## Index

Algorithmic trading, 13 Allsopp Report, 16, 34, 173–175, 182–184, 210 American Bankers Association routing number (ABA), 13–15	Binary options, 35, 65–70, 76, 129, 354, 361 numerical example of, 66–67 one-touch options, 67 one touch options, numerical example, 67–69
American exercise models, 51–52 binomial model, 51 Barone-Adesi and Whaley, 51–52 numerical techniques, 52	Black-Scholes-Merton model, 35, 39–50, 52, 74 delta, 41–42 delta, graphs, 46–47
American quotation, 5	delta, numerical example, 42
Angell report, 16, 34, 175, 183, 209	gamma, 42
Anti-money laundering (AML), 284 Association Cambiste Internationale	gamma, graphs, 47–48 ganma, numerical example, 42
(ACI), 17	rumerical example of, 40–41
Australasia time zone, 6	portfolios of options, 50
Automatic stay (bankruptcy), 232–233	portfolios of options, numerical example, 50–51
Bank for International Settlements (BIS),	rho, 44
16, 35, 81, 88–89, 173–174, 182–184,	rho, numerical example, 45
189, 388	theta, 43
core principles of, 185–186	theta, graphs, 48-49
Triennial Central Bank Survey, 7–11, 15,	theta, numerical example, 43
34, 160, 388	vanna, 44
Bank identification scheme:	vega, 43
ABA/routing Numbers, 14–15	vega, numerical example, 44
IBAN, 14	vega, graphs, 49–50
Bankers Trust International Plc. v. PT	volga, 44
Dharmala Sakti Sejahtera, 219	Black, Fischer, 39, 78
Barings Crisis, 173	Bodurtha and Courtadon model, 51
Barone-Adesi G., 51–52, 78	Bodurtha, J.N., 51, 78
Barrier determination agency, 69–70	Bretton Woods, xi, 11, 22, 171–172
Barrier options, 58–65, 75–79, 159	Brosseau, Devin, xv
double-barrier straddles, 62, 77–78	Business day conventions, 20
double knock-in option, numerical example of, 63–65	Business Identification Code (BIC), 13
kick-out options, numerical example of,	Care of posted collateral, 297
59–62	Cash-settled option, 113
BCCI, 173	Central African CFA franc zone, 2
Bech, Morten L., 190–192, 197, 210	Charles, GuyLaine, 281
Bid-ask spread, 18	Cherry-picking, 231

INDEX

Clearing House, 194, 198 CLS Bank, xii, 92 (n2), 161, 173, 186, 201, 203–208, 209, 244, 248 eligible current 206	Dealing conversations, examples of: spot transaction, 102–105 vanilla option trade, 105–109 Deeds of adherence and schedules, 245
members, 204–206 operational timeline, 207 portfolio risk, 305–309	DeRosa, David F., xii, 1, 11, 20, 34, 38, 45, 51, 52, 62, 78, 147, 160, 288, 337, 389 DeRosa, Francesca, xv
Collateralized agreements, limitations, 313	Designated party, 339-348, 354,
Committee on Payment and Settlement	357–363, 366
Systems (CPSS), 16, 182, 210	Direct transaction, 339–343
Compensation Agreement, 345–346, 366, 366.n4, 384–387	Double knock-in trade, 83, 160 Dynamic hedging, 45, 46
Concentration in market making, 89-92	
Confirmations:	Early termination, 217, 231
FEOMA rules for FX transactions, 243	due to an event of default, 233-234
ICOM and FEOMA rules for	due to a termination event, 234
corrections, 244	payment upon termination and close-out
ICOM and FEOMA rules for options, 243	amounts, 234-235
IFEMA and FEOMA on failure to pay,	Early termination, 1992 ISA on:
244	First and Second Methods, 235
IFXCO rules on transmission, 244	Loss, 236
payment and late interest, 244	Market Quotation, 235–236
telephonic recordings, 244	Edwards, Franklin, 233, 281
waiver of jury trial, 244	Fligible collateral, 292–293
Confirmations, examples of:	Emerging Markets Trading Association
cash settled option, 122–123	(EMTA), 17, 117, 133, 138, 246–274,
double knock-in option, 133–135	360.n3, 370, 387
kick-out option, 127–128	Enforcement rights of secured party,
non-deliverable option, 117–121	294–295
one-touch binary option, 138–140	eSpeed, 89
vanilla option, 110–111	Euro Market Day Finder, 20
Correspondent banking, 187	European Central Bank, 19, 199–200,
Correspondent banking, diagram of,	210, 296
188	European quotation, 6
Courtadon, G, 51, 78	Events of default, 221–228
Covered interest parity, 20–21	breach of agreement, 224
Cox, J.C., 51, 78	bankruptcy or insolvency, 224
Crank-Nicolson method, 52	credit support default, 224
Credit agreements, framework of, 283–284	cross default, 225
	default under specified transaction, 226
Currency:	failure to pay or deliver, 221
crises, 11 definition, 1	merger without assumption, 227 misrepresentation, 224–225
identification codes, 4, 5	repudiation of a currency obligation, 228
quotation conventions, 5, 6	Executing Dealer, 339–348, 354, 357–363,
Currenex, 89	366, 367
Customer credit snapshot, 310	Executing Dealer and Designated Party, 366
Castomer create shapshot, 510	Executing Dealer and Designated Farty, 500 Execution of trades, methods:
Deadly operational errors, 144, 147, 159	customer direct, 89
Dealer, 3	electronic broking, 89
*	ψ, · ·

