

## KEY INFORMATION DOCUMENT (PUT OPTIONS ON WET AND DRY FREIGHT FUTURES)

**Purpose:** This document provides key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

**Product: Put Options on Wet and Dry Freight Futures - ICE Futures Europe (“IFEU”) -**

<https://www.theice.com/products/Futures-Options/Freight>

Examples: TC2 FFA - Northwest Europe to USAC (Baltic) Average Price Option / TC5 FFA - Arabian Gulf to Japan (Platts) Average Price Option / TD7 FFA - UK North Sea to Continent (Baltic) Average Price Option

Call +44 (0)20 7429 4640 for more information or email: [Sales-Oil@TheIce.com](mailto:Sales-Oil@TheIce.com)

IFEU is a recognised investment exchange supervised by the Financial Conduct Authority.

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**Alert:** *You are about to open a position in a product which is not simple and may be difficult to understand.*

### What is this product?

**Type:** Derivative. **Put Options on Wet and Dry Freight** are considered to be derivatives under Annex I, Section C of **MiFID 2014/65/EU**.

### Objectives

A Put Option contract on Wet and Dry Freight (**henceforth “Freight Put Options”**) is a derivative contract based on a financial index only giving rise to the payment or liability to payment of the outturn of an average index price against the traded value of the commodity contract (**“Index or Assessment”**). IFEU Freight Put Options are Asian-style and are also known as Average Price Options (APOs). A Freight Put Option will be automatically exercised on the expiry day (**“Last Trading Day”**) if it is “in the money”. In this case, this gives the **buyer** of a Freight Put Option a short position in the underlying Freight Future, which immediately goes to cash settlement. **Sellers** (writers) of a Freight Put Option, if the option is automatically exercised, will have a long position in the underlying Freight Future, which immediately goes to cash settlement on the Last Trading Day. If an APO is “at the money” or “out of the money” on the Last Trading Day then it will expire automatically. You cannot manually exercise your option on any day. You can close your position on any trading day up to and including the Last Trading Day. If you (as a **buyer**) ‘opened’ a position by buying a Freight Put Option, you sell the same contract to ‘close’ your position. If you (as a **seller**) ‘opened’ a position by selling a Freight Put Option, you buy the same contract to ‘close’ your position.

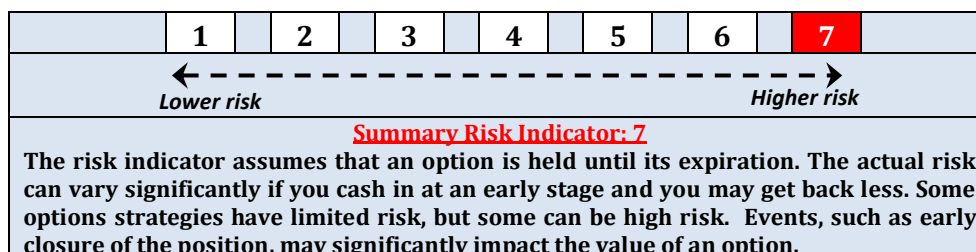
Factors that impact a Freight Put Option’s value include, but are not limited to, the strike price, time until expiration and value of the underlying Freight Future. Freight Put Options may in certain circumstances be unilaterally terminated by IFEU, and may be terminated by ICE Clear Europe Ltd. (**“ICEU”**) following an event of default of a Clearing Member or invoiced back (see “What happens if IFEU is unable to pay out?” below). Freight Put Options will (unless you choose to close the position beforehand) automatically expire on the expiry date.

### Intended retail investor

Freight Put Option products are not designed to be marketed to a specific type of investor or to fulfil a specific investment objective or investment strategy. A retail investor should become familiar with the characteristics of this product to make an informed decision on whether or not the product fits their investment needs. If in doubt, a retail investor should contact their broker or investment adviser to obtain investment advice.

### What are the risks and what could I get in return?

#### Risk indicator:



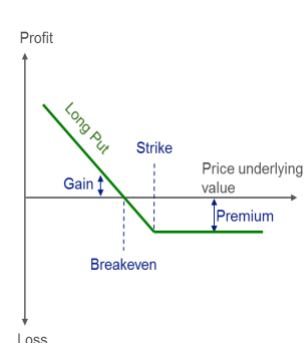
- The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets. We have classified this product as **7 out of 7**, which is the highest risk class. This rates the potential losses from future performance at a very high level.
- **Be aware of currency risk. You may receive payments in a different currency, so the final return you will get depends on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.**
- In some circumstances you may be required to make further payments to pay for losses. **The total loss you may incur may significantly exceed the amount invested.**
- This product does not include any protection from future market performance so you could lose some or all of your investment.

