

## **FAQs on Changes made in MCX Options Exercise Mechanism**

(Reference: SEBI Circular no. SEBI/HO/CDMRD/DNP/CIR/P/2022/01 dated January 03, 2022)

1. What is the present exercise mechanism for MCX Commodity Option contracts on Futures (for option series launched before 1st Feb 2022)?.....2
2. How will the MCX Option on Commodity Futures contracts launched from February 01, 2022 onwards be exercised at expiry)?.....2
3. Will the long position holders of 'OTM' option contracts series be allowed to exercise their position at expiry under the revised mechanism?.....3
4. Will 'ITM' option contracts be exercised automatically on expiry under the revised mechanism?.....3
5. Why was the need for change? .....3
6. When will the new mechanism be introduced?.....3
7. Which Option Contracts will be eligible for the new exercise mechanism?.....4
8. How can a member/ client inform the 'Do not Exercise intention' or 'contrary instruction' to the Exchange?.....5
9. Illustration on scenarios where Do not Exercise request can be submitted.....5

1. What is the present exercise mechanism for MCX Commodity Option contracts on Futures (for option series launched before 1st Feb 2022)?

Presently the exercise mechanism on expiry for MCX Option on Commodity Futures contracts launched prior to February 01, 2022 is as under-

- i. All option contracts belonging to 'Close to the money' (CTM)\* option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts.
- ii. All In the money (ITM) option contracts, except those belonging to 'CTM' option series, shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so.
- iii. The ITM option contract holders and the CTM option series holders who have exercised their options by giving explicit instruction, shall receive the difference between the Settlement Price and Strike Price in Cash as per the settlement schedule.
- iv. In the event contrary instruction are given by ITM option position holders (other than those belonging to CTM option series), the positions shall expire worthless. All CTM positions which are not exercised shall also expire worthless.
- v. All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless.
- vi. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

\* Option series having strike price closest to the Daily Settlement Price (DSP) of Futures shall be termed as At the Money (ATM) option series. This ATM option series along with two option series each having strike prices immediately above and below ATM shall be referred as 'Close to the money' (CTM) option series.

In case the DSP is exactly midway between two strike prices, then immediate two option series having strike prices just above DSP and immediate two option series having strike prices just below DSP shall be referred as 'Close to the money' (CTM) option series.

2. How will the MCX Option on Commodity Futures contracts launched from February 01, 2022 onwards be exercised at expiry)?

All the contracts will be exercised in the following manner at expiry-

- i. All 'In the money' (ITM) option on Commodity Futures 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 on Commodity Futures contracts shall expire worthless.
- iii. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner

*Explanation:*

- i. *As per current guidelines, Option series having strike price closest to the Daily Settlement Price (DSP) of Futures shall be termed as At the Money (ATM) option series. This ATM option series along with two option series each having strike prices immediately above and below ATM shall be referred as 'Close to the money' (CTM) option series. The concept of 'Close to the money' (CTM) option series on expiry has been discontinued, from the exercise mechanism of the MCX option on Commodity Futures contracts. Accordingly, on expiry of option contracts where the settlement price (Due Date Rate) is exactly equal to the Strike price, shall be considered as OTM options contracts and expire worthless.*
- ii. *Only 'In the money' (ITM) option contracts will be considered for the exercise mechanism.*
- iii. *ITM for Call option = Strike Price < Settlement Price &  
ITM for Put option = Strike Price > Settlement Price*

3. Will the long position holders of 'OTM' option contracts series be allowed to exercise their position at expiry under the revised mechanism?

In terms of SEBI vide Circular no. SEBI/HO/CDMRD/DNP/CIR/P/2022/01 dated January 03, 2022, all 'OTM' option contracts shall expire worthless by default and option holder shall not have the right to submit exercise request for contracts launched for trading from February 01, 2022 and onwards in case of Options on Commodity Futures.

