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

Brochure updated: 1 May 2020

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 the 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.

Limits

The price of the futures contract is unconstrained; only the potential profit or loss amounts have limits.

Daily Settlement

Each day, all open positions are liquidated at the settlement price.

Maximum Loss

The margin (i.e., collateral) covers the maximum chosen loss on any given day. Example: if the trader posts $2,000 margin, the maximum day's loss is $2,000.

Maximum Gain

The margin amount also defines the maximum gain on any given day. Example: if the trader posts $2,000 margin, the maximum day's gain is $2,000.

Risk vs. Reward

Risk and reward are in balance as the maximum loss also defines the maximum gain.

Perpetual Contracts

Unlike standard futures contracts that have periodic expirations, RealLimit futures never expire.

Reference Price Used for Settlement

The RealLimit daily settlement price will be fixed generally to the same settlement price of the nearby contract in the primary market.

Maintaining Exposure

If desired, market participants will be able to maintain market exposure beyond the day's settlement, without fees or slippage, through the "Perfect Execution at Settlement" (PEAS) process. Doing so would effectively provide the trader with continuous interday market exposure similar to how Standard Futures work now. A separate brochure can be requested explaining this process.

*Neither the Securities and Exchange Commission (SEC) nor the Commodity Futures Trading Commission (CFTC) has yet to approve the RealLimit concept.

Examples*

Assumptions:

- Today's futures price is 1,000. The trader places an order to buy one contract and decides to post $3,000 margin. 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 trader's selected Limits are +/– 30 points ($3,000) with Price Limits for today of 970 and 1,030 and, therefore, a Range of 60 points.

Scenario #1: The futures price remains within the 60-point Range.
Result #1: Nothing unique happens. The contract behaves similarly to a standard futures contract with gains or losses accruing until the position is liquidated or the day's settlement.

Scenario #2: Suppose 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.

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 Limit of 1,030, providing the trader with the maximum gain of $3,000.

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 Limit of 970, limiting the loss to posted collateral of $3,000.

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 Limit 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.)

Scenario #6: The trader desires to liquidate at the day's settlement price.
Result #6: The trader needs to take no action. All open positions each day will be liquidated at the daily settlement price.

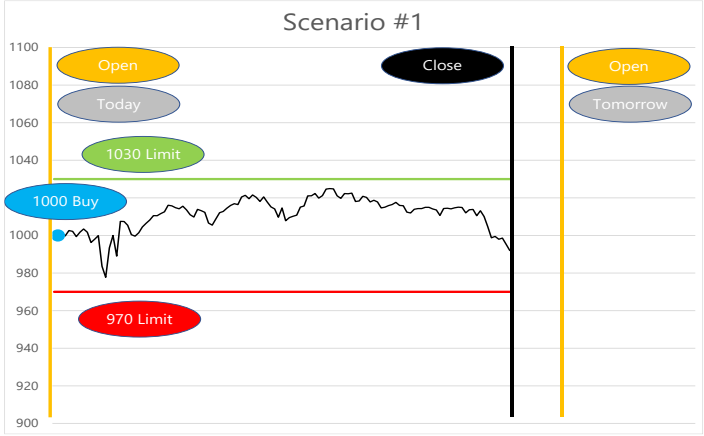
Scenario #7: The trader desires to maintain the long position into tomorrow but decides to reduce risk to only $2,000.
Result #7: The trader places a "Perfect Execution at Settlement" (PEAS) buy order that should be pre-matched prior to the close and executed at the settlement price with a margin requirement of $2,000. Suppose that today's settlement is 992. Therefore, the trader has a $800 loss today from the original position, which is automatically liquidated at the settlement. Immediately, the PEAS order gets executed at the same settlement price of 992, thereby placing the trader back into a long position for tomorrow, but this time with a $2,000 maximum gain or loss. The new contract Limits are +/– 20 points ($2,000) with Price Limits for tomorrow of 972 and 1,012 and, therefore, a Range of 40 points.

