

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Limited)

Department : CURRENCY DERIVATIVE SEGMENT

Download Ref No : NCL/CD/41956

Date : August 23, 2019

Circular Ref. No : 59/2019

All Members,

Sub: Clearing and Settlement of Interest Rate Options.

In pursuance of the Regulations of the Currency Derivatives Segment, and with reference to circular no. NSCCL/CD/39834 dated January 01, 2019 and circular issued by BSE Limited bearing reference no. 20190731-29 dated July 31, 2019 on Introduction of trading in Interest Rate Options, all Members are hereby notified to please take a note of Clearing, Settlement and Risk Management for Interest Rate Options.

1. Settlement

1.1 Settlement Period

The pay-in and pay-out of premium settlement and final exercise settlement of options contracts shall be effected in accordance with the settlement schedule issued by the Clearing Corporation periodically. The members are required to have clear balance of funds in their clearing account towards their pay-in obligation by the declared pay-in time on the settlement day. The pay-out of funds shall be credited to the receiving members clearing account thereafter.

1.2 Daily Premium Settlement

The daily premium settlement shall be effected on T+1 day basis as per the timelines specified by the Clearing Corporation. Premium settlement shall be netted with daily mark to mark settlement of currency futures, Cash settled Interest Rate Futures on G-Sec, futures contracts of 91 Day GOI T-bills and premium for Currency options.

1.3 Final Exercise Settlement

On expiry date, all open long in-the-money contracts shall be automatically exercised at the final settlement price and assigned on random basis to the open short position of the same strike and series. Exercise settlement shall be effected on T+1 basis based on Expiry of contract.

Exercise settlement in respect of admitted deals in option contracts shall be cash settled by debit/ credit of the clearing accounts of the relevant clearing members.

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Option contracts, which have been exercised, shall be assigned and allocated to clearing members at the client level.

Open positions in an option contracts shall cease to exist after its expiration day.

2. MARGINS**2.1 Initial Margins**

Initial margin shall be payable on all open positions of Clearing Members, upto client level, and shall be payable upfront by Clearing Members in accordance with the margin computation mechanism and/ or system as may be adopted by the Clearing Corporation from time to time.

Initial Margin shall include Standard Portfolio Analysis of Risk (SPAN®) margins, premium margin, assignment margin, futures final settlement margin and such other additional margins, that may be specified by the Clearing Corporation from time to time.

For the purpose of calculation of option values, the Black /Black Scholes option pricing models may be used.

Volatility Scan Range

The volatility scan range for generating the scenarios for SPAN margins would be 3% or such other percentage as may be specified by the Clearing Corporation from time to time.

2.2 Net Option Value

Net Option Value is computed as the difference between the long option positions and the short option positions, valued at the last available price and shall be updated intraday at the current market value of the relevant option contracts at the time of generation of risk parameters The Net Option Value shall be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses shall not be settled in cash for Interest rate options positions.

2.3 Premium Margins

Premium Margin shall mean and include net premium amount due to be paid to the Clearing Corporation towards premium settlement, at the client level. For option positions, the premium shall be paid in by the buyers in cash and paid out to the sellers in cash on T+1 day. Until the buyer pays in the premium, 100% of net premium due shall be levied as premium margins on an upfront basis. Premium margin shall be levied till the completion of pay-in towards the premium settlement

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2.4 Assignment Margin

Assignment Margin shall be levied on assigned positions of the clearing members towards exercise settlement obligations for option contracts. For option positions exercised, the seller of the options shall be levied assignment margins which shall be 100% of the net exercise settlement value payable by a clearing member towards exercise settlement. Assignment margin shall be levied till the completion of pay-in towards the exercise settlement. Assignment margins shall be computed as net of assignment settlement and futures final settlement.

2.5 Calendar Spread Margins

The margins for options calendar spread shall be same as specified for futures calendar spread. The margins for calendar spread shall be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month futures and short 100 far month futures. The benefit for a calendar spread would continue till expiry of the near month contract.

2.6 Extreme Loss margins

Extreme loss margin shall be equal to the 0.50% of the notional value of the open short option position. The extreme loss margin shall be deducted from the liquid assets of the clearing member on an online, real time basis.

3. POSITION LIMITS

The position limits as currently prescribed for Cash settled Interest Rate futures shall be the overall limits for the gross open positions across all contracts (both futures and options contracts) of the eligible participant in the respective contract.

4. Reports

There shall be no change in structure/format of any of the existing report. The contract descriptor used for Interest Rate Options Contract shall be as under:

Particulars	Value
Instrument Type	OPTIRC
Symbol	Symbol of the underlying bond as applicable for the respective futures contract
Expiry date	Expiry date in format “DD-MMM-YYYY”
Strike Price	Strike price of the respective option contract

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Option Type	“CE” or “PE”
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Members are advised to take note of the above.

**For and on behalf of
NSE Clearing Limited
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