

## Frequently Asked Questions on Covered Call indices

Question	Answer
1 What is a covered call index?	A covered call index is an index that tracks the performance of a covered call strategy as applied to a share index, in which an investor combines a long position in that index with the sale of a call option on the same index.
2 Is there any difference between a covered call index and a buy-write index?	The terms 'covered call' and 'buy-write' are used interchangeably in the indexing industry. Sometimes, however, the term 'buy-write' is used to refer to the simultaneous purchase of a listed security and sale (or writing) of a call option on that security. The term 'covered call', by contrast, refers to the sale of a call option relating to an underlying position already owned by the investor. If an investor with a buy-write position is not assigned when the option expires and decides to roll over the option position, his or her position then becomes a covered call position. In practice, little distinction is made between the two terms.
3 What are the names of Euronext's new covered call indices?	The new indices are the CAC 40 Covered Call and the AEX Covered Call, which are based on the CAC 40 and the AEX index, respectively.
4 When will Euronext launch its covered call indices?	The launch date for Euronext's covered call indices is 19 June 2007.
5 What is the index methodology for the AEX Covered Call and CAC 40 Covered Call indices?	The CAC 40 Covered Call index combines a long position on the CAC 40 with the sale of a one-month 5% out-of-the-money (OTM) CAC 40 call option, as traded on Euronext.liffe. Similarly, the AEX Covered Call index combines a long position on the AEX with the sale of a one-month 5% OTM AEX call option, as traded on Euronext.liffe. The level of the covered call indices is based on the level of the underlying index and the most recent price available for the relevant call option.
6 What type of indices are the CAC 40 Covered Call and AEX Covered Call indices?	The CAC 40 Covered Call and AEX Covered Call indices are total return indices that take account of the reinvestment of dividends relating to the underlying index.
7 Why has Euronext opted for a 5% out-of-the money call option?	In practice, investors choose covered call positions based on their risk preferences, in the knowledge that the higher the strike price the lower the premium but the higher the potential return if the underlying index rises. The opposite is true of lower strike prices. In order to be an effective tool, a covered call index must be designed to capitalise on the sale of the call option and at the same time minimize liquidity risk. These considerations led to the decision to use 5% OTM call options (this is also becoming the standard choice for many index compilers).

- 8 How often will Euronext's covered call indices be disseminated? The CAC 40 Covered Call and AEX Covered Call indices will be calculated with the same frequency as the indices on which they are based, except on expiry days (ie the third Friday of each month). The CAC 40 Covered Call index will be calculated every 30 seconds and the AEX Covered Call index every 15 seconds between 09:00 and 17:35 CET. For details of the frequency of calculation on expiry days, see below.
- 9 Why will Euronext suspend the calculation of its covered call indices on expiry days? As the call options used to calculate the indices have a lifetime of one month, the option positions have to be rolled forward at every expiry. In connection with this, the calculation of the covered call indices will be suspended from 16:00 until 17:00 CET so that new 5% OTM call options can be selected. At 17:00 CET new index levels will be calculated using the new one-month option contracts.
- 10 What benefits do covered call indices offer? Covered call indices have proved to be useful financial instruments when markets are bearish or show only moderate upward trends because the indices automatically replicate the advantages of the underlying covered call strategy. As the option premium generates extra income and provides a cushion in falling markets, covered call strategies perform better than the underlying indices so long as the level of the underlying index is below the option's strike price, although they can underperform during strong bull markets. Besides this, many researchers have noted that covered call indices provide a better risk-adjusted return than their underlying indices.
- 11 Are there any plans to launch financial products based on Euronext's covered call indices? Covered call indices have been used increasingly in asset management since Professor Whaley first introduced the CBOE S&P500 Buy Write (BXM) back in 2002. There are now a number of investment funds that try to replicate the index strategy using passive, total return covered call indices. In addition, covered call indices are growing in popularity as underlyings for exchange-traded funds (ETFs) and structured products. The CAC 40 Covered Call and AEX Covered Call indices have been designed with such uses in mind and are expected to be used in a wide variety of financial products.
- 12 Does Euronext have any plans to launch covered call indices based on other blue chip indices? The first covered call indices (CAC 40 Covered Call and AEX Covered Call) are being launched in response to growing investor demand for such products. Euronext is looking into the possibility of extending the range of covered call indices to embrace other blue chip indices, depending on demand from the market.
- 13 Is historical data available on Euronext's covered call indices? Historical data is available for every trading day starting from 30 December 1999.
- 14 Where can I find more information about Euronext's covered call indices? More information is available at <http://newindices.euronext.com>