No Dividend Risk Security Futures

The NDR (No Dividend Risk) product was launched on October 2010 in response to the customer demand to eliminate the risk associated with forecasting dividends. This is achieved by adjusting down the previous trading day’s settlement price (by the dividend amount) at the start of business on ex-dividend date.

- No short sale restriction, no locate requirement
- NDR futures on ADRs are adjusted by the estimated gross amount on the ex-date, which differ from the actual distribution due to currency fluctuations
- NDR products are adjusted for all distributions including ordinary dividends, special dividends, capital gain distributions, etc.

Overview:

- NDR Futures Described
- Comparison of NDR Future and Stock
- When There is a Loss of Dividend

NDR Futures Described

OneChicago's No Dividend Risk (NDR) futures are designed to capture the dividend exposure while holding a futures position through a dividend ex-date. The goal of the product is to mirror the net effect of holding the equivalent stock position. This is achieved by adjusting down the previous closing price by the dividend amount on ex-date. Each day the previous closing price is compared against the current closing price to determine the mark to market for futures positions. The adjusting down of the previous close results in increased gains (equal to the dividend) for long and losses for short position holders.

Comparison of NDR Future and Stock

Assumes 100 shares of stock and 1 NDR future contract (100 shares).

				Long NDR Future		Long Stock		Short NDR Future		Short Stock	
Day Action		Previous Close / Cost Basis	Close	Daily Realized	Net Realized	Daily Realized	Net Realized	Daily Realized	Net Realized	Daily Realized	Net Realized
D1	**Enter Position @ 32.10**	32.10	32.00	-10	-10	0	0	+10	+10	0	0
D2	...	32.00	32.38	+38	+28	0	0	-38	-28	0	0
D3	...	32.38	32.40	+2	+30	0	0	-2	-30	0	0
D4	**Ex-Date** • (0.50 dividend)	***31.90** = 32.40 - 0.50	31.75	-15	+15	0	0	+15	-15	0	0
D5	**Exit Position @ 31.90**	31.75	31.90	+15	**+30**	-20	**-20**	-15	**-30**	+20	**+20**
D9	**Pay Date** • (Long receives) • (Short pays in lieu)					+50	+30			-50	-30
	Total				**+30**		**+30**		**-30**		**-30**

When There is a Loss of Dividend

For long stock holders, the unavoidable loss of divided exists when entering a short position in a same-day expiring NDR T+1 SSF on dividend ex-date. This is due to the difference in settlement cycles between the DTCC transfer of stock (T+2) and the transfer triggered by the maturation of a T+1 SSF. Once a company declares a dividend it establishes a record date (a date used to determine which shareholders are entitled to receive the dividend). The equity exchanges then set an ex-dividend date. If a stock purchase takes place on its ex-dividend date or after, the purchaser will not receive the next dividend payment and instead, the seller receives the dividend. Typically the ex-dividend date for stocks is set **one business day before the record date.** With a T+2 settlement cycle for stock transactions, the stock must be purchased on the day before ex-date in order receive the stock by record date.

In the case of an expiring T+1 SSF sold on ex-date, **the seller will transfer stock to the buyer on record date** this results in the loss of the dividend for any seller with a long stock position prior to the sale of the future.