

Innovation and optimization

in Europe's equity derivatives market

European single stocks

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Foreword

The importance of equity investing has never been higher for European-focused institutional investors. The market's long-term returns constitute an essential part of any large portfolio.

A liquid and operationally efficient options market is fundamental to the functioning of a strong European equity market. However, the complex mix of jurisdictions and their exchange infrastructures has, until recently, resulted in a bloated and costly trading ecosystem for these products.

With its recent reforms, Eurex brought together and simplified crucial aspects of the European options markets. The home market settlement that allows single stock derivatives traders to settle physical deliveries directly at ESES CSDs has brought significant settlement efficiencies to the market in the short time since its launch.

The availability of European-style options has also given portfolio managers greater flexibility in managing their options books, reducing early assignment risk. The range of trading strategies that can be executed on-exchange also increased due to delta-neutral trading, now offered as a fully automated service at Eurex.

Of course, traders who centralize their activities at Eurex will also gain access to the significant cost savings stemming from our cross margining. Margin efficiency is a core principle of Eurex's offering, and we are delighted to continue expanding the range of products through which this can be achieved. Eurex is committed to innovate and further grow the European listed derivatives market.



A handwritten signature in black ink, appearing to read 'P. Schultze'.

Philipp Schultze
Head of Equity & Index Sales EMEA, Eurex

Eurex single stock derivatives: the better option

In the burgeoning landscape of European single stock derivatives (SSD), Eurex is the go-to place for SSDs with nearly 70mn contracts in open interest, equal to roughly EUR 250 billion notional. How did Eurex's listed SDD segment become the better option for so many participants?

Europe's Single Stock Derivatives (SSD) market has matured into a diverse arena, offering investors a plethora of choices in OTC derivatives, structured products and listed derivatives, all tailored to specific investment needs. The landscape of listed SSDs moved from the traditional "home" exchange concept where derivatives were confined to national borders to today's continental offering. This evolution was propelled by investor demand and initiatives like TARGET2-Securities (T2S) in 2015, significantly enhancing securities settlement across Europe and increasing competition between exchanges.

Eurex stood at the forefront of this market change and now boasts the most extensive and liquid range of single stock options across Europe, featuring over 500 shares from 14 countries and a variety of American and European-style options with flexible expiration cycles ranging from shorter-dated weekly expirations to maturities that go up to five years. Additionally, there are flexible options contracts that allow investors to clear privately negotiated options contracts through Eurex Clearing by further customizing strike, expiry, exercise style and settlement.

Besides the broad single stock options offering, Eurex offers the full suite of the single stock ecosystem with single stock futures, dividend futures, stock tracking futures and equity & basket total return futures. Eurex regularly reviews its offering, adding new names quarterly, or due to IPO's or the corporate action calendar.

Liquidity is key

Liquidity is the lifeblood of financial markets. Liquidity is also 'sticky'; it acts like a magnet for more volume, and investors are usually not easily convinced to change venues. Eurex believes that diverse factors contributed to building its liquidity depth and its success in competing with other exchanges.

By adopting a Pro Rata matching model in 2019, Eurex enhanced the size visibility in its order books, facilitating the execution of larger trades. And, unique in its approach, Eurex also implemented Passive Liquidity Protection, attracting a wider spectrum of market makers, bolstering order books, and fostering efficient price discovery. Beyond the visible order book liquidity, margin efficiencies, through its Eurex Clearing Prisma

Eurex boasts the most extensive and liquid range of single stock options across Europe, featuring over 500 shares from 13 countries.

Market participants seek an exchange that ensures comprehensive connectivity, a diverse product range, transparency and a consistent adherence to rules, particularly in handling corporate actions.

margin methodology, also persuaded many market participants to switch to a single exchange for their European SSDs.

Building on a unique offering

Maintaining the lead requires constant adaptation, innovation and listening to the client base.