Index **393** 

electronic trading, 89	FX Prime Brokerage diagrams:
interbank direct, 88	FX Prime Broker wheel, 341
voice brokers, 89	legal architecture of FX Prime Brokerage,
Exotic options. See barrier and binary options	345
Exotic options, other:	trade booking with a FX Prime Broker,
average rate currency options, 70	340
basket currency options, 70	trade booking without a FX Prime Broker
compound options, 70	340
quantos options, 70	FX Prime Brokerage reports to executing dealer, 354, 355–356
Failure to pay, 221, 228, 244	FX Prime Brokerage wheel, 341
Federal Reserve Bank of New York, 16, 190,	FXall, xii, xv, 92–99
193, 194, 197, 199, 210, 324	screenshot of continuous streaming price
FEOMA. See International Foreign Exchange	quotes, 93
and Option Agreement	screenshot of limit order, 94
FEOMA and ICO, special features for	screenshot of pegged order, 95
options, 241–242	screenshot of post-trade deal summary, 96
Financial Markets Lawyers Group (FMLG),	screenshot of quotes for EUR/USD
IFEMA, and FEOMA rules, 16, 315, 346,	butterfly, 99
370–383 Fiving 82 160	screenshot of quotes for a EUR/USD risk
Fixing, 83, 160 Foreign Exchange Committee (FXC), 16	reversal, 28 screenshot of TWAP order, 95
Collateral Annex, 314–336	FXC. See Foreign Exchange Committee.
Foreign exchange regimes, 11, 17, 71	TAC. Lee Poleigh Exchange Committee.
Forward foreign exchange, 20–22	Carman, Mark B., 39, 78
Forward outright, 7, 8, 20–21, 83–85	Give-up agreement, 346
Forward swap, 7, 21–22, 85–87	Give-up trade or transaction, 339–342, 344,
FX and Currency Options Definitions	354, 366
(1998), 20, 34, 281	Globalink, 89
FX Prime Broker, 339–349, 354, 357–362,	Goh, John, xv
366–368	Good faith and reasonable manner, 69, 134,
FX Prime Broker and Designated Party,	140, 237, 267, 296
359–365	Governing Law and Jurisdiction, 242
credit support document, 359	Group of Seven Industrial Nations
definitions, 359–360	(G-7), 17
FX Prime brokerage agreement, 359	Group of Ten (G-10) nations, master
netted option, 360	agreements, 16, 34, 182, 183, 209
limits, 360	Guarino, Michael F., xv, Appendix 3
permitted deliverable currencies, 362	
permitted non-deliverable currencies,	Harding, Paul C., 216, 218, 219, 234, 281
363	Haug, E., 5, 77, 78
permitted transactions, 361	Hazell v. Hammersmith & Fulham London
schedule or Annex, 361	Borough Council & Others, 242
statement, numerical example of,	Hobijin, Bart, 190–192, 197, 210
364–365	Hull, John C., 52, 78
FX Prime Brokerage:	ICOM Saa International Common on Onting
execution and confirmation, 343–344	ICOM. See International Currency Options  Master Agreement (ICOM 1997)
legal architecture, 345–346	Master Agreement (ICOM - 1997) IFEMA. See International Foreign Exchange
pros and cons, 341–343	Master Agreement
pros and cons, 571-575	Master Agreement

