

What is a margin call?



When you enter into a Forward Contract with Western Union Business Solutions (UK) Ltd (WUBS UK) or an Option Contract with Western Union International Bank GmbH (WUIB), the direction of the spot rate determines whether your contract is:

- A.** In the money to you (ITM)
- B.** Out of the money to you (OTM)
- C.** At the money (ATM)

This means if the transaction is cancelled at any time it would result in:

- A.** A gain to you (ITM)
- B.** A loss to you (OTM)
- C.** Breaking even (i.e. neither party would make a loss or a gain) (ATM).

Deposit

You will be asked to pay an upfront deposit (usually a percentage of the notional amount you want to deal) in order to secure WUBS UK and WUIB against any future financial loss we may incur as a result of entering into a transaction with you.

Credit Line

Alternatively, we may be able to extend you a credit line. In doing this, we are allowing you to book Forward Contracts or Options Contracts up to a certain amount – your Forward or Option trading line (FTL/ OTL) – without needing to pay any upfront deposit. The size of this line is usually determined by the maximum loss we are prepared to risk by facilitating your trades without having any security for them. This is known as the Out of the Money Limit (OTM) – see below.

Mark to Market

Once you have open positions with us we constantly monitor their market value to determine the difference between the original cost of buying the contract on your behalf, and the present value if we have to sell it back. Known as the 'mark to market value', your net position may be positive ('In the Money') or negative ('Out of the Money')

Margin Call

When your net position with us is Out of the Money we count that against any deposit we hold, or credit line that you have in place with us. If this is insufficient to cover the negative position value, we will seek to remove that risk by requesting you deposit a specified sum as security – also known as calling for margin, or a Margin Call.

Out of the Money Limits

An OTM limit can be expressed as a percentage of the forward or option trading line. For example, we may extend you an option line with a maximum notional amount of £5,000,000 and a 10% OTM limit (£500,000). If you were to use the full notional amount in one trade, this percentage figure gives you an approximate* idea of how far the market can move before a margin call becomes likely. The lower the percentage limit, the greater the chances of a margin call.

*Option pricing is not linear and the mark to market profile varies from product to product, so applying your OTM limit percentage to the underlying spot rate is not a precise measure. We can provide more specific indications of where you may be margin called on request, either before or after entering into a transaction.

How does this work in practice?

As an example, you may have £100,000 of exposure that you need to convert to US dollars in 9 months' time. You want to hedge this risk using a Knock In Option structure protecting at \$1.5000 with a barrier at \$1.6000. Instead of a 10% deposit of £10,000, we offer you a £5,000 OTM limit (5%) meaning you pay nothing upfront.

During the life of that contract we would continue to monitor the market value to ensure that the deposit amount paid remained sufficient to cover the risk.

	Mth 1	Mth 2	Mth 3	Mth 4	Mth 5
Protection Rate	1.5000	1.5000	1.5000	1.5000	1.5000
GBP Notional	£100k	£100k	£100k	£100k	£100k
Spot Rate	1.4800	1.5200	1.5600	1.5950	
Mark to market value	£1,351	-£1,316	-£3,846	-£5,956	
OTM Limit	£5,000	£5,000	£5,000	£5,000	
Deposit Paid	£0	£0	£0	£0	
Net Position	£6,351	£3,684	£1,154	-£956	

In this example, the market has moved up to \$1.5950 by month 4 and the cost of selling the option now exceeds the OTM Limit. At this point, we would request an additional deposit (Margin Call).

How much will I have to pay and when?

The calculation is straightforward. We will request sufficient funds to cover any amount over the OTM limit plus 20% of the limit. This will be due within 48 hours of notification.

In the above example we would request that you deposit £956 to cover the breach, plus a further £1,000 to bring you back to 80% of your limit.

	Mth 4	Mth 5	Mth 6	Mth 7	Mth 8
Protection Rate	1.5000	1.5000	1.5000	1.5000	1.5000
GBP Notional	£100k	£100k	£100k	£100k	£100k
Spot Rate	1.5950	1.6100	1.6000	1.5700	
Mark to market value	-£5,956	-£6,832	-£6,250	-£4,459	
OTM Limit	£5,000	£5,000	£5,000	£5,000	
Margin Paid	£1,956	£1,956	£1,956	£1,956	
Net Position	£1,000	£124	£706	£2,497	

The reason we ask for more than the amount you are beyond your limit is to avoid repeated margin calls during volatile markets.

As shown in the table, by month 5, GBPUSD has risen further to \$1.6100, but another margin call is not necessary as the OTM limit plus margin amount is sufficient to cover the risk.

Is this a cost?

No. Continuing with the example above, after month 5, GBPUSD starts to fall back and we see in month 7 that the net position is now greater than the margin amount. At this point we will either return the margin deposit to you or, on your instruction, we can hold it until expiry at which time it will be deducted from the settlement balance due. In either case, the funds are not lost.

Does the product I use affect my chances of being margin called?

Yes. A Vanilla Option (where you pay a premium) can never have a negative value. Also, a Participator will move out of the money slower than an equivalent Forward Contract, which means the market would have to move twice as far before you were margin called. On the other hand, leveraged options – where the obligated amount is double the equivalent forward- will move out of the money more quickly. Please ask us for more information on this if needed.

What do I need to consider?

- You should always carefully consider how margin calls might impact your cash flows before trading. If your OTM limit is very low – say 1% or 2% - or the market moves significantly, you may well be margin called. This could potentially happen more than once if the market continues in one direction.
- The longer the required duration of your hedges, the greater the risk of your situation changing or the market moving significantly and therefore the chances of a margin call coming at an inconvenient time for your business.
- Option prices are determined by more than just the underlying spot rate. Changes to volatility, for example, will impact the MTM position of your hedge trades and, although unlikely, could trigger a margin call even if the spot rate has not changed.

