SXM™ Mini Futures Contracts on the S&P/TSX 60™ Index

Index Arbitrage Using SXM Futures

TMX Montréal Exchange

Disclaimer

The views and opinions expressed in this presentation reflect those of the individual authors/presenters only and do not represent in any way Bourse de Montréal Inc.’s (the “Bourse”) opinion or any of its affiliates. The presentation is not endorsed by the Bourse or its affiliates. The information provided in this presentation, including financial and economic data, quotes and any analysis or interpretation thereof, is provided solely on an information basis and shall not be interpreted in any jurisdiction as an advice or a recommendation with respect to the purchase or sale of any derivative instrument, underlying security or any other financial instrument or as a legal, accounting, tax, financial or investment advice. The Bourse and its affiliates do not endorse or recommend any securities referenced in this presentation. The Bourse recommends that you consult your own advisors in accordance with your needs. Although care has been taken in the preparation of these articles, the Bourse and/or its affiliates do not guarantee the completeness of the information contained in this presentation, and are not responsible for any errors or omissions in or your use of, or reliance on, the information. The Bourse reserves the right to amend, review or delete, at any time and without prior notice, the content of this presentation. The Bourse, its affiliates, directors, officers, employees and agents will not be liable for damages, losses or costs incurred as a result of the use of any information appearing in this presentation.

What is Arbitrage?

- The simultaneous buying and selling of securities, currencies, or commodities in different markets or in derivative structure.
- Traders looking to take advantage of a discrepancy in price for the same asset.

Arbitrage Opportunity

- A trader observes a disparity between the fair value of the SXM futures and the S&P/TSX 60 Index.

- Is looking to profit from the arbitrage opportunity.

Details

S&P/TSX 60 Index	808.20
Futures	806.50
Theoretical futures price	805.45
Fair value	-1.05
Dividends (index points)	4.48
Risk free rate	0.93%
Days to expiration	84

Strategy

- The trader wishes to profit from the mispriced futures.
- Trader borrows funds and purchases the underlying stocks that comprise the index.
- Sells the overpriced SXM futures.

The Trade

- Sell 100 x SXM futures contracts at 806.50.
- Buy 100 x 50 x 808.20 = $4,041,000.00 of the underlying securities.
- The trade can be carried till expiration.

Cash Leg of Arbitrage

- On expiry, the SXM futures contract and the cash index converge at 820.05.
- Trader sells underlying stocks for a profit of 14.60 points (820.05 – 808.45).
- Fair value of index reflects cost of buying the stocks less the carrying costs.

Futures Leg of the Trade

- SXM cash settles at expiry at 820.05.

- The result is a 13.55 point loss (820.05 – 806.50).

Profit/Loss from the Arbitrage

- Profit of 1.05 index points (14.60 – 13.55).
- 1.05 points x $50.00/point x 100 contracts = $5,250.00
- A profit is realized with no significant risk to the market.

Summary

- Arbitrage ensures that the futures and the cash index trade in unison.

- If there is a discrepancy in price, it represents an opportunity to profit for arbitrage traders.