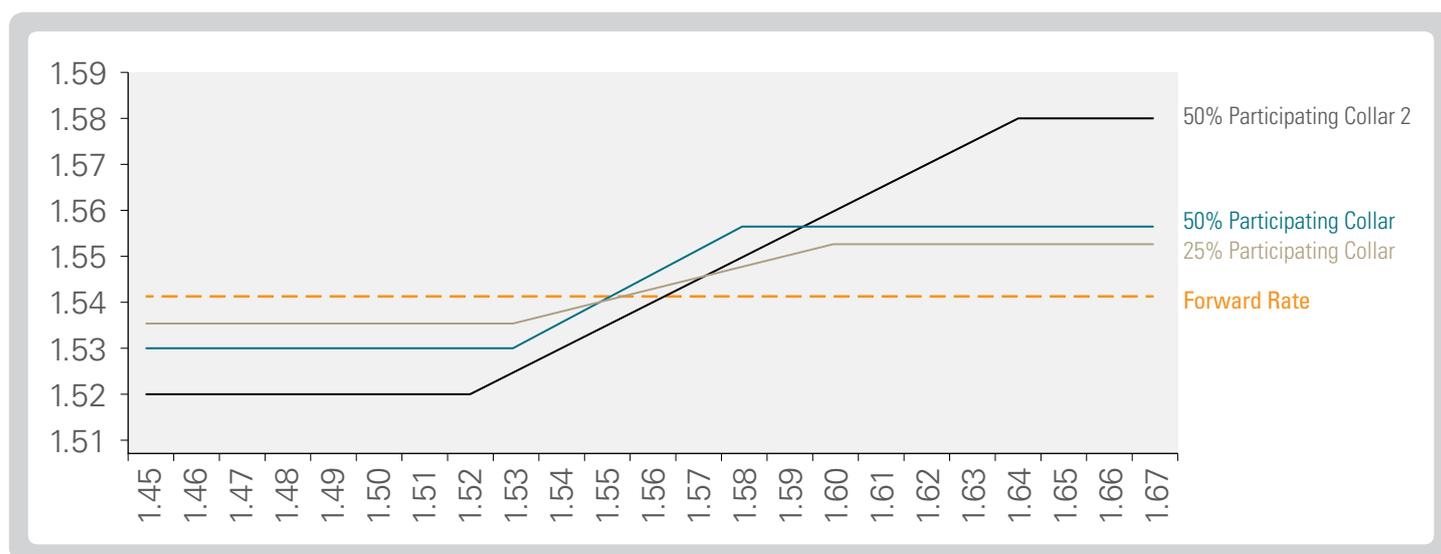


Flexing Options

This document illustrates how changing one of the terms of an Option – such as the protection rate – will affect the others. We have used the Participating Collar Option to demonstrate this.



If you choose a less risky Option, with a protection rate very close to the spot rate, the opposing Option will also be close to the spot rate. So even if the market moves in your favour, the potential upside (**participation**) is limited. To increase the possibility of a greater participation, you need to sacrifice some of your protection by lowering the protection rate.

In the chart above, the orange line represents the Forward rate at just over \$1.5400.

The green line shows a standard Participating Collar Option. The customer has chosen protection at \$1.5300 should the GBP/USD rate fall. If the rate increases however, the customer would be obliged to deal 50% at the protection rate of \$1.5300, but would then be free to deal the remainder at the prevailing spot rate.

If the spot rate rises above the participation rate of \$1.5800, the customer will be obliged to deal 50% at the protection rate (\$1.5300) and 50% at the participation rate (\$1.5800), giving a best case outcome of \$1.5550. By sacrificing just over 1 cent on

the protection rate, the customer has gained 4 cents of upside on 50% of his transaction, or 1.5 cents on the whole amount.

Increasing the potential upside

If the customer thinks the market is likely to move favourably, this might seem like a very conservative deal. The potential upside is not much more than the amount being given up.

To increase the potential upside, the customer can agree to a lower protection rate at \$1.5200 (the black line). The customer can now deal at spot on 50% of his requirement all the way up to \$1.6400. Giving up another 1 cent on the protection rate has meant a further 6 cents of potential upside on 50%, and just under 4 cents upside on the whole amount. The trade-off is that the protection rate is lower should the GBP / USD rate fall, and that the spot rate will need to be higher to achieve the \$1.5550 rate offered by the previous structure. If the customer believes that the GBP/USD rate will move favourably, this may well be an attractive compromise.

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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