COMMERZBANK

Product Group

Futures

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

General characteristics and investment opportunities

A futures contract is an agreement between two parties to trade a certain underlying at a specific time in the future at a specific price. The buyer of a futures contract (long position) commits to buy the underlying, while the seller (short position) commits to deliver it. Futures contracts are usually settled by cash, while physical delivery is the exception.
Depending on their specific design, these products can be used to bet on rising or falling prices of the underlying or to hedge all or part of a portfolio. Futures contracts can be effectively terminated by taking the opposite position. Alternatively, the position is terminated by determining the final settlement price on the expiration date (= cash settlement) or delivered (physical delivery).

Typical product characteristics

To open a futures position, investors must provide collateral, which is adjusted daily and is far below the nominal value of the futures contract. The futures price is derived from the price of the underlying, the storage costs or the so-called cost of carry. The buyer of a futures contract benefits if the price of the underlying rises until expiration and loses if it falls. Conversely, the seller of a futures contract benefits if the price of the underlying falls until expiration and loses if it rises. The daily changes in the futures value are debited or credited to the collateral account on a daily basis. These daily changes are netted at the end of the term or at the time of position closure for the customer to realise a profit or loss.

Material risks of the product group

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

Risk of loss, i.e. if the futures contract moves against a customer's position, the customer must make a matching payment, which will be debited to his account on a daily basis. If the customer has insufficient funds in the margin account, the Bank will issue a margin call. If the customer does not fulfil this margin obligation, the position may be closed by the Bank at short notice. This may result in a total loss of the existing collateral and additional claims against the customer.

Leverage risk: assets deposited as collateral only represent a small part of the nominal value of the traded contract. This is why small price movements in the underlying can lead to disproportionately large gains or losses (in accordance with the leverage).

Foreign currency risk: Customers are exposed to currency risk when investing in a foreign currency denominated futures contract as performance could be adversely affected by exchange rate movements.

Credit risk: investors are exposed to the risk of insolvency, i.e. the risk that Commerzbank AG may become excessively indebted or unable to honour its payment obligations.

Liquidation risk: Customers are exposed to the risk that - despite a favourable price trend - the futures 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. Further details on the costs associated with these transactions can be found in the respective cost information sheet before entering into a securities transaction.

For further details on the characteristics and risks of the products, please refer to the brochure “Basic Information on Forward Transactions”.