Demand Derivatives

# RealLimit™ Futures

*Select Your Margin — Define Your Risk*

"The only way to discover the limits of the possible is to go beyond them into the impossible."
— Arthur C. Clarke

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## The Concept*

A novel futures contract design providing limited risk to market participants ("RealLimit futures"). In industry parlance, the contracts are said to be "fully collateralized."

## The Purpose

RealLimit futures were created to reduce the risk to traders and eliminate the systemic risks to exchanges, clearing firms, and futures commission merchants.

## The Exchange

RealLimit futures are expected to be listed on RealDemand Board of Trade ("RealBOT™") and cleared through RealDemand Clearing ("RealClear™"). These entities are in the process of applying to be a Designated Contract Market and a Designated Clearing Organization with the Commodity Futures Trading Commission (CFTC).

## Select Desired Margin

Posted margin amounts will be selected by the trader within guidelines set by the exchange. The more margin a market participant posts, the higher the potential return, but also the higher potential loss. In the beginning, only two margin amounts are expected. Later, more levels may be added.

## Boundaries

The price of the futures contract is unconstrained; only the individual traded contracts have limits (i.e., upper and lower "Boundary Prices").

## Maximum Gain and Loss

To keep risk in balance, RealLimit positions are matched with a counterparty who has equal and opposite exposure. For example, if a trader posts $2,000 margin, both counterparties have a maximum loss and gain of $2,000.

## Early Expiration

A standard futures contract expires only at the official contract expiration. RealLimit expirations may also occur when a Boundary Price is touched (called "Early Expiration").

## Daily Settlement

During normal market environments, the RealLimit daily settlement price is expected to be fixed to the same settlement price of the futures contract on the primary market.

## Rolling

A trader is not resigned to the established Boundary Prices permanently. The trader can execute a RealRoll™ order, which "re-centers" the Boundary Prices to the then current market price. If the trader is diligent about rolling up or down before a Boundary Price is touched, the exposure created can be theoretically "unlimited."

## Counterparties

Designated Market Makers ("DMMs") will be the counterparty to all RealLimit futures transactions on RealBOT. DMMs will manage the special risks of RealLimit, especially the boundary risks and roll risks.

*The Commodity Futures Trading Commission (CFTC) has yet to approve the RealLimit concept.
RealLimit is a product of RealLimit LLC, a subsidiary of Demand Derivatives Corp. RealLimit™ is a trademark of RealLimit LLC.

# Examples[1]

Assumptions:

- Today's futures price is 1,000. The trader places an order to buy one contract and decides to post $3,000 margin. Suppose this market participant is indeed filled at 1,000.
- The multiplier is $100. Therefore, the notional value of the futures contract is $100,000.
- The tick value is predefined by the exchange at 0.10 or $10.
- The trader's selected Margin Points are +/– 30 points ($3,000) with Boundary Prices of 970 and 1,030 and, therefore, a Boundary Range of 60 points.

Scenario #1: The futures price remains within the 60-point Boundary Range.
Result #1: Nothing unique happens. The contract behaves similarly to a standard futures contract except without daily variation margin. All gains or losses will be realized upon liquidation or final expiration.

Scenario #2: The trader wants to exit while the market is currently trading at 1,020.
Result #2: The trader enters a sell order at 1,020, and when filled, receives 20 points or $2,000 in profits.[2]

Scenario #3: The futures price rises from 1,000 to a Last of 1,030.
Result #3: The position is immediately and automatically liquidated at the Boundary Price of 1,030, providing the trader with the maximum gain of $3,000.[2]

Scenario #4: The futures price falls from 1,000 to a Last of 970.
Result #4: The position is immediately and automatically liquidated at the lower Boundary Price of 970, limiting the loss to posted collateral of $3,000.[2]

Scenario #5: On news of an extreme event, the futures price gaps from 1,000 to 920 with no intervening trades.
Result #5: The position is immediately and automatically liquidated at the lower Boundary Price of 970, limiting the loss to posted collateral of $3,000. (The market participant on the other side of this trade receives $3,000 maximum.)[2]

Scenario #6: The trader desires to liquidate at the day's settlement price.
Result #6: The trader places a "Perfect Execution at Settlement" (PEAS™) sell order that should be pre-matched prior to the close and executed at the day's settlement price. It should be noted that if the Boundary Price had been touched before the day's close (and hence, the RealLimit contract expired early), the PEAS order would have been automatically canceled. For more information on PEAS orders and Customer Order Executions, please see the separate brochure on the demandderivatives.com website.