4. Will 'ITM' option contracts be exercised automatically on expiry under the revised mechanism?

In terms of SEBI vide Circular no. SEBI/HO/CDMRD/DNP/CIR/P/2022/01 dated January 03, 2022, all ITM option contracts shall be exercised automatically on expiry, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so for contracts launched for trading from February 01, 2022 and onwards in case of Options on Commodity Futures.

5. Why was the need for change?

The change in the exercise mechanism of the MCX Options on Commodity Futures contracts on expiry has been made to make the process simpler for market participants.

6. When will the new mechanism be introduced?

The new exercise mechanism shall be applicable to all Options on Commodity Futures contracts launched for trading from February 01, 2022 and onwards.

7. Which Option Contracts will be eligible for the new exercise mechanism?

The new exercise mechanism will be applicable for all the MCX commodities, for which the Option Contracts on Commodity Futures are launched on or after February 1, 2022.

Further to the above, following Options on Commodity Futures contracts (for all Options expiries launched prior to February 01, 2022) shall be exercised as per the existing exercise mechanism explained under point no 1 above and in terms of clause of Close to the Money (CTM) as per Exchange Circular no. MCX/TRD/177/2017 dated June 13, 2017. The list of Options on Commodity Futures expiries falling under the existing exercise mechanism are as under:

<b>Commodity</b>	<b>Instrument Name</b>	<b>Option Expiry</b>
COPPER	OPTFUT	17-Feb-22
		22-Mar-22
		20-Apr-22
CRUDEOIL	OPTFUT	16-Feb-22
		17-Mar-22
		14-Apr-22
GOLD	OPTFUT	25-Mar-22
		25-May-22
		27-Jul-22
		23-Sep-22
		24-Nov-22
NATURAL GAS	OPTFUT	21-Feb-22
		24-Mar-22
		22-Apr-22
NICKEL	OPTFUT	17-Feb-22
		22-Mar-22
		20-Apr-22
SILVER	OPTFUT	23-Feb-22
		26-Apr-22
		24-Jun-22
		25-Aug-22
		24-Nov-22
SILVERM	OPTFUT	17-Feb-22
		20-Apr-22
		21-Jun-22
ZINC	OPTFUT	17-Feb-22
		22-Mar-22
		20-Apr-22

8. How can a member/ client inform the 'Do not Exercise intention' or 'contrary instruction' to the Exchange?

Member or its client can submit 'Do not Exercise request as under:

- i. Exchange's MAT or TWS terminal during the Exercise period of the options contracts as defined by the Exchange.
- ii. Member can also submit the request through the file upload post close of trade on the option expiry day. Members may refer latest file format pertaining to Ex-DEx Intimation File to Member and Ex-DEx Intimation File from Member as issued and made applicable by the Exchange from time to time.

9. Illustration on scenarios where Do not Exercise request can be submitted

Do not Exercise can be submitted for ITM options as per the illustration below:

Symbol	Instrument Name	DSP of Underlying Future on Expiry day of Options	Strike Price	Option Type	Status	Do Not Exercise Request Allowed	Remarks
GOLD	OPTFUT	50,002.00	50000	CE	ITM	Yes	Strike Price < Settlement Price
GOLD	OPTFUT	49,998.00	50000	CE	OTM	No	Strike Price > Settlement Price
GOLD	OPTFUT	50,000.00	50000	CE	OTM	No	Strike Price = Settlement Price
GOLD	OPTFUT	49,998.00	50000	PE	ITM	Yes	Strike Price > Settlement Price
GOLD	OPTFUT	50,002.00	50000	PE	OTM	No	Strike Price < Settlement Price

Symbol	Instrument Name	DSP of Underlying Future on Expiry day of Options	Strike Price	Option Type	Status	Do Not Exercise Request Allowed	Remarks
GOLD	OPTFUT	50,000.00	50000	PE	OTM	No	<i>Strike Price = Settlement Price</i>

Note : Assuming the strike interval is Rs 100