NATIONAL COMMODITY CLEARING LIMITED

Circular to all Members of the Clearing Corporation

Circular No.	: NCCL/CLEARING-033/2024
Date	: June 24, 2024
Subject	: Options on Futures - Clearing & Settlement Procedures

This is in reference to Exchange Circular No. NCDEX/TRADING-025/2024 dated June 20, 2024 on Launch of Options on Guar Seed Futures Contracts.

A detailed note on operational processes pertaining to Clearing & Settlement in Options on Futures is provided in Annexure.

For and on behalf of

National Commodity Clearing Limited

Sweedin Satav

Senior Vice President

For further information / clarifications, please contact

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ANNEXURE

CLEARING & SETTLEMENT PROCESS

1. Premium settlement for option contracts

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

b. The premium payable or receivable value of clearing members shall be computed after netting the premium payable or receivable positions at trading member level, for each option contract, at the end of each trading day.

c. The premium pay-in shall be effected before the start of trading on T+1 day along with payin of daily mark to market losses in respect of trades / positions in futures contracts. ('T' is the trade date).

d. The Clearing Members should make the amount of funds available in their clearing account before 8:30 AM on T+1 day.

e. The pay-out of funds (Options Premium + Futures MTM) shall continue to be done as per the existing time i.e. after 9:30 AM, or as declared by NCCL from time to time.

f. The Premium Pay-in / Pay-out obligation of the clearing member for trades in option contracts will be netted with daily MTM Pay-in / Pay-out obligation of trades / positions in futures contracts.

2. Mark to Market

The options positions shall be mark to market 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. Thus, mark to market gains and losses would not be settled in cash for options positions.

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3. Exercise Style

European Style Options which can be exercised only on the day of Expiration of the Options contract

4. Final (Exercise) Settlement Price (FSP)

The Final Settlement Price shall be determined in the manner described here under or in such other manner as may be prescribed from time to time.

Currently, Daily Settlement Price (DSP) of the underlying Futures contract on the Options Expiration day shall be the Final Settlement Price.

5. Settlement Method

On exercise, option position shall devolve into underlying futures position as follows

- Long call position shall devolve into long position in the underlying futures contract
- Long put position shall devolve into short position in the underlying futures contract
- Short call position shall devolve into short position in the underlying futures contract
- Short put position shall devolve into long position in the underlying futures contract

All such devolved futures positions shall be opened at the strike price of the exercised options.

6. Exercise / Devolvement Mechanism

On expiry, following mechanism shall be adopted for exercise / devolvement of the options contracts:

i. 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.
ii. All Out of the money (OTM) option contracts shall expire worthless.

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iii. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

Examples

The following are the examples for identification of ITM and OTM strikes as per the Final Settlement Price.

Where the Strike is equal to the FSP it shall be a OTM contract for Call or Put

Strike Interval	**100**
Final Settlement Price	**4000**
For CALL Options	
Strike Price	**Strike Type**
3600	ITM
3700	ITM
3800	ITM
3900	ITM
4000	OTM
4100	OTM
4200	OTM
4300	OTM

Strike Interval	**100**
Final Settlement Price	**4080**
For CALL Options	
Strike Price	**Strike Type**
3600	ITM
3700	ITM
3800	ITM
3900	ITM
4000	ITM
4100	OTM
4200	OTM
4300	OTM

Strike Interval	**100**
Final Settlement Price	**4150**
For CALL Options	
Strike Price	**Strike Type**
3600	ITM
3700	ITM
3800	ITM
3900	ITM
4000	ITM
4100	ITM
4200	OTM
4300	OTM

4400	OTM
4500	OTM
For PUT Options	
Strike Price	**Strike Type**
3600	OTM
3700	OTM
3800	OTM
3900	OTM
4000	OTM
4100	ITM
4200	ITM
4300	ITM
4400	ITM
4500	ITM

4400	OTM
4500	OTM
For PUT Options	
Strike Price	**Strike Type**
3600	OTM
3700	OTM
3800	OTM
3900	OTM
4000	OTM
4100	ITM
4200	ITM
4300	ITM
4400	ITM
4500	ITM

4400	OTM
4500	OTM
For PUT Options	
Strike Price	**Strike Type**
3600	OTM
3700	OTM
3800	OTM
3900	OTM
4000	OTM
4100	OTM
4200	ITM
4300	ITM
4400	ITM
4500	ITM

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7. A table detailing the devolvement procedure under different option series is given below:

Series	Devolvement procedure	Effect
ITM	Positions shall devolve automatically	• Positions would get devolved into Futures Contract at strike price • Difference between settlement price and strike price shall be cash settled on T+1 day and form part of the MTM pay-in and payout under Futures position.
	ITM long position holder can give contrary instruction	• No positions will get devolved into Futures Contract • Expire worthless
OTM	Positions shall not devolve into Futures	• All positions will expire worthless

8. Marking Instruction for Devolvement of positions

a. The members can mark the instruction to not devolve through NCFE post close of trading session of Option Contract on expiry day.

b. Instruction can be marked by holder of the options contract i.e. long position holder.

c. For ITM option series, members shall give instruction for the quantity which is not intended to be devolved

Option Status	Position	Contrary instruction (Instruction to not devolve)	Effect
ITM	100	30	Partial Instruction – Balance 70 quantity shall devolve into underlying Futures Contract
ITM	100	-	No Instruction – 100 quantity shall devolve into underlying Futures Contract
ITM	100	100	Full Instruction – No positions shall get devolved into underlying Futures Contract

9. Assignment Process

a. The long positions in options contracts shall be assigned to short positions in the same contract.
b. The total quantity to be devolved into Futures contract shall be computed as per devolvement mechanism
c. The total quantity to devolve in an options contract will be divided by the total long open positions in the options contract to determine the "exercise ratio".
d. The short position of each client in the options contract of same series will be multiplied by the exercise ratio to determine the pro-rata quantity for assignment.
e. Quantity equal to the pro-rata quantity rounded down to the nearest multiple of futures lot size will be assigned to short position holders in the first round of assignments.
f. If the total long quantity to be devolved has not been assigned in this first assignment round then a second assignment round will be carried out to assign the remaining quantity (i.e., the quantity remaining after subtracting the quantity assigned in the first round from the total long quantity to be devolved)

g. The remaining quantity will be assigned one lot at a time in descending order from the short positions with the largest remaining pro-rata quantity to the short position with the smallest remaining pro-rata quantity.

h. In the event that two or more short positions has equal remaining pro-rata quantity, and there is an insufficient quantity to assign to all such short positions, then a random number will be used by systems to determine assignment.

10. Non-fulfilment of settlement obligation

Non-fulfilment of settlement obligation within scheduled date and time is a violation of the NCCL Rules, Bye-Laws and Regulations and shall attract penal action as may be stipulated by the Clearing Corporation from time to time. Further, the guidelines issued vide circular no.: NCCL/CLEARING-018/2024 dated April 08, 2024 on Master Circular - Clearing & Settlement on non-fulfilment of settlement obligation shall be applicable.

11. Mechanism for regular monitoring of and penalty for Short-Collection/Non Collection of margins and short allocation

The guidelines issued vide circular no NCCL/CLEARING-018/2024 dated April 08,2024 on Master Circular - Clearing & Settlement with respect to “Client Margin Reporting and Segregation & Monitoring (Allocation) of collateral at Client Level” will also be applicable for trades executed in option contracts.

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