Exchange of Options for Options (EOO) Transactions

Frequently Asked Questions

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What is an Exchange of Options for Options (EOO)?

An EOO (Exchange of Options for Options) is a transaction type offered by ICE Futures U.S.®, the CFTC-regulated U.S. futures subsidiary of IntercontinentalExchange®. An EOO transaction allows the two parties to an over-the-counter (OTC) options transaction to exchange the OTC option for an ICE Futures U.S. option. The buyer and seller of the OTC option must be the seller and buyer, respectively, of the Exchange-traded option acquired in the EOO.[1] The Exchange-traded option created by an EOO may either establish or liquidate an IFUS options position.

What are the benefits of EOOs to OTC market participants?

An EOO offers the best of two worlds. Market participants continue to operate within the familiar market structures and procedures of the OTC market to establish the option position; after the OTC transaction is completed, the EOO creates an options position with the advantages of the transparency, price discovery, margin treatment and clearing guarantees of the Exchange marketplace.

What OTC options are eligible for an EOO?

To be eligible for an EOO, the OTC option must have the same underlying futures contract, the same strike price and the same contract month as the Exchange option eligible for trading on the ICE electronic trading platform. (There need not be an open option position in the Exchange options contract at the month and strike of the OTC option, as long as the OTC option is struck for contract month and strike price valid for an Exchange-traded option based on that underlying product.) The following IFUS futures contracts offer options contracts that are available for electronic trading and therefore eligible for EOOs:

Agriculture
Cocoa (CO)
Coffee “C” (KC)
Corn (ICN)
Cotton No. 2 (CT)
Frozen Concentrated Orange Juice (FCOJ)
Soybeans (IS)
Soybean Meal (ISM)
Soybean Oil (IBO)
Sugar No. 11 (SB)
Wheat (IW)

Indexes
Russell 1000® index mini (RF)
Russell 2000® index mini (TF)
US Dollar Index®

When an OTC option is exchanged for an Exchange-listed option, it results in an exchange options position on the same underlying contract and at the same strike price and contract month. The resulting option is fungible with other Exchange-traded options with identical terms and is subject to margining, position reporting and all other procedures and requirements applicable to contracts traded on ICE Futures U.S.

What fees are associated with EOO transactions?

For IFUS coffee, cocoa, cotton, orange juice and sugar options contracts, the transaction fees for EOOs are the standard exchange and clearing fees for those contracts, plus a $ .50 per contract side EOO surcharge.

[1] It should be noted that to qualify as the OTC component of an EOO, the option may not have been acquired in a listed option transaction on any SEC-regulated or CFTC-regulated exchange.

For IFUS US grains products, there is EOO exchange and clearing fee of $1.00 per contract side and an EOO surcharge of $0.25 per contract side.

For IFUS financial products, EOO transaction fees are the standard exchange and clearing fees for those products. There is no surcharge for EOO transactions in financial products.

What documentation is required for EOOs?

At the request of the Market Surveillance Department, each buyer and seller of an EOO must satisfy the Exchange that it is a legitimate OTC option transaction and provide supporting documentation, including relevant OTC documentation for the OTC option.

A copy of Exchange Rule 4.13A which governs EOO transactions can be found at: https://www.theice.com/publicdocs/rulebooks/futures_us/4_Floor_Trading.pdf.

Special Restrictions Governing OTC Options

The Commodity Exchange Act currently restricts OTC trading of options on agricultural products and places limitations on the type of entity to which an OTC option on agricultural products can be offered, essentially limiting it to members of the trade in the underlying product who are using the option to hedge exposure in the commodity on an un-leveraged basis. In addition, the regulations require in the case of enumerated agricultural commodities (which include corn, cotton, orange juice, soybeans, soybean meal, soybean oil, and wheat but not coffee, sugar or cocoa) that each party to the OTC option have a net worth of $10 million, or have its obligations on the option guaranteed by a person that has such net worth and has a majority ownership interest in, is owned by, or is under common ownership with the party to the option.

In addition, regulations limit the entities engaging in financial OTC options to "eligible contract participants" as that term is defined in the Commodity Exchange Act.

Market participants considering the use of EOO transactions should consult appropriate counsel to determine whether or not they are eligible to enter into OTC trades in options on agricultural or financial products.

Resources

ICE Market Supervision 1 212 748 3949
ICE Clear U.S. 1 212-748-4001
ICE Help Desk 1 770 738 2101

Product-specific questions:
Soft Commodities: IceAgs@theice.com
Financial Products: Russell@theice.com
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