Index

Absolute derivative, 342
Accrued forward, 215
Accumulative forward, 218–224
Accumulator, 218
Adjusted drift, 149
American lookback options, 129
American style barrier, 81
American style corridor, 158, 160
American style corridor with continuously observed knockout, 158
American style corridor with discrete knock-out, 159
American style forward, 231
American style forward plus, 373
American style options, 6, 85
Amortizing forward, 225–227
Annualization factor, 34
Antonio Castagna on FX Options and Smile Risk, 1
Arithmetic average options, 123
Arrow-Debreu security, 70
Asian options, 117–126
Asymmetric power options, 138–140
ATM delta-neutral, 45
ATM forward, 45
ATM volatility spreads, 411
At-the-money, 39, 41, 44, 45
Aussie, 15
Australian derivatives, 169
Autobahn, 414
Auto-callable PRDC, 316
Auto-renewal forward, 227–228
Average option, 123

Back office, 414
Backwardation, 8, 198–199
Barings Bank, collapse of, 335
Barrier bending, 92
Barrier best-of/worst-of options, 190
Barrier events, 86
Barrier monitoring, 88
Barrier options, 81–93
popularity of, 86–87
pricing, 405–406
risk management of, 88–92
terminology, 85–86
types of, 83–85
Barrier Option Supplement (ISDA), 77, 81
Barx, 414
Base currency, 5
Basis adjustment (BA), 369–370
Basis spread (margin), 288–289, 292–293
Basis swaps, 288, 289, 309
Basket-linked note, 312–313
Basket options, 179–185
BBM, 220
Bermudan cancellation right, cross currency swap with, 293
Bermudan style options, 6
Best-of options, 188
BFIX fixing, 418
Bid-ask prices, 413
Bid-ask spreads, 101, 410–413
Big figure, 15
Black-Scholes formula, 7
Black-Scholes model, 4, 18, 90
for the actual spot, 27
vanilla Greeks in, 8–11
variations in, 6–7
Black-Scholes partial differential equation, 6
Bloomberg, 50, 413
Bloomberg fixing, 419–420
Bloomberg OVDV, 50
Bloomberg OVLM, 414
Bonus forward, 214, 301
Bonus swap, 301
Boomerang forward, 224–225
Boosted forward, 229–230
Boosted spot, 229–230
Branch sales, 416
Bretton Woods System, 2
Brexit, trade ideas for FX risk
management, 328–330
British Bankers’ Association (BBA), 49
Buck, 14
Buffered cross currency swap, 298–299, 301
Butterfly, 40, 41, 67–70, 405
Butterfly arbitrage, 70
Butterfly forward, 212–214
Buy-below-market, 220
Cable, 15–16
Calendar arbitrage, 75
Calendar spread, 75
Call spread, 56–58
Calypso, 414
Cantorspeed 90, 50
Capital guaranteed deposit, 270
Capped call, 56
Capped put, 56
Carriers, 323
Carry trade, 198, 323
Cash flow hedge, 358–359, 370, 372
Cash settlement, 27–28
Casino FX products, 417
CCY1, 5
CCY2, 5
Change in fair value method, 370
Change in variable cash flow method, 371
Charm, 9
Chicago Board of Exchange (CBOE), 3
Chicago Board of Trade (CBOT), 2
Chicago Mercantile Exchange, 2
Choice quotation, 412
Chooser option, 176
Chooser TARN, 319
Classification of financial instruments, 346–349
Cliquet, 138
CMS spread-linked FX forward, 320
Cody-Algorithm, 115
Collar, 61
Collar extra series, 269
Color, 9
Compound financial instruments, 341
Compound option on the forward, 29
Compound options, 29, 105–106
Conditional derivative, 342
Condor, 70–72
Constant gamma exposure, 142
Constant maturity swap (CMS), 320
Contango, 8, 198–199
Contingent payment, 168
Contingent rebate structure, 237
Continuous payment plan, installment
options with, 116–117
Convertible bond, 341
Convexity, 40
Corporate sales, 417
Correlation, 183
Correlation, FX, 148
Correlation hedge, 184
Correlation risk, 150
Correlation swap, 156, 191, 192
Corridor, 156, 157–160
Corridor deposit, 160, 277–279
Corridor forward, 218
Corridor swap, 301–303, 309
Counter currency, 5
Counters, 163
Counter tariff, 251
Credit spread, 313
Credit vegetarian, 250
Critical term match, 365
Cross, 16
Cross currency swap, 286–288
with Bermudan cancellation right, 293
Cross currency swap with protection of
the final exchange notional, 293
CRS (currency related swap), 303–307
Cubic splines, 46
Cumulative dollar-offset ratio, 382, 389
Curnow and Dunnett integral reduction technique, 110
Currency codes, 422–423
Currency one, 14
Currency options, 3–4
Currency option transaction, definition, 3–4
Currency pairs, 421
Currency related swap, 303–307
Currency swap, 199
Currency triangle, 148
Currency two, 14
Currenex, 419
Cuttoffs, 417
Cylinder, 61

