?**

Just like equity, index and ETF options, FX Options premiums are multiplied by $100 to obtain the actual premium amount. For example, if you buy an option for $2.00, the total premium will be $2.00 x 100 or $200, not including your broker's commission. This premium is paid in cash (USD) at the time of the trade.