COMMERZBANK

Product risk class

Options and futures

In this information sheet, Commerzbank provides information on the basics as well as opportunities and risks of the product risk class options and futures.

General characteristics / opportunities and risks
Options are conditional futures. The purchaser of an option acquires the right to buy (call) or sell (put) a base value in a certain quantity at a predetermined price, in exchange for payment of a premium. He is not obliged to exercise the option. Upon receipt of a premium, the seller undertakes to deliver (call) or to purchase (put) an agreed base value in a certain quantity at a price agreed in advance, at the request of the buyer. Typical is the asymmetric risk/opportunity profile. Buyers and sellers do not have the same profit or loss potential due to different rights and obligations.

Futures are an absolutely binding agreement for both contractual partners (buyer and seller). They have a symmetric risk/opportunity profile.

Options and futures are derivatives and include exchange-traded financial forward transactions. These involve considerable risk of loss. Investors can lose all of the capital they invest. Some products in this risk category (such as writing covered and uncovered options and futures) involve unlimited risk of loss because there may be an obligation to subsequent additional payments (margins), the amount of which cannot be determined. Transactions with financial instruments of this product risk class are only possible on the basis of separate agreements with the Bank and after a detailed explanation of their structure and risks. The following risks must be taken into account, for example: market price risk (volatility), leverage effect, risk of margin payments, liquidity risk and correlation risk. Options and futures do not entitle the holder to a payment made in the base value (e.g. dividend). However, the price of the forward financial transaction on the day of such a payment can decrease significantly.

Applications: hedging and speculation
Options and futures can be used for hedging purposes ("hedging") of existing or planned basic transactions which may include a financing, a receivable or a liability in foreign currency or securities. Any losses in the underlying business should be offset by gains in the option or the future. For example, falling prices of the underlying may result in a gain in the derivative corresponding to the price loss of the underlying traded. Similarly, the reverse can occur if profits in the underlying are absorbed by losses in the derivative. If changes occur during the term of the derivative in the underlying hedged transaction, it may result in the selected derivative no longer being able to guarantee the originally planned risk hedging.

Options and futures can also be used for speculation on a particular market movement or price change without reference to a basic transaction. Therefore, losses incurred in these transactions cannot be compensated for by gains in the underlying business.

Trading of options and futures
Exchange trading takes place in standardized contracts as commission business on specialized markets in Germany and abroad, for example Eurex. Standardization refers, for example, to the underlying value, the contract size and the time of the settlement.

In addition, the purchase and sale of options and futures must take into account costs that must be covered before a profit can be generated. In addition to the costs directly associated with the transaction, follow-up costs (e.g. in the case of exercise) must also be taken into account.

For more details on the properties and risks of the products, please refer to the brochure „Basic Information on Forward Transactions“.