- If ICEU (see “What happens if IFEU is unable to pay out?” below) or any intermediary is not able to pay you what is owed you could lose your entire investment.
- **The risk and reward profile of a Freight Put Option depends on its terms, but will involve the following considerations:** **Buyers** of a Freight Put Option can incur a maximum loss equal to the option premium, plus any transaction costs. **Sellers (writers)** of a Freight Put Option can incur unlimited losses. **Buying or selling options can be high risk and requires extensive product knowledge.** The profit or loss potential of a Freight Put Option on the expiration date depends on the exercise price and the premium paid by a Buyer or the premium received by a Seller. The price of the Freight Put Option premium depends on several factors, such as the price movement of the underlying Freight Future or Index price, time remaining to expiry and the market expectations on volatility. Additionally, the potential for profit or loss of the Freight Put Option position depends highly on the way the position is used, e.g. Freight Put Options can be traded as a risk management tool to hedge other investments or as a stand-alone investment.
- This product can expose a retail investor to unlimited liabilities in certain circumstances and can be used for a variety of purposes e.g. for hedging/risk management or as a stand-alone instrument. This is a complex product and is only likely to be appropriate for the most experienced, sophisticated and knowledgeable types of investors.

### Performance scenarios

These graphs illustrate how your investment could perform. You can compare them with the pay-off graphs of other derivatives products in different Key Information Documents.

The graphs presented give a range of possible outcomes and are not an exact indication of what you might get back. What you get will vary depending on how the underlying will develop. For each value of the underlying, the graphs show what the profit or loss of the product would be. The horizontal axis shows the various possible prices of the underlying Put Option on the expiry date and the vertical axis shows the profit or loss.



#### **Buy Put Option on Freight Future:**

**Transaction:** Buy Freight Put Option.

**Investment:** Put Option premium amount and margin is also required.

**Margin:** Initial margin requirement, up to the amount required for having a delta-equivalent position in the Freight Future (approximately 5-40% of the contract nominal value) plus variation margin to mark to market prices on a daily basis.

**Market expectation:** Falling market. Buying this product holds that you think the price will decrease i.e. freight rates will fall.

**Profit/loss calculation:** The profit or loss at expiration is calculated as follows:

**Step one:** Take the Freight Put Option's strike price minus the price of the underlying value. When the result of this calculation is a negative figure, the result is set at zero.

**Step two:** Take the result of Step one and subtract the premium paid to buy the Freight Put Option.

**Step three:** The previous calculation determines the result per unit of the underlying value, but the

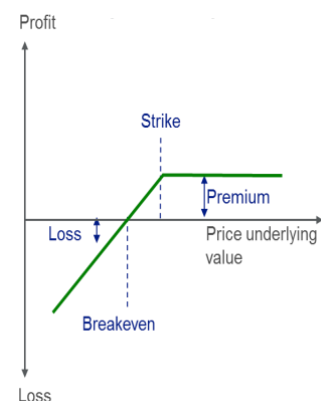
total profit or loss of a Freight Put Option contract depends on the monetary value of the tick size, or minimum price movement, of the contract. The total profit or loss of a Freight Put Option is therefore calculated by multiplying the value of Step two by the relevant tick size. In the case of Wet Freight Futures, this is \$0.10 (\$0.0001\$/mt x 1000mt).

#### **Profit and loss characteristics:**

**Profit:** Unlimited

**Loss:** Your maximum loss would be that you will lose all your investment (premium paid) plus transaction costs.

**Break-even:** When the price of the underlying Freight Future is at the strike price by the same amount as the premium paid to establish the position.



#### **Sell Put Option on Freight Future:**

**Transaction:** Sell Freight Put Option.

**Investment:** None, but margin is required.

**Margin:** Initial margin requirement, up to the amount required for having a delta-equivalent position in the Freight Future (approximately 5-40% of the contract nominal value) plus variation margin to mark to market prices on a daily basis.

**Market expectation:** Rising market. Selling this product holds that you think the price will increase i.e. freight rates will go up.

**Profit/loss calculation:** The profit or loss at expiration is calculated as follows:

**Step one:** Take the Freight Put Option's strike price minus the price of the underlying value. When the result of this calculation is a negative figure, the result is set at zero.

**Step two:** Take the premium received and subtract the result of Step one.

**Step three:** The previous calculation determines the result per unit of the underlying value, but the total profit or loss of a Freight Put Option contract depends on the monetary value of the tick size, or minimum price movement, of the contract. The total profit or loss of a Freight Put Option is therefore calculated by multiplying the value of Step two by the relevant tick size. In the case of Wet

Freight Futures, this is \$0.10 (\$0.0001\$/mt x 1000mt).

#### **Profit and loss characteristics:**

**Profit:** Limited to the premium received from selling the Freight Put Option.

**Loss:** Your maximum loss is unlimited and you may lose all of your investment and be required to make additional payments significantly exceeding the initial margin payment.

**Break-even:** When the price of the underlying Freight Future is at a level that would be equal to the strike price less the same amount as the premium received from selling the Freight Put Option.

