

EUREX Architects of trusted markets



MSCI Dividend Derivatives at Eurex

February 2021

Eurex MSCI Derivatives - an increasingly popular hedging and trading tool

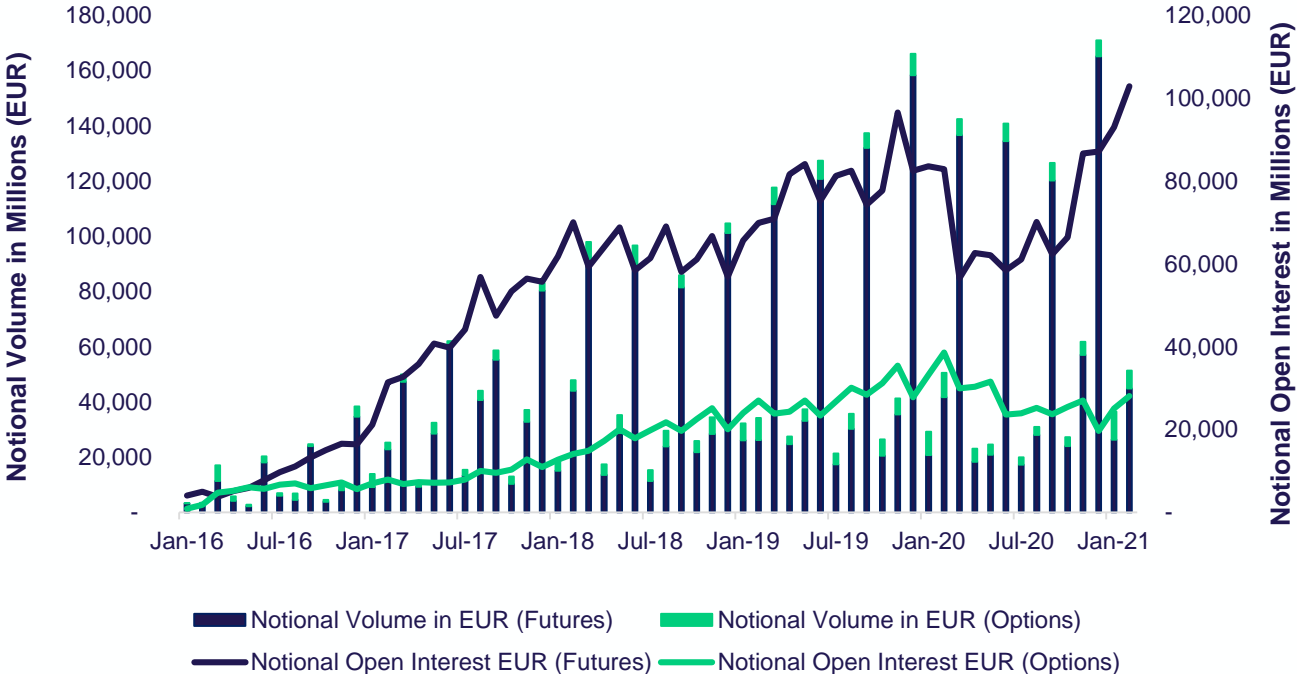
Eurex is **#1** by Open Interest in MSCI Products (51% market share)*

#3 by Volume in MSCI Products (30% market share in Dec 2020)*

Traded volume 2021: 1,742,947 contracts

Open Interest in end Feb 2021: 2.7 million contracts
~ EUR 129.5 billion

Evolution of Notional Volume and Notional Open Interest



Open Interest for top MSCI Products



*Based on statistics from Jan 2020 – Dec 2020 Source: FIA
Open Interest as of Feb 26, 2021

Benefits of Trading Dividend Derivatives

Potential uses & applications of trading listed futures and options

Dividend Derivatives

- Income Protection – allows investors to lock in expected & implied dividends to assure income returns
- Hedging of dividend risk – particularly for structured products and equity options
- Directional views on dividends – trading of house views on earnings and distributions
- Isolation of price return/capital growth on equities
- Dispersion / correlation – trading single stock vs index dividends
- Opportunistic trades
- Curve trading – terms structures / calendar spreads
- Diversification
- Relative value trading – to other asset classes e.g. credit
- Underlying for dividend linked structures

Listed Futures

- No counterparty risk & no documentation required
- More liquidity and transparency comparing to the OTC
- Standardized treatment of corporate actions adjustments
- Underlying index for each contract and maturity to monitor accrued dividend
- Possibility to monitor the history of implied dividends across market events

