Danske Bank

# Information about Equity futures and equity forwards

This fact sheet provides general information about equity futures and equity forwards that can be traded through Danske Bank

## CHARACTERISTICS

Equity futures and equity forwards are binding agreements between two parties to buy or sell a specific stock or the return on a share index at a fixed price (entry price) at a fixed future date (expiry date).

The parties determines the price when entering into the transaction.

Equity futures and equity forwards may be admitted for trading in a regulated marketplace. Equity futures and forwards can also be traded as OTC-contracts with Danske Bank as counterparty.

Equity futures and equity forwards are subject to cash settlement when index-based and to delivery when the underlying asset is an equity stock.

Gains/losses on equity futures are subject to daily cash settlement. Equity forwards are only settled on expiry, and that also goes for transactions derived from reference contracts such as an equity future.

**Using equity futures and equity forwards**

Equity futures and equity forwards can be used to hedge price risk in a stock or an equity portfolio during periods of instability.

They can also be used as investment instruments for the purpose of generating a profit on expected price developments.

## TERM

Equity futures and equity forwards have terms ranging from one day to several years. However, it is common that the most liquid listed expiries are those with a tenor of up to three months.

## DETERMINING THE PRICE

Price fluctuations of equity futures and equity forwards are mainly driven by changes in the underlying asset. Accordingly, changes in the price of the underlying asset will have a full impact on the value of equity futures and equity forwards. Using option terms, they have a delta of one.

The following factors influence pricing:

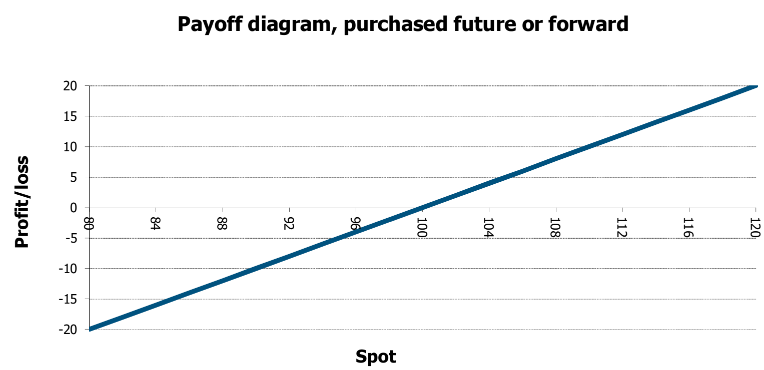
- The price of the underlying asset,
- The money market rate. Equity futures and equity forwards are considered an alternative to buying the underlying asset. Accordingly, a high money market rate will produce a large premium on these instruments, while a low money market rate will produce a small premium.
- Dividend.  The expected impact dividend payments made during the life of the contract.

## PAYOFF EXAMPLES

Shown below are examples of payoff profiles for futures and forwards.

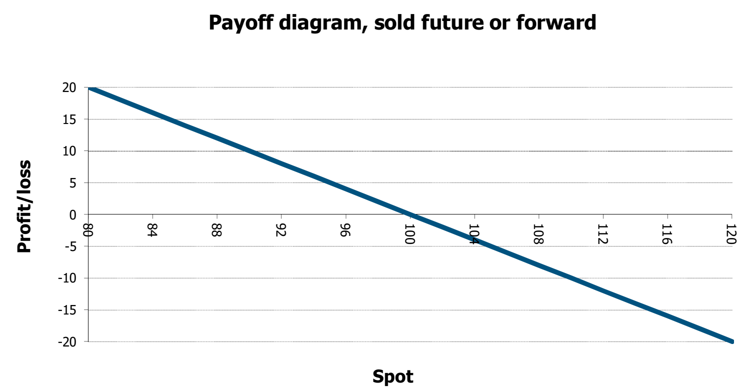
*Buying equity futures or equity forwards*
The buyer of an equity future or an equity forward gets the right and the obligation to buy the underlying asset at an agreed price at a certain future date.

If the current market price appreciates, the value of a purchased equity future or equity forward also appreciates. If the current market price depreciates, the value of a purchased equity future or equity forward also depreciates.




*Selling an equity future or an equity forward*
The seller of an equity future or an equity forward gets the right and the obligation to sell the underlying asset at an agreed price at a certain future date.

If the current market price depreciates, the value of a sold equity future or equity forward appreciates. If the current market price appreciates, the value of a sold equity future or equity forward depreciates.




## RISK FACTORS

It is important to note that this type of transaction may involve substantial risk.

An equity future or an equity forward contract may involve the risk that the entry price is unfavourable relative to the market price at which the transaction will be settled on the settlement date.

You will lose money on the transaction if you have bought the underlying asset forward and the transaction is to be settled at a price that is higher than the market price. The loss equals the difference between the entry price and the market price. Similarly, the transaction will yield a gain if the entry price is lower than the market price.

You will lose money on the transaction if you sell the underlying asset forward in a transaction that is to be settled at a price that is lower than the market price. The potential loss is without limit and equals the difference between market price and the entry price.

Similarly, you will realise a gain if the entry price is higher than the market rate.

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If equity futures or equity forwards are terminated prior their scheduled expiration- or termination date you should pay attention to variations in interest rates. In case of early termination, a change in the interest rate will trigger a change in the premium or discount in excess of the change triggered by the shorter term to maturity. This could cause you to incur a loss.

When trading futures or forwards on margin, the risk of a loss is enhanced by the instrument's gearing component. This is the difference between the underlying value of the instrument and the amount pledged as margin.

## COLLATERAL

We may require you to provide collateral when you enter into a transaction with us as counterparty. When you enter into transactions with a regulated market place as counterparty, the regulated market place will require margin in accordance with the terms and conditions applicable for the relevant regulated place. Such margin can be provided through us as intermediary.

## SPECIAL MARKET CONDITIONS

Under special market conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movements if the prices rises or falls to such extent that we are unable to stipulate a price or trading of financial instruments are suspended or restricted under the rules of the regulated market place.

## TAXATION

The tax treatment of a gain or a loss on equity futures or equity forwards depends on

- whether you are dealing as a private individual or on behalf of a company; and
- whether the contract is performed through delivery of the underlying assets or through cash settlement.

Due to the complex nature of the tax rules, we recommend that you consult an accountant, tax-advisor or other professional adviser to clarify the tax and accounting consequences.

## GENERAL RISK DISCLOSURE

There may be other, non instrument-specific risks involved when trading options. Including but not limited to, liquidity risk and credit risk. For further explanation of such risks, please refer to Danske Bank's general risk disclosure.