Eurex Circular 095/18

MSCI index derivatives: Specification of procedure to determine the final settlement price in the event of market disruptions

Summary

The Executive Board of Eurex Clearing decided to specify the procedure to determine the final settlement price for MSCI index derivatives in the event of market disruptions, which will come into effect with the **March 2019** expiration.

With this circular, we would like to give the Trading Participants of Eurex Deutschland more background information and explain the amendment resulting from this decision.

Attachment:

- Chapter II of the Clearing Conditions of Eurex Clearing AG

Date: 6 December 2018

Recipients:
All Trading Participants of Eurex Deutschland and Vendors

Authorized by:
Michael Peters

Target group:
- All departments

Related Eurex Clearing circulars:
105/18

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MSCI index derivatives: Specification of procedure to determine the final settlement price in the event of market disruptions

In the past years, the market segment for MSCI index derivatives as well as the number of open positions on specific Asian indices (MSCI EM Asia, Japan, China Free etc.) grew significantly. However, with respect to these indices, there is an increased risk that trading in certain markets is not possible due to market disruptions, e.g. during the Pacific typhoon season.

For many market participants, the replicability of the final settlement price is essential, as derivatives are often used as hedging instruments for other financial instruments (such as Swaps, ETFs or equity baskets). A market disruption without an adjustment of the final settlement price could lead to a divergence between the value of the derivative and the hedged position.

The Executive Board of Eurex Clearing decided to specify the procedure to calculate the final settlement price in the event of market disruptions, which will come into effect with the March 2019 expiration. The decision has been taken in order to minimise uncertainties on the market participants' side regarding the procedure and in order to ensure a better replicability of the final settlement price.

The determination of the final settlement price is defined in Chapter II of the Clearing Conditions of Eurex Clearing (Clearing Conditions), Number 2.4.2 (Final Settlement Price of the Index Futures contracts) and Number 3.4.3. (Final Settlement Price for Index Options contracts). Number 2.4.2 (13) and 3.4.3 (12) entitle Eurex Clearing in case of extraordinary circumstance (especially if the trading is interrupted) to determine the final settlement price by other means.

For the first time, coming into effect with the March 2019 expiration, the following will apply:

For every monthly standard expiration, the index provider MSCI checks whether there are market disruptions in indices on which Eurex derivatives have been launched and whether they have an impact on the final settlement price. If market disruptions have been detected, a corrected final settlement price will be calculated by MSCI. Eurex Clearing can adapt the final settlement prices accordingly, based on the MSCI corrections. The definition and determination of market disruptions, as well as the possible resulting adjustment of the final settlement price, will be conducted according to the MSCI rules and regulations, which can be found under the following link:

https://www.msci.com/eqb/methodology/meth_docs/MSCI_Unexpected_Market_Closure_Indexes_methodology_November_2018.pdf

With regard to additional contract versions and expirations that diverge from standard expirations, there will be no changes, according to Number 4.2 of the Clearing Conditions ("Flexible Futures or Flexible Options"). Furthermore, there will be no amendments to the following MSCI index derivatives on factor indices:

Index	Futures
MSCI USA Equal Weighted	FMUE
MSCI USA Momentum	FMUM
MSCI USA Quality	FMUQ
MSCI USA Value Weighted	FMUV

Price adjustment procedure

In case of a market disruption, which would lead to an adjustment of the final settlement price, a provisional settlement according to the index closing values on Friday will be conducted on the regular expiration day of the MSCI index derivatives (normally the Monday after the third Friday). As soon as the data basis for the calculation of the adjusted final settlement price is available, financial compensations will be booked manually.

If you have any questions or need further information please contact Ralf Huesmann via tel. +49-69-211-1 54 43 or e-mail ralf.huesmann@eurexchange.com.

6 Dezember 2018

Chapter II of the Clearing Conditions of Eurex Clearing AG

Transactions Concluded at Eurex Deutschland

(Eurex Exchange)

As of 01.03.2019

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AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED

DELETIONS ARE CROSSED OUT

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[…]

Part 2 Clearing of Futures Contracts

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[…]

2.4 Clearing of Index Futures Contracts

The following provisions shall apply to the Clearing of Index futures contract transactions specified in Number 1.3 of the Eurex Contract Specifications.

[…]

2.4.2 Final Settlement Price

The final settlement price of the Index Futures contracts will be determined by Eurex Clearing AG (pursuant to Number 1.3.4 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland) at the final payment day of a contract.

[…]

(6) With respect to the MSCI Index Futures contracts on Price Indices, the closing value of the price index on the last trading day shall be decisive.

(7) With respect to the MSCI Index Futures contracts on (Net or Gross) Total Return Indices, the relevant closing value of the (Net or Gross) Total Return Index on the last trading day shall be decisive. MSCI Index Futures on Price- and Gross Total Return Indices are specified as such in the Eurex Contract Specifications. All other, not further specified MSCI Index Futures are based on Net Total Return Indices.

[…]

(12) In case of extraordinary circumstances, especially if the trading is interrupted due to technical problems or if a price determination for one or more securities or book-entry securities is not possible for other reasons, Eurex Clearing AG may determine the final settlement price by means of another procedure.

For MSCI Index futures contracts, Eurex Clearing AG can also change the final settlement prices based on a retrospectively announced correction by the index provider MSCI.

[…]

Part 3 Clearing of Options Contracts

The following provisions shall apply to the Clearing of Options contract transactions specified in Number 2 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland ("**Eurex Contract Specifications**").

[…]

3.4 Clearing of Index Options Contracts

The following provisions shall apply to the Clearing of Index Options contract transactions specified in Number 2.4 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland.

[…]

3.4.3 Final Settlement Price

[…]

(6) With respect to the MSCI Index Options contracts on Price Indices, the closing value of the price index on the last day shall be decisive.

(7) With respect to the MSCI Index Options contracts on Net Total Return Indices, the relevant closing value of the Net Total Return Index on the last day shall be decisive.

[…]

(11) In case of extraordinary circumstances, especially if the trading is interrupted due to technical problems or if a price determination for one or more securities or book-entry securities is not possible for other reasons, Eurex Clearing AG may determine the final settlement price by means of another procedure.

For MSCI Index options contracts, Eurex Clearing AG can also change the final settlement prices based on a retrospectively announced correction by the index provider MSCI.

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