NSE

Circular

National Stock Exchange Of India Limited

Department : Commodity Derivatives Segment	
Download Ref No: NSE/COM/45445	Date : August 21, 2020
Circular Ref. No: 31/2020	

All Members,

Introduction of Options in Goods contracts on underlying Silver in Commodity Derivatives Segment

This is in continuation with the Exchange circular no. 39033 dated October 03, 2018 for Contract Specifications in Commodity Derivatives segment.

Exchange is pleased to inform its Members that having received approval from SEBI, Options in Goods contracts on underlying Silver spot price would be available for trading in Commodity Derivatives segment with effect from September 1, 2020.

In this reference, Exchange notifies details of contract specifications which are as follows:

Annexure	Commodity Name
A	Silver Options

For any queries related to Risk Management, Clearing and Settlement, members are requested to contact NSE Clearing Limited. A separate circular shall also be issued by NSE Clearing Limited in this regard.

For and on behalf of
National Stock Exchange of India Limited

Khushal Shah
Associate Vice President

Toll Free No	Fax No	Email id
1800-266-0050	+91-22-26598155	msm@nse.co.in

Regd. Office : National Stock Exchange of India Limited | Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051, India +91 22 26598100 | www.nseindia.com | CIN U67120MH1992PLC069769

Annexure – A

Contract Specifications: Options in Goods – Silver (30 Kg)

Instrument Type	Options Contract with Spot as Underlying (OPTBLN)
Product	Silver Options
Underlying	Silver
Options Type	The Options Contracts shall be European styled which can be exercised only on the expiration date
Symbol	SILVER
Description	SILVERYYMMM<strike price><CE/PE>
Contract Listing	Bimonthly/trimonthly contracts. Details as per the launch calendar.
Contract Commencement Day	Business day immediately following the last trading day. (Expiry Day+1)
Last Trading Day	Last Day of Trading shall be the business day preceding the start of tender period in the corresponding expiry Futures with the same underlying. In case the last business day is a holiday, then the preceding business day shall be the last trading day for the contract. Details as per the attached launch calendar (refer table below) On the day of expiry, the trading shall be allowed up to 11:30 pm/11:55 pm based on US daylight saving time period
Trading	
Trading Period	Mondays through Fridays
Trading Session	Monday – Friday 9:00 am to 11:30 pm/11:55 pm* *based on US daylight saving time period
Trading Unit	30 Kg
Underlying Quotation / Base Value	₹ per 1 Kg
Underlying Price Quote	Ex-Ahmedabad (inclusive of all taxes and levies relating to import duty, customs but excluding all taxes and levies relating to GST, any other additional tax or surcharge on GST)
Maximum Order Size	600 Kg
Tick Size (Minimum Price Movement)	₹ 0.50
Strike Interval	250
Minimum Number of Strikes	10 - 1 - 10
Daily Price Limit	A contract specific price range based on multiple factors including its delta value, DPR of Futures contract of the same commodity and volatility is computed and updated on a daily basis.
Initial Margin	Clearing Corporation shall adopt SPAN® (Standard Portfolio Analysis of Risk) system or any other system for the purpose of real time margin computation. The Initial Margin requirement shall be so as to cover potential losses for at least a 99% VaR subject to minimum percentage floor value as prescribed by SEBI from time to time.

	The MPOR for options in goods shall be based on the categorization of the underlying as prescribed by SEBI The Price Scan Range shall be taken be 3.5 sigma or such other percentage as may be specified by the Clearing Corporation from time to time. The price scan range shall be scaled up by the MPOR. Volatility Scan Range for stock products shall be taken at 3.5% or such other percentage as may be specified by the Clearing Corporation from time to time. Short option minimum charge shall be set as given below: <table><tr><td>Volatility Category of Commodity</td><td>Minimum SOMC</td></tr><tr><td>Low</td><td>6%</td></tr><tr><td>Medium</td><td>8%</td></tr><tr><td>High</td><td>10%</td></tr></table> Clearing Corporation shall mark to market the options positions by deducting/adding the current market value of options (positive for long options and negative for short options) times the number of long/short options in the portfolio from/to the margin requirement. Spread margin benefit shall be permitted in following cases: 1) Different expiry date contracts of the same underlying 2) Two contracts variants having the same underlying commodity Clearing Corporation shall levy a minimum 25% of the initial margin on each of the individual legs of the spread. Maximum benefit in initial margin on spread positions shall be restricted to 75%. Initial margin benefit shall be provided only when each individual contract in the spread is from amongst the first three expiring contracts. Clearing Corporation may charge spread margins higher than the minimum specified depending upon its risk perceptions. In case of such spread positions, additional margins, if any shall not be levied. Further margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or Expiry day, whichever is earlier. No benefit in Extreme Loss Margins (ELM) shall be provided for spread positions. To be eligible for initial margin benefit, each individual contract in the spread shall be from amongst the first three expiring contracts.
Extreme Loss Margin	Clearing members shall be subject to ELM in addition to initial margins. ELM of 1% on short open positions shall be levied and shall be deducted from the liquid assets of the clearing member on an online, real time basis.
Additional and / or Special Margin	Clearing corporation may require clearing members to make payment of additional margins as may be decided from time to time.
Other Margins	Premium Margin: Premium margin shall mean and include premium amount due to be paid to the Clearing Corporation towards premium settlement, at the client level. Premium margin shall be levied till the completion of pay-in towards the premium settlement. Pre-Expiry Margins: Clearing Corporation shall levy pre-expiry margin which shall be increased gradually from five trading days till the expiry of the contract as applicable. 4% incremental margins shall be levied during the pre-expiry period. These margins will be applicable on all ITM and CTM call/put option contracts. Pre-Expiry margins shall be levied on both long and short side.