Scenario #7: After a move in the market participant's favor (but not yet to the upper Boundary Price), the trader desires to raise the upside potential. The trader places a RealRoll™ order, which liquidates the original position and reestablishes another with all the same specifications. On the surface, it appears that liquidating and reentering the exact same position has no effect. However, with RealLimit futures contracts, this process allows the position to be "re-centered," thereby changing the upper and lower Boundaries.
Result #7: Suppose that the trader with the original long position at 1,000 desires to roll when the futures contract rises to 1,021.90. The trader enters a RealRoll order with a limit price at 1,021.90 and gets filled at that price, for a realized gain of $2,190. Immediately, the trader also gets filled on a new long position at 1,022. New Boundary Prices are established at 992 and 1,052. The net effect is that the trader essentially maintains the original long position, realizes a profit, and "re-centers" upside potential and downside risk at a predetermined cost of one tick.[3]

Scenario #8: Similar to Scenario #7, however, this time the market moves against the trader and the desire is to roll down the Boundary Prices in order to give the market more downside room before the anticipated upward rally. In addition to re-centering the position, the trader will need to post more margin.
Result #8: Suppose the current price is 988.90. The trader enters a RealRoll position with a sell price of 988.90, and gets filled at that price for a $1,110 loss. The trader must post an additional $1,110 and reenters the trade at 989.00,[3] re-centering the Boundary Prices at 1,019 and 959.

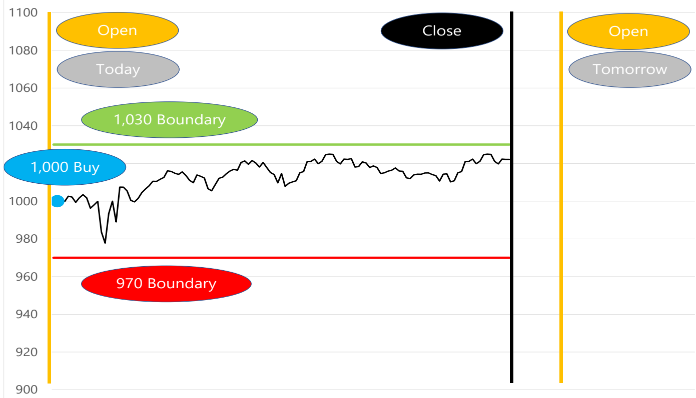
[1] The underlying prices, margin amounts, etc., are all fictitious and do not represent a specific underlying asset. Contract specifications are unique to each asset. Please review the website demandderivatives.com for more information.

[2] Less Exchange and Clearing fees.

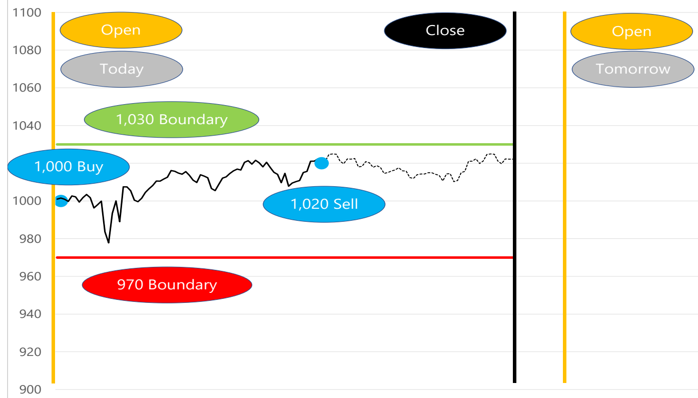
[3] There is no variable bid/ask spread on RealRoll orders. The total cost for the entire RealRoll transaction is pre-defined at one tick plus a single charge for Exchange and Clearing fees (not two fees for two legs).