Daughter option, 106
Day-by-day dollar-offset ratio, 382, 384, 385, 386, 389
DCD, 270–272, 285, 330
DCI, 270, 330
Decumulator, 220
Default premium currency, 19
Deferred delivery, 29–30, 315
Deferred delivery driven by forward, 32
Delivery date, 26
Delivery settlement, 28–29
Delta, 8, 96, 399
Delta hedge, 89
Delta-neutral strike, 12
Delta parity, 45
Delta quotations, examples, 19
Delta-symmetric strike, 12
Deposits, 270
Derecognition, 354–356
Derivatives, 4, 328, 341–346
accountant’s definition, 342
conditional or absolute, 342
embedded, 344–346
exchange traded FX derivatives, 417
IAS 39 and, 335
purposes of, 335, 341
retail FX derivatives, 417
typical contracts, 343

Derivatives trading process engineering, 415
Diagonal spread, 75
Digital barrier options, 162
Digital options, 77
applications of, 81
drift sensitivity of, 80
replication of, 78–80
volatility implied by, 80
Digital TPF, 251
Disclaimers, 415
Discrete target accumulator, 251
Dollar-offset method, 363, 365–366, 368, 370, 382, 384, 391
Dollar-offset ratio, 378–380
DOM, 5
Domestic, 5, 11
Double barrier options, 85, 406
Double-no-touch, 102, 104, 105
Double no-touch contracts, pricing, 406
Double-no-touch linked deposit, 275
Double-no-touch linked swap, 307–309
Double-one-touch, 100, 104, 105
Double shark forward, 209, 228–229
Down-and-out American barrier, 82
D pips, 17
Dual asset range accrual note, 321
Dual currency deposit (DCD), 191, 270–272, 285, 330
Dual currency investment (DCI), 270, 330
Dual currency loan, 272
Dual delta, 11, 23–25
Dual gamma, 11
Dual theta, 11
dvannadvol, 10
dvega/dspot, 10, 399
dvega/dvol, 399
dvolgadvol, 10

