Western Union WU | Business Solutions

Taking early delivery of an Option

If you take out an Option for a date in the future but find that you need the funds before then, it is possible to take early delivery of your funds. Unlike a Forward Contract, the final outcome of the Option is not known until the actual expiry date; it is not as straightforward as taking early delivery of a Forward.

Example: Early delivery of your funds

You have a Vanilla Option which gives you protection at $1.3000 to sell GBP and buy USD. With only a month to go, spot is trading at $1.2500, your invoice arrives early and you're pretty sure that the rate isn't going to recover so you decide to pre deliver (i.e. take early delivery of the Option). As most Options have a known worst case outcome (that the customer will deal the protected amount at the protection rate), it is possible to pre-deliver against that fixed point. You would take delivery of US dollars at a rate of $1.3000 in advance of the expiry date. This can be for part, or the full amount you specified originally.

At the expiry date

If the GBP / USD rate is still below $1.3000 at expiry, then your Option to trade will be exercised after which we will offset your pre-delivery transaction. So, if you had protection for £100,000 and pre-delivered £50,000, you will have the right to deal the remaining £50,000 at $1.3000. Once settled, there would be no further cash flows.

If the GBP / USD rate had unexpectedly risen above $1.3000, and you had already taken £50,000 of your £100,000 protected amount, you would be free to choose whether or not to deal the remaining £50,000 at the more favourable spot rate. We would then also reconcile your pre-delivery transaction at the same rate and pay the additional US dollars into your holding balance with Western Union Business Solutions (UK) Limited. This means that, although you pre-delivered part of your contract at $1.3000, you still get the full benefit of the more favourable spot rate on the expiry date.

	1.2500	1.3000	1.3500	1.4000
£ 50,000	$ 65,000	$ 65,000	$ 67,500	$ 70,000
Pre-delivered £ 50,000	$ 65,000	$ 65,000	$ 65,000	$ 65,000
Additional USD	$ -	$ -	$ 2,500	$ 5,000
Total	**$ 130,000**	**$ 130,000**	**$ 132,500**	**$ 135,000**

The table shows that at or below $1.3000, you will achieve $150,000 regardless of pre-delivery and that above $1.3000, any pre-delivered amount at $1.3000 will be made good to match the more favourable spot rate.

Other Option types

This example shows the outcomes from pre-delivering a Vanilla Option, but it is the same for zero cost structures. Once the outcome is known, you either exercise your protection or are obliged to deal part or all of the Option. If there is any upside to be had above the protection rate, this will be added to your deliverable currency.

Important considerations

It is not possible to reduce a potential obligation on an Option by dealing in the spot market prior to expiry. Although an Option may expire worthless, allowing you to trade at a more favourable spot rate, this can't be known until the expiry date. For example, trading in the spot market in advance of a barrier being observed will not diminish your obligation to trade should you go on to be knocked in as a result of a barrier being observed.

It is important to note that pre-deliveries of Option transactions may only be entered into in relation to your legitimate commercial needs and not for speculation.

While changing currency needs will drive the need for pre-delivery of currency, taking future favourable cash flows to spend today without a plan to replace the future hedge will obviously undermine the hedge strategy. If the hedge was fully or partially pre-delivered to support different currency obligations, but some or all of the original currency obligations remain, adverse exchange rate movements may negatively impact business cash flows.

It is important to note that under this arrangement the Option is not being cancelled. No changes are made to the terms of the Option and the obligations between you and Western Union International Bank GmbH (WUIB) remain unchanged. This includes potential obligations to meet any margin calls from WUIB as provided under their respective terms and conditions. Please don't hesitate to contact us for more information on what this may mean for your business.

Please refer to the **Product Disclosure Statement** for information on our full range of option structures. This can be found at **business.westernunion.com/compliance-legal**

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