INDEX

IFXCO. See International Foreign Exchange	ISO Currency Codes, 23–33
and Currency Option Master Agreement	Ivchenko, Inge, xv
Ikeda, M., 77, 78	
Independent amount, 286–287	Jorion, P., 52, 78
Interest on cash, 296	
Internal reports for dealers, 141–158	Khambete, Anu, xv
Internal reports for dealers, examples:	King, Michael R., 339, 388
FX options book by currency pair,	Kohlhagen, Steven V., 39, 78
150–151	Kunitomo, N., 77, 78
FX options book by counterparty,	
152–153	Lamfalussy Report, 16, 34, 183,
FX options book by expiration, 154–155	184, 209
FX options trading book, 148–149	Large value transfers, 171, 186
spot and forward book, 142	London cut, 36
spot and forward book by counterparty,	London time zone, 6
143	
spot and forward book by currency, 145	Macey-Dare, Rupert, 235, 281
spot and forward book by value date, 146	MacMillan, L.W., 52, 79
International Bank Number, 13	Mallo, Carlos, 329, 388
International Currency Options Master	Master FX Give-Up Agreement, xi, 341, 345,
Agreement (ICOM - 1997), 16, 215, 281	346–358, 359, 360, 369–377
International Foreign Exchange and	accepted transactions, 357
Currency Option Master Agreement	barrier events on exotic options, 357
(IFXCO - 2005), 16, 215, 217, 219–221,	credit risk measurement, 348–353
224–229, 233, 237, 240–242, 247, 244,	electronic trading platforms, 357
281, 383, 295, 314, 315, 319, 320, 321,	exercise of options, 357
322, 337, 347, 379	exotic net open position, 354
International Foreign Exchange and Options	jurisdiction and waiver of trial by jury,
Master Agreement (FEOMA - 1997), 16,	358
17, 211, 215–221, 224–230, 233, 234,	material terms, 357
237, 237 (n10), 240–244, 247, 244, 281,	measure of exposure, 347
295, 347, 359, 379	motivation 212–214
International Foreign Exchange Master	netting, 347
Agreement (IFEMA - 1997), 16, 215, 217,	notices and communications,
219–221, 224–229, 233, 237, 240–244,	358
247, 244, 281, 283, 295, 314, 315, 319,	reporting, 354
320, 321, 322, 337, 347, 379	termination, 358
International Monetary Fund (IMF), 17, 27	McGuinness, Catherine, xv
International Swaps and Derivatives	Measures of exposure:
Association (ISDA), 16, 215, 217,	dollar value, 347
219–221, 224–229, 233, 237, 240–242,	option delta equivalent, 347
247, 244, 281, 283, 295, 314, 315, 319,	Mehrling, Perry, xii, 1, 34
320, 321, 322, 337, 379	Mengle, David, 232, 236, 281
ISDA Credit Support Annex, 313, 337	Merton, Robert, 39
ISDA Credit Support Deed, 285, 295, 337	Money, definition of, xi, 1–2
ISDA Guidelines for Collateral Practitioners,	
313, 337	Nakajima, Masashi, 188, 199, 210
ISDA Master Agreements, 216–217,	Net daily settlement amount, 342, 348, 354, 357, 360, 371–373
217.n3, 218–221, 224–230, 233, 233 p4, 234–236, 241–244, 281	357, 360, 371–373 Net exposure, 286
233.n4, 234–236, 241–244, 281	Tier exposure, 200