EBS, 419
ECB fixing, 418
Electronic Broking Service (EBS), 419
EM, 322
Embedded derivatives, 344–346
Emerging markets (EM), 322
Enhanced deposit, 270
Enhanced forward, 206, 394
Equity instruments, 340–341
Escalator ratio forward, 232–234
Euclidian distance, 191
Euro, 3
European barrier options (EKO), 81, 407
European Currency Unit (ECU), 3
European digital options, 77, 407
European geometric average price call, 119
*European Medium Term Note* (EMTN) program, 283
European style barrier, 81
European style corridor, 157–158, 160, 176
European style options, 6, 85
EUR put, 326
Exchange option, 177–179, 192
Exchange traded FX derivatives, 417
Exotic forward contracts, 197
Expiry date, 26
Expiry spot date, 26
Express certificate, 284
Fade-in forward, 176, 203–205, 241
Fade-in option, 160
Fade-out call, 176
Fade-out forward, 205
Fade-out option, 160
Fader forward extra, 211–212
Fader forward plus, 210–211
Fader payoff, 176
Faders, 156, 160–162, 163
Fader shark forward, 210–211
Fair correlation rate, 192
Fair value hedge, 357–358, 365–366, 368, 369–371
FAS 133, 370
FEDFX fixing, 418
FENICS, 413
Feynman-Kac Theorem, 6
Financial assets, 346
  defined, 338–339
  offsetting of, 339–340
Financial bias, 288
Financial instruments:
  classification of, 346–349
  de-recognition of, 354–356
  evaluation of, 349–356
  general definition, 338
  impairment of, 353–354
  initial measurement, 350–351
  initial recognition, 349–350
  subsequent measurement, 351–354
Financial liabilities, 346
  defined, 339
  offsetting of, 339–340
Fincad, 260, 414
First generation exotics:
  classification of, 76–77
  spreads for, 412–413
First hitting time, properties of, 98–99
Fixed maturity pillars, interpolation of volatility on, 45–48
Fixed strike average option, 121
Fixing calendar, 131
Fixing date, 26
Fixings, 159, 417
  calculations, 419–420
  sources, 418–419
Fixing schedule, 157, 159
Fixing source, 159
Fixing spot date, 26
Flexible deals, 414
Flip forward, 238
Flip swap, 298, 299–301
Floan, 323
Floating strike Asian options, 119
Floating strike lookback options, 130, 132, 134
Fluffy barrier options, 164
FOR, 5
Foreign, 5, 11
Foreign-domestic symmetry, 14
Foreign-domestic symmetry for barrier options, 85
Foreign Exchange Committee, 93
*Foreign Exchange Option Pricing* (Clark), 1
Forward contact, 8
Index

Forward contracts (accounting issues), 350
Forward contract value, 8
Forward delta, 8, 20, 30
Forward dual delta, 11
Forward extra, 206, 329–330, 394
Forward plus, 206, 372–392, 394
Forward plus plus, 207
Forward plus with extra strike, 207
Forward price, 8
Forward setting currency option transaction, 174
Forward start chooser forward, 229
Forward start corridor, 159
Forward start option, 136–138
Forward start straddle, 174
Forward super plus, 207
Forward variance swap, 173–174
Forward volatility, 106–107, 137
Forward volatility agreement (FVA), 137, 156, 174–175
Forward with knock-out chance, 239–240
Forward with profit potential, 394
Free style forward, 229
Front office, 414
Future delta, 9
Futures contract, 8
FVA, 137, 174–175
FX and Currency Option Definitions, 77
FX as an asset class, 310
FX Barrier Options, 81
FX-express certificate, 284
FX-linked bonds, 283–284
FX smile, brokers' version, 42
FX smile, smile version, 42
FX swap, 199
FX swap rate, 199
FX TARN, 318–319

Gamma, 9, 96
Gamma exposure, 58
Garman-Kohlhagen model, 6
Gaussian kernel, 46, 47
Geometric average options, 119–123
Geometric average price call, 121
Geometric Brownian motion, 5, 8
Geometric mirror, 13
Gold participation note, 310–312
Gold performance note, 310
Greece (ancient), options and futures traded in, 1
Greeks, 8, 95–98
Greeks in binomial tree model, 32–33
Greeks in terms of deltas, 22–25
G10 currencies, 421

