EUREX Architects of trusted markets

Funding & Futurization: Shaping the next era of market innovation

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A special thanks to the speakers who joined Eurex's recent "Focus Day Funding & Futurization" webcast:

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Lorenzo Longo Portfolio Manager, Kedalion Capital

Pierre Trecourt Co-founder, Premialab

Nicky Parsons Director, Head of Product – Fixed Income Prime Brokerage EMEA, Société Générale

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Foreword

Demand for market-based financing is surging across Europe, driven by shrinking excess liquidity and reductions in Central Bank balance sheets. For our clients, this increases the demand for trading financing instruments within a transparent, listed, and centrally cleared environment.

Over the past decade, Eurex has played a key role in developing listed and centrally cleared products that offer futurized alternatives to OTC financing instruments. A central principle of our approach to this market is that financing instruments do not exist in isolation. Whether in fixed income or equities, products such as repos, derivatives and total return futures (TRFs) operate together as part of a wider ecosystem.

Eurex's strategy is to bring these interlinked components into a single clearing and trading infrastructure, enabling margin, capital and operational efficiencies for both dealers and their clients. At the same time, as we develop access models and functionality to help firms clear their repo trades, we are also launching more futurized versions of OTC products, following the success of our suite of TRFs, Basket TRFs and dividend futures.

Our latest product, the Quantitative Investment Strategies Index Futures, is designed to reflect the growing demand for more bespoke, alpha-seeking investment structures that combine indices, baskets, ETFs, cash underlyings and OTC derivatives.

We look forward to continuing to work with our clients to further expand repo, TRFs and related instruments to ensure market participants can access scalable, margin and capital efficient financing solutions.

Matthias Graulich
Member of the Executive Board, Eurex

Repo markets: Clearing, resilience and the path to T+0

Following a long period of ultra-low interest rates and central bank liquidity support, demand for financing products has risen sharply over the past three years. This increased demand is driving interest in repo and funding markets. At Eurex's Funding and Futurization Focus Day, a panel discussed how market dynamics were driving demand and why cleared repo is increasingly important in today's market.

The return of higher interest rates in the wake of the post-COVID inflationary environment has fundamentally changed liquidity demands in the financing market. As central banks reduce excess reserves and banks face tighter balance-sheet constraints, the repo market has once again become a central funding channel.

Matthias Graulich, Member of the Executive Board, at Eurex, said: "As excess liquidity has been withdrawn from the system and interest rates have moved, there has been an increasing demand and supply for market-driven funding."

"Cash investors increasingly recognize the value of secured funding markets, with repo offering attractive returns relative to alternatives. At the same time, banks are actively returning to the market to source funding because repo rates remain favorable when compared to central bank facilities."

Repo clearing is gaining traction

Repo clearing is also becoming an increasingly important trend in the market as firms seek balance-sheet efficiency, transparency and resilience in funding markets. The buy-side wants greater access to cleared markets in Europe, but faces some challenges in accessing the market today.

Michael Jahn, Director, Business Strategy Funding & Financing Products & Markets, Eurex, acknowledged that there were some barriers to wider buy-side adoption in Europe but said that this was beginning to change.

"At Eurex, we have had buy-side access models live now for a number of years. We are firmly of the view that direct access for the buy-side is the way forward in Europe," he said.

"But, the buy-side is diverse – a pension fund has very different requirements than a hedge fund. That is why we are always looking to enhance our models to ensure we can provide the best option for different types of buy-side firms."

Eurex offers several models for buy-side access to repo clearing, including the Select Invest model, which allows clients to access the GC Pooling market with no margin or default fund requirements. For firms with more complex requirements, Eurex offers the Select Finance model, which

> **"Eurex promotes direct buy-side access, tailoring models to diverse needs across investor types**

Michael Jahn
Director, Business Strategy Funding & Financing Products & Markets, Eurex

“I think the US mandate will certainly encourage more firms to clear repo in Europe.

Nicky Parsons
Director, Head of Product Fixed Income Prime Brokerage EMEA, Société Générale

allows them to access the market via a sponsor bank acting as the clearing agent.

Ultimately, to facilitate greater access to repo clearing in Europe, there needs to be wider adoption of the FCM framework used in cleared derivatives, alongside the direct access models. But to achieve that, changes are needed in certain elements of the model – such as a review of the accounting framework for how trades will be reported on the banks’ balance sheets.

Will the US clearing mandate be a catalyst for Europe?

