

The discussion above in this chapter relating to dollar-denominated foreign currency options generally applies to cash-settled foreign currency options except to the extent that such discussion specifically applies to physical delivery options.

The contract size of a cash-settled foreign currency option, like the size of other foreign currency options, is expressed in terms of the amount of the underlying currency covered by the option.

**EXAMPLE:** If the exercise price of a cash-settled call option on German marks is 60 (expressed as U.S. cents per mark), the exercise settlement value of the underlying currency is reported as 65, and the unit of trading is 62,500 marks, then the cash settlement amount of the option will be (\$.65 minus \$.60) multiplied by 62,500 = \$3,125.

A cash-settled foreign currency option that, based on its exercise settlement value, is in the money on the expiration date will be automatically exercised on the expiration date. In the future, cash-settled foreign currency options may provide that they will be automatically exercised only if they are in the money by a specified amount on the expiration date.

At the date of this booklet, the exercise settlement value for cash-settled foreign currency options is based upon bid and offer quotations from a sampling of participants in the interbank spot market for the underlying foreign currency at a specified time on the expiration date. The time as of which the exercise settlement value is calculated and the method of calculation is determined by the options market on which the options are traded and may be changed by it at any time. Any such change may be made applicable to options outstanding at the time of the change.

Another special feature of cash-settled foreign currency options having an expiration date of not more than two weeks following the initiation of trading is that option writers must deposit required margin with their brokerage firms within two business days of the trade date. It should be noted that this is a shorter period than the normal period required for other options transactions.