Market participants seek an exchange that ensures comprehensive connectivity, a diverse product range, transparency and a consistent adherence to rules, particularly in handling corporate actions. Eurex excels in these areas, with an extensive network of more than 300 exchange participants and 175+ clearing members, and, by far, the broadest range of stock options in Europe. This, combined with a track record of more than two decades of consistently applying its rulebook to corporate actions, makes Eurex a reliable and trusted partner. With its competitive pricing, innovative liquidity solutions, and innovations such as the introduction of delta-neutral strategies, it solidified and expanded its premier position.

Margin efficiencies

Eurex also has the largest liquidity pool of index, TRF and single stock products. This brings a less-discussed yet significant advantage to market participants, as having all your index and single stock positions on a single exchange can result in significant portfolio margin offsets. Through PRISMA, Eurex's advanced risk management system, participants can reach margin savings of up to 80 percent compared to holding them separately. Clients can always reach out to the exchange for portfolio margin analysis or use the tools provided to simulate their real portfolios and the impact different positions have on their margin.

Conclusion

Eurex's SSD segment caters to diverse investor needs, balancing the customization of OTC derivatives with the security of a CCP, which minimizes counterparty risk. The listed environment also comes with the added advantage of significant margin offsets, an important consideration amid Europe's implementation of UCM. Eurex also stands out as a highly connected trading venue offering an array of products and strategies, bolstered by a substantial collateral pool for optimized liquidity sourcing.

This, combined with a track record of more than two decades of consistently applying its rulebook to corporate actions, makes Eurex a reliable and trusted partner. With its competitive pricing, innovative liquidity solutions, and innovations such as the introduction of delta-neutral strategies, it solidified and expanded its premier position.

This article is based on a video interview with Nicolae Raulet, Equity & Index Product Development at Eurex, featured on Trader TV.

Eurex Home Market Settlement drives the further unification of the single stocks derivatives market

The growth of European single stocks derivatives (SSDs) created a large and diverse range of products for equity market exposure. However, this growth came with complexity, often adding costs to trading. As the key hub for the European market, Eurex has undertaken constant upgrades to ensure cost-efficiencies for traders. The newest feature is enabling the home market settlement.

While equity derivatives investors can take positions in OTC and structured products, changes such as stricter regulatory enforcement of uncleared margin and the demand for higher transparency made more traders choose listed venues to trade single stock contracts.

However, these advantages alone do not guarantee success. To continue attracting and building liquidity, exchanges such as Eurex constantly implement unification processes and reduce cost barriers.

Today, Eurex hosts Europe's most liquid venue for single stock options, with about 70 million contracts of open interest – equivalent to EUR 250 billion. Traders can gain exposure to more than 500 shares from 14 countries using American and European-style options with weekly and monthly expiration cycles of up to five years.

This has moved the European market away from its initial structure of home exchanges, where single stock derivatives would trade on the domestic exchange of origin. Over time, market structure

increasingly moved towards a hub model, where traders execute their business at one venue and can leverage efficiencies such as cross-margining.

Eurex offers margin efficiencies across its single stock product range and index products. Other unification measures include a single rulebook for corporate actions, which, in addition to its membership of the European Corporate Actions Committee, ensures consistent corporate action treatment and minimal market disruption.

Together, these features reduce friction and inefficiencies in the trading lifecycle, smoothing out the market and ultimately encouraging greater liquidity.

“ With the implementation of Eurex’s Home Market Settlement project and connectivity to the ESES CSDs, allowing clients to settle directly at the respective Home Market.

Kaltrina Hamza
Securities and Collateral Clearing Design, Eurex



Kaltrina Hamza, Securities and Collateral Clearing Design, Eurex

Home market settlement

The latest step in this constant effort of efficiency-seeking was the home market settlement service, a measure that significantly reduced the operational costs of the single stock market.

With home market settlement, clients can settle their physical deliveries directly at the Euroclear ESES CSDs (France, Belgium and the Netherlands). For liquidity reasons, this aligns with the market’s preference to hold domestic equities in their local home market.

“With the implementation of Eurex’s Home Market Settlement project and connectivity to the ESES CSDs, allowing clients to settle directly at the respective Home Market” Kaltrina Hamza, Securities and Collateral Clearing Design at Eurex.

