

Information on cascading futures

Summary

On 27 December 2019, settlement of cascading futures (applicable to commodities Power, Natural Gas and Wind Power) with delivery periods quarter and year will take place. ECC would like to remind all participants that the reporting of transactions on cascading slightly changed with the introduction of C7 Clearing System on 12 August 2019. Therefore we kindly ask you to review existing procedures and system implementations (see system documentation provided in line with ECC Clearing Circular 07/2019). This circular provides details of the system processing and reporting of the cascading transactions.

A detailed description of cascading can be found in the system documentation available at:

eurexclearing.com > Technology > Eurex Clearing's C7

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Background

Cascading describes the process of replacing a future with a certain delivery profile, with several futures which combine to the same delivery profile as the original future position. This enables the client to perform trading and clearing transactions of the remaining portions, where the contract has not yet entered delivery.

With the introduction of the C7 system, which replaced the Eurex Classic system, cascading has been implemented with an adaptable algorithm. This algorithm determines the cascading structure by using only the immediately underlying contract, e.g. Year -> Quarters, Season -> Quarters, Quarter -> Months.

Functional description of cascading

In general, a cascading product can be available for any combination of cascading future and its underlying future contracts. On the expiration date of a cascading future, the expiring series is replaced with all contracts of the underlying future, where the expiry month is equal to the expiry month of the cascading contract, but lower than the next available expiry month of the cascading products (e.g. DEBQ JAN20 cascades to DEBM JAN20, DEBM FEB20 and DEBM MAR20, as the next available contract series is DEBQ APR20).

Cascading on the expiration day comprises three steps:

- expiration (Transaction Type 116 Position Close due to expiration)
- final profit and loss balancing on the annual/seasonal/quarterly futures according to the final settlement price
- booking of the new future contracts at the final settlement price of the expired annual/seasonal/quarterly futures in the applicable position account. This corresponds to a transaction in these futures contracts at the final settlement price of the annual/seasonal/quarterly futures (Transaction Type 126 Futures Position Creation).

Reporting of cascading transactions

Clearing Reports (e.g. CB012) and data streams will provide the following transactions:

- A yearly contract (delivery Jan-Dec) cascades into 4 quarters (Q1, Q2, Q3, Q4) immediately after which the first quarter cascades into 3 months (Jan, Feb, Mar)

- Previously on the Classic system : A yearly contract cascades into 3 Quarters (Q2,Q3,Q4) and 3 months (Jan, Feb, Mar) directly
- A seasonal contract (Winter: Oct-Mar, Summer: Apr-Sep) cascades into 2 quarters (Winter: Q4, Q1, Summer: Q2, Q3) immediately after which the Q4 (or Q2 respectively) cascades into 3 months (Winter: Oct, Nov, Dec, Summer: Apr, May, Jun)
 - Previously on Classic: A seasonal contract cascades into 1 Quarter and 3 months directly
- A quarterly contract (Q1: Jan-Mar, Q2: Apr-Jun, Q3: Jul-Sep, Q4: Oct-Dec) cascades to its constituent monthly contracts
 - No change from Classic

Simulation of yearly and quarterly cascading

In order to provide all participants with the opportunity to test cascading expiration in the C7 Simulation environment, ECC set up several events in December. The following products will be available:

F2BY > F2BQ > F2BM takes place on 3 December 2019

F2PY > F2PQ > F2PM takes place on 5 December 2019

G7BY > G7BQ > G7BM takes place on 10 December 2019

Please note that not all products are automatically available in the T7 Simulation. If you should require assistance to create positions in specific contracts, please contact clearing@ecc.de.