	Delivery period margin shall be levied by Clearing Corporation on the long and short positions marked for delivery till the pay-in is completed by the clearing member. Once delivery period margin is levied, all other applicable margins may be released. Delivery period margin shall include VaR Margin and MTM Margins: VaR Margin: Delivery period margins shall be higher of: a) 3% + 6 day 99% VaR of spot price volatility Or b) 20% MTM Margin: End of day mark to market margins shall be computed on expiry day and till final settlement -1 day as difference between settlement obligation and value of positions at closing price. Mark to market loss in one underlying shall be netted against profit of other underlying for same client. Net loss at client level shall be grossed to arrive at clearing member level mark to market margins. Concentration Margin: Clearing Corporation may impose adequate concentration margins (only on concentrated positions) to cover the risk of longer period required for liquidation of concentrated positions in any commodity.
Maximum Allowable Open Position	For a member collectively for all clients: 2000 MT or 20% of the market wide open position whichever is higher, for all Silver Options contracts combined together. For individual client: 200 MT or 5% of the market wide open position whichever is higher for all Silver Options contracts combined together.
Mechanism of Exercise	Option series having strike price closest to the Final Settlement Price (FSP) shall be termed as At-the-Money (ATM) option series. This ATM option series and three option series having strike prices immediately above this ATM strike and three option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' (CTM) option series. In case the FSP is exactly midway between two strike prices, then immediate three option series having strike prices just above FSP and immediate three option series having strike prices just below FSP shall be referred as 'Close to the money' (CTM) option series. All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts. All In-the-money (ITM) option contracts, except those belonging to 'CTM' option series, shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so. All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless.
Settlement on Exercise	
Settlement Logic	Compulsory Delivery

Settlement of Contract	On exercise, all such positions shall be settled by compulsory delivery.
Delivery Unit	30 Kg
Delivery Period Margin	Delivery period margin shall be levied by Clearing Corporation on the long and short positions marked for delivery till the pay-in is completed by the clearing member. Once delivery period margin is levied, all other applicable margins may be released. Delivery period margin shall include VaR Margin and MTM Margins: VaR Margin: Delivery period margins shall be higher of: a) 3% + 6 day 99% VaR of spot price volatility Or b) 20% MTM Margin: End of day mark to market margins shall be computed on expiry day and till final settlement -1 day as difference between settlement obligation and value of positions at closing price. Mark to market loss in one underlying shall be netted against profit of other underlying for same client. Net loss at client level shall be grossed to arrive at clearing member level mark to market margins.
Delivery Centre	Ahmedabad
Additional Delivery Centres	Delhi, Mumbai and Chennai
Delivery Allocation	Delivery allocation will be done by the mechanism put in place by the Exchange/Clearing Corporation. The buyer to whom the delivery is allocated will not be allowed to refuse taking delivery and any default in delivery taking will entertain penalty and be subject to the penal provisions. If the seller fails to deliver, the penal provisions as specified for seller default shall be applicable.
Delivery Order Rate	On expiry date, the delivery order rate shall be the Strike price. Settlement obligation shall be computed at respective strike prices of the Options contracts.
Final Settlement Price	For contracts where Final Settlement Price (FSP) is determined by polling, unless specifically approved otherwise, the FSP shall be arrived at by taking the simple average of the last polled spot prices of the last three trading days viz.,E0 (expiry day), E-1 and E-2. In the event the spot price for any one or both of E-1 and E-2 is not available; the simple average of the last polled spot price of E0, E-1, E-2 and E-3, whichever available, shall be taken as FSP. Thus, the FSP under various scenarios of non-availability of polled spot prices shall be as under:

Scenario	Polled spot price availability on				FSP shall be simple average of last polled spot prices on:
	E0	E-1	E-2	E-3	
1	Yes	Yes	Yes	Yes/No	E0, E-1, E-2
2	Yes	Yes	No	Yes	E0, E-1, E-3
3	Yes	No	Yes	Yes	E0, E-2, E-3
4	Yes	No	No	Yes	E0, E-3
5	Yes	Yes	No	No	E0, E-1

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<tr><td>6</td><td>Yes</td><td>No</td><td>Yes</td><td>No</td><td>E0, E-2</td></tr>
<tr><td>7</td><td>Yes</td><td>No</td><td>No</td><td>No</td><td>E0</td></tr>
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In case of non-availability of polled spot price on expiry day (E0) due to sudden closure of physical market under any emergency situations noticed at the basis Centre, Exchange shall decide further course of action for determining FSP in consultation with SEBI.</td></tr>
<tr><td>Quality Specifications</td><td>Grade: 999 and Fineness: 999
(as per IS 2112: 1981)
No negative tolerance on the minimum fineness shall be permitted.
If it is below 999 purity it is rejected.
It should be serially numbered Silver bars supplied by LBMA approved suppliers or other suppliers as may be approved by the Exchange.</td></tr>
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Contract Launch Calendar

Contract Launch Month	Contract Expiry Month
*Launch Date	26-November 2020
	26-February 2021
November 2020	April 2021
February 2021	June 2021
April 2021	August 2021
June 2021	November 2021
August 2021	February 2022
November 2021	April 2022
February 2022	June 2022
April 2022	August 2022
June 2022	November 2022

Kindly refer latest circular issued by Exchange / Clearing Corporation for updated Margins, Position Limits and Expiry Dates etc.