NSE Clearing Limited

Circular

Department: Commodity Derivatives Segment	
Download Ref No: NCL/COM/58803	**Date:** Oct 06, 2023
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All Members

Sub: Clearing, Settlement & Risk management Procedure of Options contracts on underlying WTI Crude Oil and Natural Gas Futures in Commodity Derivatives Segment

This is with reference to circular no. NSE/COM/58758 dated October 05, 2023, for Introduction of Options contracts on underlying WTI Crude Oil and Natural Gas Futures in Commodity Derivatives Segment.

Members are requested to note that NSE Clearing Limited will offer clearing and settlement services for trades executed on Options contracts on underlying WTI Crude Oil and Natural Gas Futures in Commodity Derivatives Segment of National Stock Exchange of India Limited (NSEIL).

In addition to the contract specification issued by NSEIL vide NSE/COM/58758 dated October 05, 2023, kindly find attached the Annexure A specifying the risk management procedure & Annexure B specifying the details regarding Settlement Schedule & devolvement procedure.

For and on behalf of
NSE Clearing Limited

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Annexure – A

Risk Management: Options with WTICRUDE futures and NATURALGAS futures as underlying

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

1. 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.

2. Minimum Value for Initial Margin and Margin Period of Risk (MPOR)

The minimum margin percentage and minimum MPOR for options on futures shall be based on the volatility category as under or as may be specified by the Clearing Corporation from time to time.

Volatility Category of the Commodity	Minimum IM		Minimum MPOR	
	WTICRUDE	NATURALGAS	WTICRUDE	NATURALGAS
Low	6%	6%	2	2
Medium	8%	8%	2	2
High	10%	10%	3	3

The minimum IM % mentioned in the above table shall not be scaled up by MPOR. For options on futures, the Margin Period of Risk (MPOR) shall be at least equal to three days or MPOR of corresponding futures contracts, whichever is higher.

To begin with, in accordance with NCL circular no. NCL/COM/58228 dated September 05, 2023, the applicable minimum IM and MPOR shall be as follows:

Commodity	Applicable Minimum IM	Applicable Minimum MPOR
WTICRUDE	33%	3
NATURALGAS	13%	3

[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.

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3. Price Scan Range

The Price Scan Range shall be taken be 3.5 sigma subject to minimum margin percentage as may be specified by the Clearing Corporation from time to time. The price scan range shall be scaled up by the MPOR.

4. Volatility Scan Range

The minimum Volatility Scan Range (VSR) shall be based on the volatility category as may be specified by the Clearing Corporation from time to time.

Volatility Category of the Commodity	Minimum VSR%	
	WTICRUDE	NATURALGAS
Low	4	4
Medium	5	5
High	6	6

To begin with, in accordance with SEBI Circular dated January 27, 2020, on Review of Margin Framework for Commodity Derivatives Segment, SEBI circular dated January 11, 2021, on Review of Volatility Scan Range (VSR) for Option contracts in Commodity Derivatives Segment and NCL circular no. NCL/COM/58228 dated September 05, 2023, the applicable minimum VSR shall be as follows:

Commodity	Applicable Minimum VSR%
WTICRUDE	30%
NATURALGAS	6%

5. Short Option Minimum Charge (SOMC)

Short option minimum charge shall be set as given below:

Volatility Category of the Commodity	Minimum SOMC	
	WTICRUDE	NATURAL GAS
Low	6%	6%
Medium	8%	8%
High	10%	10%

To begin with, in accordance with NCL circular no. NCL/COM/58228 dated September 05, 2023, the applicable minimum SOMC shall be as follows:

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Commodity	Applicable SOMC
WTICRUDE	33%
NATURALGAS	13%

6. 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.

7. Premium Margin

Premium margin shall include premium amount due to be paid to the Clearing Corporation towards the premium settlement, at the client level. Premium margin shall be levied till the completion of pay-in towards premium settlement.

8. 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 six 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 six expiring contracts.

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9. 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.

10. 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. For the purpose of levy of ELM of 1% on short open positions in options on futures contracts, the respective month's futures contract price will be considered.

11. Pre-Expiry Margins

A sensitivity report shall be provided to the members on the impending increase in margins on E-4 and E-3 prior to expiry (E) of options on future contracts due to assumed devolvement of in-the-money (ITM) options.

Further, Clearing Corporation shall levy pre-expiry margin in a staggered manner from two trading days till the expiry of the options on futures contract as applicable. The pre-expiry margins shall be levied and collected from clearing member as follows.

i. E-2: 45% of Pre-expiry margins computed on assumed devolvement of ITM option contracts.
ii. E-1: 70% of Pre-expiry margins computed on assumed devolvement of ITM option contracts.

12. 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.

13. Additional margins

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

To begin with, in accordance with NCL circular no. NCL/COM/58123 dated August 28, 2023, the applicable additional margins on short open positions in options with WTICRUDE futures and NATURALGAS futures as underlying shall be 7%.

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14. Position Limits

Position limits for options on futures 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.

a) Position limits in WTICRUDE options on future contracts for a member collectively for all clients: 96,00,000 barrels or 20% of the market wide open position, whichever is higher for all WTI Crude Oil Options contracts combined together.
b) Position limits in NATURALGAS options on future contracts for a member collectively for all clients: 12,00,00,000 MMBtu or 20% of the market wide open position, whichever is higher for all Natural Gas Options contracts combined together.

Upon expiry of the options contract, after devolvement of options position into corresponding futures positions, open positions may exceed their permissible position limits applicable for future contracts. Members will be allowed to shall reduce their positions to bring it within the permissible position limits of futures contracts within two trading days from expiry of options on futures contracts.

15. Client Margin/Short Allocation reporting

The penalty for short collection / non collection due to increase in margins resulting from devolvement of options into futures shall not be levied for the first day (expiry day of options on futures contracts).

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Annexure – B

Settlement Schedule & devolvement procedure: Options with WTICRUDE futures and NATURALGAS futures as underlying

1. Premium Settlement

The premium Pay-in & Pay-out shall be carried out on T+1 day.

2. Expiry Settlement

The contract will expire two business days prior to the Expiry day of the underlying futures contract.

On expiry day all in the money (ITM) option contracts shall be exercised automatically unless contrary instruction has been given by long position holders of such contracts for not doing so. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

All exercised / assigned option contracts shall devolve into underlying futures position and will be added in Day's Buy / Sell fields in the Detailed position reports (PS03/PS04) for the members as follows.

i) Following shall be added in Day Buy Open Quantity
Devolved long Qty = Quantity of long call position + Quantity short put position

ii) Following shall be added in Day Buy Open Value
Devolved long Value =
(Quantity of long call position * Strike price of contract * Multiplier)
+
(Quantity of short put position * Strike price of contract * Multiplier)

iii) Following shall be added in Day Sell Open Quantity
Devolved short Qty = Quantity of long put position + Quantity short call position

iv) Following shall be added in Day Sell Open Value
Devolved short Value =
(Quantity of long put position * Strike price of contract * Multiplier)
+
(Quantity of short call position * Strike price of contract * Multiplier)

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Exercise and assignment details shall be provided in Exercise Report (EX01 & EX02) and Assignment Reports (AS01 & AS02). Only Exercise and Assignment quantity will be provided and the exercise and assignment value in the reports shall kept as “0”.

No additional report is added for Options on Futures, and the details will be incorporated in the current reports that is been downloaded to members.