“As such, re-alignment of assets can be avoided, significantly reducing the number of delivery instructions required for settlement, bringing down the risk of settlement delays and failures. Ultimately, it results in lower settlement costs across the market.”

For now, home market settlement only applies to ESES CSDs. However, as a next step, Eurex intends to expand the offering to other European markets, including Italy and Spain. The long-term goal is to enable home market settlement for all components of the EURO STOXX 50®. Meanwhile, Clearstream remains a fundamental part of Eurex’s infrastructure, with its own set of innovative utilization such as the Investor-CSD solution for market participants.

Cross-CSD settlement at Eurex will use the European harmonized settlement infrastructure of the Target2-Securities platform.

“The main driver of the overall project is to help our clients to improve their operational processes,” adds Hamza. “Our goal as CCP and market infrastructure provider is to ensure and further improve settlement efficiency on the market.”

This article was initially published at [The Trade](#).

Now is the time to consider European style equity options

Listed equity options are mostly American style. This factor comes into play with institutions with an option portfolio and no desire to have these positions exercised. For example, having a short call turn into a short position in the underlying or having a short put assigned, resulting in a long position in the underlying equity. Concerns around this potential issue have increased with the increase in structured products incorporating option selling into their investment approach. Eurex has a solution for this with European style equity options, which allow portfolio managers to short options without the risk of early assignment.

American versus European style options

Before diving into European style equity options, we should quickly review American and European style contracts. European style options may not be exercised until expiration. On the other hand, American style options may be exercised at any moment of their life cycle.

Early assignment risk

“European style equity options offer a hedge against a specific expiry without the risk of an early assignment,” says Philipp Schultze, Head of Equity & Index Sales EMEA, Eurex.

A risk associated with short positions in American style options is early assignment. Specifically, short-call positions may have to fulfill their obligation to deliver shares in the underlying stock at any time leading up to expiration. Holding short put positions in American style options may result in being forced to purchase the underlying stock before expiration. Typically, the risk of early assignment on both short call or put positions increases around the time a firm pays dividends, but owners of options have the right to exercise at their discretion.

Remember, there is no early assignment risk on European style options. This works well if a manager intends to hold an option position close to expiration but trade out of it to avoid assignment if it's in-the-money at expiration. The following examples use market pricing for two stocks with active European style option markets.