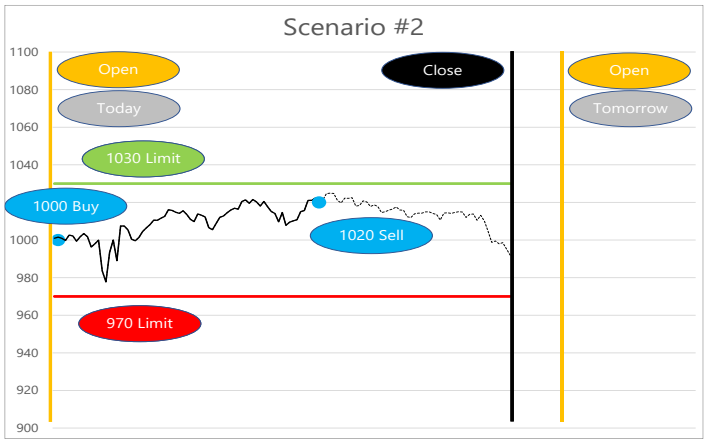
Transaction fees are waived for PEAS orders that place the trader back into the same RealLimit futures contract and in the same direction. And, because the PEAS process results in a perfect execution at the settlement price, the trader does not have an embedded bid/ask spread cost. The result is continuous interday exposure without an extra transaction cost, similar to the continuous exposure achieved with a Standard Futures contract.

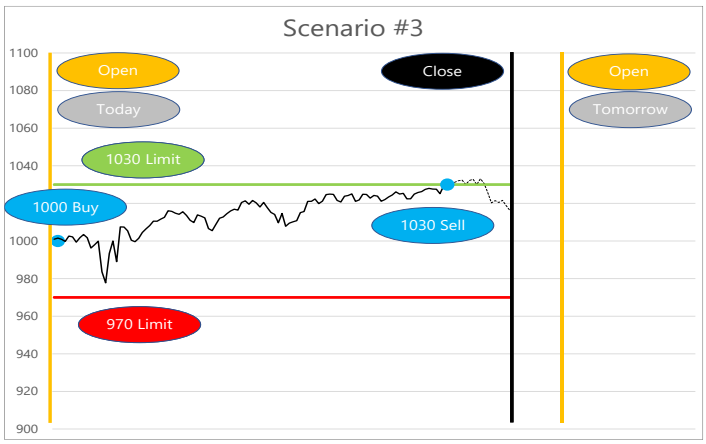
Note: Two items have changed from day to day: Tomorrow's Range has changed to 40 points (from 60) and the new "center" for risk calculation purposes has changed to 992 (from 1,000).

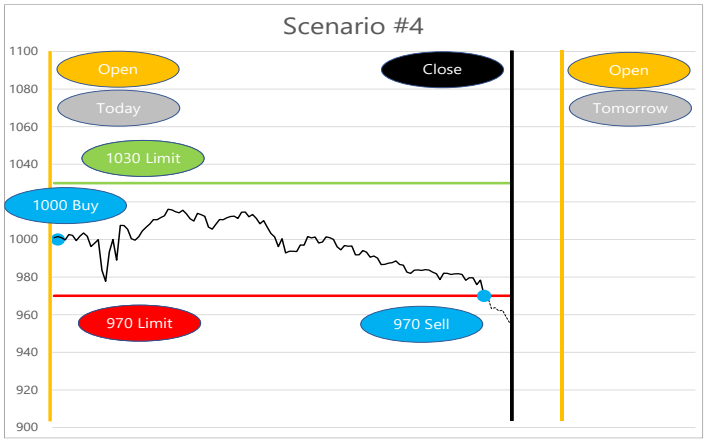
Scenario #8: The trader again desires to maintain the long position for another day. However, in this case, today is the RealBOT official roll date of the reference futures contract (see demandderivatives.com for roll date contract specifications unique to each underlying asset). Therefore, when a PEAS order is initiated to buy at the settlement with a $2,000 maximum margin, such an order, if filled, will be in the second nearby contract. Let's assume that today's futures contract settles at 992 and the second nearby settles today at 983.
Result #8: Today's nearby contract settlement of 992 results in a liquidation of the long position with a $800 loss for the trader's account. Because of the PEAS order to buy at the settlement, and because the reference futures contract is now the second nearby, the new trade, if filled, will be at the settlement price of the second nearby of 983. The new contract Limits are +/– 20 points ($2,000) with Price Limits for tomorrow of 963 and 1,003 and, therefore, a Range of 40 points.

