spikes miax

FUTURES OFFERED BY mgex a miax company

Combo Linked to Future (CLF)

The Combo Linked to Future strategy type

The Combo Linked to Future ("CLF") is a new strategy type that is available for trading. It will incorporate both, a Related Futures Cross (RFC) on MIAX for the options component and either an Exchange for Related Position ("EFRP"[1]) on MGEX™[2] or the Exchange of Contract for Related Position ("ECRP") on other futures exchanges for the futures component. These simultaneous execution types allow for the exchange of SPIKES (SPK) futures for SPIKES option combinations. Please note, other highly correlated volatility products may also be eligible for trading versus SPIKES option combinations. The CLF strategy type will need to be executed by a broker, with the RFC component entered on MIAX and the futures side submitted to MGEX Clearing as an EFRP for SPIKES futures. This may be done as an ECRP on other exchanges in related futures. As long as the order is represented with the correct parameters, it will be crossed at 100%. Please see MIAX, MGEX or CFE[3] rulebooks for additional details.

Definitions

***Related Futures Cross ("RFC"):** A SPIKES Combination order traded in exchange for an opposing position in SPIKES futures or another related volatility future, such as VIX. See the MIAX rulebook for further details on RFC.

***SPIKES Combination:** The purchase (or sale) of a SPIKES call option and sale (or purchase) of a SPIKES put option with the same expiry and strike price.

***Exchange For Related Position ("EFRP"):** Involves a privately negotiated off exchange execution involving two separate, but related transactions, consisting of an exchange for futures and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of physical (cash product, by-product, or related product) or in connection with a risk (a related non-MGEX exchange traded derivative, an over-the counter (OTC) derivative or a swap agreement) component that corresponds to the asset underlying the Exchange futures contract. Two types of EFRP transactions:

1) Exchange for Physical Transaction ("EFP") - An exchange of futures for, or in connection with, a physical consisting of a cash commodity transaction and a futures transaction.
2) Exchange for Risk Transaction ("EFR") - An exchange of futures for, or in connection with, a risk consisting of a related non-MGEX exchange traded derivative, an OTC derivative or a swap agreement and a futures transaction. i.e. SPIKES combination and/or non-MGEX related volatility future.

Please see the MGEX website for access to rules and frequently asked questions (FAQ).

***Exchange of Contract for Related Position ("ECRP"):** An exchange of a Contract listed on an Exchange for a Related Position that is entered into in accordance with its specific exchange rules. On CFE this is rule #414. For the purpose of this document, the "Related Position" is a SPIKES Combination which will trade on MIAX. For further information, please see: MGEX and CFE.

[1] Market participants looking to execute an EFRP transaction at MGEX must have an account or an omnibus relationship with an existing MGEX Clearing Member.

[2] MGEX: Minneapolis Grain Exchange

[3] CFE: Cboe Futures Exchange, LLC

SPIKES Overview: Combo Linked to Future (CLF)

Should a market participant seek to transfer a position and/or delta risk to (from) a volatility future from (to) a SPIKES option position, they can use the Combo Linked to Future strategy to trade the SPIKES option combinations against their volatility futures ("SPK" or "VIX") position. The trade would consist of a buy (sell) of SPIKES option combination and the sell (buy) of an offsetting future, initiated as a CLF strategy at a net price.

Examples:

Buy 10 SPIKES combos[4] and sell 1 SPIKES future, 50 times for a net credit of $0.05.

Buy 10 SPIKES combos and sell 1 VIX future, 10 times for net $0.00.

Buy 1 SPIKES combo and sell 1 VIX Mini future, 5 times for a net debit of $0.02

The CLF may be entered as a paired order, where a contra order to take the other side already exists, or entered using an agency broker who can attempt to find an off Exchange counterparty to take the other side. Once there is a negotiated trade, the actual execution is done in two parts:

1. The option combination portion is executed on MIAX using the RFC order type.
2. The futures portion is submitted to the appropriate futures exchange.
    a. An EFRP on MGEX if using SPIKES futures.
    b. Most likely an ECRP on other exchanges when not involving SPIKES futures.

What are the benefits of the Combo Linked to Future strategy type?

With the evolution of derivatives trading expertise from market participants, the introduction to numerous tradeable instruments each year, and the constant need to reduce risk and costs associated with trading and investing, the CLF strategy may have several beneficial uses. The following are some potential uses as well as some trade examples:

1) Ability to reduce/collapse positions across products:
- a) Viable tool for shifting delta exposures between products.
- b) Will aide in the reduction of margin and/or haircut requirements as well as reduce balance sheet usage.

2) Centralize clearing under one clearing entity:
- a) SPIKES futures clear through the MGEX Clearing House.
- b) SPIKES options, VIX options and VIX futures clear at The Options Clearing Corp (OCC).

3) Mitigate exposures:
- a) Basis[5] risk.
- b) Mark-to-market P&L volatility.

4) Low Fees:
SPIKES combo exchange fees are a mere $.01 per leg, per side ($.02 per combo) and SPIKES futures fees are also highly competitive making the decision to collapse positions across products and clearing entities a much easier decision.

