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## Equity Index Dividend Derivatives

# Index Dividend Futures – Riding out Highs and Lows

eurex



## Making Dividends Tradable

Anyone trading equity index derivatives only knows too well how strong an impact the constituents' cumulative dividend payouts can exert on the overall performance of that index, and hence on prices of related derivatives. Not only can the dividend component distort the fundamentals of the companies included in the index, but – in addition to pure share price performance – it also represents a big unknown factor when trading the index. To isolate the dividend cash flow and make it tradable, market participants have increasingly engaged in dividend swaps in recent years. Around EUR 1 billion worth of index dividend swaps are reportedly changing hands each day in the over-the-counter market, either to hedge dividend exposure or to benefit from arbitrage opportunities related to dividend performance.

## Futures Contracts on the Dividends of the Major European Index Constituents

With Eurex's futures contracts, we offer you exchange-listed derivatives based upon the dividends of the leading European index constituents, thus creating an important supplement to the existing over-the-counter offering. Thanks to their standardized product features, you will benefit from the best possible valuation and maximum risk transparency, low trading fees, as well as the usual clearing and settlement advantages inherent to all our products: fast processing at low cost, plus the mitigation of counterparty risks.

## Special Contract Design Provides Enhanced Reliability of Pricing

The calculation of dividend swaps – typically traded on a bilateral basis – has so far lacked a standard reference price. This has led to discussions as to which of the payments made by a company to its shareholders should actually be considered. Our equity index dividend futures, however, are based on the calculations performed by the respective index providers themselves: Their proprietary method clearly defines that all ordinary gross dividends will be taken into account, whereas special dividends, return of capital payments, or similar distributions are excluded to the extent that adjustments are made to the underlying index. Where for example STOXX Ltd. has adjusted the Dow Jones EURO STOXX 50® Index for only part of a gross dividend, the unadjusted part will be incorporated into the final settlement value. When calculating, STOXX Ltd. uses a methodology where each of the dividend amounts is translated into index dividend points, using the following formula:

$$\sum_{C_1}^{C_n} \frac{\text{Dividends} \times \text{FF}}{\text{Divisor}}$$

where  
 $C_1$ - $C_n$  Dow Jones EURO STOXX 50® Index constituents  
 Dividends Gross ordinary cash dividends per share during the reference period  
 FF Number of free float adjusted shares  
 Divisor Official Dow Jones EURO STOXX 50® Index divisor

Thus for the Dow Jones EURO STOXX 50® Index Dividend Futures the Final Settlement Price at contract maturity is equivalent to the cumulative gross dividends distributed by the Dow Jones EURO STOXX 50® Index constituents over the contract period. Eurex equity index dividend futures are based on a period of one year (reflecting the annual characteristics of ordinary dividend flows), maturing on the third Friday in December in line with our established equity index futures.

## The Underlying Indexes: Structure and Composition

Launched in 1997, the Dow Jones EURO STOXX 50® Index has quickly evolved to become the most heavily traded blue chip index in the Eurozone. The benchmark index comprises the 50 most important Eurozone blue chip stocks. The Dow Jones EURO STOXX® Select Dividend 30 Index comprises the 30 constituents from the blue chip index Dow Jones EURO STOXX 50® offering the highest dividend yield relative to their respective home market.

The DAX® (Kursindex) is the price index version of the heavily traded German benchmark DAX® which in contrast to some other major equity indexes is performance based – the price index is the relevant version for index dividend points. The DivDAX® was introduced in March 2005 and contains the 15 companies from the DAX® with the highest dividend yield.

The blue chip index SMI® is the most significant equity index in Switzerland. It comprises 20 of the largest Swiss stocks and represents about 85 percent of the total capitalization of the Swiss equity market.

## Wholesale Functions Provide Risk Minimization and Cost Efficiencies

Naturally, the new equity index dividend futures can also be traded outside the Exchange order book, through our user-friendly OTC Block Trade facility. When it comes to the settlement of your futures transactions, you will benefit from all advantages that are otherwise only offered within the scope of exchange trading: cost-efficient straight-through processing, along with counterparty risk mitigation since Eurex Clearing assumes the role of central counterparty. The minimum block trade size is one contract.

## Equity Index Dividend Futures: Contract Specifications

Contract	Dow Jones EURO STOXX 50® Index Dividend Futures	Dow Jones EURO STOXX® Select Dividend 30 Index Dividend Futures	DAX® Price Index Dividend Futures	DivDAX® Dividend Futures	SMI® Dividend Futures
<b>Underlying</b>	Dow Jones EURO STOXX 50® DVP	Dow Jones EURO STOXX® Select Dividend 30 DVP	DAX® Dividend Points	DivDAX® Dividend Points	SMI® Dividend Points
<b>Index Provider</b>	STOXX Ltd.	STOXX Ltd.	Deutsche Börse AG	Deutsche Börse AG	SIX Swiss Exchange AG
<b>Product ID</b>	FEXD	FD3D	FDXD	FDVD	FSMD
<b>Vendor Codes Bloomberg</b>	DEDZ8 Index	DSDA	DKRA	DVDA	SMDA
<b>Vendor Codes Thomson Reuters</b>	<0#FEXD:>	<0#FD3D:>	<0#FDXD:>	<0#FDVD:>	<0#FSMD:>
<b>Contract Value</b>	EUR 100 per index dividend point	EUR 100 per index dividend point	EUR 100 per index dividend point	EUR 1,000 per index dividend point	CHF 100 per index dividend point
<b>Price Quotation</b>	In points, with one decimal place	In points, with one decimal place	In points, with one decimal place	In points, with two decimal places	In points, with one decimal place
<b>Minimum Price Change</b>	0.1 points, equivalent to a value of EUR 10	0.1 points, equivalent to a value of EUR 10	0.1 points, equivalent to a value of EUR 10	0.01 points, equivalent to a value of EUR 10	0.1 points, equivalent to a value of CHF 10
<b>Settlement</b>	Cash settlement payable on the first exchange day following the Final Settlement Day.				
<b>Contract Months</b>	The ten nearest successive annual months of the December cycle	The five nearest successive annual months of the December cycle	The five nearest successive annual months of the December cycle	The five nearest successive annual months of the December cycle	The five nearest successive annual months of the December cycle
<b>Last Trading Day</b>	The third Friday of each maturity month, if this is an exchange day; otherwise, the exchange day immediately preceding that day.				
<b>Trading Hours</b>	08:30–22:00 CET (12:00 CET on the Last Trading Day)	08:30–18:30 CET (12:00 CET on the Last Trading Day)	08:30–18:30 CET (12:00 CET on the Last Trading Day)	08:30–18:30 CET (12:00 CET on the Last Trading Day)	08:30–17:27 CET (09:00 CET on the Last Trading Day)