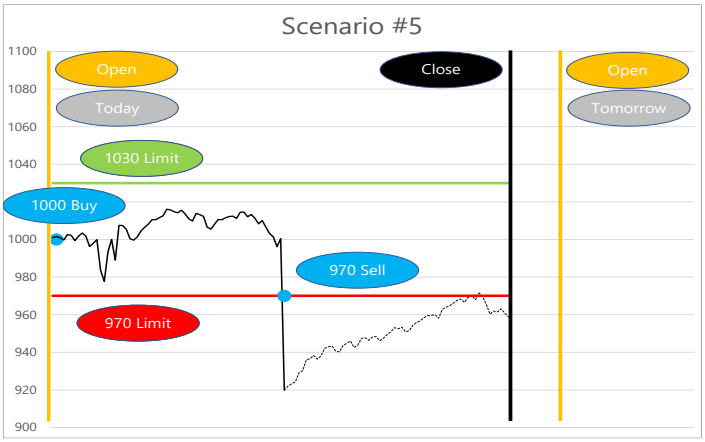
*The underlying prices, margin amounts, etc., are all fictitious and do not represent a specific underlying asset. Contract specifications are unique to each asset. Please review the website demandderivatives.com for more information.

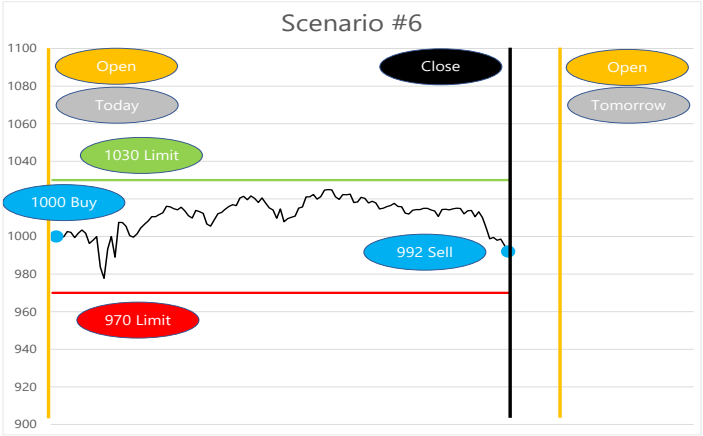

Scenario #1
Open
Close
Open
Today
Tomorrow
1030 Limit
1000 Buy
970 Limit
1100
1080
1060
1040
1000
980
960
940
920
900

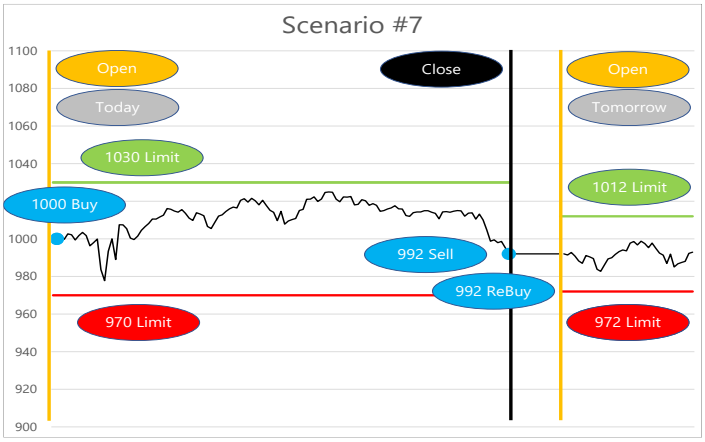

Scenario #2
Open
Close
Open
Today
Tomorrow
1030 Limit
1000 Buy
1020 Sell
970 Limit
1100
1080
1060
1040
1000
980
960
940
920
900

