

Report 4301: Currency Option MTM (W5)

[This version is superseded. Click here to view the latest guide.](#)

PURPOSE

This document explains how CS Lucas computes MTM for currency options.

WHY IS THIS IMPORTANT?

Allow users to verify the formula and methodology used by CS Lucas to compute the Currency Options MTM.

BACKGROUND

The Garman-Kohlhagen options pricing model is used by CS Lucas for valuing options.

QUERY

1. Navigate to Reporting > Standards > Report 4301: Currency Option MTM.

Currency Option MTM

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PDF
Excel
Word
↓
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Acct Cntr*

TFS-SG

Val Ccy*

USD

As At*

25/07/2024

Rate Type*

Valuation

2. Fill in the mandatory parameter – Acct Cntr, Valuation Currency, As At Date and Rate Type.

3. Click on the required format to print.

4. The report shows the Type, Transaction, Accounting Centre, Counterparty, TDate, VDate, Exp Date, On Currency, Amount, Against Ccy, Countervalue, Strike, Premium, Amer/Eur, In/Out, Level, Status, Spot Rate, Volatility, Rpt Ccy and MTM.

Currency Option MTM																	
Acct Cntr:TFS-SG Val Currency: USD Exchange Type: Valuation Date: As At 25-Jul-2024																	
Type	Transaction	AcctCntr	Counterparty	TDate	VDate	Exp Date	On Ccy	Amount	Against Ccy	Countervalue	Strike	Premium	Amer/Eur	In/Out	Level	Status	Spot
Currency Vanilla																	
Buy Call																	
		TFS-SG	CITI-SG	28-Jun-24	17-Sep-24	20-Sep-24	USD	41,000,000.00	CNH	(301,350,000.00	7.35000	123,000.00	European			Open	7.24170
																	5.12%
																	USD
																	85,203.6

Note: One of the currency of the Option trade must be the Enterprise currency to generate MTM.

For explanation of  button, please see link.

For explanation of   buttons, please see [link](#).

DATA SOURCE

To view the following transaction,

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Type	Transaction	Acct Cntr	Counterparty	IDate	VDate	Exp Date	On Coy	Amount	Against Coy	Countervalue	Strike	Premium	Amer/Eur	In/Out	Level	Status	Spot	Vol	Rpt Coy	MTM
Currency Vanilla																				
Buy Call																				
		TFS-SG	CITI-SG	28-Jun-24	17-Sep-24	20-Sep-24	USD	41,000,000.00	CNH	(301,350,000.00	7.35000	123,000.00	European			Open	7.24170	5.12%	USD	85,203.6

Follow the steps as shown below:

- 1. Navigate to Transaction > Options.
- 2. Select Acct Cntr* (From example: TFS-SG)
- 3. Key in Expiry Fr* (From example: 01/07/2024)
- 4. Click Refresh.
- 5. Click on the Trade ID to drill down to trade details.

Amend Options - Currency Vanilla

Trade ID	CPT100002.00	→ A
Acct Cntr*	TFS-SG	→ C
TDate*	28/06/2024	→ E
Exp Date*	20/09/2024	→ G
VDate*	17/09/2024	→ F
Trade*	Buy	→ B
Call/Put*	Call	→ B
Style*	European	
On Ccy*	USD	→ H
Principal*	41,000,000.00	→ I
Against Ccy*	CNH	→ J
Strike*	7.350000	→ L
Premium*	123,000.00	→ M
Volatility*	4.150000%	
Facility*	TFS<>CITI-OPT	→ D
Counterparty*	CITI-SG	
<input type="button" value="Soft Amend"/>		
Portfolio		
Transaction Type	-	

6. Countervalue: $\text{Amount} * \text{Strike}$ → K

7. To compute MTM for Currency Options as at a particular

reporting date, e.g. 25 Jul 2024, the following parameters are required.

Spot: Navigate to Prices > Exchange Rate
(Valuation/Accounting/Alternate) → **R**

Vol: Navigate to Prices > Exchange Rate (Volatility) → **s**

Exchange Rate Maintenance

Ex Rate Type*

Default

Currency

CNH

From*

25/07/2024

To*

25/07/2024

Refresh

Add

Save

Copy To

Rate Type

Admin

VDate	Currency	Valuation*	Accounting	Alternate	Volatility(%)
25 Jul 2024	CNH R	7.241700	7.232800	7.241700	5.124 S

1

50

For details on how to maintain exchange rates and volatility, see maintaining exchange rates.

Foreign interest rate: Navigate to Prices > Interest Rate. Foreign interest rate needs to be maintained under “_Continous” basis as at the reporting date. For details on how to add and maintain basis rates, see [maintaining basis rate](#).

Basis Rate Maintenance

Ccy*

USD

Basis*

_Continous

From Date*

25/07/2024

To Date*

25/07/2025

Refresh

Add

Save

Import

Admin

Date	Rate
25 Jul 2024	5.144000

1

50

Domestic interest rate: Navigate to Prices > Interest Rate. Domestic interest rate needs to be maintained under “_Continous” basis as at the reporting date. For details on how to add and maintain basis rates, see [maintaining basis rate](#).