RealLimit Futures

## Scenario #1




## Scenario #2

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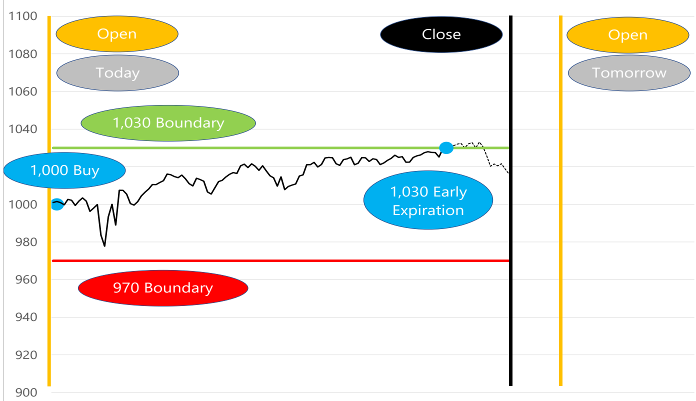


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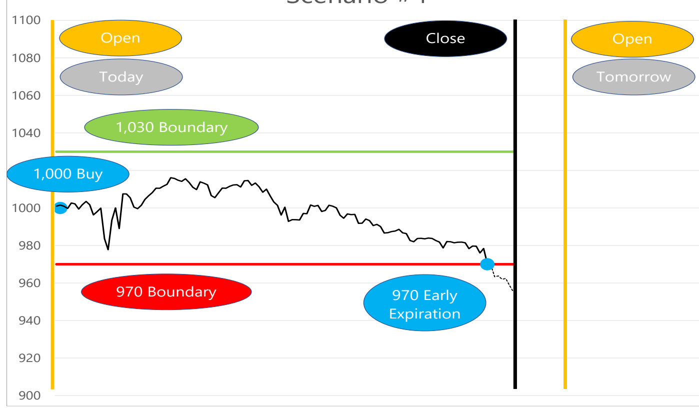


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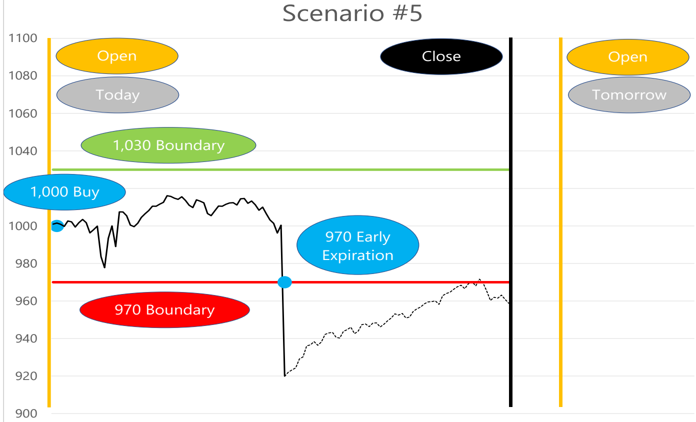
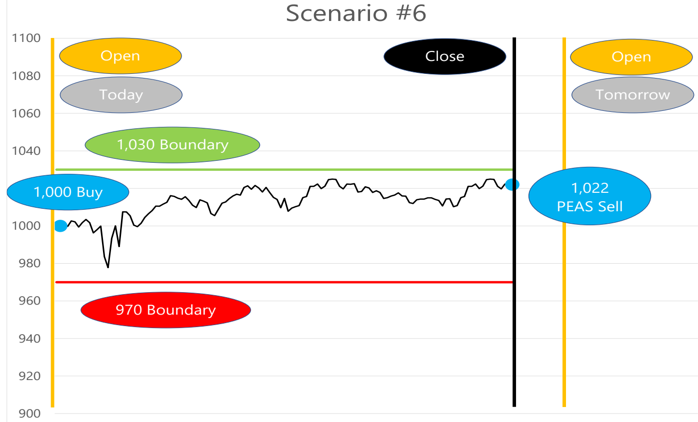
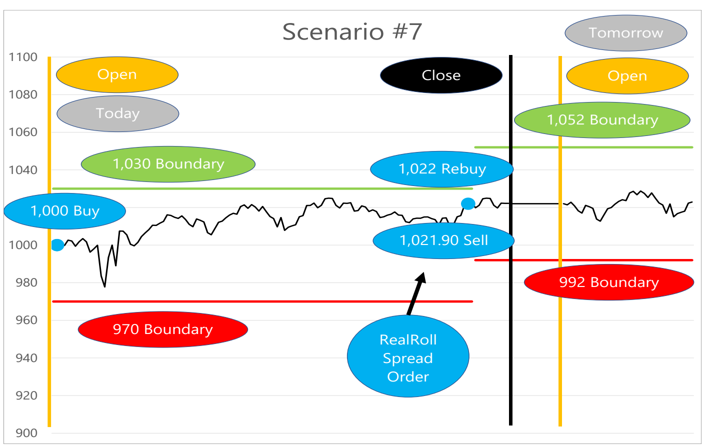