5) Potential to add to overall market liquidity:
Hedging across products and later trade a CLF strategy to collapse the position.

[4] Combo(s): Abbreviated term (slang) used by market participants to represent the purchase (or sale) of a call option and sale (or purchase) of a put option with the same expiry and strike price.

[5] Basis risk: Potential for two highly correlated instruments to deviate in price from one another. This could be due to unusual market close, short term supply/demand imbalances, etc.

Hypothetical trade examples[6,7]:

1) SPK future versus a SPIKES option combination. Why? Move all clearing to one clearing entity which may result in a reduction of margin requirements.

Suppose a client has 10 short SPK contracts and is long 200 of the SPIKES 50 delta calls. The options will clear through the OCC and the futures through MGEX Clearing. The client may need to post margins on both clearing entities. Client may trade a CLF strategy to collapse this margin treatment. Order: Buy 10 SPK futures and sell 100 SPIKES combos (sell call/buy put). This will result in no position in the futures and long 200 SPIKES calls delta hedged with 100 short combos (short call/long put). This will eliminate the need for margin posting at the MGEX Clearing House and some relief may now be given by The OCC as the new position in the SPIKES options has some offsetting delta risk.

2) VIX future versus a SPIKES option combination. Why? Move all positions into one underlying and one product which may result in a reduction of margin, haircut and/or capital usage.

Perhaps a client was hedging the purchase of 50 deep in the money SPIKES options by selling 5 VIX futures. The client can now use the CLF strategy, buying the 5 VIX futures and selling 50 SPIKES combos. The result will be no futures positions and 50 long deep-in-the-money SPIKES calls hedged with a short position of 50 SPIKES combos.

3) VIX future versus a SPIKES option combination. Why? Cost savings.

An advisor to a private fund or an exchange traded product, such as an exchange traded note (ETN) with a mandate is to have long exposure to a volatility index, i.e. SPIKES and/or VIX. The account currently holds VIX futures. For significant cost savings due to the fee differential, the advisor may use the CLF strategy and move the long VIX futures to SPIKES option combos. As the combos are a synthetic for the futures they should have a like performance. Going forward, the fund may now trade SPIKES futures and/or SPIKES combos, rolling the position accordingly to keep exposures consistent with the fund's mandate all while having the benefit of reduced costs.

4) SPIKES future versus a VIX future. Why? Move market exposure from one volatility index to another in a frictionless manner.

There are many reasons one may wish to do so but in this example a short volatility fund wishes to diversify some of their risk exposures to the clearing agencies, exchanges and products while also setting up future cost savings due to the low fees of SPIKES futures. Two separate submissions to the relevant exchanges, in accordance with each respective exchange's rules, such as an EFRP on MGEX, would be required. Please note that this transaction is not a CLF strategy.

In today's market environment, liquidity providers such as market makers, a bank's trading desks, a hedge fund and other professional traders may be trading multiple products and tickers. This activity will end up in a portfolio with many moving parts. Quite often traders will find themselves in a situation where they must make an immediate decision for the best possible trade to express a view and/or to trade a hedge. These trades may not always fit the profile the trader wants. The trader may have executed a VIX future rather than the preferred SPK future. With the CLF strategy type the delta exposure can now be closed in VIX futures and moved into SPIKES combos. Strategies such as the CLF, as discussed, are one piece of the puzzle to help the liquidity providers to reduce exposures which by default could also increase liquidity and tighten the bid/offer spread in similar products.

[6] SPK and VIX futures both have a 1000 multiplier while SPIKES options have a 100 multiplier. For this reason the trades will be 1x 10 ratios.

[7] Discuss any such scenarios with your account representative at your clearing house.

DISCLAIMER

The information contained in this document is the proprietary information of Miami International Holdings, Inc. ("MIH"). The information is provided for general education and information purposes only, and is not intended to provide, and should not be relied on for, financial, investment, tax, regulatory or legal advice. The information is presented "as is" and without representations or warranties of any kind. MIH is not obligated to update this document or otherwise notify you of any such changes, nor is MIH obligated to provide any update to this information if it is later shown to be inaccurate. MIH shall not be liable for loss or damage, direct, indirect or consequential, arising from any use of the data or action taken in reliance upon the data. Options involve risk and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies are available from your broker, by calling 1-888-OPTIONS or from The Options Clearing Corporation at www.theocc.com. No statement within this document should be construed as a recommendation to buy or sell a security or futures contract or to provide investment advice. Past performance is not indicative of future results. The Rules and Regulations of the relevant exchanges should be consulted as the authoritative source on all current contract specifications and rules and regulations.

All third-party trademarks (including logos and icons) referenced by MIH remain the property of their respective owners. Unless specifically identified as such, MIH's use of third-party trademarks does not indicate any relationship, sponsorship, or endorsement between the owners of these trademarks and MIH. Any references to third-party trademarks is to identify the corresponding third-party goods and/or services and shall be considered nominative fair use under the trademark law.

spikes®

miax®

Please visit miaxoptions.com/spikes for more information and additional resources. For direct questions relating to SPIKES Options and Futures, please contact **sales@tradespikes.com**.