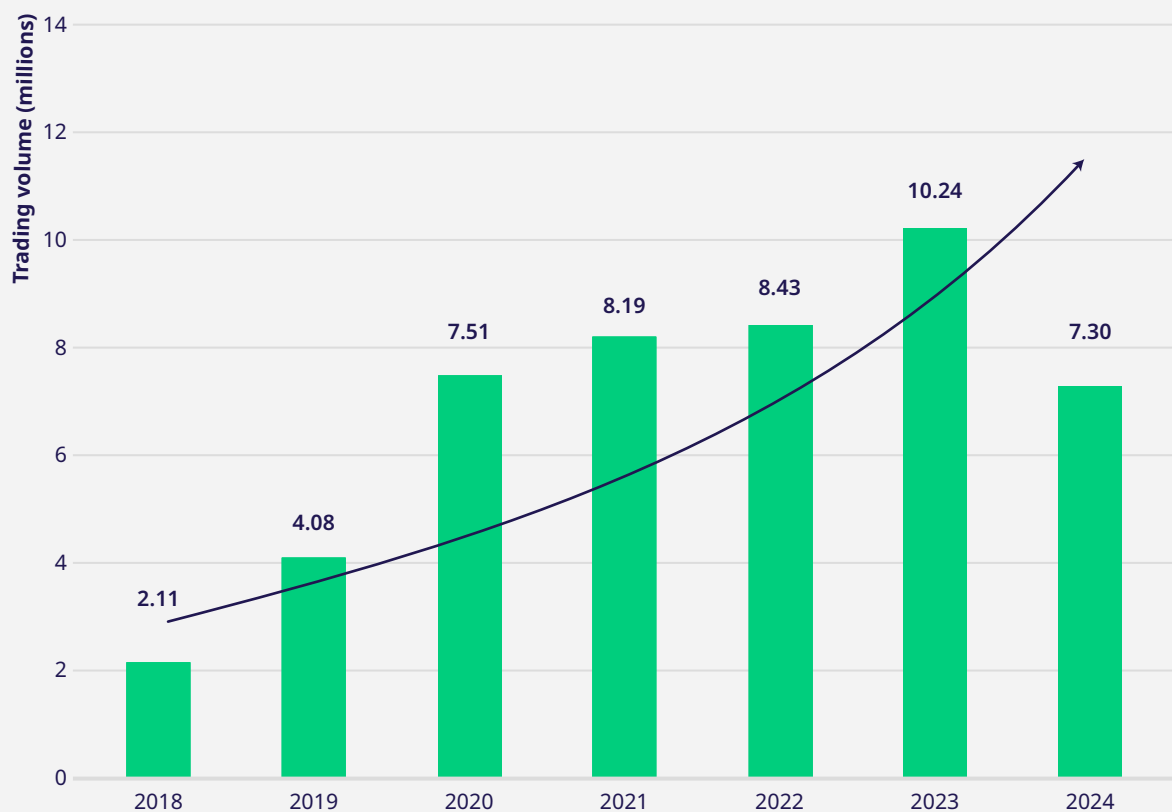
Short put example

Roche Holding AG (ROG) is one of the most active equity options markets with both American and European-style options contracts. Late on 2 April 2024, ROG was trading at 227.80. Consider a trader who believes ROG will stay above 225.00 over the next couple of weeks and would like to speculate

“European style equity options offer a hedge against a specific expiry without the risk of an early assignment.”

Philipp Schultze
Head of Equity & Index Sales EMEA, Eurex

Figure 1: European style stock option volume by year



on this outlook without the risk of buying ROG shares due to early assignment. They may consider selling an April 225 Put, specifically the European style version. There are both American and European style options available for ROG. The European style ROG Apr 225 Put has a bid of 1.71, while the American style version is 1.72 bid.

Covered call example

Many structured products offer exposure to consistent covered call strategies. These funds will roll their positions on standard third-Friday expiration dates. Late in the day on 19 April, Novartis AG (NOVN) was trading at 85.91. A fund that sells At-The-Money (ATM) call options would look to the ROG Apr 86 Call as the appropriate contract. As in the short put example, the pricing of the American and European style options are similar, with the midpoint of the American style bid-ask spread at 1.625 and the midpoint for the European style version at 1.64.

These two examples are the most basic of option trades. However, spread trades where one option is purchased and another sold could be implemented without worrying about a portion of the spread trade turning into a position in the underlying stock. Also, European style equity options are suitable for dispersion trading, where a manager takes a position in index options and individual equity options to benefit from a difference in implied volatility. Assignment on shorted American style options is a risk associated with dispersion trading. European style options negate this risk.

Eurex and European style equity options

Eurex recently expanded the number of stocks with European style exercise to 119, about 20% of the equities with American-style options. These 119 stocks are the equities with the most active daily option volumes. Although volumes slightly slowed down in 2024, there were still over 7 million traded contracts, representing over 4% of all stock options traded volume (Figure 1).

“ We see European Exercise Style options as a simple and elegant product that allows short-interest users of the options to avoid an unwanted loss of control over their exposure during the life of their trade.

Conor McCann

European Head of Derivatives Direct Client Trading, Susquehanna

“At Susquehanna, we see European Exercise Style options as a simple and elegant product that allows short-interest users of the options to avoid an unwanted loss of control over their exposure during the life of their trade,” says Conor McCann, European Head of Derivatives Direct Client Trading, Susquehanna. “These products have been traded by us since their inception. We treat them very similarly to their American exercise complements when pricing and providing liquidity on screen and with our direct trading counterparties.”

