

Fixed Income ETF Options

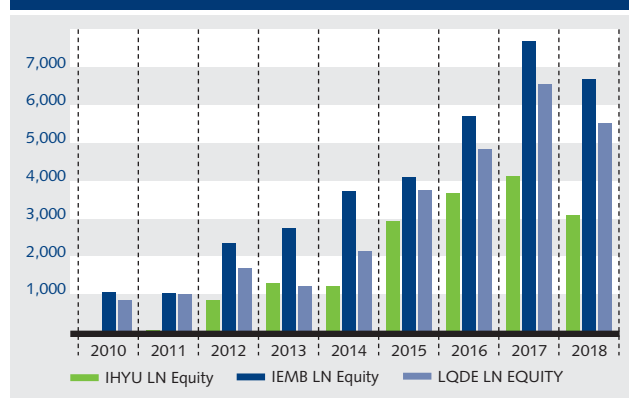
Fixed income ETFs were first launched in 2002 and were primarily used by asset managers, wealth managers and individual investors. During the financial crisis, market stress and challenging OTC bond markets saw institutional investors begin to invest in fixed income ETFs. Since then, the range of fixed income ETFs has broadened significantly and institutional investors increasingly use them. Today, the fixed income ETF industry has over USD 1 trillion in assets under management across a wide range of investors.

A liquid alternative

The European listed ETFs on iShares Core EUR Corporate Bond UCITS ETF and iShare EUR High Yield Corporate Bond UCITS ETF have experienced sustained growth in both assets and daily trading volumes in the past years. In 2019, AUM have exceeded EUR 4bn in IHYG, reaching EUR 8.7bn in July 2019, and EUR 7bn in IEAC, reaching EUR 12.8bn in October 2019. The most traded ETFs in Europe are the IEMB, IEAC and IHYG; Eurex offers options on all three.

- Allow investors to hedge and manage their exposure to the fixed income, corporate and high yield bond markets
- Manage volatility in portfolios using a tool that is more representative of the cash bond market
- Access to Fixed Income ETF Options for European investors unable to trade listed ETF Options in the US.

Average assets under management (in millions)



Investors that have already embraced portfolio trades are now utilizing ETFs and ETF Options instead of CDS swaps and futures. ETFs can also be used to replicate the exposure of total return swaps, and to hedge their debt holdings using exchange-listed and centrally-cleared ETF Options rather than OTC credit default swaps.

Eurex Fixed Income ETF Options

Key benefits

Volatility trading

Fixed income ETF options allow for trading volatility on fixed income ETFs.

Managing exposure

Allows investors to gain leveraged ETF exposure, hedge exposure to the index, and synthetically short the ETF.

Optimized portfolio management

Enables flexible management of interest rate beta as a portfolio overlay.

European access

Opens access to fixed income ETF options for investors looking for UCITS compliant products.

Block Trade Service

Fixed Income ETF options trades can be agreed bilaterally, and subsequently registered via the Eurex Trade Entry Services (TES). This allows investors to combine the flexibility of customized trading with the advantages of standardized clearing and settlement. For the Eurex Block Trade Service, the transactions are subject to a minimum block trade threshold of 100 lots.

Contract specifications

Attribute	USD	EUR
Underlying	iShares USD High Yield Corporate Bond ETF iShares J.P. Morgan USD Emerging Market Bond ETF iShares USD Corporate Bond ETF	iShares Core EUR Corporate Bond ETF iShares EUR High Yield Corporate Bond ETF
Currency	USD	EUR
Contract months	The next 13 consecutive months, plus January and December expirations for the following two years. When the August contract expires, a January expiration for a fourth year becomes available. When the September contract expires, a December expiration for a fourth year becomes available.	The next three consecutive calendar months are available, and the next three succeeding quarterly expiration days (March, June, September, December) thereafter.
Last trading day (option expiration day)	Third Friday of expiration month	
Final settlement day	Physical delivery. Settlement in t+2 business days after the last trading day	
Exercise (prices)	American-style , with exercise price intervals of 0.5 index points for the first three monthly contracts, and 1.0 index points for the back months, with at least 7 exercise prices available for each term for each call and put	European-style , with exercise price intervals of 0.5 index points
Daily settlement price	Determined by Eurex based on the Cox/Ross/Rubinstein model	
Contract size	100 index fund units	
Minimum tick	0.01	
Trading hours	Order book: 09:00–17:30 CET Off-book: 09:00–19:00 CET (EurexT7 Trade Entry Services)	
Market making	09:00–17:30 CET	
Block trading	Allowed. Block trade minimum size: 100 lots	
Fees	Order book: USD 0.30 Off-book: USD 0.40	Order book: EUR 0.30 Off-book: EUR 0.40

Eurex product

Eurex product code	Underlying	Name	Bloomberg code
OHYU	IHYU LN	Options on iShares USD High Yield Corporate Bond ETF	IHYU LN OMON <Equity>
OEMB	IEMB LN	Options on iShares J.P. Morgan USD Emerging Market Bond ETF	IEMB LN OMON <Equity>
OQDE	LQDE LN	Options on iShares USD Corporate Bond ETF	LQDE LN OMON <Equity>
OEAC	IEAC LN	Options on iShares Core EUR Corporate Bond ETF	IEAC LN OMON <Equity>
OHYG	IHYG LN	Options on iShares EUR High Yield Corporate Bond ETF	IHYG LN OMON <Equity>

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