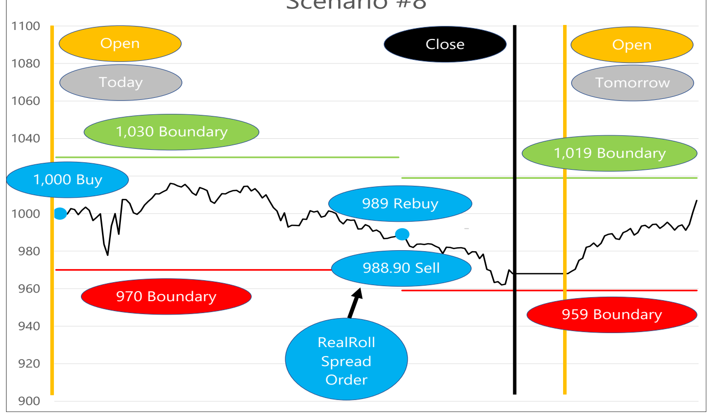

## Scenario #6




## Scenario #7




## Scenario #8



# Detailed Information*

### Overview of Contract Specifications
Key contract specifications are expected to be the same as standard futures contracts listed on the competitor exchange ("Standard Futures"). However, there are exceptions.

## Contract Similarities to Standard Futures

### Notional Size
Same

### Tick Size
Same

### Trading Hours
Same

### Expiration
Same

### Daily Settlement Price
The RealLimit daily settlement price is expected to be the same settlement price as the primary market.[1]

## Contract Differences to Standard Futures

### Settlement Style
Settlement will be to cash regardless if Standard Futures are cash settled or physically settled. If Standard Futures are physically settled, the expiration of RealLimit Futures will be the last trading day prior to the first notice day.

### Position Liquidation
Standard Futures remain open until offset or final expiration, whichever occurs first. RealLimit futures will remain open until offset, final expiration, or Early Expiration (i.e., if a Boundary Price is touched), whichever occurs first.

[1]In the rare event that a settlement price at the competing exchange is delayed or determined not to be representative of a final or closing price, RealBOT may independently determine the settlement price for that day.

### Maintaining Exposure
With Standard Futures, exposure can be carried from day to day (as long as margin requirements are met). Maintaining exposure with RealLimit futures continues unless the contract is liquidated intentionally or unintentionally (i.e., no margin calls can, or will, occur).

### Margin Style
Standard Futures have two levels of margin — one level for initiating a position (initial margin) and one level to maintain the position (maintenance margin). Because all RealLimit futures contracts are fully collateralized at all times, margin levels do not change after they are established.

### Margin Amounts
Standard Futures margin levels are set by the exchange. In contrast, traders of RealLimit futures select the amount of margin (and consequently the level of risk) within guidelines set by RealBOT. The margin amount selected quantifies the amount of maximum loss and the amount of maximum gain.

### Margin Levels
Upon launch, only two margin levels are expected to be available. Others may be added over time.

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## Adjusting Limits

### RealRoll™
A RealRoll is a special type of spread order allowing the trader to adjust Boundary Prices. There is no bid/ask slippage for RealRoll, only a predefined cost of one tick plus a single charge for Exchange and Clearing fees (not double fees for the two legs of the trade).

To take advantage of the reduced cost, five criteria must be met:
1. Available for RealLimit futures only
2. Same underlying asset
3. Same expiration
4. Same margin amount
5. Same direction

This process allows the trader to "re-center" the Boundary Range. If a roll is executed at a profit, the gain will be realized and flow immediately to the trader's account balance. If the roll is at a loss, additional margin will be required.

## Assets

### Underlying Assets
RealLimit futures are expected to be available in each of six major asset classes:

| Asset Class | Asset |
|---|---|
| Commodities | Corn |
| Metals | Gold |
| Energy | Crude Oil |
| Rates | 10yr T-Note |
| FX | EUR/USD |
| Equity Indices | TBD |