*Index* **395** 

Net open position, 289, 290, 342, 348–349, 357–361, 363	Clearing House Interbank Payments (CHIPS), 203
exotic net open position, 360 method 1, 350–351	Clearing House Interbank Payments (CHIPS) (USA), 194
method 2, 352–353	Clearing House Interbank Payments
Nettingclose-out netting, 231	(CHIPS) (USA) Customers, 195–197
bilateral position netting, 176–180 bilateral position netting, numerical	Clearing House Interbank Payments (CHIPS) (USA) Growth, 195
example, 177–180	Euro1, 201
multilateral position netting, 176–181	Fedwire, 193
multilateral position netting, numerical	Fedwire growth, 193
example, 181	FXYCS (Japan), 202
netted option, 347	Reserve Bank Information and Transfer
novation, 220–223	System (Australia), 202
novation netting, 176, 181	Swiss Interbank Clearing (SIC), 202
novation, numerical example,	Target 2, 186, 187, 188 199-200, 201
222–223	Target 2, participants 200
payment or settlement, 220	USD CHATS (Hong Kong), 202–203
New York cut, 36, 107	Physical delivery, 37, 209
New York time zone, 7, 36	Pip, 18
Noel Report, 16, 34, 184, 210	Put-call parity, 35, 37–38, 72–73
Non-deliverable forwards, 22, 242	
Non-deliverable options, 56–58	Quotations and indications, 82
Non-reliance, 219–220	
Nonreciprocal dealing relationship, 13	Real-time gross settlement, xii, 4, 161, 184,
	187–192, 197, 199, 201–203, 206–207,
One-way delivery, 172	209, 210
Option market making, 56	central banks, 190–191
Option strategies, 55–56	deferred-net settlement, 197
One-way delivery, 172 Option market making, 56 Option strategies, 55–56 at-the-money forward, 55 butterfly, 56 collars, 56 risk reversals, 55	designated-time net settlement (DTNS), 188–189
collars, 56	diagram of, 192
risk reversals, 55	Real-time gross settlements systems, xii,
spreads, 56	4, 161, 184, 188–192, 194, 198–200,
straddles, 55–56	209, 210
strangles, 56 zero premium strategies, 56	Reciprocal dealing relationship, 12, 13, 212 Reiner, E., 79
Option trades:	Reverse give-up relationship, 340, 366–368
hedged, 87	diagram of, 367
live, 87	Right of sale and notice of sale, 297
1,0,0,	Ross, S.A., 51, 78
Parity to forward, 73	Rubinstein, M., 51, 78, 79
Partial option exercise, 109, 242	1440111816111, 1111, 111, 111, 111, 111, 111
Payment and late interest, 244–245	Safe harbors, 232–233
Payment systems:	Scholes, Myron, 39, 78
BOJ-NET (Japan), 202	Schwartz, E., 52, 79
Clearing House Automated Payments	Set-off provisions, 241
Systems (CHAPS) (UK), 201	Settlement process overview, 170
Clearing House Automated Payments	Settlement risk, 173–175
Systems (CHAPS) (UK), Members, 201	Single agreement, 217–219

INDEX

Smithsonian agreement, development of,	Teigland-Hunt, Lauren, 217, 281
22, 171	Telephonic recordings, 244
Smyth, Nick, 6, 34	Termination events, 228–230
Soviet coup d'etat, 173	Credit Event Upon Merger, 229
Specified transactions, 226–7	credit-rating downgrades, 230
Sponsored transactional patterns, xii, 34	force majeure, 229–230
Spot foreign exchange deals, 17-18	illegality, 229
Spot foreign exchange deals, varieties of:	key-person events, 230
limit order, 83	net asset triggers, 230
market order, 83	tax event, 229
stop loss order, 83	Tax Event Upon Merger, 229
order to fill, 83	Tokyo cut, 36
Status and capacity, 242–243	Top-up, 285–286
Stemmler, Jason, xv	Trade documentation cycle, 97, 100–140
Stoughton, N.M., 52, 78	cash-settled option trade, 113, 122-124
Strike price, 35	kick-out option trade, 124-129
Suitability, 219	non-deliverable option trade, 111,
Sweet Report, 16, 34, 210	113–121
SWIFT (Society for World Wide Interbank	spot trade, 102-105
Financial Telecommunication):	vanilla option trade, 105–112
message abbreviations, 100-102	
types of messages, 100	Value date, 19–20
SWIFT Messages	Value Risk (VaR), 297-313
diagram, 162	forward position, numerical example,
general financial institutional transfer	299, 300–302
(MT202), 163–164, 167	option position, numerical example,
notice to receive (MT210), 164–165, 168	299, 302–304
statement message (MT950), 165–166,	portfolio VaR, 305-310
169	spot position, numerical example,
SWIFT Messages, Trade Reports	298–299
double knock-in option trade (MT306),	Vanilla option trade, 105–111
130–133	Volatility, 52–55
kick-out option trade (MT306), 124-126	Volatility value, 73
non-deliverable option trade (MT305),	
115–116	Waiver of jury trial, 244
one-touch binary option trade (MT306),	Weeber, Phil, 235, 281
136–138	Whaley, R.E., 51–52, 78
spot trade (MT300), 104-105	White, Alan, 52, 78
vanilla option exercise (MT300), 112-113	WM/Reuters Company, 83, 160
vanilla option trade (MT305), 108–109	Wystup, U., 76, 79