Handbook of Exchange Rates, The, 1
Hanseatic swap, 293–295
Harmonic Asian swap, 170
Harmonic average contracts, 169–170
Heat equation, 7
Hedge accounting under IAS 39, 335–392
basic requirements, 359–364
collection, 390–391
evaluation of financial instruments, 349–356
financial instruments, 336–349
hedge accounting overview, 356–357
introduction, 335–336
methods for testing hedge effectiveness, 364–372
relevant original sources for accounting standards, 392
stopping hedge accounting, 364
testing for effectiveness – case study of forward plus, 372–390
types of hedges, 357–359
Hedge accounting under IFRS 9, 392–398
conclusion and outlook, 397–398
documentation and qualifying criteria, 393
hedge effectiveness defined, 392
shark forward case study, 393–397
Hedge amortized costs (HAC), 369
Hedged item, 361–362
Hedge effectiveness, 362–364
IFRS 9 definition, 392
Hedge fair value (HFV), 363, 369
Hedge of a net investment, 359
Hedging, delta and vega, 89
Hedging instruments, 360–361
Held-to-maturity investments, 347–348
High net worth individual, 260
Hi-lo option, 129
Himalaya option, 191
Hindsight option, 126, 127
Historic correlation, 36–37
Historic volatility, 33–36
Hit binary, 94
HNWI, 260
Homogeneity, 13
Horizon date, 26
Horizon spot date, 26
Host contract, 344
Hybrid forward contracts, 320–321
Hybrid FX products, 314–321
Hybrid strike, 320
Hypothetical derivative method, 371
IAS 39, 335
IASB, 392
ICOM, 93
IFRS 9, 392–398
Implied volatilities, 46
Independent derivative, 344
Installment option, 29, 107–117
Installment options with a continuous payment plan, 116–117
Institutional sales, 416
Inter bank sales, 416
Interest rate parity, 289, 291
Interest rate parity with basis spread margin, 291–292
Interest rate swap, 286
International Accounting Standards, aim of, 335
International Accounting Standards Board, 392
International Monetary Market (IMM), 3
International Organization for Standardization (ISO), 421
International Organization of Securities Commissions (IOSCO), 419
International Swaps and Derivatives Association (ISDA), 3
Interpolation between maturity pillars, 48
Intrinsic value ratio knock-out forward, 234–236
Inverse dual currency deposit, 330–331
ISDA Definitions of Currency Options, 93
ISO 4217 currency code list, 421–423
ISO 4217 standard, 421
Issuer swap, 313
James Bond range, 166
Jump diffusion models, 52
Kernel interpolation, 47–48
Kick-in, 84
Kick-out, 84
KIKO, 165–166
KIKO tarn, 255–259, 265
Kiwi, 15
Kiwi forward, 241
Knock-in-knock-out options, 165–166
Knock-in on strategy contract, 165
Knock-in options, 84
Knock-out call option, 81
Knock-out forward, 205–206, 320
Knock-out options, 84, 166
Kondor+, 414
Kristall, 414
Large barrier contracts, market effects, 92–93
Law of cosine, 148
Leeson, Nick, 335
Leverage, 219
Leveraged collar, 202
Leveraged forward, 200
Leveraged target forward, 244–246
LIBOR rate, 286
Limited risk options, 129
Listed FX option, 417
Loans and receivables, 348–349
Local volatility (LV), 260
Local volatility model, 260
London fixing, 418
Long-term FX options, 315
Long-term knock-out forward series, 320–321
Lookback gamma asymmetry, 133
Lookback option, 126–136
Lookback straddle, 129
Loonie, 15