MSCI Index Dividend Futures

Product Overview

- The MSCI Index Dividend Futures are a traded derivative contracts that focus purely on the dividend element of a widely used and traded equity index. Other dividend index products are standard construction stock indices where the dividend yield is additionally used as a selection criteria
- The MSCI Index Dividend Future contract enables investors to take a view on the gross cumulative cash dividends (i.e. the sum of the individual cash dividends) that are announced and paid by the individual constituents of the respective index during an annual period
- Investors can therefore buy or sell the index dividend futures at the prevailing (i.e. market-implied) level of these dividend payments for the required number of periods to gain the desired exposure to, or to hedge, the dividend stream of the underlying MSCI index
- The dividends declared and paid by each individual constituents of the index during the contract period will be determined solely by MSCI and in accordance with their rulebook
- The futures contract will be cash settled, on the final settlement day (the exchange day immediately following the 3rd Friday of December), based upon the final value of this dividend summation for the annual period, MSCI thus being in effect the calculation agent of the futures contract
- Separate trading of the dividend element of the MSCI index improves risk sharing and increases users ability to focus on the fundamentals that determine equity values, as such equity values and their dividends should be collectively determinable via market tools such as the dividend discount model

Product Concept / Methodology

Aligned to the well-established product specifications on STOXX Indices

- The dividends included for the proposed MSCI Index Dividend Futures would be the ordinary unadjusted gross cash or cash equivalent dividends declared and paid on the individual equity components of the respective index in the contracts specified period. The excluded items will be those which are described or determined as special dividends, extraordinary dividends and return of capital payments etc. as determined under the MSCI rulebook
- The futures contract will be cash settled based upon the actual ordinary gross dividends paid by the individual constituents in the contract period. These individual cash elements will then be reconstituted into index point equivalents to give a comparable trading instrument to the MSCI Equity Index
- MSCI index composition can change over time as a result of corporate actions or with the regular index review which takes place in February, May, August and November
- Changes in the index constituents could have a significant impact if added or deleted constituents have a dividend yield considerably different from that of the rest of the index
- Gross index dividend points will be calculated using price index level of the MSCI Parent Index (divisor)
- The MSCI Dividend Points Indexes methodology is aligned with the MSCI Global Investable Market Indexes methodology, where dividend reinvestment occurs on ex-date. The dividend points will contribute to the MSCI Dividend Points Index levels on the ex-dividend date
- The total dividend value is calculated as the sum of the Dividend Per Share (DPS) multiplied by index shares for all constituents of the Parent Index, which have a dividend going ex on that date

$$GrossIndexDVP_t = \sum \frac{DTRIndexNOS * GrossDividendPerShare_t / FXrate_t}{PriceIndexDevisor_t}$$

Index Calculation

Based on the same DVP approach from STOXX under consideration of MSCI Rulebook

MSCI proposes to calculate the MSCI Dividend Points Indexes as follows:

$$DVP\ Index_0 = 0 \quad \text{and} \quad DVP\ Index_t = DVP\ Index_{t-1} + DVP\ Index_t$$

The MSCI Dividend Points Index is a running total of the index dividend points on the underlying MSCI Parent Index since the previous rebalancing date.

For the dividend points calculation, the exchange rate used is from the ex-date, consistent with the exchange rate used for dividend reinvestment.

Only the dividends reinvested as per the rules noted in the MSCI Index calculation methodology will be eligible for contribution to the daily dividend points for the MSCI Dividend Points Indexes.

The MSCI Dividend Points Index resets to zero periodically to allow for comparisons of dividend payouts from one period to another.

The index divisor for a day t is defined as the ratio of the initial market capitalization and the previous index level:

$$IndexDivisor_t = \frac{IndexInitialMarketCap_t}{IndexLevel_{t-1}}$$

The index divisor does not change unless the index composition changes, e.g., in cases of corporate events and index additions / deletions where a change in index market capitalization is not due to performance and does not correspond to a change in the index level.