As of 2024, European style equity options represented about 4% of equity option volume, up from 1.1% in 2018. In addition to steady volume growth, over 100 member firms have traded European style equity options, with 19 individually accounting for over 500,000 traded contracts. The widespread interest in European style equity options should foster further volume growth and solid liquidity.

Conclusion

Selling options alone or versus a position in the underlying stock is a popular use of listed contracts by retail and institutional traders. A risk associated with most short equity options trading is an early assignment. Eurex recognized this issue over six years ago and created an elegant solution with European style equity options. Often, new methods of trading take time to gain acceptance. However, liquidity has not been an issue for these relatively new contracts, with more names being added recently and volume continuing to grow.

Maximize capital efficiency with Eurex's portfolio margin solutions

One of the most important factors for traders when considering a strategy is the margin requirement for initiating and maintaining a position. Professional portfolio managers may benefit from applying portfolio margining, which focuses on total risk as opposed to the risk of loss for each position.

Eurex has been a leader in responding to customer input to sensible margining. Eurex's portfolio margining process allows for risk-netting of futures and options on highly correlated underlying markets or assets that share industry characteristics. Eurex assigns various products into groups to achieve this, allowing for more comprehensive risk calculations to implement portfolio margining across positions.

For example, a long position in EURO STOXX 50® futures could be combined with long put positions on individual stocks, reducing margin. The example in Table 1 demonstrates approximately a 70%

reduction in initial margin when portfolio margining is applied instead of margining each position.

This first example of portfolio margining benefits combines long equity futures with a long put option position in blue-chip securities. The initial margin for all four positions is over EUR 206,000 without portfolio margining. When portfolio margining is considered, this figure drops by about EUR 144,000 or 70%, as noted above. All three put positions are on blue-chip stocks that are expected to move in sync with the EURO STOXX 50®, allowing for a dramatic reduction in initial margin.

Table 1: Single vs. Portfolio Margin – Long Index Futures / Long Individual Stock Puts

Position	Contracts	Underlying	Eurex ID	Expiration	Strike	Type	Initial margin (single)	Initial margin (portfolio)
Long	35	EURO STOXX 50 Future	FESX	Dec 2023		Future	105,220.61	-10.311,40
Long	800	ING	INN	Dec 2023	12	Put	19,616.00	9.237,31
Long	50	ASML	ASM	Dec 2023	600	Put	57,123.00	55.860,12
Long	600	Philips	PHI1	Dec 2023	18	Put	24,588.80	7.836,56
Total							206,548.41	62.622,59

Table 2: Single vs. Portfolio Margin – Long Index Futures / Short Individual Stock Calls

Position	Contracts	Underlying	Eurex ID	Expiration	Strike	Type	Initial margin (single)	Initial margin (portfolio)
Long	50	EUROSTOXX 50 Future	FESX	Dec 2023		Future	149,927.51	93,265.26
Short	-20	LVMH	MOH	Dec 2023	690	Call	80,557.48	16,314.71
Short	-100	Total	TOTB	Dec 2023	62	Call	34,702.77	7,292.57
Short	-7	ASML	ASM	Dec 2023	600	Call	30,585.16	2,954.98
Total							295,772.92	119,827.52

Table 3: Single vs. Portfolio Margin – Short Sector Futures / Long Individual Stock Calls

Position	Contracts	Underlying	Eurex ID	Expiration	Strike	Type	Initial margin (single)	Initial margin (portfolio)
Short	300	EURO STOXX 50 Banks Future	FESB	Dec 2023		Future	180,567.12	-5,448.26
Long	1,000	ING	INN	Dec 2023	12	Call	51,540.00	23,486.68
Long	500	BBVA	BBVD	Dec 2023	7.75	Call	18,808.46	1,134.24
Long	1,000	Nordea	NDB	Dec 2023	10	Call	35,250.00	14,900.11
Long	500	Deutsche Bank	DBK	Dec 2023	10	Call	34,447.87	10,052.35
Long	1,000	Santander	BSD2	Dec 2023	3.5	Call	20,043.72	2,940.53
Total							340,657.17	47,065.65

Table 2 is a second example of combining positions to achieve capital efficiency through portfolio margining. This will greatly benefit traders who like selling calls against long positions. However, calls are sold on individual stocks against broad-based index futures in this case.