Maastricht Treaty, 3
Madonna option, 191
Malz parabola, 55
Managing Currency Risk Using Foreign Exchange Options (Hicks), 1
Margin account, 8
Margin call, 58
Margin requirements, 342–343
Marked to market, 259
Market following TPF, 252
Markit, 414
Master agreement (ICOM), 93
Mathematical Models for Foreign Exchange (Lipton), 1
MathFinance, 414
Maturity, 261
Maximum intrinsic value (IV), 412
Mean subtracted, 174
Merlin, 414
Middle office, 414
Milano strategy, 267
MNCs, 417
Moneyness probability, 100
Mother option, 106
Mountain range option, 191
Moving strike turbo spot unlimited, 313–314
Mrs. Watanabe, 317, 323
Multi-currency, 185
Multi-currency deposit, 191
Multi-currency derivatives, 177
Multi-currency protection, 190
Multi-national companies (MNCs), 417
Multiple range deposit, 281
Multiple strike option, 190
Multiplicity power option, 156
Murex, 414
Mustache graph, 407–408
NDF, 200
Neo (UBS), 414
New York Cotton Exchange, 2
Nokkies, 15
Non-capital-guaranteed deposits, 270
Non-deliverable forward, 200
Non-resurrecting corridor, 158
No-touch, 94
No-touch probability, 407
Numeraire currency, 5, 14
Numerix, 260, 414

Obligation to pay, one-touch contracts and, 94
Occupation time derivatives, 163
Off-balance sheet transaction, 342
Olsen Data, 49
One-touch, 94, 95
One-touch contracts, 94–95
One-touch-digital, 94
One-touch MTM, 407–409
One-touch spreads, 412
Onion deposit, 281
Onion loan, 281
Option on the Euclidian distance, 191
Option on the forward, 31
Option on the maximum norm, 191
Option prices, quotation of, 16–17
Options:
  derivatives and, 4
  history of, 1–3
Options on the maximum/minimum of several underlyings, 188
OPTREF, 418
Other comprehensive income (OCI), 396
Outright forward, 198–200, 324, 326, 328, 329
Outside barrier option, 85, 185–188
Overhedge, 221, 222, 399, 402, 408