Contract Specifications

Specification	Dividend Futures	
Underlying Indices	MSCI EAFE and MSCI World (FFPD, FWPD)	MSCI Emerging Markets (FEFD)
Contract Multiplier	USD 100 per index point	USD 500 per index point
Price Quotation	In index points with one decimal	In index points with two decimals
Minimum Price Change	0.1 index points, i.e. USD 10	0.01 index points, i.e. USD 5
Contract Months	5 years: The five nearest successive <u>annual</u> contracts of the December cycle	
Settlement	Cash settlement, payable on the first exchange day following the Final Settlement Day	
Daily Settlement	Determined from the volume-weighted average of the prices of all transactions during the last minute before 17:30 CET, provided that at least 5 trades have been transacted in that period	
Last Trading Day/ Close of Trading	The last trading day is the 3 rd Friday of December cycle if this is an exchange day at Eurex; otherwise the exchange day immediately preceding that day. Close of trading shall be 22:00 CET	
Final Settlement Day	Final settlement day is the exchange day immediately following the last trading day	
Contract Period	The contract period, for purposes of dividends declared and paid, will be from, but excluding, the <u>3rd Friday of December</u> preceding the maturity month, if this is an exchange day; otherwise from and excluding the exchange day immediately preceding that day, up to and including the <u>3rd Friday of December</u> of the maturity month if this is an exchange day; otherwise up to and including the exchange day immediately preceding that day	
Final Settlement Price	<ul style="list-style-type: none"> Calculation of the Final Settlement Price is based upon the final value of the underlying MSCI Index Dividends as calculated by MSCI for that contract period Final Settlement Price is the summation of the unadjusted ordinary dividends declared and paid in the contract period on the individual constituents of the index and calculated in terms of index points The gross ordinary dividends per share are the unadjusted cash dividends declared and paid on that individual equity constituent of the index. This amount excludes special dividends, extraordinary dividends and return of capital payments etc. as determined under the MSCI rulebook 	
Trading Hours	<ul style="list-style-type: none"> Order book: 08:30 – 22:00 CET Off-book: 08:30 – 22:00 CET 	

Fee Levels

Contract	Currency	Transaction type	Account	Standard fee per contract (contract number ≤ threshold value)	Reduced fee per contract (contract number > threshold value)	Threshold value A-accounts (contract number)
MSCI EM Index Dividend Futures	USD	Order book	A	2.00	n.a.	n.a.
			P	1.80	n.a.	n.a.
			M	1.80	n.a.	n.a.
		Off-book	A	3.00	n.a.	n.a.
			P	2.70	n.a.	n.a.
			M	2.70	n.a.	n.a.
MSCI EAFE Index Dividend Futures, MSCI World Index Dividend Futures	USD	Order book	A	1.40	n.a.	n.a.
			P	1.20	n.a.	n.a.
			M	1.20	n.a.	n.a.
		Off-book	A	2.10	n.a.	n.a.
			P	1.80	n.a.	n.a.
			M	1.80	n.a.	n.a.

Draft Liquidity Provider Scheme

Term of Incentive Scheme: 1 November 2019 – 31 December 2020

Execution type	Building Block	FEFD, FFPD, FWPD		FEFD	FFPD	FWPD			
Order book	Basis	40%	Quotation Time	09:00 – 17:30 CE(S)T					
	Package	40%		Required Coverage	80%				
	Strategy	-			Maturity Range	First three expirations need to be quoted			
	Larger Size	-		Minimum Quote Size		20 contracts on the bid and ask side	50 contracts on the bid and ask side	50 contracts on the bid and ask side	
	Tighter Spread	-				Maximum Spread	3% for expiration 1		
	Stress Presence	-					4% for expiration 2		
	Total	80%		5% for expiration 3					
Eurex EnLight	Basis	-							
	Package	-							
	Strategy	-							
	Total	-							
Off-book	Basis	40%							
	Package	40%							
	Strategy	-							
	Total	80%							

Scheme	Product ID	Basis	Package	Strategy	Larger Size	Tighter Spread	Stress Presence	Eurex EnLight	Revenue Sharing
		BBB	PBB	CBB	LBB	TBB	SBB	EBB	
MSCI Div	All MSCI Index Dividend Futures	✓	✓						

Thank you!

Disclaimer

© Eurex Frankfurt AG 2020

Deutsche Börse AG (“DBAG”), Clearstream Banking AG (“Clearstream”), Eurex Frankfurt AG (“Eurex”), Eurex Clearing AG (“Eurex Clearing”), Eurex Securities Transactions Services GmbH (“Eurex STS”) and Eurex Repo GmbH (“Eurex Repo”) are corporate entities and are registered under German law. Eurex Global Derivatives AG is a corporate entity and is registered under Swiss law. Clearstream Banking S.A. is a corporate entity and is registered under Luxembourg law. Eurex Frankfurt AG is the administrating and operating institution of Eurex Deutschland. Eurex Deutschland is in the following referred to as the “Eurex Exchange”.