This second example could be seen as a covered call with the long futures position replacing the individual stocks. The net result is a reduction of about EUR 176,000 or 59% of the original single margin amount.

Astute traders may realize there are secondary benefits to this second example. First, by selecting short calls on individual stocks, a portfolio manager could select stocks they expect to underperform the EURO STOXX 50[®] over the trade's lifespan. Typically, a call will be sold against the underlying security. However, with portfolio margining, a manager can be more strategic when choosing individual calls to sell. Finally, this creates more choices when selling calls, as the manager is not limited to the stocks they own.

Another benefit is that the implied volatility of individual stock options is typically higher than index options. For example, the 30-day at-the-money implied volatility average for the EURO STOXX 50[®] was about 12.00% over the first five months of 2024. That same figure is 19.58% for TOTB and 24.64% for MOH. ASM tops those stocks with an average of over 37%.¹

A final example of the benefits of portfolio margining combining futures and options appears in Table 3. In this case, EURO STOXX 50[®] Banks futures were sold short, and this position is combined with long call positions on five individual bank stocks.

The margin reduction in the final futures-related case totals over EUR 293,000 and a margin savings of 86%. This figure exceeds the regulatory cap of 80%, resulting in an initial margin of about EUR 68,131. The risk for the short futures position is higher bank stock prices, a scenario that would likely result in a value increase of the long calls on individual bank stocks. In addition to a more

¹ Implied volatility data downloaded from Bloomberg using 30-Day IVOL at 100.0% Moneyness function

Table 4: Single vs. Portfolio Margin – Bullish / Bearish Calendar Spread

Position	Contracts	Underlying	Eurex ID	Expiration	Strike	Type	Initial margin (single)	Initial margin (portfolio)
Long	100	Mercedes	DAI	15 Mar 2024	56	Call	27,997.42	-23,159.29
Short	100	Mercedes	DAI	15 Dec 2023	56	Call	58,376.23	31,715.65
Long	100	Volkswagen	VO3	15 Mar 2024	100	Put	27,971.66	-26,204.30
Short	100	Volkswagen	VO3	15 Dec 2023	100	Put	64,406.73	42,598.79
Total							178,752.04	24,950.85

favorable margin, this is another case of a manager having the ability to choose specific components of an index versus using index options in combination with futures. Here, the difference is that the long calls act as a pseudo-hedge against an index increase. A manager could choose calls on stocks where they expect an index outperformance when the market moves up.

Finally, portfolio margining can be used when taking offsetting positions in stocks in the same industry. Table 4 shows this example by combining a bullish and bearish calendar spread on two automobile manufacturers.

In this calendar spread example, a trader owns longer dated calls and puts than their short positions; specifically, the December options

will expire before March. The initial margin for individual option positions totals EUR 178,752.04. This drops to EUR 24,950.85 when portfolio margining is applied. Note that this case involves two stocks in the same industry, which offers efficient use of capital in cases where a portfolio manager is pair trading stocks with the goal of one outperforming the other.

The previous examples demonstrate how Eurex's portfolio margining benefits firms taking positions in instruments that share common risk characteristics. Eurex worked closely with all interested market participants (buy side, sell side, and liquidity providers) in developing and updating their approach to portfolio margin.

This article was initially published at [The Trade](#).

Eurex's portfolio margining process allows for risk-netting of futures and options on highly correlated underlying markets or assets.

Northern exposure

Activity in exchange-traded derivatives increasingly centers around regional trading centers. The hub structure of pan-European exchanges offers market participants a simplified one-stop shop model to access regional exposure.

In this article, Taras Markiv, Equity & Index Product Design at Eurex, helps you explore the Nordic derivatives landscape.



