Circular no.: MCX/TRD/276/2020 April 20, 2020

Commencement of Crude Oil July 2020 Option Contract with Crude Oil (100 Barrels) Futures as underlying

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In terms of the provisions of the Rules, Bye-Laws and Business Rules of the Exchange, the Members of the Exchange are hereby notified as under:

Crude Oil Option 16 July 2020 contract will be available for trading with effect from Tuesday, April 21, 2020.

The contract specifications of Crude Oil Options with Crude Oil (100 Barrels) Futures as underlying are revised with regards to Strikes and Margins.

The revised contract specifications are provided in Annexure.

Annexure shall be binding on all the Members of the Exchange and constituents trading through them.

Particulars	Dates
Contract	Crude Oil Option 16 July 2020
Underlying Futures Contract	Crude Oil 20 July 2020
Contract Start Date	**April 21, 2020**
Option Contract Expiry Date	**July 16, 2020**
Sensitivity Report shall be provided on	July 10, 13 , 14 & 15 2020 at End of Day
Option Devolvement Intimation can be provided from	July 14, 2020 to July 16, 2020
Option Devolvement Margin First Day	July 15, 2020 (from Begin of Day)
Option Devolvement Margin Second Day	July 16, 2020 (from Begin of Day)

Particulars	Dates
First day of Trading after Option Positions Devolving into Futures Positions	July 17, 2020

Members are requested to take note of the same.

Prayag Shelatkar
Manager

Encl.: As above

Kindly contact Mr. Ashish Bhagtani on 022- 6649 4000 or send an email at customersupport@mcxindia.com for further clarification.

Annexure

Contract Specification for Crude Oil Options with Crude Oil (100 barrels) Futures as underlying

Symbol	CRUDEOIL
Underlying	Underlying shall be Crude Oil Futures contract traded on MCX
Description	Option on Crude Oil Futures
Option Type	European Call & Put Options
Contract Listing	Contracts will be available as per the Contract Launch Calendar
Contract Start Day	The next business day immediately after the expiry of the near month futures contracts
Expiry Day (Last Trading Day)	Two business days prior to the Expiry day of the underlying futures contract
Trading	
Trading Period	Mondays through Fridays
Trading Session	Monday to Friday: 9.00 a.m. to 11.30 / 11.55 p.m.* * based on US daylight saving time period
Trading Unit	One MCX Crude Oil futures contract
Underlying Quotation/ Base Value	Rs. Per barrel
Underlying Price Quote	Ex – Mumbai (excluding all taxes, levies and other expenses)
Strikes	**15 In-the-money, 15 Out-of-the-money and 1 Near-the-money. (31 CE and 31 PE). The Exchange, at its discretion, may introduce additional strikes, if required.**
Strike Price Intervals	Rs. 50
Base price	Base price shall be theoretical price on Black 76 option pricing model on the first day of the contract. On all other days, it shall be previous day's Daily Settlement Price of the contract.
Tick Size (Minimum Price Movement)	Rs. 0.10
Daily Price Limit	The upper and lower price band shall be determined based on statistical method using Black76 option pricing model and relaxed considering the movement in the underlying futures contract. In the event of freezing of price ranges even without a corresponding price relaxation in underlying futures, if deemed necessary, considering the volatility and other factors in the option contract, the Daily Price Limit shall be relaxed by the Exchange.
Margins	The Initial Margin shall be computed using SPAN (Standard Portfolio Analysis of Risk) software, which is a portfolio based margining system. To begin with, the various risk parameters shall be as under: A. Price Scan Range – 3.5 Standard Deviation (3.5 sigma) B. Volatility Scan Range – 5 % **C. Short Option Minimum Margin – Minimum of 2.5% subject to Margin Period of Risk (MPOR) # [i.e. 2.5% * SQRT(applicable minimum MPOR** D. Extreme Loss Margin – Minimum 1% (to be levied only on short option positions)

	E. Premium of buyer shall be blocked upfront on real time basis. **# 'The Margin Period of Risk (MPOR) shall be in accordance with SEBI Circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated January 27, 2020. For applicable minimum MPOR, refer latest circulars issued by MCXCCL from time to time.**
Premium	Premium of buyer shall be blocked upfront on real time basis.
Margining at client Level	Initial Margins shall be computed at the level of portfolio of individual clients comprising of the positions in futures and options contracts on each commodity
Real time computation	The margins shall be recomputed using SPAN at Begin of Day, 9.30 am, 11.00 am, 1.00 pm, 3.00 pm, 5.00 pm, 7.00 pm, 8.30 pm, 10.30 pm and End of Day.
Mark to Market	The option positions shall be marked to market by deducting / adding the current market value of options positions (positive for long options and negative for short options) times the number of long / short options in the portfolio from / to the margin requirement. Mark to Market gains and losses would not be settled in Cash for Options Positions.
Risks pertaining to option that devolve into futures on expiry	a) In the initial phase, a sensitivity report shall be provided to members of the impending increase in margins at least 2 days in advance. The mechanism shall be reviewed and if deemed necessary, pre-expiry option margins shall be levied on the buy / sell / both positions during last few days before the expiry of option contract. b) The penalty for short collection / non collection due to increase in initial margins resulting from devolvement of options into futures shall not be levied for the first day.
Additional and/ or Special Margin	At the discretion of the Exchange when deemed necessary
Position Limits	
Maximum Allowable Open Position	Position limits for options would be separate from the position limits applicable on futures contracts. For individual clients: 9,60,000 barrels or 5% of the market wide open position, whichever is higher for all Crude Oil Options contracts combined together. For a member collectively for all clients: 96,00,000 barrels or 20% of the market wide open position, whichever is higher for all Crude Oil Options contracts combined together. Upon expiry of the options contract, after devolvement of options position into corresponding futures positions, open positions may exceed their permissible position limits applicable for future contracts. Such excess positions shall have to be reduced to the permissible position limits of futures contracts within two trading days.
Settlement	
Settlement of premium/Final Settlement	T+1 day
Mode of settlement	On expiry of options contract, the open 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
Exercise Mechanism at expiry	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. 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. 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. 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. All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless. In the event the OTM position holders, which are in CTM option series, exercise their option positions, shall be required to pay and settle the difference between strike price and settlement price as per the settlement schedule. All devolved futures positions shall be considered to be opened at the strike price of the exercised options. * 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.
Due Date Rate (Final Settlement Price)	Daily settlement price of underlying futures contract on the expiry day of options contract.

Contract Launch Calendar for Crude Oil (100 BBL) Options contracts expiring during the year 2020

Contract Month	Contract Launch Date	Contract Expiry Date
January 2020	22nd October 2019	15th January 2020
February 2020	20th November 2019	17th February 2020
March 2020	19th December 2019	17th March 2020
April 2020	21st January 2020	16th April 2020
May 2020	20th February 2020	14th May 2020
June 2020	20th March 2020	17th June 2020
July 2020	21st April 2020	16th July 2020
August 2020	19th May 2020	17th August 2020
September 2020	22nd June 2020	17th September 2020
October 2020	21st July 2020	15th October 2020
November 2020	20thAugust 2020	17th November 2020
December 2020	22nd September 2020	16th December 2020