

# Russia IOB DR Dividend Futures

## Product Overview

April 2012

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- Individual dividend futures on depositary receipts (DRs) for seven Russian companies are now listed on Turquoise
- These contracts enable members to hedge dividend risk from holding DRs whilst benefitting from centralised trading and clearing:
  - Transparent pricing
  - Centralised liquidity
  - Operational ease and trade management
  - Central counterparty protection
- Contracts can either be traded through the onscreen orderbook, which benefits from a consistent two way market maker price picture, or traded bilaterally and reported to Turquoise for clearing
- The service includes the provision of a supplementary futures contract after expiry in the event of any late dividend payments. This ensures that counterparties to a dividend trade on Turquoise cannot be penalised as a result of unexpected payment schedules

# Contract Specification

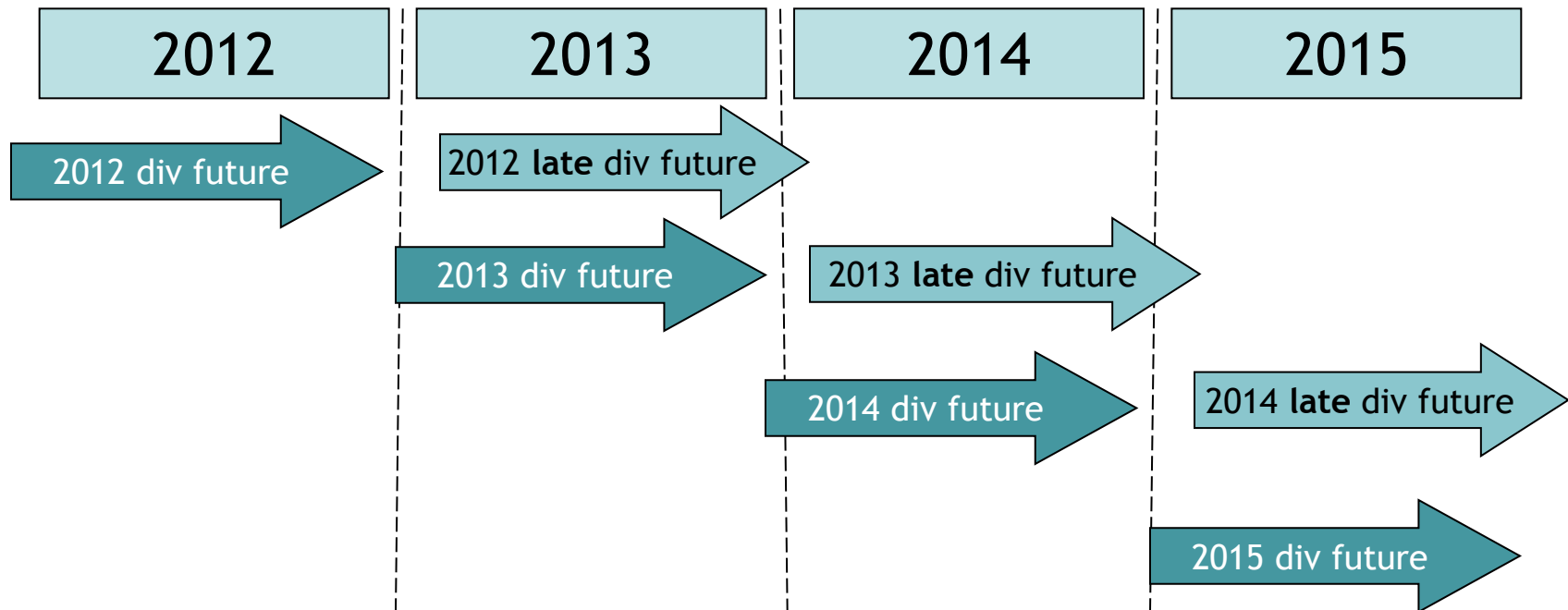
Parameter	Description						
Underlying	Gross paid dividend amount						
Contract Multiplier	Normally 100 DRs						
Contract Currency	USD						
Tick Size:	<table border="0"> <tr> <td>&lt; USD 0.9995</td> <td>- USD 0.0005</td> </tr> <tr> <td>USD 1.0000 - USD 4.9990</td> <td>- USD 0.0010</td> </tr> <tr> <td>&gt;USD 5.0000</td> <td>- USD 0.0100</td> </tr> </table>	< USD 0.9995	- USD 0.0005	USD 1.0000 - USD 4.9990	- USD 0.0010	>USD 5.0000	- USD 0.0100
< USD 0.9995	- USD 0.0005						
USD 1.0000 - USD 4.9990	- USD 0.0010						
>USD 5.0000	- USD 0.0100						
Settlement type	Cash						
Contract lifetime	Two year lifetime with final settlement based on the dividend paid out relating to dividends gone ex between the first business day after the third Friday in December and the third Friday in December the following year						
Daily settlement price	Dividend rates depending on calendar (see later slide)						
Final settlement price	Ordinary dividend paid by the Depository Bank in the contract lifetime prior to deduction of withholding tax and DR bank fees						
Expiry	Third Friday in January						
Listing of new contracts	Four business days prior to expiration in January						
Corporate actions	As described for individual DR options / futures in the Turquoise Rules						
Trading hours	08:15 - 15:30 London time						

