COMMERZBANK

Product Group

Covered Options
(Writing of Covered Options)

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the Covered Options product group.

General characteristics and investment opportunities

These products involve the writing (sale) of covered call options or covered put options denominated in euro or another currency and linked to an underlying, e.g. an individual share or an equity index. Covered options are collateralised with the respective securities for a written call ("short call") or with the respective cash equivalent for a "short put".
When you sell an option, you become an "option writer", i.e. you receive a premium and enter into an obligation to deliver (= call) or purchase (= put) shares at the agreed strike price when the buyer exercises the option.
Depending on their individual structure, these products are generally suitable for speculating on a sideways trend in the underlying. If the price of the underlying moves sideways, the price of the written option will fall, the option will not be exercised, and the option writer will retain the received premium. For a written short call position, investors need to consider that they hold the underlying until possible option execution and therefore receive dividends and hold voting rights.

Typical product characteristics

When an investor sells an option on the options & futures exchange, the investor sells the right and enters an obligation, to buy (= put) or sell (= call) a certain quantity (e.g. 1 contract = 100 shares) of an underlying at a specific price (= strike price).
The most important product parameter is the strike price; this indicates the price the underlying must exceed (call) or fall below (put) for the option to have an intrinsic value. Generally, the intrinsic value determines whether an option expires worthless or can be exercised and, accordingly, whether the underlying is purchased (=call) or delivered (=put). Alternatively, investors may close out the option on the options & futures exchange before expiration. In addition to the intrinsic value, the price or the premium of an option is determined by the time value during its term. The time value is essentially determined by the remaining term and the expected price volatility of the underlying. At expiration, the time value of an option is always zero.

Material risks of the product group

By investing in options, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:

Risk of loss: If the price of the underlying rises, the option may be exercised (= call). The option writer must then deliver the shares for the strike price, which may be far below the current share price at the time of exercise. If the option writer holds the shares, the writer will not participate in the share price increase beyond the strike price.
If the price of the underlying drops, the option may be exercised (= put). The option writer must then pay the strike price for the shares, which may be far above the current share price at the time of exercise. In this case - if the option premium received does not compensate for this price difference - the option writer is exposed to a loss, which in extreme cases can be a total loss of capital (less the option premium).

Foreign currency risk - Investors are exposed to currency risk when investing in a foreign currency option as performance could be adversely affected by exchange rate movements.

Liquidation risk: Customers are exposed to the risk that - despite a favourable price trend - the options contract cannot be liquidated or liquidated at a fair market price. This might be because of the inability to find a matching counterparty, an insufficient number of market participants, poor trading volumes or general market disruptions.

Further information and costs

For further details on these aspects and the product, please refer to the relevant basic information sheet of the options & futures exchange.

In principle, inflation trends impact your investment performance. A resulting loss of purchasing power affects both the income generated and your capital invested. When acquiring, holding and eventually selling securities and derivatives, costs will impact returns.
For further details on the characteristics and risks of the products, please refer to the brochure “Basic Information on Forward Transactions”.