

**From:** Richard Kahn <[REDACTED]>

**To:** "jeffrey E." <jeevacation@gmail.com>

**Subject:** Fwd: Trade Recap - 4/2/2015 - DB Commodity WTI Short Volatility II Index [C]

**Date:** Tue, 07 Apr 2015 21:45:56 +0000

**Attachments:** Short\_WTI\_Vol\_II\_Guide\_Final\_22Aug.pdf

**Inline-Images:** image005.png; image001.png; image002.gif

---

attached is explanation per Daniel on WTI straddle trade unwind  
it appears from explanation attached and conversation that Bid to Mid portion (109,432.92) was not a payment to  
DB as a commission but rather transaction cost to unwind hedge  
i gave both Daniel and Vahe a hard time about another bad trade on their behalf  
total final payment 152,705.94  
please advise if ok to pay from SFL tomorrow  
thank you

Richard Kahn  
HBRK Associates Inc.  
575 Lexington Avenue 4th Floor  
New York, NY 10022  
tel 212-971-1306  
fax 646-350-0954  
cell [REDACTED]

Begin forwarded message:

**From:** Daniel Sabba <[REDACTED]>

**To:** Vahe Stepanian <[REDACTED]>, Richard Kahn <[REDACTED]>

**Cc:** Jeanne Brennan <[REDACTED]>, Ariane Dwyer <[REDACTED]>, Darren Indyke  
<[REDACTED]>, Paul Morris <[REDACTED]>

**Subject:** RE: Trade Recap - 4/2/2015 - DB Commodity WTI Short Volatility II Index [C]

**Date:** April 7, 2015 at 5:37:51 PM EDT

Classification: **Confidential**

Richard and Jeanne,

Thank you for the call. Per our conversation, the \$124,704.68 bid/offer cost referenced in the previous email can be broken down as follows:

- Net vega (for the three WTI straddles the index references): \$58,209
- Implied volatility (for the three listed WTI straddles the index references): ~47%
- Bid to mid: formulaically (per page 4 of attached index guide - excerpt below):  $4\% * vol = 4\% * 47\% = 1.88\%$

$\sigma_i^{AC}$  is the after cost implied volatility of the relevant option and it is obtained from the implied volatility of the relevant exchange traded option as

$$\sigma_i^{AC} = \sigma_i - \max(4\% * \sigma_i, 0.75\%)$$

Where,  $\sigma_i$  is the volatility of the call option which has strike  $K_i$  and is calculated using standard Black's model.

Notional	\$ 10,000,000
Strike	255.8709
Index Closing Level (unwind date; 4/2/15)	242.8579
Index Closing Level (reset date; 3/31/15)	243.5748
Discount Factor	0.9994011
Bid/offer Cost	\$ 124,704.68
Final Payment	\$ 152,705.94

DBCMWSV2		242.0493	-.8086	--/--							
At 4/6		Op 242.0493	Hi 242.0493	Lo 242.0493							
		Prev 242.8579	Vol 0								
DBCMWSV2 Index		90 Export to Excel		Page 1/6 Historical Price Table							
db Commodity WTI Short Volatility II Index		High	298.3815	on 07/08/14							
Range	04/08/2014 - 04/06/2015	Low	226.1317	on 02/05/15							
Market	Last Price Mid Line	Average	274.2436	274.2436							
View	Price Table	Net Chg	-40.3578	-14.29%							
	Date	Last Price	Mid Line	Date	Last Price	Mid Line	Date	Last Price	Mid Line		
F	04/10/15			F	03/20/15	249.4478	249.4478	F	02/27/15	236.4424	236.4424
T	04/09/15			T	03/19/15	247.1353	247.1353	T	02/26/15	237.3560	237.3560
W	04/08/15			W	03/18/15	246.3388	246.3388	W	02/25/15	238.9963	238.9963
T	04/07/15			T	03/17/15	244.5317	244.5317	T	02/24/15	238.6746	238.6746
M	04/06/15	242.0493	242.0493	M	03/16/15	244.5564	244.5564	M	02/23/15	236.8645	236.8645
F	04/03/15			F	03/13/15	244.0326	244.0326	F	02/20/15	239.5116	239.5116
T	04/02/15	242.8579	242.8579	T	03/12/15	248.1542	248.1542	T	02/19/15	237.9376	237.9376
W	04/01/15	242.6625	242.6625	W	03/11/15	247.2000	247.2000	W	02/18/15	239.0979	239.0979
T	03/31/15	243.5748	243.5748	T	03/10/15	244.3136	244.3136	T	02/17/15		
M	03/30/15	243.6486	243.6486	M	03/09/15	248.1189	248.1189	M	02/16/15		
F	03/27/15	243.9423	243.9423	F	03/06/15	246.5216	246.5216	F	02/13/15	232.6301	232.6301
T	03/26/15	246.3612	246.3612	T	03/05/15	247.1434	247.1434	T	02/12/15	230.6760	230.6760
W	03/25/15	251.4470	251.4470	W	03/04/15	244.1153	244.1153	W	02/11/15	232.1317	232.1317
T	03/24/15	253.5129	253.5129	T	03/03/15	241.4693	241.4693	T	02/10/15	232.9251	232.9251
M	03/23/15	251.7034	251.7034	M	03/02/15	239.6651	239.6651	M	02/09/15	235.6331	235.6331
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 Anno Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2015 Bloomberg Finance SN 834224 EDT GMT-4:00 H703-5975-3 07-Apr-2015 09:43:11											