# Underlying coverage

Underlying DR	Turquoise code	Bloomberg code	Thomson Reuters code
Gazprom	OGZD	OGZD LI	GAZPq.L
Lukoil	LKOD	LKOD LI	LKOHyq.L
Norilsk Nickel	MNOD	MNOD LI	NKELYq.L
Rosneft	ROSN	ROSN LI	ROSNq.L
Sberbank	SBER	SBER LI	SBERq.L
Surgutneftegaz	SGGD	SGGD LI	SNGSyq.L
VTB Bank	VTBR	VTBR LI	VTBRq.L

# Contracts listing cycle

- Two year contracts are listed annually in the January cycle



# Daily and final settlement prices

## Two year lifetime - normal contract

January  
(month 0)

↓

January  
(month 24)

Time period	Settlement price used
Contract open <b>until</b> dividend announcement	MarkIt Totem Dividend information
Announcement <b>until</b> AGM confirmation	Announced rate
AGM confirmation <b>until</b> dividend payment day	AGM confirmed rate
Dividend payment day <b>until</b> expiry	AGM confirmed rate
<b>Final settlement price</b> on expiration	As per contract specification
Interim changes to announced/confirmed rates	Revised announced/ confirmed rate

- Turquoise uses dividend data provided by the market leading service for dividend forecasting, Markit
- The service was recommended by market participants that helped in the design of Turquoise's dividend futures
- Markit's dividend forecasts are calculated using a combination of the following inputs:
  - Options prices implied dividends
  - Aggregated data from institutions active in the Russian OTC dividend swaps market
  - Markit's analyst team
- Markit's forecasts provide members active on Turquoise with a rigorous, objective, and widely trusted daily settlement price used for marking positions to market in the months prior to dividend announcements

# Late Dividend contracts

- In the unlikely event that there is an announced dividend/ part of an announced dividend whose payment is deferred until after January expiry, Turquoise will list a “late dividend” contract
- “Late Dividend” contracts have a life time of one year with final settlement being equal to the amount of the remaining dividend paid out over the contract lifetime
  - This additional contract on the late dividend is completely separate and distinct from the other “normal” dividend contracts also in the order book available to trade
- On the next trading day after normal expiry, members will be automatically allocated a late dividend futures position equal to their normal dividend futures position at expiry
  - Opened at a price of zero
  - At the end of the first trading day in the late contract, Turquoise will mark-to-market at the difference between the announced amount and the amount paid out during the lifetime of the normal contract
  - This immediately cancels out all loss and profit that resulted specifically from the late payment
- Members will record a profit or loss on expiry resulting from the late payment, and then find themselves with a balancing position at market open on the next trading day.
  - Turquoise will perform all operational work and remind members by way of market notices

# Daily and final settlement prices

## One year lifetime - Late dividend contract

January  
(month 0)



January  
(month 12)  
(or earlier)\*

Time period	Settlement price used
Contract open <b>until</b> final remainder payment	(Announced rate) - (paid in 1 <sup>st</sup> year)
Final remainder payment <b>until</b> expiry	(Announced rate) - (paid in 1 <sup>st</sup> year)
<b>Final settlement price</b> on expiration	Dividend paid out over the contract lifetime (that relates to previous year's dividend)
Interim changes to announced/confirmed rates	Revised announced/ confirmed rate

# Worked example of late payment