In the US, the Securities and Exchange Commission is in the process of implementing a clearing mandate for repo and treasury trades. There is currently no indication that EU lawmakers will follow suit, but many expect that the US mandate will ultimately drive more clearing activity in Europe, with or without a mandate.

Graulich said that he expects this to take some time as the market is currently focused on US repo clearing, which will inevitably slow adoption in Europe in the short term. However, this development will increase readiness and acceptance of cleared repo in general and ultimately drive activity in Europe into a cleared environment.

Nicky Parsons, Director, Head of Product Fixed Income Prime Brokerage EMEA, Société Générale, agreed: “The US mandate has slowed the growth of the buy side actual go-live in Europe. There is a hard deadline in the US, so the focus and the investment is needed to be in that market currently.”

“But further down the line, I think the US mandate will certainly encourage more firms to clear repo in Europe. Firms that have onboarded in the US will understand the benefits of clearing and the operational infrastructure that is required.”

T+1 and the path to T+0

Another major change to European market structure is the move to T+1 settlement. This transition represents a significant operational challenge for repo, but one that will result in a more resilient market.

Parsons highlighted the fact that settlement risk and operational pressure will increase sharply as timelines compress. He contrasted today’s processes with the past, where firms had more time to fix allocation or settlement mismatches.

He stressed that technology and automation are critical, especially standardized affirmation and straight-through processing. Automation is the key to maintaining stability in a compressed settlement cycle.

While the exemption for repo offers some flexibility, the move to faster settlement will force funding desks and operations teams to modernize infrastructure, streamline trade matching and rethink intraday liquidity management ahead of the transition in Europe.

Challenges and opportunities ahead for Europe’s financing markets

April’s volatility served as a real-time stress test for global capital markets. The repo market performed well during that volatility. Despite sharp swings in rates and a surge in demand for collateral, the market remained orderly.

Yet, while the system performed well under pressure – testament to lessons learned from previous shocks - the path ahead for repo markets in Europe presents some challenges.

The demand for funding is likely to continue to increase as bank balance sheets continue to tighten. At the same time, the market structure is shifting to T+1, and the move to greater clearing will present operational challenges for firms preparing for the changes.

The continued resilience of the repo market will depend in part on how effectively Europe modernizes its post-trade infrastructure, aligns with global clearing reforms and invests in automation ahead of T+1.

Total Return Futures: Gaining adoption and increased use cases

The continued trend towards futurization in listed derivatives is leading to greater uptake in trading in Total Return Futures (TRFs). Initially launched in 2016, TRFs have become a vital tool for investors looking to gain access to synthetic funding in a balance sheet efficient way.

TRFs are designed to replicate the economics of total return swaps in a futures contract. Initially used predominantly to hedge implied repo exposures arising from structured products, TRFs have since expanded into a core financing and risk-management tool in equity markets.

As demand has grown, the investor base has broadened beyond structured product desks to include hedge funds seeking directional and relative-value exposures. In addition, they have seen uptake among asset managers aiming to capture financing premia or hedge funding risks.

Natasha Sibley, Portfolio Manager at Janus Henderson Investors, said: "When the TRF listed at the end of 2016, it allowed us to take a focused view on repo, but in a way that enabled competitive pricing on both sides of the trade with margin efficiency."

Basket TRFs and financing efficiency

One of the most significant developments in the growth of the TRF market on Eurex has been the introduction of basket TRFs (BTRFs). BTRFs allow an investor to gain exposure to customized equity baskets of TRFs.

The launch of BTRFs provided a listed route for synthetic financing that closely mirrors OTC swaps, offering standardization and margin efficiencies without sacrificing flexibility. For banks, this ability to clear financing exposures and net risk across product sets has been a major factor in the uptake of BTRFs.

The BTRFs were the first listed product in the funding market that provided a cleared instrument tailored to the interbank market. Historically, banks would have used instruments such as single stock futures, but these came with inherent dividend risk, which reduced usage.

A standardized listed product, which offers a mechanism for substitutions, is something the funding market has lacked for many years. The BTRFs allow banks to consolidate their funding business alongside futures and options, which reduces overall risk and margin requirements.

Evolving use cases

TRF usage has changed significantly since its launch in 2016. Historically, structured product hedging drove long-dated demand, steepening the term structure. More recently, hedge funds have become more prominent, using TRFs to express funding views, trade curve dislocations, and position around dividend expectations.

Regional preferences have also shifted. While the S&P 500 TRF market has grown rapidly, European markets retain key advantages in liquidity, bid-offer spreads, and the maturity of the products and infrastructure. Today, Europe remains the preferred venue for directional funding trades, while the US is attracting increasing interest for relative-value and diversification strategies.

