

Japanese yen at the same time that the pound depreciates in relation to the U.S. dollar. As discussed in Chapter X under "Special Risks of Cross-Rate Options," this is of particular significance to investors who intend to convert their profits or losses on cross-rate options into U.S. dollars.

All of the previous discussion in this chapter relating to foreign currency options in general applies equally to cross-rate options except to the extent that it is specifically limited to dollar-denominated options. Certain special features of cross-rate options are discussed below.

SPECIAL FEATURES OF CROSS-RATE OPTIONS

The amount of the foreign currency underlying each cross-rate option (*i.e.*, the unit of trading) is specified by the options market on which the option is traded.

The exercise price of a physical delivery cross-rate option is the price (denominated in the trading currency) at which the underlying currency may be purchased or sold upon exercise of the option. Exercise prices for cross-rate options are generally expressed in terms of units (or fractions of units) of the trading currency per unit of the underlying currency. Therefore, in order to determine the total exercise price per contract, it is necessary to multiply the stated exercise price by the unit of trading of the particular option.

EXAMPLE: The exercise prices of yen-denominated options covering underlying German marks are expressed in yen per mark. Therefore, a put covering 1,000,000 German marks with an exercise price of 93 Japanese yen ("JY") would entitle the holder to sell the underlying marks for an aggregate exercise price of JY93,000,000 (JY93 multiplied by 1,000,000).

The discussion in this chapter of adjustments under the caption "Special Features of Foreign Currency Options" is applicable also to cross-rate options, except that adjustments in the terms of cross-rate options might be made to reflect events affecting the trading currency as well as events affecting the underlying currency.

Premiums for currently available cross-rate options are expressed in units and decimals of the trading currency per unit of the underlying currency.