Taras Markiv, Equity & Index Product Design, Eurex

As each hub agglomerates exposure to the geographies and sectors within a region, transactional liquidity deepens, and other benefits, such as cross-margining, emerge. In Europe, Eurex has positioned itself as the strongest continental hub. With its standing as the home of euro trading, it provides the full range of equity, credit, interest rates and FX derivatives denominated in euros.

However, while euro activity will always remain the cornerstone of a pan-European derivatives hub, Europe's other currencies are also a fundamental part of the offering.

This truth made Nordic derivatives a key pillar of Eurex's offering, with the listing of 29 Swedish Krona stock options in September 2023 marking the beginning of a Nordic options roll-out across the venue. Danish single stock options followed in the summer of 2024, becoming the 14th country on Eurex's offering, see Table 1.

Adoption of the Swedish options suite has been quick, with more than 140,000 contracts traded since launch. Nordic listed derivatives constitute a competitive market, but Eurex has made a successful entry into the segment supported by a competitive fee structure and commitment from market makers to quote the products on screen. Eurex believes trading activity in Nordic options has the potential to grow into millions of contracts per year.

The emergence of the investment theme "GRANOLAS" fostered interest in the Nordics. The acronym, first coined by Goldman Sachs, refers to eleven prominent European companies. With the listing of Danish Krona-denominated Novo Nordisk single stock options, Eurex completed access to the full basket of GRANOLAS. Eurex was also the first European exchange to offer weekly options on Novo Nordisk, in addition to the longer-dated maturities of up to 5 years.

Nordic listed derivatives constitute a competitive market, but Eurex has made a successful entry into the segment supported by a competitive fee structure and commitment from market makers to quote the products on screen.

Table 1: Eurex' single stock options offering

Equity options* currency	Underlying country	Index components covered	No. of equity options
CHF	Switzerland	SMI, SLI, SMIM	152
EUR	Germany	DAX®, MDAX®, TecDAX®	197
	France	CAC40	91
	US	S&P500 (Listed at Xetra market)	20
	Netherlands	AEX	52
	Italy	FTSE MIB	41
	Spain	IBEX 35	25
	Belgium	BEL 20	19
	Austria	ATX, ATX five	23
	Finland	OMX Helsinki 25	20
	Ireland	ISEQ 20	7
GBP	Great Britain	FTSE 100	34
SEK	Sweden	OMX Stockholm 30 and Large Caps	34
DKK	Denmark	OMX 20 Copenhagen	7
Total			722

* Not all equity options are available for firms trading from the U.S.

Table 2: Portfolio margining of long single stock options vs. short futures

Position	Contracts	Underlying	Eurex ID	Expiration	Strike	Type	Initial margin (single)	Initial margin (portfolio)
Short	80	STOXX Europe 600	FXXP	Dec 24	860	Futures	112,222	6,775
Long	150	Novo-Nordisk	NON	Dec 24	1,760	Call	41,056	22,658
Long	150	AstraZeneca	AZS	Dec 24	280	Call	29,559	21,621
Long	100	Roche	ROG	Dec 24	720	Call	41,257	11,233
Long	50	LVMH	MOH	Dec 24		Call	58,511	30,418
Total (EUR)							282,605	92,704

However, the main advantage of trading Nordic exposure on Eurex is cross-margining, with Eurex members achieving significant portfolio margin savings against their other Equity & Equity Index positions at the exchange.

Margin efficiencies of combining short STOXX® Europe 600 futures with a long single-name call position on several GRANOLAS constituents, for example, can achieve savings of 67%, as can be seen in Table 2 below. Alternatively, combining long futures and long put options to offer protection on the single constituencies

would yield similarly high margin offsets. This is a significant attraction for the buy-side community and an essential part of Nordic equity markets. With many of these funds based in the UK, a majority are also already active market participants at Eurex.

Eurex plans to continue onboarding clearing members in this segment, enabling more clients to execute their option strategies at Eurex and benefit from the margin efficiencies of keeping the equity and index derivatives portfolio at one clearing house.