Parabolic smile interpolation, 332
Parameterization, 46
Parasian barrier option, 164
Parasian style knock-out, 221
Par correlation rate, 192
Par forward, 267
Parisian barrier option, 164
Parity risk, 222
Par swap rate, 286
Partial barrier option, 163
Partial fixed lookback options, 130
Partial lookback options, 129
Participating collar, 202–203
Participating forward, 200–202
Participation notes, 310–314
Participator, 200
Par volatility, 182
Pass-through arrangement, 354
Path-dependent options, pricing, 407
Pay-later options, 166–168, 176
Pay-later price, 168
Performance linked deposits, 273–275, 285, 303
Performance notes, 310
Period-by-period dollar-offset method, 386
Perpetual double-one-touch, 153
Perpetual no-touch, 153
Perpetual one-touch, 153
Pin risk, 141
Pip, 15
Pivot target forward, 252–255
Plain target forward, 241–244
Post trade valuation, 119, 120
Power ball, 318
Power coupon, 316
Power options, 138–146
Power reset forward, 240
Power reverse dual currency bond (PRDC), 315
Power reverse dual double TARN, 318
Power reverse dual FX TARN, 318
Power reverse dual target redemption note, 318
Power straddle, 138
PRDC, 315
PRD TARN, 318
Preferred share, 341
Premium-adjusted delta, 18, 19
Premium-adjusted forward delta, 31–32
Premium-adjusted spot delta, 31
Pre-trade valuation, 119
Price spreads, vanilla, 411
Pricing Partners, 260
Private banking, 417
Proprietary trading, 416
Prospective hedge effectiveness, 362
Pure interpolation, 46–48
Put-call delta parity, 12
Put-call parity, 12, 199
Put-call symmetry, 13
Put spread, 56–58
Puttable TPF, 250
Pyramid option, 191
Quanto barrier, 147
Quanto best-of/worst-of options, 190
Quanto capped call, 311
Quanto digital, 150
Quanto drift adjustment, 147–149
Quanto exotics, 191
Quanto factor, 147, 275
Quanto forward, 149–150
Quanto options, 147–152
Quanto plain vanilla, 147
Quanto vanilla, 149
Quid, 14
Quotation conventions, 101
Rainbow exotics, 177
Rainbow options, 191
Range, 129
Range accrual forward, 160, 215–218
Range accrual (RAC), 157
Range deposit, 275
Range forward, 61, 214–215
Range accrual note, 278
Range option, 129
Range reset swap, 308
Ratchet, 138
Rates symmetry, 13–14
Ratio call spread, 58–60, 286, 323
Raw delta spot, 17
Rebates, 85
Rebates, delta, 96
Recognition, 349–350
Reflection principle, 101
Regression analysis, 363, 368, 370, 382, 383, 384, 386, 387, 390, 391
Regular barrier option, 89
Regular knock-out, 89–90
Regular way contracts, 343
Re-hedge threshold, 134
Reoccurring identities, 11–12
Resettable barrier option, 164–165
Resettable cross currency swap, 287
Resetting strike TPF, 251
Reset trade, 251
Resurrecting corridor, 157
Retail FX derivatives, 417
Risk controlling, 414–415
Risk reversal, 40, 41, 43, 61–63, 326, 405
Risk reversal case study in EUR-USD, 332–333
Rho, 10–11
RICs, 50
Right to receive, one-touch contracts and, 93–94
Risk reversal flip, 63–64
Sales-driven trading, 416
SAM, 220
Scandies, 15
Scandie vols, 50
Seagull, 72–74, 322
Second chance TPF, 251
Second generation exotics:
  multiple currency pairs, 177–192
  single currency pair, 156–176
Self-quanto, 275
Self-quanto as power, 140
Self-quanto forward, 156
Self-quanto option, 140
Sell-above-market (SAM), 220
Semi-static replication:
  for barrier options, 88
  of one-touch, 101
Semi-static rollover strategy, 133
Series of strategies, 266–270
Settlement, 26–30
Settlement differential, 192
Shadow barrier, 92
Shark forward, 87, 206–210, 326–327
Shark forward case study, 393–397
  hedge effectiveness, 394–395
  minimum documentation requirements, IFRS 9, 395–397
  overall assessment, 397
Shark forward plus, testing for effectiveness, 372–392
calculation of forecast transaction’s value, 377–378
calculation of shark forward plus value, 375–376
calculation of the forward rates, 376–377
  conclusion, 390–391
dollar-offset ratio – prospective test for effectiveness, 378–380
regression analysis – prospective test for effectiveness, 382
relevant original sources for accounting standards, 392
result, 382–384
retroactive test for effectiveness, 384–390
simulation of exchange rates, 373–374
variance reduction measure – prospective test for effectiveness, 381–382
Shark forward series, 267–269
Short-cut method, 365
Shout forward, 231
Shout TF, 251
Sick floan, exit strategies for, 323–328
Single barrier option, 85
Skew, 40
Slice kernel, 47
Smile effect, 100
INDEX

