



NATIONAL SECURITIES CLEARING CORPORATION LIMITED

DEPARTMENT : FUTURES AND OPTIONS SEGMENT

Download Ref No : NSCCL/CMPT/38332

Date : July 16, 2018

Circular Ref. No : 83/2018

All Members,

Sub: FAQ on Physical Settlement in Equity Derivatives

This is in continuation to our circular no 67/2018 (Download Ref no NSCCL/CMPT/38039) dated June 15, 2018 on Physical Settlement in Equity Derivatives.

- A detailed FAQ on clearing, settlement and risk management for physical settlement in equity derivatives is enclosed as Annexure 1.
- Examples of computation client level delivery obligations across various derivatives contract in a security are provided in Annexure 2.
- Sample files for new reports as specified in our abovementioned circular are made available on the FTP (/faoftp/Faocommon/Deliverysettlement)

Members are requested to take note of the same

**For and on behalf of
National Securities Clearing Corporation Limited**

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FAQ for delivery settlement in equity derivatives

1. Which securities in Futures and Options segment will become eligible for delivery based settlement?

Based on the criteria specified in the SEBI circular Exchange shall identify securities which shall be settled through delivery on expiry. Exchange shall inform list to market participants through a circular from time to time.

2. What positions of futures and options contracts in eligible securities shall result in delivery settlement on expiry day?

The following positions in respect of securities identified for shall be settled through delivery:

- All open futures positions after close of trading on expiry day
- All in-the-money contracts which are exercised and assigned. However, in respect of Close to Money (CTM) option contracts the option holder shall have a facility of do-not-exercise

3. Will the buyer of an option have facility of Do-Not-Exercise for Close to Money (CTM) option contracts in respect of stocks that are settled through delivery?

Yes, the holder of a CTM option contract shall have a facility to opt for Do-Not-Exercise.

4. How will Close to Money (CTM) option contracts be identified?

As per our circular no, NSCCL/CMPT/35635 dated August 22, 2017 CTM contracts shall be arrived as

- For Call Options - 3 ITM options strikes immediately below the final settlement price shall be considered as 'CTM'
- For Put Options - 3 ITM options strikes immediately above the final settlement price shall be considered as 'CTM'.

A file containing the CTM contract details shall be downloaded to the members on expiry day.

5. What happens to option positions if the buyer of the option opts for Do-Not-Exercise in CTM contracts

Option positions where the buyer of the option has opted for Do-Not-Exercise shall expire without any further obligation/settlement required

6. If some option holders do not opt for Do-Not-Exercise in CTM contracts how the same will be assigned to the seller of the options

Option positions in CTM contracts where the buyer of the option has **not** opted for Do-Not-Exercise shall be assigned to the seller of the option in same option series on a random basis.

7. How will be the quantity of stocks to be delivered as buy quantity/sell quantity shall be computed?

The deliverable quantity shall be computed as under

a. Unexpired Futures

- Long futures shall result into a buy (security receivable) positions
- Short futures shall result into a sell (security deliverable) positions

b. In-the-money call options

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

c. In-the-money put options

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

The quantity to be delivered/ received shall be equivalent to the market lot * number of contracts which result into delivery settlement

8. At what price will the futures and options contracts be delivery settled on the expiry day?

The delivery settlement obligation shall be computed at following prices

Futures – Final Settlement price of the futures contract

Options – Strike price of the respective option contract

9. Will a daily mark to market obligation for future contracts in addition to delivery settlement obligations be computed on expiry day?

Yes. All futures positions shall be first mark to market to final settlement price on the expiry day and the same shall be settled on T+1 day as currently being done

10. Will assignment/exercise value computed for option contracts in addition to delivery settlement obligations be computed on expiry day?

No. As the delivery obligations are computed at strike price there shall be no assignment/exercise value computation for option contracts which shall be settled through delivery

11. For a client having a buy obligation in futures contracts for a particular security as well as sell obligation in option contracts for the same stock or vice-versa; will such obligations in the stock computed at client level be on a net basis or gross basis?

Net basis, Client level obligations shall be computed on a net basis across all futures and options contract in a security where there is a delivery settlement. Please refer to attached Annexure 2 for various examples.

12. For a clearing member, will the settlement obligations be computed and payable on a net basis or gross basis?

Settlement obligations for a clearing member for a security shall be netted across all trading members/constituents/clients, clearing through such clearing members.

13. Will clearing members receive break up of settlement obligations at trading member/constituent level?

Yes. The obligation report provided to clearing member shall have break-up of settlement obligation at trading member and constituent level. Similarly trading member shall receive obligation at client level also.

