Tailoring Options
to suit your needs

Options are flexible products and there are a number of ways of tailoring them to suit your needs. We set our below the components that can be amended.

1. Protection rate

As a general rule, the more favourable the protection rate, the less upside potential there will be and vice versa. For greater potential gains, some protection has to be sacrificed.

2. Participation percentage

While some of our Options provide 100% participation up to a given level, others only offer participation on a proportion (the participation percentage). By reducing the participation percentage, the barrier rate and / or the protection rate can be improved. All Options that offer 100% protection will have a less favourable protection rate than an equivalent Forward Contract in exchange for potential upside benefit.

Participation ↑ = ↓ Lower Protection Rate

Participation ↓ = ↑ Higher Protection Rate

However, as the participation percentage is reduced (i.e. the more like a Forward Contract the Option looks), the closer to the Forward rate the protection rate will get.

3. Protected Amount

Reducing the protected amount in comparison to the potential obligated amount will enhance the protection rate and / or amount of potential participation. Known as leverage, purchasing these types of Options will leave the buyer either under or over-hedged, but can often give a worst case rate more favourable than a Forward Contract. These Option types have a significantly less favourable mark-to-market profile than other hedging products, greatly increasing the chances of having to pay margin deposits and so should be used with caution.

Lower Protection vs Obligation ↓ = ↑ Higher Protected Rate

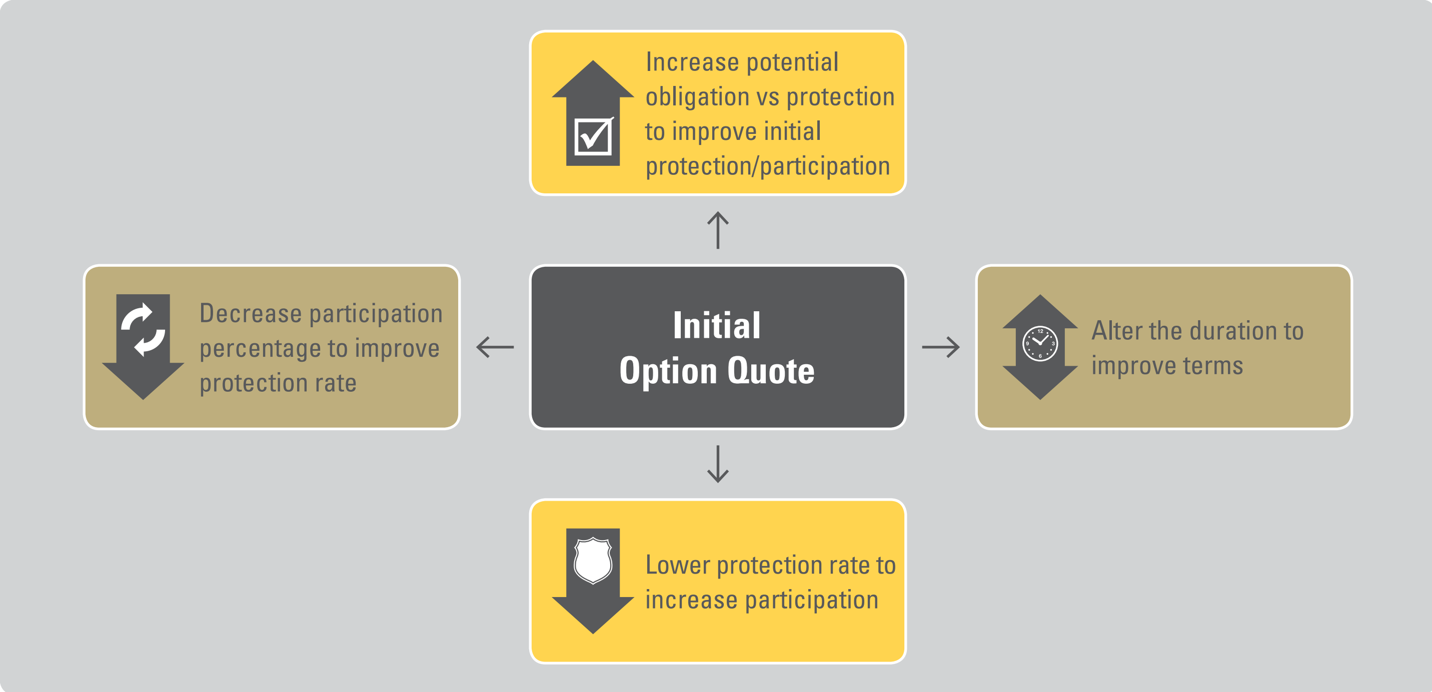
4. Duration

This measure is less straightforward as the effect of varying the duration depends on the underlying Option structure.

As a general rule, products where a significantly higher underlying rate produces a better outcome, such as uncapped upside products like the Vanilla or the Participator, will have more favourable protection rate terms in the short term and less favourable terms over the longer term.

Products which have a potentially detrimental outcome if the rate moves too far, such as those with knock-in barriers or Leveraged Products, will price better in the long term, but less so in the short term.

This is down to the relative values of the protection you are buying and the potential obligation that you are selling. If the terms being quoted are not quite what you are looking for, ask whether altering the duration will have a positive effect. If you plan to buy a series of expiries, known as a strip, to cover your exposure over a period of time, adding a month or two to the start or end of the strip can have a significant effect on the overall terms.



The diagram above shows the ways of amending the terms or flexing an Option and the associated risk level

Decreasing the participation percentage

This makes the Option more like a Forward Contract and improves the protection rate. Doing this reduces the risk (and potential benefit) of the Option.

Altering the tenor of an Option

Looking at hedging four months' risk instead of three, or starting your hedge sooner, reduces your risk in the market and potentially improves the Option terms available, without changing the risk profile of the Option itself.

- A longer tenor if a Knock-In or Leveraged type
- A shorter tenor if a Vanilla or Participator type

Lowering the protection rate to increase participation

This makes the Option less like a Forward Contract by reducing your protection rate in exchange for a greater potential benefit. As your outcome will be less favourable if the market moves against you, this increases your risk although not necessarily by a significant amount.

Adding leverage

This reduces your protection relative to your potential obligation. It improves the initial terms on offer, but adds risk to the outcome if the market moves adversely. This is the riskiest way of flexing an Option structure and is not suitable for all customers. Contact your hedging manager for more information.

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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