“ We see opportunities in TRFs, swaptions, and cleared listed alternatives to OTC strategies.

Stuart Heath
Director, Products & Markets, Eurex

Additionally, non-bank liquidity providers and asset owners are beginning to participate more actively, supplying liquidity and capturing arbitrage opportunities.

Managing operational and pricing complexity

TRFs and BTRFs pose some complexities to firms that are integrating them into their workflows. For BTRFs, banks must build capabilities to handle substitution rights, dividend reinvestment mechanics and clearing flows.

Stuart Heath, Director, Products & Markets at Eurex, said: “At the clearing level, banks need to incorporate the basket IDs as a new matching field and reconcile that versus their bookings. The second challenge is on the modelling side, where many banks struggle to value term products like this, which have inherent substitution rights.”

For buy-side users, TRFs are not perfectly delta-neutral, requiring adjustments when combining different maturities or constructing relative-value positions. Exchanges are responding by introducing advanced trading functionality to support more automated hedging and other functionalities that ease onboarding and usage.

Future growth

Eurex has ambitious plans to expand futurization into new asset classes and product formats. Future developments may include swaptions on TRFs, multi-asset QIS futures and expanding TRFs into new regions, for example, including US underlyings.

Heath said: “For TRFs specifically, we would look at following the path of dividend products and look at swaptions. More generally, we see opportunity in the introduction of cleared listed alternatives for strategies currently distributed in OTC swap or structured note format, such as QIS indices.”

“The significant growth of the QIS market should offer opportunities in allowing both futures and options to act as an access opportunity to facilitate the market’s own innovation in strategy design.”

“All this growth has to be financed – so we also have to look at opportunities here, such as BTRF/ETRF on US underlying equities – where the size of the market, even just based on European participants, simply cannot be ignored.”

Futurizing quant strategies: Eurex's QIS Index Futures explained

Q&A with Pierre Trecourt of Premialab and Eurex's Elena Marchidann on the upcoming launch of QIS Index Futures

Quantitative Investment Strategies (QIS) have been among the fastest-growing trends among the buy side, offering transparent, rule-based access to thematic and factor-based exposures. Traditionally traded in the over-the-counter market via swaps and structured products, QIS are now being brought into the listed environment with Eurex's upcoming launch of QIS Index Futures.

At the Eurex Funding and Futurization Focus Day, Pierre Trecourt, Co-founder at Premialab – which provides the underlying data for the QIS Index Futures – and Elena Marchidann, Global Product Lead – Total Return Derivatives at Eurex, discussed the evolution of the QIS market, the drivers behind the futures launch and what they mean for banks and institutional investors.

What are QIS and what strategies do banks deploy today?

Pierre Trecourt: Quantitative Investment Strategies are rule-based, transparent investment indices – typically designed by banks to provide systematic exposure to style premia such as carry, momentum, and volatility across asset classes. They help institutional investors capture diversified and risk-managed returns within a cost-efficient framework. The most common strategy types include volatility, carry, trend or momentum, as well as multi-factor strategies.

Where are you seeing the strongest growth and main trends in QIS today?

Pierre Trecourt: Firstly, we are seeing a widening of the client base as systematic investing continues to grow in adoption. We have also seen a surge in demand for long volatility and defensive strategies as investors look for protection amid rising uncertainty around equity valuations. At the same time, there has been growing interest in short volatility and commodity indices as a means of achieving systematic diversification. Banks are also expanding their thematic QIS offerings

> “ QIS growth is driven by broader adoption, volatility strategies, commodity indices, and customized thematic offerings.

Pierre Trecourt
Co-founder, Premialab

to include exposures such as defensive factors, regional tilts, and ESG-linked themes, highlighting the growing customization of systematic offerings.

Eurex has been at the forefront of innovation in listed derivatives. Can you outline the background to the new QIS Index Futures?

Elena Marchidann: Eurex has a long history of futurization, having pioneered successful products such as dividend futures and total return futures. Our new QIS Index Futures continue our strategy of offering standardized, listed alternatives for buy-side clients who do not trade swaps or prefer to trade listed products. Traditionally, our futurization launches have focused on dealer-to-dealer products, but the new QIS futures are aimed at dealer-to-client trades. We hope they will not only foster growth in the overall QIS ecosystem but also enable dealers to manage their hedges more efficiently.

What drove the decision to list QIS futures, and how do they work?