14. What are the timelines for settlement of funds obligations and securities obligations?

The delivering clearing member shall complete delivery instructions for transfer of securities to Depository pool account on settlement day by 2.00 pm or such cut-off time as stipulated by the respective depositories.

Similarly, fund pay-in shall be conducted by debit to the settlement account of clearing member by 2:00 pm

15. Will a settlement schedule similar to Cash Market segment be made available to market participants?

Yes, a separate settlement schedule with separate settlement type and settlement number shall be issued by NSCCL on a monthly basis

16. What will be the settlement type/market type in the depository system for delivery settlement?

Market type in NSDL shall be

Market Type Code	Market Type	Market Type Description
44	PD	PHYSICAL STK DERIVATIVE
45	AD	AUCT PHY STK DERIVATIVE

Market type in CDSL shall be

Market Type	Settlement Description
63	Physical Settlement – Stock Derivatives
64	Auction of Physical Settlement – Stock Derivatives

17. Is the facility of auto delivery out for pay-in instructions to depositories available for clearing members?

Yes. The facility of auto delivery out shall be automatically available to the clearing members if they have availed of this facility in the Capital Market Segment

18. Is the facility of direct client pay out of securities available to clearing members?

Yes. Clearing members can provide a file to Clearing Corporation for effecting pay out to client's accounts by providing the information of client's beneficiary account as per the procedure specified by NSCCL. Please refer our circular no NSCCL/CMPT/38039 dated June 15, 2018 for detailed procedure

19. Is the facility of securities pay out to preferred depository available to clearing members?

Yes. Clearing members shall have a facility to receive their payout in their preferred depository. The preferred depository shall be the same as selected by the clearing member for the Capital Market segment.

20. Through which bank account will the funds settlement happen for F&O delivery settlement?

Funds settlement for delivery settlement shall be from the existing primary settlement account of the clearing member in F&O segment

21. Do clearing members need to maintain separate pool account for settlement of securities in Futures and Options segment?

No. Clearing member's depository account in Capital Market segment shall be used for settlement of securities.

22. Can trading member transfer securities for delivery settlement from their pool account to clearing member pool account

Yes. Trading Members can transfer securities from their pool account to clearing members pool account in the market type specified for delivery settlement.

23. What will be the action taken by NSCCL for non-compliance in fulfilling fund settlement obligations?

The current action as mentioned below shall be taken

S. No	Type of Non-fulfilment	Penalty Charge % per day	Action
a)	Value Rs. 5 lakhs or more	0.07	The trading facility of the trading member clearing through such clearing member shall be withdrawn and securities pay out shall be withheld.

b)	Value less than Rs. 5 lakhs	0.07	The amount shall be blocked from the collateral of clearing member. If in the last three months, the member is short over Rs. 2 lakhs on six or more than six occasions, The trading facility of the trading member clearing through such clearing member shall be withdrawn and securities pay out shall be withheld.
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24. How will securities shortages be handled?

For securities short-delivered, NSCCL shall conduct a buy-in auction for such securities in the Capital market segment of the Exchange. If auction is unsuccessful, or there is a short delivery in auction settlement, the shortages shall be financially closed out.

25. Will there be any debit for security shortages?

Yes. Clearing member who fail to deliver shall be debited by an amount equivalent to the securities not delivered valued at valuation price. The valuation price shall be the closing price of such securities in Capital Market Segment of the Exchange, on the immediate trading day preceding the pay-in day for the securities.

26. When will be the valuation debit collected?

Valuation debit shall be collected from the clearing member settlement amount alongwith the funds pay-out of the delivery settlement.

27. What are the timelines for conducting buy-in auction for securities shortages?

The buy-in auction shall be conducted on Expiry+3 days along with the auction conducted for Capital Market Segment. Currently, auction is conducted at 2.00 pm.

28. What will be the series for auction being conducted to handle shortages in pay-in of securities?

Auction shall be conducted in a separate series "AF"

29. When will be settlement for auction conducted?

Settlement for auction shall be conducted on Expiry + 4 day along with auction settlement for capital market segment.

30. Will there be a separate settlement type for auction settlement?

Yes. There shall be a separate settlement type and settlement number created for auction for shortages in F&O delivery settlement which shall be informed in

the monthly settlement calendar. Members who participate in Auction for F&O delivery settlement (i.e have traded in series AF) should ensure that correct settlement type is selected while giving delivery instructions to depositories for making pay-in for auction settlement.

31. Are there any instances in which buy-in auction shall not be conducted? If yes, how will be the security shortages handled in the absence of auction?

