

## Tradition-ICAP launch Vol-Fix

### *New service provides a reliable reference for FX Volatility*

**London, 27 February 2012** – [Tradition-ICAP](http://www.tradition-icap.com), the world's leading voice broker and electronic platform for the trading of interdealer currency options, today announced the launch of its new daily Volatility Fixing service Vol-Fix. This service provides an independent and reliable market data reference point to help create a fully tradable asset class for trading volatility for the first time.

By establishing a dependable and tradable fix, the market will have an increased ability to create new products and services, such as cash settled forward volatility agreements, volatility trading funds, volatility indexes and hybrid instruments. Starting with the most liquid tenors in EURUSD, the service will then be extended to cover other highly liquid currency pairs, including USDJPY, EURJPY, GBPUSD, EURCHF, USDCAD, AUDUSD, as well as the most liquid emerging market pairs.

Tradition-ICAP is the leading interdealer broker for currency options and clients will benefit from voice brokered liquidity and the market-leading FX options electronic broking platform, Volbroker.

The fixing rate itself will be published every day at 4pm London time, consistent with the WM/Reuters spot fix. Prices and deals between 3.50pm and 4pm on the Volbroker platform will be used to calculate the exact rate. The fix will be published on Bloomberg (VFIX), Reuters (VFIX), the Tradition-ICAP websites [www.tradition-icap.com](http://www.tradition-icap.com) and [www.volfixing.com](http://www.volfixing.com).

**Terry Benson, Global Head of Business Development, Tradition-ICAP, said:** “Vol-Fix has been designed with input from the market in order to meet its requirements on an ongoing basis. It will help establish a much greater level of certainty and assurance when it comes to volatility trading, which we believe will play a key role in the creation of new products. Vol-Fix sits very much in line with our overall approach to enhance efficiencies and transparency within the market, whilst also providing clients with the flexibility they require to develop new trading strategies and solutions.”

**Kevin Rodgers, Global Head FX Spot, e-trading and Derivatives at Deutsche Bank, added:** “A reliable and independent volatility fix based on real market rates and actual deals will be a valuable addition to the volatility markets. In time, I believe it will allow the market to develop some innovative products, which will allow companies and funds to hedge and take risk in new ways.”

**Isaac Lieberman, Managing Director, e-FX Options at JP Morgan, commented:** “The Tradition-ICAP Volatility Fix is a welcome addition to the suite of products available to the FX Options community. The Fix also creates some interesting opportunities for the development of new volatility based derivatives. As the Fix is derived from price and trade data from the Tradition-ICAP Volbroker FXO platform, the market can be confident that it will be accurate and reliable.”

## **Technical details on Vol-Fix**

### **The fix will have the following features:**

- A fixing mechanism based on dealable prices or on actual deals done during the fixing period will ensure the credibility of the fix and allow hedging transactions to be completed at or near the fix level.
- Timing consistent with the WMR spot fix (4pm London time) to help the volatility fix gain market acceptance and allow products to be designed which are based on a consistent combination of volatility fixes and spot fixes.
- A single 'mid rate' fix that is an unambiguous reference. Banks using the fix to settle a derivative will need to define in their own documentation with a client as to what spread to apply to the fix for any transaction settling on it but the advantages are that the fix will be easier to calculate and the spread can be flexible.

### **Fixing mechanism**

For each volatility contract to be fixed two sets of data will be observed:

- Bids and offers posted by market makers: their sizes, levels and duration.
- Deals transacted in the fixing period: their sizes and levels.

To calculate the fix at the close of the fixing period the following procedure will be used:

The fixing period is split into a number of time slices; each one is defined as a period where the level and notional on the best bid and the best offer were unchanged. This allows the calculation of the fix to take into account the size of a bid or offer as well as the time it was held out to the market. Only two-way prices will be used in the calculation and weighted according to their width. Tighter prices will have greater influence on the fix than wider ones. Trades will be weighted so that they have the same influence as a choice price in the same size held for the entire window of the fix.

In the event of insufficient data or technical failure, a committee of 12 banks, including Deutsche Bank, Citi, Morgan Stanley and Standard Chartered will be polled for their opinion of fix levels for each period and currency pair. The results are collated and highest and lowest points discarded and an average will then be used as the fix for that day

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### **About Tradition-ICAP**

Tradition-ICAP was formed in 2000 by the merger of the OTC FX Options divisions of the TFS Group and ICAP plc. Tradition-ICAP has offices in New York, London, Frankfurt, Copenhagen, Sydney, Tokyo and Singapore. Tradition-ICAP conducts its business as an independent intermediary in OTC FX Options. In 2001, the company integrated the Volbroker system into its currency options business. This created an interdealer broking consortium that combines the strengths of voice brokered liquidity with the market's leading FX Options electronic broking platform. The Volbroker platform was designed by traders, for traders and is used by banks all over the world.

For more information, please visit [www.tradition.com](http://www.tradition.com) and [www.tradition-ICAP.com](http://www.tradition-ICAP.com)

Volbroker is an MTF operated by TFS-ICAP Ltd. TFS-ICAP Ltd is authorised and regulated by the Financial Services Authority.