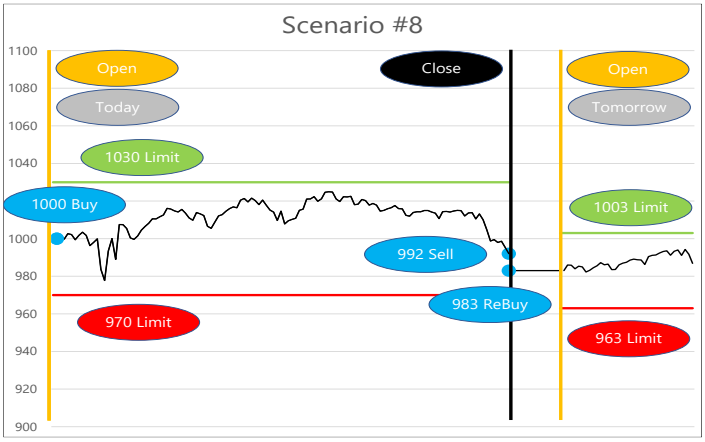

Scenario #3
Open
Close
Open
Today
Tomorrow
1030 Limit
1000 Buy
1030 Sell
970 Limit
1100
1080
1060
1040
1000
980
960
940
920
900


Scenario #4
Open
Close
Open
Today
Tomorrow
1030 Limit
1000 Buy
970 Limit
970 Sell
1100
1080
1060
1040
1000
980
960
940
920
900


Scenario #5
Open
Close
Open
Today
Tomorrow
1030 Limit
1000 Buy
970 Sell
970 Limit
1100
1080
1060
1040
1000
980
960
940
920
900


Scenario #6
Open
Close
Open
Today
Tomorrow
1030 Limit
1000 Buy
992 Sell
970 Limit
1100
1080
1060
1040
1000
980
960
940
920
900


Scenario #7
Open
Close
Open
Today
Tomorrow
1030 Limit
1012 Limit
1000 Buy
992 Sell
992 ReBuy
970 Limit
972 Limit
1100
1080
1060
1040
1000
980
960
940
920
900


Scenario #8
Open
Close
Open
Today
Tomorrow
1030 Limit
1003 Limit
1000 Buy
992 Sell
983 ReBuy
970 Limit
963 Limit
1100
1080
1060
1040
1000
980
960
940
920
900

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, due mainly to the unique properties of RealLimit futures.

Contract Similarities to Standard Futures

Notional Size
Same

Tick Size
Same

Trading Hours
Same

Daily Settlement Price
The RealLimit daily settlement price is fixed to the same settlement price as the primary market.

Contract Differences to Standard Futures

Expiration Style
Standard Futures expire; RealLimit futures do not.

Settlement Style
Settlement will be to cash regardless if Standard Futures are cash settled or physically settled.

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, there is no need for two margin levels.

Position Liquidation
Standard Futures remain open until offset or final expiration, whichever is earlier. For RealLimit futures, if a trader does not liquidate within the day, all open positions are liquidated at the end-of-day settlement price.

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 from day-to-day is accomplished by using the "Perfect Execution at Settlement" (PEAS) process (for details, see demandderivatives.com). There are no fees (if maintaining the same exposure) and no embedded bid/ask spread costs with this process. While the process is different, the resulting continuous exposure is the same.

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

Margin Levels
Margin amounts are expected to be selected by the trader within guidelines set by the exchange. There is a minimum increment and a maximum amount — both specific to each asset.

Example
Suppose the minimum margin increment is $1,000 and a maximum amount is $5,000. Traders, therefore, would be able to select a margin at $1,000, $2,000, $3,000, $4,000, or $5,000.

Key Points

1. Margin amounts can be changed each day as desired.
2. Margin used for today's trade cannot be used for tomorrow's position (even if maintaining the same position to the next day).
3. Switching the reference futures contract from the nearby to the second nearby happens automatically, thereby creating a never expiring (perpetual) futures contract.
4. The "center" of tomorrow's Range gets reset to today's settlement price each and every day.
5. Market makers will be incentivized by the exchange to take the opposite side of RealLimit futures orders at the various margin levels desired by traders.

Assets

Underlying Assets
RealLimit futures are expected to be available on the highly liquid Standard Futures contracts 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

RealLimit LLC
a subsidiary of
Demand Derivatives Corp.
demandderivatives.com
info@demandderivatives.com
1-888-865-9267