What if I can't or won't pay?

If a margin call request is not met within the requisite 48 hour period, we will freeze your credit limit with us, prohibiting any new transactions or changes to the maturity/expiry dates of existing deals until payment is received. We will also commence all actions necessary (including any legal procedures) to recover the amounts required from you.

Buy / Sell	Strategy	Calendar Date	Instrument	Transaction N°	CCY 1	Amount 1	CCY 2	Amount 2	Strike	Expiry Date	Delivery Date	Days Left	Position CCY	Position	base	Double	Barrier2
Buy	Put	25-Jun-15	European	38853	EUR	20,000.00	GBP	14,926.00	1.339943722	28-Sep-15	30-Sep-15	30	GBP	-416.00	0	0	0
Buy	Put	25-Jun-15	European	38856	EUR	20,000.00	GBP	13,794.00	1.449905756	28-Sep-15	30-Sep-15	30	GBP	-7.01	0	0	0
Sell	Call	25-Jun-15	European	38850	EUR	-40,000.00	GBP	-29,852.00	1.339943722	28-Sep-15	30-Sep-15	30	GBP	97.75	0	0	0
Buy	Put	25-Jun-15	European	38862	EUR	20,000.00	GBP	14,926.00	1.339943722	28-Oct-15	30-Oct-15	60	GBP	-459.09	0	0	0
Buy	Put	25-Jun-15	European	38865	EUR	20,000.00	GBP	13,794.00	1.449905756	28-Oct-15	30-Oct-15	60	GBP	-28.75	0	0	0
Sell	Call	25-Jun-15	European	38859	EUR	-40,000.00	GBP	-29,852.00	1.339943722	28-Oct-15	30-Oct-15	60	GBP	203.11	0	0	0
Buy	Put	25-Jun-15	European	38871	EUR	20,000.00	GBP	14,926.00	1.339943722	26-Nov-15	30-Nov-15	91	GBP	-488.19	0	0	0
Buy	Put	25-Jun-15	European	38874	EUR	20,000.00	GBP	13,794.00	1.449905756	26-Nov-15	30-Nov-15	91	GBP	-50.35	0	0	0
Sell	Call	25-Jun-15	European	38868	EUR	-40,000.00	GBP	-29,852.00	1.339943722	26-Nov-15	30-Nov-15	91	GBP	282.77	0	0	0
Buy	Put	25-Jun-15	European	38880	EUR	20,000.00	GBP	14,926.00	1.339943722	29-Dec-15	31-Dec-15	122	GBP	-517.68	0	0	0
Buy	Put	25-Jun-15	European	38883	EUR	20,000.00	GBP	13,794.00	1.449905756	29-Dec-15	31-Dec-15	122	GBP	-75.34	0	0	0
Sell	Call	25-Jun-15	European	38877	EUR	-40,000.00	GBP	-29,852.00	1.339943722	29-Dec-15	31-Dec-15	122	GBP	363.31	0	0	0
Buy	Put	25-Jun-15	European	38889	EUR	20,000.00	GBP	14,926.00	1.339943722	27-Jan-16	29-Jan-16	151	GBP	-540.58	0	0	0
Buy	Put	25-Jun-15	European	38892	EUR	20,000.00	GBP	13,794.00	1.449905756	27-Jan-16	29-Jan-16	151	GBP	-95.90	0	0	0
Sell	Call	25-Jun-15	European	38886	EUR	-40,000.00	GBP	-29,852.00	1.339943722	27-Jan-16	29-Jan-16	151	GBP	429.55	0	0	0
Buy	Put	25-Jun-15	European	38898	EUR	20,000.00	GBP	14,926.00	1.339943722	25-Feb-16	29-Feb-16	182	GBP	-561.10	0	0	0
Buy	Put	25-Jun-15	European	38901	EUR	20,000.00	GBP	13,794.00	1.449905756	25-Feb-16	29-Feb-16	182	GBP	-115.10	0	0	0
Sell	Call	25-Jun-15	European	38895	EUR	-40,000.00	GBP	-29,852.00	1.339943722	25-Feb-16	29-Feb-16	182	GBP	492.72	0	0	0
Buy	Put	25-Jun-15	European	38907	EUR	20,000.00	GBP	14,926.00	1.339943722	29-Mar-16	31-Mar-16	213	GBP	-582.77	0	0	0
Buy	Put	25-Jun-15	European	38910	EUR	20,000.00	GBP	13,794.00	1.449905756	29-Mar-16	31-Mar-16	213	GBP	-136.24	0	0	0
Sell	Call	25-Jun-15	European	38904	EUR	-40,000.00	GBP	-29,852.00	1.339943722	29-Mar-16	31-Mar-16	213	GBP	560.63	0	0	0

How can I see my mark to market position?

You can request an update of your mark to market position at any time either over the phone or via email. We will also send you a monthly position report which shows the mark to market value of all the individual positions that you hold with us – primarily for accounting purposes – and the percentage of your credit line used

Extensions

In order to apply for a credit increase, you should first discuss your requirement with your hedging manager or dealer. They will then apply for an increase to your credit line by submitting a business case to our credit team. They may well require up to date financial statements such audited accounts if available, management accounts if not.

Please refer to the **Product Disclosure Statement** for information on our full range of option structures. This can be found at: <http://business.westernunion.co.uk/Risk-Management/Fx-options/MiFID>

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