- Bid to mid:  $1.88 \times \$58,209 = \$109,432.92$
- Mid to offer:  $\$15,271.76$  (per our chat, this is really competitive, as it represents a mid to offer of 0.26%).
- Bid to mid + mid to offer =  $\$109,432.92 + \$15,271.76 = \$124,704.68$

Please let me know if you have any questions – happy to have another call to discuss.

Regards,

Daniel

---

**From:** Vahe Stepanian  
**Sent:** Tuesday, April 07, 2015 9:47 AM  
**To:** Richard Kahn  
**Cc:** Jeanne Brennan; Daniel Sabba; Ariane Dwyer; Darren Indyke  
**Subject:** RE: Trade Recap - 4/2/2015 - DB Commodity WTI Short Volatility II Index [C]

Classification: **Confidential**

Good Morning Rich – calculation is as follows:

Final Payment = Notional / Strike \* [ Index closing level on Unwind Date – Index closing level on Last Reset Date ] \*  
Discount Factor – Bid/Offer Cost

If this number is negative, then SOFL will pay the absolute value of this number.

With that said, the inputs (summarized from e-mails below) are as follows:

Bloomberg screenshot\* below shows index closing levels and I've re-attached the executed confirm for your convenience.

Thank you,  
Vahe

--

\*Used with Permission of Bloomberg Finance LP

---

**From:** Richard Kahn [<mailto:>  ]  
**Sent:** Tuesday, April 07, 2015 9:15 AM  
**To:** Vahe Stepanian  
**Cc:** Jeanne Brennan; Daniel Sabba; Ariane Dwyer; Darren Indyke  
**Subject:** Re: Trade Recap - 4/2/2015 - DB Commodity WTI Short Volatility II Index [C]

can you please send backup for your calculation  
thank you

Richard Kahn  
HBRK Associates Inc.  
575 Lexington Avenue 4th Floor  
New York, NY 10022  
tel 212-971-1306  
fax 646-350-0954  
cell 

EFTA01203661

On Apr 7, 2015, at 8:58 AM, Vahe Stepanian <[REDACTED]> wrote:

Classification: **Confidential**

Good Morning Rich / Jeanne – Southern Financial needs to make a payment of USD 152,705.94 to DB today to settle the WTI short vol. trade.

Please confirm its okay to make the payment and I will call Darren for verbal confirmation.

Thank you,  
Vahe

---

**From:** Vahe Stepanian

**Sent:** Monday, April 06, 2015 9:49 AM

**To:** Jeffrey Epstein

**Cc:** Daniel Sabba; Richard Kahn; Paul Morris; Ariane Dwyer

**Subject:** RE: Trade Recap - 4/2/2015 - DB Commodity WTI Short Volatility II Index [C]

Classification: **Confidential**

Jeffrey – please find WTI short vol. settlement details:

Index strike for 2Apr is 242.8579

Discount factor is 0.9994011

Southern Financial pays USD 152,705.94 to DB

Settlement date: 7 Apr 2015

Thank you,  
Vahe

---

**From:** Vahe Stepanian

**Sent:** Thursday, April 02, 2015 3:00 PM

**To:** Jeffrey Epstein

**Cc:** Daniel Sabba; 'Richard Kahn'; Paul Morris; Ariane Dwyer

**Subject:** Trade Recap - 4/2/2015 - DB Commodity WTI Short Volatility II Index [C]

Classification: **Confidential**

Jeffrey – today we unwound your DB Commodity WTI Short Volatility II Index position per your instructions.