All intellectual property, proprietary and other rights and interests in this publication and the subject matter hereof (other than certain trademarks and service marks listed below) are owned by DBAG or its affiliates and subsidiaries or used under authorization by their respective owners, including, without limitation, all patent, registered design, copyright, trademark and service mark rights. While reasonable care has been taken in the preparation of this publication to provide details that are accurate and not misleading at the time of publication DBAG, Clearstream, Eurex, Eurex Clearing, Eurex Repo as well as the Eurex Exchange and their respective subsidiaries, servants and agents (a) do not make any representations or warranties regarding the information contained herein, whether express or implied, including without limitation any implied warranty of merchantability or fitness for a particular purpose or any warranty with respect to the accuracy, correctness, quality, completeness or timeliness of such information, and (b) shall not be responsible or liable for any third party’s use of any information contained herein under any circumstances, including, without limitation, in connection with actual trading or otherwise or for any errors or omissions contained in this publication.

This publication is published for information purposes only and shall not constitute investment advice respectively does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. This publication is not intended for solicitation purposes but only for use as general information. All descriptions, examples and calculations contained in this publication are for illustrative purposes only.

Eurex and Eurex Clearing offer services directly to members of the Eurex Exchange respectively to clearing members of Eurex Clearing. Those who desire to trade any products available on the Eurex market or who desire to offer and sell any such products to others or who desire to possess a clearing license of Eurex Clearing in order to participate in the clearing process provided by Eurex Clearing, should consider legal and regulatory requirements of those jurisdictions relevant to them, as well as the risks associated with such products, before doing so.

Only Eurex derivatives that are CFTC-approved may be traded via direct access in the United States or by United States persons. A complete, up-to-date list of Eurex derivatives that are CFTC-approved is available at: <https://www.eurex.com/ex-en/rules-regs/eurex-derivatives-us>.

In addition, Eurex representatives and participants may familiarize U.S. Qualified Institutional Buyers (QIBs) and broker-dealers with certain eligible Eurex equity options and equity index options pursuant to the terms of the SEC’s

July 1, 2013 Class No-Action Relief. A complete, up-to-date list of Eurex options that are eligible under the SEC Class No-Action Relief is available at: <https://www.eurex.com/ex-en/rules-regs/eurex-derivatives-us/eurex-options-in-the-us-for-eligible-customers>. Lastly, U.S. QIBs and broker-dealers trading on behalf of QIBs may trade certain single-security futures and narrow-based security index futures subject to terms and conditions of the SEC’s Exchange Act Release No. 60,194 (June 30, 2009), 74 Fed. Reg. 32,200 (July 7, 2009) and the CFTC’s Division of Clearing and Intermediary Oversight Advisory Concerning the Offer and Sale of Foreign Security Futures Products to Customers Located in the United States (June 8, 2010).

Trademarks and Service Marks

Buxl®, DAX®, DivDAX®, eb.rexx®, Eurex®, Eurex Repo®, Eurex Strategy WizardSM, Euro GC Pooling®, FDAX®, FWB®, GC Pooling®, GCPI®, MDAX®, ODAX®, SDAX®, TecDAX®, USD GC Pooling®, VDAX®, VDAX-NEW® and Xetra® are registered trademarks of DBAG or its affiliates and subsidiaries. All MSCI indexes are service marks and the exclusive property of MSCI Barra. ATX®, ATX® five, CECE® and RDX® are registered trademarks of Vienna Stock Exchange AG. IPD® UK Quarterly Indexes are registered trademarks of Investment Property Databank Ltd. IPD and have been licensed for the use by Eurex for derivatives. SLI®, SMI® and SMIM® are registered trademarks of SIX Swiss Exchange AG. The STOXX® indexes, the data included therein and the trademarks used in the index names are the intellectual property of STOXX Limited and/or its licensors. Eurex derivatives based on the STOXX® indexes are in no way sponsored, endorsed, sold or promoted by STOXX and its licensors and neither STOXX nor its licensors shall have any liability with respect thereto. PCS® and Property Claim Services® are registered trademarks of ISO Services, Inc. Korea Exchange, KRX, KOSPI and KOSPI 200 are registered trademarks of Korea Exchange Inc. The names of other companies and third party products may be trademarks or service marks of their respective owners.

Eurex Deutschland qualifies as manufacturer of packaged retail and insurance-based investment products (PRIIPs) under Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation), and provides key information documents (KIDs) covering PRIIPs traded on Eurex Deutschland on its website under the following link: <https://www.eurex.com/ex-en/rules-regs/priips-kids>.

In addition, according to Art. 14(1) PRIIPs Regulation the person advising on, or selling, a PRIIP shall provide the KID to retail investors free of charge.