Yes, In case a company announces any corporate action for securities then short deliveries, if any, of such securities which were to be delivered on cum basis shall be directly closed out. In such cases, shortages shall be directly closed out at the highest price prevailing in the Capital Market of the Exchange from the day of trading till the day of closing out or 10% above the official closing price on the auction day, whichever is higher, or at a price as declared from time to time by NSCCL

32. How will the securities shortages shall be handled if the securities cannot be bought in auction?

If auction is unsuccessful, or there is a short delivery in auction settlement, the shortages shall be financially closed out at the closeout price of the security as determined in Capital Market Segment.

33. What additional penal provisions shall be applicable for non-fulfilment of securities obligations?

Clearing members failing to fulfil their securities deliverable obligations to Clearing Corporation shall be subjected to a penalty charge of 0.05% per day. Further, the valuation amount of the shortage shall be considered as funds shortages where shortage confirmation is not received from the bank and penal action as prescribed for Funds Settlement above shall be applicable

34. What type of margins shall be levied for delivery settlement obligations?

For positions which are to settled through delivery, margins as applicable in Capital Market segment (i.e VAR, Extreme Loss Margins, Mark to Market margins) shall be applicable and levied as delivery margins

35. How will the margins be computed and at what level?

Margins shall be computed at client level. Margins shall be levied on the net settlement obligation value for each client

36. When will the delivery margins be levied?

Delivery margins shall be levied at end of day on expiry day. The same shall be included in the end of day margin files downloaded on expiry day

37. Till what time the margins levied shall remain applicable?

Delivery margins shall be released on completion of settlement or on early pay-in.

38. How will delivery margins information available to members?

Client level delivery margins shall be included in MG12 and MG13 files. Additionally, break up of client wise, security wise delivery margins shall be provided in additional reports (DLMG01 and DLMG02)

39. Will assignment margin currently levied on in-the-money option contracts on expiry continue to remain applicable?

Assignment margins shall not be computed on positions which shall be identified for settlement.

40. How can clearing members make early pay-in of funds and securities?

Clearing members can make the early pay-in of securities through either of the depositories viz NSDL and CDSL. In NSDL, clearing members shall deliver the securities to their pool account and execute irreversible delivery out instructions through their Depository Participant for the particular settlement. In CDSL, clearing members can transfer the security to their early pay-in account with CDSL for Capital Market segment with Clearing Corporation. Members are requested to contact their respective DP's for details on procedure to be followed for doing early pay-in at the depository.

Clearing members shall make early pay-in funds through a screen-based request in the Collateral Interface for Members (CIM). The benefit for the same shall be provided on confirmation of funds from the respective Clearing Bank.

41. What will be timelines for making early pay-in of funds and securities?

Early pay-in can be done from expiry day till settlement day before the settlement cut-off time.

42. Can early pay-in benefit be availed before expiry of the contracts?

Clearing members can make early pay-in on expiry day and the benefit of the same shall be provided on expiry of contracts. Accordingly, for such positions where early pay-in has been received no delivery margins shall be levied

43. How will the early pay-in of funds/securities be allocated?

Early pay-in of securities shall be allocated to clients having net deliverable position, on a random basis. In order to ensure that benefit is received to the relevant clients, clearing members are advised to provide the details of the clients to whom early pay-in benefit is to be provided through a file upload. Details of file upload are available in our circular no NSCCL/CMPT/38039 dated June 15, 2018.

Early pay-in of funds shall be allocated to the clients in descending order of net buy positions value. In order to ensure that benefit is received to the relevant clients, clearing members are advised to provide client -security allocation for early pay-in of funds through screen/file based facility available on CIM

44. Do members have to report delivery margins levied?

Members shall be required to collect delivery margin and report the same through the existing client margin reporting mechanism