-

**Trade recap:**

SOFL unwinds the REFERENCE trade noted below at the close today.

Unwind Date: 2 Apr 2015

Final payment will be computed as:

DB pays: Notional / Strike \* [ Index closing level on Unwind Date – Index closing level on Last Reset Date ] \* Discount Factor – Bid/Offer Cost

If this number is negative, then SOFL will pay the absolute value of this number.

Notional: \$10,000,000

Strike: 255.8709

Last Reset Date: 31 Mar 2015

Index closing level on Last Reset Date: 243.5748

Discount Factor: Discount factor between Unwind Date and next scheduled reset date (6/30/15), per LIBOR flat curve

Bid/Offer Cost: Latest Reset Notional \* 1.31% (\$124,704.68)

Index level is known only late in the evening. Tomorrow is a commodities holiday, so payment will be computed on Mon morning.

Settlement Date: 7-Apr-15.

I've attached the original trade confirm for your reference.

Thank you,  
Vahe

---

**From:** Daniel Sabba  
**Sent:** Tuesday, January 13, 2015 3:13 PM  
**To:** [jeevacation@gmail.com](mailto:jeevacation@gmail.com)  
**Cc:** [REDACTED]; Paul Morris; Vahe Stepanian  
**Subject:** Trade Recap - 01/13/2015 - DB Commodity WTI Short Volatility II Index [C]

Classification: Confidential

Jeffrey, per our phone conversation, Southern Financial LLC entered into the following commodity swap with Deutsche Bank AG, acting through its London branch. Southern Financial went long DB Commodity WTI Short Volatility II Index. Initial strike to be set at close today. The Initial Margin on this trade is 5% of Notional. Official termsheet and confirm to follow.

Trade recap:

OTC index swap

Buyer: SOFL  
Seller: DBAG London  
Underlying: DB Commodity WTI Short Volatility II Index  
Bloomberg Ticker: DBCMWSV2 Index  
Trade Date: 13 Jan 2015  
Effective Date: 13 Jan 2015  
Expiry Date: 13 Jan 2016

Resets at end of each calendar quarter. For clarity reset dates are: 31-Mar-15, 30-Jun-15, 30-Sep-15, 31-Dec-15, 13-Jan-16

Settlements: T+2  
Notional: \$10,000,000  
IA: \$500,000 paid by SOFL on 14-Jan-2015.

Up to 1.5% fees charged on exit under normal circumstances, irrespective of whether the exit is on scheduled Expiry Date or earlier

Strike: Underlying closing level on Effective Date

Cash flows:

On each reset date:

Buyer receives:  $\text{Notional} / \text{Strike} * (\text{Index closing level on reset date} - \text{Index closing level on previous reset date})$

For the first reset date,  $\text{Index closing level on previous reset date} = \text{Strike}$

Thank you for the trade,  
Daniel

Daniel Sabba  
Key Client Partners  
Deutsche Bank Securities Inc.  
Tel. +1 212 454 0857  
Mobile [REDACTED]  
Email [REDACTED]

---

This communication may contain confidential and/or privileged information. If you are not the intended recipient (or have received this communication in error) please notify the sender immediately and destroy this communication. Any unauthorized copying, disclosure or distribution of the material in this communication is strictly forbidden.

EFTA01203663

Deutsche Bank does not render legal or tax advice, and the information contained in this communication should not be regarded as such.

<Executed Crude Confirm 1.26.15.pdf>

---

This communication may contain confidential and/or privileged information. If you are not the intended recipient (or have received this communication in error) please notify the sender immediately and destroy this communication. Any unauthorized copying, disclosure or distribution of the material in this communication is strictly forbidden.

Deutsche Bank does not render legal or tax advice, and the information contained in this communication should not be regarded as such.