Examples of OTC Trading on TP ICAP and Bloomberg Tradebook

TP ICAP

ICAP is a leading markets operator and provider of post-trade risk mitigation and information services. It's a major player in the brokered OTC derivatives market.

Example 1: Interest Rate Swaps

- **Scenario:** An investment bank wants to hedge its interest rate exposure on a portfolio of fixed-rate bonds.
- **Process:**
  1. The bank contacts TP ICAP to express its interest in entering into an interest rate swap.
  2. TP ICAP, acting as an interdealer broker, identifies another party (like an insurance company) looking to exchange its variable rate exposure for fixed rates.
  3. TP ICAP facilitates the negotiation of terms (such as the swap's duration, notional amount, and fixed and floating rates) between the two parties.
  4. Once agreed, TP ICAP helps finalize the swap contract.

Example 2: Foreign Exchange Forwards

- **Scenario:** A multinational corporation needs to lock in the exchange rate for a future transaction in a foreign currency.
- **Process:**
  1. The corporation approaches TP ICAP with its requirement for a forward contract in a specific currency pair and amount.
  2. TP ICAP finds a counterparty willing to take the opposite position.
  3. The terms, including the amount, exchange rate, and maturity date, are negotiated and agreed upon.
  4. TP ICAP facilitates the contract, and both parties enter the forward agreement.

Bloomberg Tradebook

Example 1: Credit Default Swaps (CDS)

- **Scenario:** An asset management firm wants to hedge the credit risk of a corporate bond portfolio.

- **Process:**
  1. The firm uses Bloomberg Tradebook to find potential counterparties interested in selling CDS protection.
  2. They negotiate the terms, including the premium, reference entity, and duration of the swap.
  3. Once agreed, the CDS contract is executed electronically through the Tradebook platform.

Example 2: Equity Derivatives (e.g., Options)

- **Scenario:** A hedge fund looks to speculate on the future price of a stock without directly purchasing the stock.
- **Process:**
  1. The fund uses Bloomberg Tradebook to express its interest in buying options on a specific stock.
  2. Tradebook matches the fund with a counterparty willing to sell the options.
  3. The terms of the options contract, such as strike price, expiry date, and premium, are negotiated and finalized.
  4. The trade is executed electronically through the platform.

Examples of OTC Trading on Bloomberg Terminal

1. **Interest Rate Swaps:** Traders use the Bloomberg Terminal to find counterparties for interest rate swaps, view live market data, analyze interest rate curves, negotiate terms, and execute the trade.
2. **Foreign Exchange (FX) Forwards:** Users can hedge against foreign exchange risk by executing FX forward contracts. The terminal allows for market analysis, quote viewing, and direct negotiation and execution of forward contracts.
3. **Credit Default Swaps (CDS):** Investors analyze and trade CDS for buying or selling credit protection. The terminal offers tools for credit risk assessment, CDS pricing, and facilitates negotiation and execution of CDS contracts.
4. **Customized Derivative Products:** Institutional investors structure and negotiate customized derivatives, including exotic options. The terminal provides modeling tools, risk assessment capabilities, and connects counterparties for trade negotiations.
5. **OTC Equity Options:** Traders engage in OTC equity options trading, leveraging the terminal for equity market data, options pricing models, and connecting with potential counterparties for negotiating terms.

Procedure for an Equity Option Transaction on Bloomberg Tradebook

1. **Accessing Bloomberg Tradebook:** The trader accesses the Bloomberg Tradebook platform through a Bloomberg Terminal.

2. **Market Research and Analysis:** Utilize Bloomberg's tools for market research and analysis to identify potential option trading opportunities.
3. **Option Selection:** Select the desired equity option, including the underlying stock, option type, strike price, and expiration date.
4. **Order Entry:** Enter the order details into the Tradebook platform, including the quantity, price, and other trade parameters.
5. **Risk Assessment and Compliance Checks:** Automated risk assessment and compliance checks are performed by the platform.
6. **Order Execution:** The order is executed, aiming for the best available price in the market.
7. **Trade Confirmation:** Receive a confirmation detailing the executed transaction.
8. **Portfolio Integration:** The executed trade is integrated into the trader's portfolio for real-time monitoring.
9. **Ongoing Monitoring and Management:** Continuously monitor the option position considering market movements and other factors.
10. **Exercise or Expiration:** Decide whether to exercise the option or let it expire as the expiration date approaches.
11. **Settlement:** The settlement of the trade is processed as per the terms of the executed trade.

Numerical Example

Suppose a trader wants to buy call options on Company XYZ's stock, currently trading at $100.

1. Accessing Bloomberg Tradebook and performing analysis using Bloomberg's tools.
2. Selecting call options with a strike price of $105 and a 3-month expiration.
3. Entering a limit order to buy 10 contracts at $2 per option.
4. After automated risk checks, the order is executed at $2 per option.
5. Receiving confirmation of the purchase of 10 call options.
6. Adding the new position to the trader's portfolio for monitoring.
7. If, at expiration, XYZ's stock is above $105, the options can be exercised profitably. If XYZ's stock is at $110, the profit is ($110 - $105) x 10 = $50, minus the $20 premium paid. If XYZ's stock is below $105, the options expire worthless, and the trader loses the $20 premium.
8. The transaction is settled according to the executed trade's terms.