Financial instruments used by ATP

Equity futures
An equity futures contract is an agreement between two parties to buy or sell equities (or an equity index) at a pre-agreed price on a specified date. Equity futures thus provide an exposure similar to that obtained by buying or selling the actual equity, but there is limited liquidity effect on the date of entering into the contract.

Equity options
An equity option is a contract which confers on the purchaser (its holder) the right to buy or sell an equity (or an equity index) at a pre-agreed price on a specified date. The equity option thus enables the purchaser to protect the equity or the equity index from price falls or price rises.

Inflation caps
An inflation cap is a contract under which the purchaser pays a fixed premium on the date of entering into the contract. The seller of the contract is obliged to pay the difference between an agreed rate of inflation and the actual rate of inflation, if this difference is to the purchaser's advantage. Inflation caps offer the purchaser protection against rising inflation.

Inflation swaps
An inflation swap is an agreement between two parties to exchange a fixed rate of inflation for the actual rate of inflation on an agreed principal. With an inflation swap on which the actual rate of inflation is received, the purchaser will obtain a gain in case of rising inflation, but will, on the other hand, sustain a loss in case of falling inflation.

Interest rate futures
An interest rate futures contract is an agreement between two parties to buy or sell a bond at a pre-agreed price. Interest rate futures thus provide an interest rate exposure similar to that obtained by owning the actual asset, but there is no liquidity effect on the date of entering into the contract.

Interest rate options
An interest rate option is a contract which confers on the purchaser (its holder) the right to buy or sell an interest rate future at a pre-agreed price on a specified date. Interest rate options thus offer the purchaser protection from interest rate increases or decreases.

Interest rate swaps
An interest rate swap is a contract between two parties to exchange interest rate payments on an agreed principal amount. The most common interest rate swap is a swap where a variable interest rate is exchanged for a fixed rate or vice versa.

Cross currency swaps
A cross-currency swap is a contract between two parties to exchange interest rate payments and principals denominated in two different currencies.

Interest rate swaptions
An interest rate swaption is a contract conferring on the purchaser the right to enter into an interest rate swap at a pre-agreed rate on a specified date. Interest rate swaptions thus offer the purchaser protection from interest rate increases or decreases.

Repo transactions
A repo transaction is a contract for a loan or lending of an asset (typically bonds) which must be returned at a pre-agreed price on a specified date. In effect, repo transactions

thus serve as loans and lending of liquidity with a high degree of security.

Total Return Swap

A total return swap (TRS) is a contract between two parties under which one party receives payments equivalent to the return on an asset, e.g. an equity index at a given frequency, while paying a variable rate of interest to the other party at a given frequency.

Volatility futures

A volatility futures contract is a contract between two parties to buy or sell a volatility index (e.g. the VIX index) at a pre-agreed price on a specified date. Volatility futures thus provide an exposure to changes in the underlying volatility index.

Commodity futures

A commodity futures contract is an agreement between two parties to buy or sell commodities (or a commodity index) at a pre-agreed price on a specified date. Commodity futures thus provide an exposure similar to that obtained by buying or selling the actual commodity, but there is limited liquidity effect on the date of entering into the contract.

Credit Default Swap

A credit default swap (CDS) is an agreement between two parties to trade credit risk on a reference asset issued by a third party (the reference entity). The reference asset is typically a bond, but may also be a loan. One of the parties to the agreement buys protection against a credit event, i.e. that the reference entity defaults or is in breach of its obligations. The other party to the agreement is the seller of the protection which receives a fixed current payment from the buyer.

Forward exchange contracts

A forward exchange contract is an agreement to buy or sell a specific amount of currency at a pre-agreed exchange rate on a specified date. Forward exchange contracts can thus reduce the exposure to foreign currency by exchanging the contract amount into Danish currency in advance.