

National Stock Exchange Of India Limited

Department : SURVEILLANCE

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To All NSE Members

Sub: Surveillance measures for Deep Out-of-The-Money (OTM) contracts

In the joint surveillance meeting between SEBI, Exchanges and Clearing Corporations, following measures on Out of the Money (OTM) options contracts has been decided.

- Additional margin of 20% on the notional option value shall be levied and collected from the clearing member, in case an entity trades in Equity Derivatives Stock Options contracts and creates fresh Short Open Interest in deep Out of Money strikes (OTM). Deep OTM are those strikes which are 30% away from the underlying price at the time of trade.

Illustration 1: If the underlying price is say Rs. 100 and an entity trades and creates fresh short positions in Call European (CE) strikes greater than 130 or in Put European (PE) strikes lesser than 70, then an additional margin of 20% on the notional option value shall be levied and collected from the clearing member at the End of day.

- This additional margin shall be levied on the top 10 clients, if they account for more than 30% of the overall fresh short positions created on that trading day (to be computed separately in respect of call and put options).

Illustration 2: Taking the illustration 1 ahead, Fresh short OI created by all entities in CE strikes greater than 130 shall be clubbed together and in case the top 10 clients account for more than 30% of the fresh short OI than an additional margin of 20% shall be levied and collected from the executing trading members of the top 10 clients. The same method shall be carried out for PE strikes lesser than 70.

The amount shall be collected from the collaterals of the clearing member on an End of day basis.

The above margin levied on the participants / clients shall continue till the contracts are squared off or till expiry of the contract.

Exchanges shall implement the above framework w.e.f. October 18, 2019.

In case of any further queries, members are requested to contact on 022-26598129/8166.

For National Stock Exchange of India Limited

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