Elena Marchidann: The decision was based on demand from market participants, particularly banks, but also the buy side. Effectively, the products allow our members to innovate and capture market trends via bespoke strategies. The products mean that we can provide an additional distribution channel via a listed futures wrapper. The first products are very similar to regular index futures. We will start with two factor indices and one thematic index based on long-only European equity strategies, with two quarterly expiries. The target audience for the products includes hedge funds, asset managers, pension funds and sovereign wealth funds. These institutions require high execution and product transparency and often have constraints around the instruments they can trade.

What are the main use cases for QIS Index Futures?

Pierre Trecourt: The QIS Index Futures have different use cases for different company types. Asset managers use them to efficiently implement systematic and thematic exposures, such as ESG or factor-based strategies, through a simple product that adds or reduces risk exposures. Pension funds and sovereign wealth funds can use them to allocate to diversified, uncorrelated returns using futures to reduce bilateral risks and governance friction associated with ISDAs and OTC structures. Hedge funds, meanwhile, can benefit from trading liquid, centrally cleared instruments for better financing conditions and margin offsets across Eurex-cleared equity products.

What are the key features of the new Eurex framework, and how can the buy-side use it to develop their own strategies?

Elena Marchidann: We have created a more agile listing framework that allows us to scale the QIS offering efficiently. The offering is centered around the connectivity to Premialab, which acts as a consolidated data source for all listed QIS strategies. This brings greater operational efficiency and reduced time-to-market. Our risk management approach includes clear eligibility criteria and compliance with the EU's Benchmark Regulation to give predictability to banks interested in creating new strategies for QIS Futures.

We have also introduced the concept of the Sponsor Trading Participant, which is responsible for providing liquidity to QIS futures and supporting both product design and client distribution strategies. While the first strategies to be listed will come from sell-side banks, we have already received interest from buy-side clients looking to create their own indices. Buy-side clients would need to partner with a registered sponsor participant to have their strategies endorsed and listed on Eurex.

“ Eurex plans phased QIS Index Futures growth, expanding from bank indices to global, cross-asset strategies.

Elena Marchidann
Global Product Lead – Total Return Derivatives, Eurex

What is innovative about the partnership between Premialab and Eurex for launching these futures?

Pierre Trecourt: The combination of Eurex’s trading and clearing capabilities with our data and analytics creates a truly special platform. It provides an open, flexible, and scalable structure that combines operational efficiency and faster time-to-market for QIS Futures.

What are the main benefits of trading QIS futures?

Elena Marchidann: The futures offer a bank-to-client distribution to investors who do not trade OTC swaps or prefer listed products. A major benefit is the margin and clearing efficiency offered by portfolio margining using the Prisma system. This reduces balance sheet costs and mitigates counterparty risk inherent in OTC swaps. The listed wrapper is simple and familiar to clients. The QIS Futures don’t need a special set-up in the back office and so they are easily scalable. The new products will also be available via Bloomberg and Refinitiv, which will facilitate price and volume transparency.

Finally, what are your growth plans for QIS Index Futures?

Elena Marchidann: The first phase will focus on indices created by sell-side banks, but we aim to expand participation to buy-side clients interested in developing their own strategies. We are starting with two banks for the initial launch and are already working with additional providers to bring them to the market. Beyond that, we are carefully considering the index criteria – the constituents and weightings – so that they look and feel like other products. In subsequent phases, we are planning to expand to a global universe of equities, long/short indices that replicate relative-value strategies and other types of constituents such as derivatives and ETFs. Ultimately, our long-term ambition is to expand into cross-asset products, such as credit, FX and cash-settled commodities.

Pierre Trecourt: We share the same vision as Eurex on innovation, with a clear focus on transparency and efficiency. The introduction of long/short products is very exciting. We also see the potential for end investors to drive product innovation by partnering with banks to create futures that match their specific constraints and investment objectives.

Dividend derivatives: Innovation and US expansion

Dividend derivatives were first launched by Eurex in 2008 and have grown into an extensive and liquid ecosystem. As the liquidity has deepened, the investor base has grown along with use cases for the products. At the recent Eurex Funding and Futurization Focus Day, a panel explored how the landscape for dividend derivatives had changed over the past five years and the potential for future growth.

Starting with the launch of the EURO STOXX 50® dividend future, Eurex now offers dividend futures across a range of underlyings, boasting 19 index dividend futures and more than 300 single-stock dividend futures across different currencies. The exchange also introduced dividend options and recently launched mid-curve options.

