Circular

DEPARTMENT: COMMODITY DERIVATIVES SEGMENT	
Download Ref No: NCL/COM/45448	Date: August 21, 2020
Circular Ref. No: 268/2020	

All Members,

Sub: Options in Goods – Clearing & Settlement and Risk Management Framework for Options on Silver

This is with reference to SEBI circular SEBI/HO/CDMRD/DMP/CIR/P/2020/05 dated January 16, 2020 regarding options in goods, NSE circular NSE/COM/45445 dated August 21, 2020 for introduction of options on Silver and further to consolidated circular NCL/COM/ 43089 dated January 01, 2020.

In accordance with the contract specifications for options on Silver specified by NSE, members are requested to take note of clearing & settlement, risk management including delivery process for options on Silver.

This circular shall be effective from September 01**,** 2020**.**

For any queries related to Clearing and Settlement, Risk Management members are requested to contact NSE Clearing Limited.

Department	Contact Number	Fax Number	Email ID
Collaterals	18002660050	022-26598244/43	collaterals_ops@nsccl.co.in
Clearing		022-26598282	fao_clearing@nsccl.co.in
Risk		022-26598242	risk_ops@nsccl.co.in
Settlement		022-26598269	nsccl_funds@nsccl.co.in

For and on behalf of
NSE Clearing Limited

Onkar Phadnavis

Associate Vice President

A. Clearing and Settlement Procedure

The pay-in and pay-out of daily premium settlement, the final exercise settlement of options contract and delivery settlement of options contract shall be effected in accordance with the settlement schedule issued by the Clearing Corporation periodically.

1. Daily Settlement:

1.1. Premium Settlement:

Premium settlement in respect of admitted deals in options contracts shall be cash settled by debit/ credit of the clearing accounts of clearing members with the respective clearing bank.

Premium settlement shall be netted in accordance with the laid down settlement procedures as may be in place in the commodity derivatives segment.

1.2. Daily Settlement Schedule:

The pay-in and pay-out of premium settlement shall be effected before start of market hours on the next day as per the settlement schedule specified by the Clearing Corporation.

The premium shall be netted with daily mark to market of futures.

2. Final Settlement

2.1. 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
6	Yes	No	Yes	No	E0, E-2
7	Yes	No	No	No	E0

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.

2.2. Exercise Settlement

Exercise style of option contracts on options in goods shall be European style.

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.

The Clearing Corporation shall make available the exercise window after close of trading on the expiry day. The clearing members shall place explicit exercise request and/or do not exercise request till the cut off time of the exercise window.

The details of exercise facility is given in our circular reference **NCL/COM/44740** dated June 22, 2020 and the formats for report are given in our circular reference **NCL/COM/44742** dated June 23, 2020

Long positions at in-the money contracts shall be assigned to short positions in option contracts with the same series on a random basis. Option contracts, which have been exercised, shall be assigned and allocated to clearing members, at the client level on a random basis.

On exercise option contract shall be settled through delivery of goods.

2.3. Final Settlement Schedule

Final exercise settlements of options contracts which are settled by delivery shall be effected on Expiry+6 days in accordance with the settlement schedule issued by the Clearing Corporation periodically.

3. Delivery Settlement

3.1. Positions for Delivery Settlement

In respect of contracts to be settled through delivery the following positions shall be considered:

a) Exercised call options

- Long call exercised shall result into a buy (receivable) positions
- Short call assigned shall result into a sell (deliverable) positions

b) Exercised put options

- Long put exercised shall result into a sell (deliverable) positions
- Short put assigned shall result into a buy (receivable) positions

3.2. Delivery Centre

The primary (basis) delivery centre shall be Ahmedabad and additional centres shall be Chennai, Delhi and Mumbai.

The process for provision of intentions and settlement at additional delivery centre is as follows:

- The facility to submit intentions for additional delivery centre shall be made available on Expiry +1 day of the option contract. (Except Saturdays, Sundays and Trading holidays) for such period as specified by the Clearing Corporation from time to time.
- Members shall be required to provide the intention to deliver or receive in additional delivery centres along with the quantity and the indicative premium / discount to the Ahmedabad spot price (basis centre price).
- All such intentions received for additional delivery centres shall be matched subject to members having delivery/receivable position in the near month options contract
- The matching of the intention requests shall be based on price time priority taking into consideration the delivery centre (same delivery centre), and premium/discount quoted
- An intention, once provided cannot be modified however cancellation of intentions within the above stipulated time will be permitted
- NSE Clearing will not do any allocation for the unmatched requests and all unmatched intention requests shall be cancelled.

- Physical settlement for all the matched requests in additional delivery centre shall take place on Expiry + 6 day.

Deliveries for all open positions and unmatched intentions on the day of expiry shall be mandatorily settled at the basis delivery centre i.e. Ahmedabad

3.3. 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.

3.4. Settlement Obligation

The provisional deliverable/receivable positions at a clearing member shall be arrived on expiry of option contract after netting the obligations at individual client and grossed across all clients, at the trading/ clearing member level considering options position and the respective delivery locations.

The final deliverable/receivable positions at a clearing member shall be arrived on expiry of corresponding future contract after netting the obligations at individual client and grossed across all clients, at the trading/ clearing member level considering both futures position and provisional deliverable and receivable position and the respective delivery locations.

3.5. Pay-in Pay-out & Vault Framework for Delivery

Pay-in and pay-out of commodities shall be executed through Vaults empanelled by the Clearing Corporation from time to time. The procedure specified for pay-in and pay-out of commodity futures contract through vault framework shall be applicable for options.

4. Supplementary Settlement

Supplementary settlement shall always be settled in cash and in accordance with provisions specified commodity futures contract.

B. Risk Management

The Clearing Corporation shall impose initial margins, extreme loss margin, pre-expiry margin, delivery period margin, concentration margins and additional margins for option contracts as given below and circulars issued from time to time.

5. Computation of SPAN® Margin

Clearing Corporation shall adopt SPAN®[1] (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 to cover potential losses for at least a 99% VaR subject to minimum percentage floor value as prescribed by SEBI from time to time.

5.1. Margin Period of Risk (MPOR)

The MPOR for options in goods shall be based on the categorization of the underlying as prescribed by SEBI from time to time.

5.2. Price Scan Range

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.

5.3. Volatility Scan Range

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.

5.4. Short Option Minimum Charge (SOMC)

Short option minimum charge shall be set as given below:

Volatility Category of Commodity	Minimum SOMC
Low	6%
Medium	8%
High	10%

5.5. Net Option Value:

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.

[1] SPAN® is a registered trademark of the Chicago Mercantile Exchange, used herein under License. The Chicago Mercantile Exchange assumes no liability in connection with the use of SPAN by any person or entity

5.6. Spread Margin:

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

6. 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.

7. 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.

8. 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. The pre-expiry margins shall be 4% incremental during the pre-expiry period. These margins will be applicable on all long and short call and put positions that are ITM and CTM.

9. 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:

9.1. Var Margin:

Delivery period margins shall be higher of:

a) 3% + 6 day 99% VaR of spot price volatility

Or

b) 20%

9.2. Mark to Market margins

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.

10. 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

11. Additional margins:

Clearing corporation may require clearing members to make payment of additional margins as may be decided from time to time.

12. Position Limits:

Position limits for options shall follow the same norms as provided for futures in the SEBI circular reference no. SEBI/HO/CDMRD/DMP/CIR/P/2016/96. Numerical value for client level/member level limits shall be twice of the corresponding numbers applicable for futures contracts.