

# Options on ETFs

## iShares FTSE 100

March 2008

One of the most heavily traded ETFs in the UK, the iShares FTSE 100 tracks the performance of the FTSE 100 Index and therefore the largest companies in the UK.

### The efficiency of ETFs, the flexibility of options

One of the most heavily traded Exchange Traded Fund Shares (ETFs) in the UK, the iShares FTSE 100 is managed by Barclays Global Investors and tracks the performance of the FTSE 100 Index and therefore the largest companies in the UK.

Options on iShares FTSE 100 ETFs provide investors with the possibility to enhance returns or buy protection as well as offering investors the ability to gain exposure to the performance of the FTSE 100 index at a fraction of the cost of buying the ETFs.

### ETFs – diversification in a single transaction

ETFs are simple and cost-effective investment products that replicate the performance of an index or sector. They are traded on exchanges like ordinary shares enabling investors to gain exposure to a chosen market or sector in a single transaction.

ETFs have enjoyed significant growth since they were launched in Europe and are now widely used by both private and professional investors.

Please see [www.ishares.net](http://www.ishares.net) for further information about the iShares FTSE 100.

### The flexibility of options

Options on ETFs give the option holder the right, but not the obligation, to buy or sell ETFs at an agreed price. Thanks to the flexibility offered by options, they provide investors additional trading opportunities beyond buying the underlying ETFs alone.

- **Gain exposure** – Use options to gain exposure to an ETF without having to buy the ETF itself. Investors can benefit from changes in the price of the ETF whilst paying only a fraction of the up front cost.
- **Protect a portfolio** – Use put options to protect against a market decline. If the market falls the portfolio's losses will be offset in whole or in part by the rise in the value of the puts. If the market does not fall, the portfolio will keep its value (or increase) and the loss is limited only to the premium paid for the put.
- **Enhance returns on a portfolio** – Holders of ETFs can seek to enhance portfolio returns by writing covered call options against their holding. If the option expires out-of-the-money, then the option writer will have increased his portfolio performance by the amount of that premium that he has received. However, if the option is in-the-money and is exercised then the writer must deliver the ETFs to the option buyer at the exercise price, and the premium the writer has received may be less than the opportunity loss on the ETFs themselves.
- **Use trading strategies** – As well as simple calls and puts, options offer the holder the opportunity to use a broad range of trading strategies depending on their market view, including spreads, straddles, strangles etc.

### Further Information

For more information about options on ETFs, please contact:

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Email: [equities@liffe.com](mailto:equities@liffe.com)

Web: [www.nyseeuronext.com/etfoptions](http://www.nyseeuronext.com/etfoptions)

### For more information on ETFs

Web: [www.ishares.net](http://www.ishares.net)

## OPTIONS ON ISHARES FTSE 100 ETFS

CONTRACT CODE	IFT
OPTION UNDERLYING	iShares FTSE 100 Exchange Traded Fund Shares, which are listed on the London Stock Exchange
DERIVATIVES MARKET	London derivatives market
CONTRACT SIZE	1,000 ETF shares
PRICING UNIT	Pence per share
MINIMUM PRICE MOVEMENT	0.25 pence
EXPIRY MONTHS	Initial lifetime: 3, 6 and 9 months Cycle: March, June, September, December
OPTION STYLE	American style exercise
SETTLEMENT	Physical delivery
EXERCISE	Exercise by 17:20 London time on any business day, extended to 18:30 London time on the Last Trading Day
TRADING HOURS	08:00 – 16:30 London time
LAST TRADING DAY	Trading in expiring contracts shall cease at 16:30 London time on the third Friday of each expiry month, provided this is a market day. If it is not a market day, the Last Trading Day shall be the market day immediately preceding the third Friday in the expiry month.
CLEARING	LCH.Clearnet Ltd.
UNDERLYING ISIN CODE	IE0005042456

## Trading Options on ETF shares

To trade Options on iShares FTSE 100 ETF shares please contact your broker. A list of UK private client brokers is available from [www.liffe.com/liffeinvestor/](http://www.liffe.com/liffeinvestor/)

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- Past performance is not necessarily a guide to future performance.
- Rates of exchange may cause the value of underlying investments to go up or down.
- Tax arrangements may change.
- All stock market based investment is exposed to a degree of risk.

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