Lorena Dishnica, Global Product Lead Dividend Derivatives at Eurex, said: “Listed dividend derivatives have been around now for 17 years and Eurex has established itself as a leading venue for the products globally.”

The launch of mid-curve options reflects the growing maturity of the market. Dishnica said that Eurex has seen growing volumes in options for the past three years, and the growing volume and open interest is bringing new ways to manage risk and take positions on dividend expectations.

“We are seeing more and more usage of put spreads, collars and other defensive structures allowing downside protection, which is a key theme considering the ongoing macro uncertainty in the market,” she added.

The mid-curve options provide a valuable tool for multiple use cases across a wide investor base, accounting for the 400,000 contracts traded this year and €2 billion in open interest.

Growth in the US

While Europe leads the market for dividend derivatives, demand in the US is growing rapidly, driven by increased issuance in US structured products. There has been a massive boom in US structured product issuance. In 2019, around $50 billion was issued; that figure has now risen to over $200 billion. This has created significant dividend exposure in the US that didn't exist before.

“ Eurex leads listed dividend derivatives globally, with rising use of defensive option strategies amid uncertainty.

Lorena Dishnica
Global Product Lead Dividend Derivatives, Eurex

The growth in the US is also being driven by factors unique to the market. The dividend curve in the US, which historically was upward sloping, has flattened even though investors remain bullish due to strong cash flows and buybacks.

This has been driven by lower dividend payments from technology firms, which dampens down aggregate dividend expectations and flattens the curve. However, the large cash flows these firms are generating is creating expectations that dividends will rise – creating opportunities for options trading to capitalize on higher-than-expected future payments.

Europe shifts to options

Futures growth contrasts with declining European dividend futures exposure, largely due to reduced structured product issuance. This decline has been partially offset by rising demand for sector-specific products, driven by strong dividend growth from banks since COVID. During the pandemic's initial outbreak, dividend payments were unexpectedly canceled after being announced, creating significant market stress. This highlighted dividend risk for investors and attracted more participants to the market.

Lorenzo Longo, Portfolio Manager at Kedalion Capital, said that the experience also changed the structure of the market and started some of the key trends we have seen over the past five years.

These trends include a reduction in the risk appetite that banks have in the dividend market and the subsequent increase in the buy-side's willingness to take on risk.

"There was always a market to transfer the risk, and some of it was ending up in buy-side portfolios," he said. "But since COVID, there has been a reduction in the ability of banks to warehouse the risk.

"This risk is being taken on increasingly by firms like multi-strategy hedge funds. These firms tend to operate with strict stop limits and a clear preference for limited-loss structures. That is one reason why options have seen such growth."

Mid-curve volumes driven by market nuances

Another area of growth in the dividend derivatives market has been in dividend swaptions, or mid-curve options, as the listed products are known. Mid-curve options allow investors to trade both the path and volatility of dividends rather than just overall dividend levels.

Vincent Daudeville, Equity Derivatives Trader at BNP Paribas, highlighted the growth of swaptions and mid-curve options trading. "Because dividend products represent the average payoff through the year, swaptions allow traders to be long over the earning season in February and March and short when there is lower activity in terms of dividend announcements," he said.

"There is also a relative value trade across the volatility on the dividend and the volatility of the underlying index."

This, and the fact that mid-curve options can be used to hedge convexity risk, are some of the drivers of growth in the products on Eurex. Mid-curve options allow investors to trade the path of dividends in the near terms. They also enable trading of the implied volatility spreads between the mid-curves and the more vanilla options.

“Banks increasingly use mid-curves for risk management, while buy-side favors short-duration positions.

Lorenzo Longo
Portfolio Manager, Kedalion Capital

From the buy-side perspective, Longo said that mid-curves have become an essential risk-transfer tool between banks and the buy side.

“We see banks increasingly using mid-curves as a way to manage the risk delivery that they have for structured products that they typically would have used more exotic products for. For the buy side, taking the other side of a relatively short duration product is attractive,” he said.

Looking ahead

The dividend derivatives market has been among the most innovative segments of futures and options. However, there is always room for more growth and innovation.

Areas for future development include new methodologies that better reflect index composition and the outside role that some sectors, such as finance, currently play in overall dividend payouts across constituents of an index like the EURO STOXX 50®.

Another key growth area for Eurex is in developing more US single-stock and sector-related products, as well as the launch of mid-curve products on US indices.

Dishnica said: “Eurex has been the innovative exchange in dividends. With CFTC approval, we can now engage more US institutions, educate the market and bring dividends closer to more global participants.”

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