Snowball, 318
Soft barrier option, 163
Soft barriers, 163
Soft strike option, 141
Space-homogeneity, 13
Speed, 9
Spot delta, 8
Spreading, 412
Spreading vanilla structure, 412
Spread options, 177–179
Static replication for barrier options, 88
Step barriers, 163
Step option, 168
Stochastic dynamic programming,
valuation of installment options,
113–115
Stochastic-local volatility (SLV), 260
Stochastic-local volatility with jumps
(JLSV), 260
Stochastic volatility, 52–54
Stochastic volatility inspired (SVI), 48
Stockies, 15
STP, 414–415
Straddle, 32, 64–65
Straight through processing (STP),
414–415
Strangle, 40, 41, 43, 65–67
Strike, 39
Strike-bonus option, 132
Strike in terms of delta, 20–21
Strike leverage forward, 232
Strike-out, 84, 153
Strike price, 153
Strip, 266
Stripping, 267
Structured forward transactions, 197
Structured forward with doubling
option, 238–239
Structured forward with improved
exchange rate, 237–238
Structured product, 168
Subscription phase, 138
Subsequent measurement, 351–353
Successive Over-Relaxation (SOR), 38
SuperDerivatives, 50, 51, 413
SVI, 48
Swap 4175, 275, 307
Swap points, 199
Swap rate, 199
Symmetric Brownian motion, 101
Symmetric power options, 138,
139, 140
Symmetric power straddle, 140
Synthetic forward, 12, 199
TARF, 241
Target, 257
Target accumulator, 242
Target coupon, 318
Target feature, 221
Target forward, 241–266, 323, 329
Target profit forward, 246–252
Target redemption forward, 241
Target redemption note, 241
Target redemption products, 241
TARN, 241
Telerate pages, 50
Tender linked forward, 236–237
Tenor, 251
Term currency, 5
Tetrahedron, 183
Tetris bond, 281
Theta, 9, 96
Thomson Reuters Matching, 419
Three range deposit, 281
Three range loan, 281
Time homogeneity, 13
Time option, 231
Time option replication with American
options, 241
Time-Weighted Average Price (TWAP),
420
Tolerant double-no-touch, 166, 176
Totem, 414
Touch contracts, 93–101
Touch probability, 98, 100
Tower deposit, 281–283
Tower loan, 281, 283
Tower note, 283
Traders’ gamma, 9
Traders’ rho, 11
Traders’ rule of thumb, 399
Traders’ theta, 9
Traders’ vega, 10
Trading and sales, 415–421
Transatlantic barrier option, 165
Treasury case studies, 322–331
Tremor, 414
TRF, 241, 242, 243
Triangular currency market, 180
Tulipmania, 2
Tullett Prebon, 50, 52
Tunnel deposit, 275–277, 307
Tunnel loan, 283
Turbo cross currency swap, 296–298, 301, 303, 306
Turbo deposit, 272, 278–281, 296
Turbo loan, 279
Turbo note, 153
TV, 399
Two-touch, 102
Two-way express certificate, 284

UBS trader, 414
Underlying exchange rate, quotation, 14
Up-and-out American barrier option, 82
USD call strip, 270
US-GAAP, 365

Value function of a one-touch, derivation of, 99–100
Value parity, 45
Vanilla-one-touch duality, 153
Vanilla options, 329
  with basis spreads, 292–293
  retrieving volatility from, 37–38
  static replication with, 125–126
  technical issues for, 4
Vanilla spreads, 411
Vanna, 97, 104, 399, 409
Vanna-volga adjusted value, 401
Vanna-volga pricing, 399–402, 405
Vanunga, 10
Variability reduction method, 366, 370
Variance reduction measure (VRM), 363, 381–382, 383, 384, 386, 387, 390, 391
Variance swap, 144, 145, 156, 170, 171, 172, 173
Vega, 10, 96–97, 104, 399
Vega bleed, 263
Vega-delta, 31
Vega exposure, 58
Vega hedge, 89
Vega in terms of delta, 25
Vega matrix, 25
Vega quanto plain vanilla, 151
Vega-weighted butterfly, 69
Volatility:
  definition, 33
  historic, 33–36
  sources, 49–52
  term structure of, 39
Volatility and delta for a given strike, 21–22
Volatility cones, 52, 53, 55, 171
Volatility interpolation, 45–46
Volatility matrix, 39
Volatility smile, 39
Volatility surface, 39
Volatility swaps, 156, 170, 171, 172
Volga, 10, 97–98, 104–105, 399, 409
Volgamma, 10, 409
Volmaster, 52, 53, 260, 413
Volunga, 10
Vomma, 409
Wedding cake, 281
Weighted Monte Carlo technique, 149, 184
Windmill-adjustment, 80
Windmill effect, 78–79
Window barrier, 162–163
Window barrier option, 162–163
Window TPF, 250
World Market fixing, 418
Worst case structures, 322–323
Worst-of options, 188
Yard, 14
Yield enhancement, 270
Yield enhancer, 270