Buying or selling a Freight Put Option is one of the ways that you can take a 'long' or 'short' Freight Future position and depends on

the investor's individual trading strategy.  
The scenarios shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor or distributor. The scenarios do not take into account your personal tax situation, which may also affect how much you get back.

#### What happens if ICE Futures Europe is unable to pay out?

IFEU is not responsible for paying out under the investment. All derivatives traded on IFEU are centrally cleared by ICEU. IFEU and ICEU are not within the jurisdiction of the UK Financial Services Compensation Scheme. In the event of a default by ICEU or your intermediary your position may become subject to ICEU's default procedures in accordance with its clearing rules, which may ultimately expose you to a risk of financial loss. It is possible that you may be included in any other compensation scheme depending on the exchange trading participant/member, clearing member, broker or other intermediary involved in a retail derivative transaction concerning this product. If you are in any doubt as to your position you should seek independent professional advice.

#### What are the costs?

##### Costs over time and Compositions of Costs:

ICE Futures Europe charges fees which are applied to the Clearing members. The full fee schedule is available on our website [Exchange & Clearing Fees](#). The person selling you or advising you about this product may pass on IFEU and ICEU charges and charge you other costs. If so, this person will provide you with information about these costs, and show you the impact that all costs will have on your investment over time. Further or associated costs may be charged to retail investors by the exchange trading participant/member, brokers or other intermediaries involved in a retail derivative transaction.

#### How long should I hold it and can I take money out early?

**There is no recommended holding period for this product.** Freight Put Options can be held until expiration (Last Trading Day) or positions can be closed out on any trading day up to and including the Last Trading Day. Whether or not retail investors choose to do so will depend on their investment strategy and risk profile.

- ✓ A long Freight Put Option position (i.e. a position opened by buying a Freight Option) can be closed by entering a sell order (e.g. by giving the relevant instructions to your broker) in the market on any trading day up to and including the Last Trading Day.
- ✓ A short Freight Put Option position (i.e. a position opened by selling a Freight Option) can be closed by entering a buy order (e.g. by giving the relevant instructions to your broker) in the market on any trading day up to and including the Last Trading Day.

#### How can I complain?

Retail investors should address complaints to the broker or intermediary with whom the investor has a contractual relationship in relation to this product or to the IFEU Complaints Handling Officer. Complaints must be made in writing to: The Complaints Handling Officer, ICE Futures Europe, 5<sup>th</sup> Floor, Milton Gate, 60 Chiswell Street, London, EC1Y 4SA, or can be emailed to: [ICEFuturesEurope.Complaints@theice.com](mailto:ICEFuturesEurope.Complaints@theice.com). See <https://www.theice.com/futures-europe/regulation> for full details of IFEU's Complaints Handling Procedures.

#### Other relevant information

**Contract specifications setting out key details of all Wet and Dry Freight Put Options traded on our markets are published on IFEU's website:** <https://www.theice.com/products/Futures-Options/Freight>  
Examples: [TC2 FFA - Northwest Europe to USAC \(Baltic\) Average Price Option](#) / [TC5 FFA - Arabian Gulf to Japan \(Platts\) Average Price Option](#) / [TD7 FFA - UK North Sea to Continent \(Baltic\) Average Price Option](#)

Please see the Contract Rules and Procedures for further details (<https://www.theice.com/futures-europe/regulation>). No portion of this document is, or is intended to be, addressed to persons outside the European Economic Area ("EEA"). IFEU has produced this document in order to provide a more efficient basis for compliance with Regulation (EU) No. 1286/2014 (the "PRIIPs Regulation") for exchange trading participants/members. To the extent permitted under the PRIIPs Regulation, IFEU undertakes no duty of care for the contents of this document and makes no warranty, representation or undertaking as to its accuracy. IFEU has not considered the specific circumstances of any 'retail investor' (as that term is defined in the PRIIPs Regulation) ("EEA Retail Investors"). EEA Retail Investors should only trade in this product based on their own assessment of the risks and should take their own financial, tax and legal advice. Any person making products to which this document relates available to an EEA Retail Investor is responsible for verifying whether this document is sufficient for their purposes or their clients' purposes, for adding any further disclosures as may be required for their clients and for assessing the suitability and appropriateness for their clients of any products traded on IFEU. IFEU does not admit any members that are EEA Retail Investors, and this document is only relevant to you if you have been offered trading in products traded on IFEU by a third party. IFEU is not responsible for the actions of any such third parties, and to the extent possible under applicable law, IFEU excludes all liabilities in relation to IFEU-traded products offered to EEA Retail Investors by any such third party. IFEU is not a 'PRIIP manufacturer' (as that term is defined in the PRIIPs Regulation) with respect to any offer to EEA Retail Investors in any EEA Member State other than those in which English is an official language or otherwise where a translated key information document in an official language of that EEA Member State is produced on IFEU's website.