After its successful start, Home Market Settlement prepares for further expansion

Eurex's Home Market Settlement service for single stock derivatives demonstrated its success soon after launching on 23 September, evidenced by the trading volumes settled in its inaugural week. Volumes have since increased and are expected to rise as additional banks onboard to the service.

The fundamental principle of the Home Market Settlement is that single stock derivatives traders can now settle physical deliveries directly at the ESES CSDs – Euroclear France, Euroclear Belgium, and Euroclear Nederland. The previous market structure involved realignment, costing time and money, as well as carrying a heightened risk of settlement delays and failures due to the higher level of delivery instructions needed in the settlement chain. By enhancing this settlement infrastructure, Eurex created significant operational efficiencies for traders on the continent.

“The Home Market Settlement service avails settlement of physical deliveries at Euroclear Belgium, France and the Netherlands,” says Alexandra Roche, Product Manager, Citi. “This eliminates the need to realign positions from the local market to CBF and, in turn, improves settlement efficiency.”

“Given the potential reduction in risk of settlement delays and decrease in settlement costs, Citi was one of the first to offer this service to clients. Our clients have observed increased efficiencies in the settlement process and improved risk management on the back of a decrease in buy-in risk and pilfering risk from their omnibus structure.”

Simplifying vol strategy

Home market settlement promises efficiencies across the European single stock derivatives market. One area where this new structure promises particularly notable efficiencies is option volatility strategies. These involve a trader buying or selling an option while selling or buying the underlying stock.

Termed a “delta neutral trade”, the option’s delta for a call can range from 0 to 1. Traders need to short an equivalent number of stocks to balance

“ The Home Market Settlement service avails settlement of physical deliveries at Euroclear Belgium, France and the Netherlands.

Alexandra Roche
Product Manager, Citi

the overall option's delta. The option's price movements then track the underlying stock movements.

Traditionally, banks have executed this trade using the OTC market through a back-to-back transaction with another broker – receiving the trade's cash leg after trading the option. However, this strategy creates counterparty risk.

Eurex offers a fully listed alternative for option volatility strategies. Now, traders can execute a standard option and a same-day expiring single stock future as one trade on the venue. As the future expires on the evening of the transaction, the trader can then take delivery of the underlying stock on the same day.

Under the new Home Market Settlement regime, traders can now achieve further efficiencies by directly delivering the underlying stock to their preferred CSD.

Next Steps

The number of member banks in the pipeline for Home Market Settlement is growing, with more and more firms preparing for onboarding to the service in the coming weeks and months.

However, momentum is set to build beyond that, as Eurex plans to expand the service to cover Italy, allowing for physical delivery at its domestic CSD.

As Eurex continues to spread Home Market Settlement across the continent, more traders will reap the benefits of this evolution in market structure.

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Mathis Schulze-Eyssing, Equity & Index Sales, Eurex

Conclusion

2024 has been a significant year for European options, with Eurex making fundamental reforms to the market's plumbing. These reforms already offer market participants significant cost savings and operational improvements that will economize time as well as cut costs through more efficient margin management.

The difficulties of establishing a competitive regional equity market in the global economy are substantial, with intense competition for flows. It is, therefore, of fundamental importance that the infrastructure investors trade on is built to maximize efficiency and minimize operational costs.

With the array of reforms and initiatives that Eurex initiated this year, the European market now boasts these features. We expect a thriving 2025 for European options based on these solid building blocks.

About Eurex

Eurex stands for the leading European derivatives exchange and – with Eurex Clearing – one of the leading central counterparties globally. Being architects of trusted markets characterized by market liquidity, efficiency and integrity, we provide our customers with innovative solutions to seamlessly manage risk. On the trading side, we mastermind the most efficient derivatives landscape by pioneering ingenious products and infrastructures as well as by building 'smart' into technology – offering a global product range, operating the most liquid fixed income markets in Europe and featuring open and low-cost electronic access. As central counterparty, Eurex Clearing builds trusted relationships with and amongst market participants, enabling effective risk management and delivering high efficiencies to clients.

Architects of trusted markets

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