NATIONAL SECURITIES CLEARING CORPORATION LIMITED

DEPARTMENT: CURRENCY DERIVATIVES SEGMENT	
Download Ref No : NSCCL/CD/37030	Date : February 22, 2018
Circular Ref. No : 13/2018	

All Members

Sub- Clearing & Settlement – Currency Options on EUR-INR, GBP-INR and JPY-INR

This is further to Exchange Circular no. NSE/CD/37025 dated February 22, 2018 and NSE/CD/31941 dated March 10, 2016 and in partial modification to our circular no NSCCL/CD/34654 dated April 17, 2017; members are requested to please take a note of Clearing, Settlement and Risk Management for Exchange Traded Option contracts on EUR-INR, GBP-INR and JPY-INR currency pairs.

1. Settlement

1.1 Settlement Period

The pay-in and pay-out of premium settlement and final exercise settlement of options contracts shall be effected in accordance with the settlement schedule issued by the Clearing Corporation periodically. The members are required to have clear balance of funds in their clearing account towards their pay-in obligation by the declared pay-in time on the settlement day. The pay-out of funds shall be credited to the receiving members clearing account thereafter.

1.2 Daily Premium Settlement

The daily premium settlement shall be effected on T+1 day basis as per the timelines specified by the Clearing Corporation. Premium settlement shall be netted with daily mark to mark settlement of currency futures, Cash settled Interest Rate Futures on G-Sec and futures contracts of 91 Day GOI T-bills.

1.3 Final Exercise Settlement

On expiry date, all open long in-the-money contracts shall be automatically exercised at the final settlement price and assigned on random basis to the open short position of the same strike and series. Exercise settlement shall be effected on last working day (excluding Saturdays) of the contract month. The last working day shall be taken to be the same as that for Interbank Settlements in Mumbai.

Exercise settlement in respect of admitted deals in option contracts shall be cash settled by debit/ credit of the clearing accounts of the relevant clearing members with the respective clearing bank on last working day (excluding Saturdays) of the contract month. Option contracts, which have been exercised, shall be assigned and allocated to clearing members at the client level.

Open positions in an option contracts shall cease to exist after its expiration day.

2. MARGINS

2.1 Initial Margins

Initial margin shall be payable on all open positions of Clearing Members, upto client level, and shall be payable upfront by Clearing Members in accordance with the margin computation mechanism and/ or system as may be adopted by the Clearing Corporation from time to time.

Initial Margin shall include Standard Portfolio Analysis of Risk (SPAN®) margins, premium margin, assignment margin, futures final settlement margin and such other additional margins, that may be specified by the Clearing Corporation from time to time.

For the purpose of calculation of option values, the Black-Scholes option pricing model would be used.

Volatility Scan Range
The volatility scan range for generating the scenarios for SPAN margins would be 3% or such other percentage as may be specified by the Clearing Corporation from time to time.

2.2 Net Option Value

Net Option Value is computed as the difference between the long option positions and the short option positions, valued at the last available closing price and shall be updated intraday at the current market value of the relevant option contracts at the time of generation of risk parameters The Net Option Value shall be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses shall not be settled in cash for currency options positions.

2.3 Premium Margins

Premium Margin shall mean and include net premium amount due to be paid to the Clearing Corporation towards premium settlement, at the client level. For option positions, the premium shall be paid in by the buyers in cash and paid out to the sellers in cash on T+1 day. Until the buyer pays in the premium, 100% of net premium due shall be levied as premium margins on an upfront basis. Premium margin shall be levied till the completion of pay-in towards the premium settlement

2.4 Assignment Margin

Assignment Margin shall be levied on assigned positions of the clearing members towards exercise settlement obligations for option contracts. For option positions exercised, the seller of the options shall be levied assignment margins which shall be 100% of the net exercise settlement value payable by a clearing member towards exercise settlement. Assignment margin shall be levied till the completion of pay-in towards the exercise settlement. Assignment margins shall be computed as net of assignment settlement and futures final settlement.

2.5 Calendar Spread Margins

A long currency option position at one maturity and a short option position at a different maturity in the same underlying would be treated as a calendar spread. The margins for options calendar spread shall be same as specified for currency futures calendar spread. The margins for calendar spread shall be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month currency futures and short 100 far month currency futures.

The benefit for a calendar spread would continue till expiry of the near month contract.

2.6 Extreme Loss margins

Extreme loss margin shall be equal to the following percentages of the notional value of the open short option position.

- EUR-INR: 1.5%
- GBP-INR: 1.5%
- JPY-INR: 1.5%

Notional Value would be calculated on the basis of the latest exchange rate published by Reserve Bank for respective pair. The extreme loss margin shall be deducted from the liquid assets of the clearing member on an online, real time basis.

2.7 Updation of risk parameters

The parameters for computation of span margin shall be updated as specified by the relevant authority from time to time. The parameters shall be updated 9 times in the day at 11:00 a.m., 12:30 p.m., 2:00 p.m., 3:30 p.m., 5:00 p. m., 6:30 p. m.,end of the day and begin of the day. Additionally a provisional end of day parameter file based on daily settlement prices of currency contracts based on FCY-INR pairs and Interest Rate Future contracts shall be provided, The Risk parameters generated based on the updated parameters shall be provided on the exchange website at www.nseindia.com and on extranet. The naming convention of the parameter file shall be as below:

SPAN Files	Currency	IRF and Currency
BOD	nsccl_x.20160203.i1.zip	nsccl_ix.20160203.i1.zip
1st Intraday (11:00)	nsccl_x.20160203.i2.zip	nsccl_ix.20160203.i2.zip
2nd Intraday (12:30)	nsccl_x.20160203.i3.zip	nsccl_ix.20160203.i3.zip
3rd Intraday (14:00)	nsccl_x.20160203.i4.zip	nsccl_ix.20160203.i4.zip
4th Intraday (15:30)	nsccl_x.20160203.i5.zip	nsccl_ix.20160203.i5.zip
5th Intraday (17:00)	nsccl_x.20160203.i6.zip	nsccl_ix.20160203.i6.zip
Provisional EOD	nsccl_x.20160203.ps.zip	nsccl_ix.20160203.ps.zip
6th Intraday (18:30)	nsccl_x.20160203.i7.zip	nsccl_ix.20160203.i7.zip
Final (After Market Close)	nsccl_x.20160203.s.zip	nsccl_ix.20160203.s.zip

3. POSITION LIMITS

The position limits as currently prescribed for EUR-INR, GBP-INR and JPY-INR currency pairs shall be the overall limits for the gross open positions across all contracts (both futures and options contracts) of the eligible participant in the respective currency pair.

All other rules, procedures and actions currently applicable in Currency Derivatives Segment shall also be applicable mutatis mutandis to Currency Options on EUR-INR, GBP-INR and JPY-INR.

For and on behalf of
National Securities Clearing Corporation Ltd.

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