



IFEX Event Linked Futures

Posting Bids with Advantage

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IFEX Event Linked Futures: An Alternative Source of Protection

IFEX EVENT LINKED FUTURES (ELFs) AS A NEW SOURCE OF SECURE PROTECTION

- IFEX ELFs replicate US Wind industry Loss Warranties in Derivative Form.
- The clearing mechanism provides protection with negligible counter-party risk.
- Contracts are;
 - marked to market twice daily;
 - secured by Maintenance Margin; and,
 - supported by clearing members who must meet commitments of their defaulting clients.
- Transaction costs are low
 - Transaction costs are often as low as \$30 per \$10,000 contract for a purchase or sale.
- Transformer deals available
 - Transformer/fronting deals are available so that protection can be bought with full capital relief.

The Case for Bidding for Protection on IFEX

Attractive Opportunities in Posting Bids for IFEX Event Linked Futures (ELFs)

More Protection Sellers than Protection Buyers

- More hedge funds than insurers or reinsurers have accounts open with CCFE clearing members with the ability to trade IFEX contracts

Protection Sellers

- The natural shorts/Protection Sellers include a variety of different types of investors.
- These include: hedge funds; small and large private investor funds; high and ultra high net worth individuals; specialist ILS funds, etc.

Risk Perceptions

- Many such natural shorts/Protection Sellers may have different risk perceptions to other IFEX participants.

The Case for Posting Bids

GIVEN THE QUALITY OF THE SECURITY IT MAKES SENSE TO POST BIDS

Protection buyers should consider posting bids at prices at which they would be pleased to buy.

- Such bids should be 'realistic'.
- Bids should be entered daily until either a matching offer is made and the transaction completed OR until other arrangements are made. Consult your clearing member on how this can best be done.
- It is important to keep bids posted continuously. It may be some time before your interest becomes known throughout the market. Time is needed for sellers to include matching offers in their underwriting or investment strategy
- Such postings could result either in a screen based trade or provoke an offer arranged over-the-counter (OTC) by an Inter-Dealer Broker (IDB).
- All postings are anonymous unless bidders reveal their identity to IDBs in the expectation of obtaining a matching offer.

Advantages of Posting Bids

POSTING BIDS FOR PROTECTION IS FREE

- Posting bids on IFEX for protection gives you the opportunity of buying protection at what could be a very attractive price.
- The transaction costs are low in most cases relative to buying conventional reinsurance protection.
- IT COSTS NOTHING TO POST A BID.

The ELF contract basics...(1)

1. ELFs are binary futures contracts listed on the *Chicago Climate Futures Exchange (CCFE)*.
2. ELF contracts provide for a payment if industry wide losses from a specified natural catastrophe event reach a pre-specified Loss Trigger Level (LTL).
3. Event LTLs are based upon independent estimates by *Property Claims Services (PCS)*.
4. An ELF is an investment contract that replicates the economics of an Industry Loss Warranty. It is not a reinsurance contract.
5. An ELF is a Contract for Difference and counterparty risk is minimised because all transactions are cleared and margined.

The ELF contract basics...(2)

1. The Contract Risk Period;

The Contract Risk Period covers the calendar year of the contract year.

2. The Territories Covered;

- US Wind Territories and Possessions (US T & P).
- Florida Wind.
- US Gulf Coast Wind (Alabama, Mississippi, Louisiana and Texas).
- US Eastern Seaboard Wind (Georgia to Maine).
- US North East (Virginia to Maine).

3. Loss Trigger Levels (LTL):

\$10bn, \$15bn, \$20bn, \$25bn, \$30bn, \$40bn, \$50bn, \$60bn, \$75bn and \$100bn.

First Event, Second Event, Third Event and Fourth Event contracts are available.

4. Contract Limit/Notional Value;

This is expressed in 'lots', each of \$10,000.

So to purchase (or sell) \$1M of Contract Limit/Notional Value one would buy (or sell) 100 lots.



Summary - 'Price Discovery'.

Via the IFEX screen;

- a) Protection Buyers can post anonymously the (bid) price at which they wish to buy cover.
- b) Protection Sellers can post anonymously the (offer) price at which they wish to sell cover.
- c) When bid and offer prices converge, the transaction is automatically completed.

This can be done on the IFEX trading screen or agreed OTC through an IDB, and later concluded on screen to benefit from IFEX clearing and security.

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- § **The European Climate Exchange (ECX)** manages product development and marketing of Carbon Financial Instruments (CFI) futures and options contracts on CO2 EU allowances traded under the EU Emissions Trading Scheme.
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