Basis Rate Maintenance

Ccy* CNH Basis* _Continous From Date* 25/07/2024 To Date* 25/07/2025

←

Refresh

Add

Save

Import

Admin

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Date	Rate
25 Jul 2024	3.126800

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FORMULA AND EXAMPLE

Note that, in the FX context, you can write the formula in terms of the **forward rate** so that the foreign interest rate (or even the spot rate!) does not appear.

Since $F = Se^{(i^d - i^f)\tau}$,

$$C = e^{-i^d \tau} [FN(d_1) - KN(d_2)], \quad P = e^{-i^d \tau} [KN(-d_2) - FN(-d_1)] \quad (3)$$

where

$$d_1 \equiv \frac{\ln(F/K) + \frac{1}{2}\sigma^2\tau}{\sigma\sqrt{\tau}}, \quad d_2 \equiv \frac{\ln(F/K) - \frac{1}{2}\sigma^2\tau}{\sigma\sqrt{\tau}} \quad (4)$$

$$= d_1 - \sigma\sqrt{\tau}$$

- Discounting by the risk-free rate in Equation (3) indicates that the terms in the square brackets are **certainty equivalent** of the option payoff at maturity.
- Note: you do have to use the forward rate that **corresponds to the maturity** of the option.

Example.

- ◆ Spot $S = 1.15\$/\epsilon$
- ◆ Strike $K = 1.15\$/\epsilon$
- ◆ Domestic interest rate $i^{\$} = 1.2\%$ (continuously compounded)
- ◆ Foreign interest rate $i^{\epsilon} = 2.2\%$ (continuously compounded)

(Or you might observe the forward rate, $F = 1.1443\$/\epsilon$. Then use (3)-(4))

- ◆ Volatility $\sigma = 10\%$
- ◆ Time to maturity = 6 months

$$d_1 = [\ln(1.15/1.15) + (.012 - .022 + .1^2/2) \times .5] / (.1 \times \sqrt{.5}) = -.035355$$

$$d_2 = d_1 - .1 \times \sqrt{.5} = -.10607$$

$$N(d_1) = .48590, \quad N(-d_1) = 1 - N(d_1) = .51410$$

$$N(d_2) = .44776, \quad N(-d_2) = 1 - N(d_2) = .54224$$

$$C = 1.15 \times e^{-.22 \times .5} \times .48590 - 1.15 \times e^{-.12 \times .5} \times .44776 = .02939$$

$$P = 1.15 \times e^{-.12 \times .5} \times .54224 - 1.15 \times e^{-.22 \times .5} \times .51410 = .03509$$

Vdate As At	25-Jul-24	A
Expdate	20-Sep-24	B
Vol	0.05124	C
Spot	7.2417	D
Strike	7.35	E
Rf	0.051440	F
Rd	0.031268	G
days=Edate-Vdate	57	
Year=days/365	0.156164384	
year_vol=Year*Vol	0.020248839	
t1=Ln(Spot/Strike)	-0.014844328	
t2=[Rd-Rf+(Vol^2)/2]*Year	-0.00294514	
nz1=(t1+t2)/year_vol	-0.878542637	
nz2=nz1-year_vol	-0.898791475	
N(nz1)	0.189824655	
N(nz2)	0.184381871	
N(-nz1)	0.810175345	
N(-nz2)	0.815618129	
exp_for=Year*Rf	0.991999083	
exp_dom=Year*Rd	0.995128954	
Call=[Spot*exp_for*N(nz1)] - [Strike*exp_dom*N(nz2)]	0.01504924223	H
Put=[Spot*exp_dom*N(-nz2)] - [Strike*exp_for*N(-nz1)]	-0.0294538551	I
Quantity	41,000,000.00	J
Transaction Ccy P/L	617,018.93	K=J*H
Valuation Ccy P/L	85,203.60	L=K*(1/D)

Click [here](#) to download the sample Excel tool to compute MTM. Enter VDate As At, Expiry Date, Volatility, Spot Rate, Strike Price, Foreign Interest Rate, Domestic Interest Rate and Quantity.

Note: If the system cannot compute the MTM, it will use the MTM as at the report date saved by the user on the Options listing screen. This MTM is in the transaction currency, so the system will convert it to the valuation currency using the

spot rate (Valuation/Accounting/Alternate) as of the report date before displaying it in the report.

For example, if the user saved the MTM as 598,287.52 (CNH), then the MTM in the valuation currency (USD) is calculated as $598,287.52 * (1/7.2417) = 82,617$.

FREQUENTLY ASKED QUESTIONS

RELATED INFORMATION

[General Formatting For All Reports](#)

CHANGE HISTORY

Date	By	Changes
6-Dec-2016	Li Ping	Created.
30-Oct-2018	TS	Updated.
17-Dec-2019	Lyra	Updated screenshots.
2-Aug-2024	TS	Updated instructions.