Sr. no	TM Code	Client	Symbol	Instrument	Strike Price	Position Long (+) Short (-)	Final Settlement Price	Delivery Positions at Contract Level (Qty to pay (-)/ Qty to Receive (+)	Delivery Value at Contract Level (Amount to Pay (-)/ Amount to Receive (+)	Final Delivery Positions at Client Level (Qty to pay (-)/ Qty to Receive (+)	Final Delivery Value at Client Level (Amount to Pay (-)/ Amount to Receive (+)	Remarks
1	12345	ABC	XYZ	FUT	-	100	50	100	-5000	100	-5000	
2	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	-100	5000	
3	12345	ABC	XYZ	Call OPT	40	100	50	100	-4000	100	-4000	
4	12345	ABC	XYZ	Call OPT	40	-100	50	-100	4000	-100	4000	
5	12345	ABC	XYZ	Put OPT	60	100	50	-100	6000	-100	6000	
6	12345	ABC	XYZ	Put OPT	60	-100	50	100	-6000	100	-6000	
7	12345	ABC	XYZ	Call OPT	60	100	50	0	0	-	-	Out of the money option will expire worthless
8	12345	ABC	XYZ	PUT OPT	40	100	50	0	0	-	-	Out of the money option will expire worthless
9	12345	ABC	XYZ	FUT	-	100	50	100	-5000	0	-1000	Qty will be netted across Futures and options. Net value to be settled
	12345	ABC	XYZ	Call OPT	40	-100	50	-100	4000			
10	12345	ABC	XYZ	FUT	-	100	50	100	-5000	200	-9000	
	12345	ABC	XYZ	Call OPT	40	100	50	100	-4000			
11	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	0	1000	Qty will be netted across Futures and options. Net value to be settled
	12345	ABC	XYZ	Call OPT	40	100	50	100	-4000			
12	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	-200	9000	
	12345	ABC	XYZ	Call OPT	40	-100	50	-100	4000			
13	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	-200	11000	
	12345	ABC	XYZ	Put OPT	60	100	50	-100	6000			
14	12345	ABC	XYZ	FUT	-	100	50	100	-5000	0	1000	Qty will be netted across Futures and options. Net value to be settled
	12345	ABC	XYZ	Put OPT	60	100	50	-100	6000			
15	12345	ABC	XYZ	FUT	-	100	50	100	-5000	200	-11000	
	12345	ABC	XYZ	Put OPT	60	-100	50	100	-6000			
16	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	0	-1000	Qty will be netted across Futures and options. Net value to be settled
	12345	ABC	XYZ	Put OPT	60	-100	50	100	-6000			
17	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	-100	5000	Out of the money option will expire worthless. Futures will result in delivery
	12345	ABC	XYZ	Call OPT	60	100	50	0	0			
18	12345	ABC	XYZ	FUT	-	100	50	100	-5000	100	-5000	Out of the money option will expire worthless. Futures will result in delivery
	12345	ABC	XYZ	Call OPT	60	-100	50	0	0			
19	12345	ABC	XYZ	FUT	-	-100	50	-100	5000	-100	5000	Out of the money option will expire worthless. Futures will result in delivery
	12345	ABC	XYZ	Put OPT	40	-100	50	0	0			
19	12345	ABC	XYZ	FUT	-	100	50	100	-5000	100	-5000	Out of the money option will expire worthless. Futures will result in delivery
	12345	ABC	XYZ	Put OPT	40	100	50	0	0			
20	12345	ABC	XYZ	FUT	-	100	50	100	-5000	0	1000	Out of the money option will expire worthless. Futures and Options and Quantity will be netted. Net Value will be settled
	12345	ABC	XYZ	Call OPT	60	-100	50	0	0			
	12345	ABC	XYZ	Put OPT	60	100	50	-100	6000			
21	12345	ABC	XYZ	FUT	-	100	50	100	-5000	-100	5000	Futures and Options and Quantity will be netted. Net Value will be settled
	12345	ABC	XYZ	Call OPT	40	-100	50	-100	4000			
	12345	ABC	XYZ	Put OPT	60	100	50	-100	6000			
22	12345	ABC	XYZ	Call OPT	60	100	50	0	0	0	-2000	Out of the money option will expire worthless.
	12345	ABC	XYZ	Call OPT	40	-100	50	-100	4000			Quantity will be netted, Net value will be settled
	12345	ABC	XYZ	Put OPT	60	-100	50	100	-6000			Out of the money option will expire worthless.
	12345	ABC	XYZ	Put OPT	40	100	50	0	0			Out of the money option will expire worthless.
23	12345	ABC	XYZ	Call OPT	60	-100	50	0	0	200	-10000	Out of the money option will expire worthless.
	12345	ABC	XYZ	Call OPT	40	100	50	100	-4000			Quantity and Value will be settled
	12345	ABC	XYZ	Put OPT	60	-100	50	100	-6000			Out of the money option will expire worthless.
	12345	ABC	XYZ	Put OPT	40	100	50	0	0			Out of the money option will expire worthless.
24	12345	ABC	XYZ	Call OPT	60	100	50	0	0	-100	4000	Out of the money option will expire worthless.
	12345	ABC	XYZ	Call OPT	40	-100	50	-100	4000			
	12345	ABC	XYZ	Put OPT	30	-100	50	0	0			
	12345	ABC	XYZ	Put OPT	40	100	50	0	0			
25	12345	ABC	XYZ	Call OPT	60	100	50	0	0	0	0	Out of the money option will expire worthless.
	12345	ABC	XYZ	Put OPT	40	100	50	0	0			Out of the money option will expire worthless.
26	12345	ABC	XYZ	Call OPT	20	100	50	100	-2000	0	6000	Quantity will be netted and Net Value will be settled
	12345	ABC	XYZ	Put OPT	80	100	50	-100	8000			