
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange

Circular No : NCDEX/TRADING-05/2020
Date : January 29, 2020
Subject : Modification in contract specifications – Option on Guar Seed Futures Contract

This is with reference to Exchange circular no: NCDEX/TRADING-030/2019 dated August 09, 2019 on Change in Staggered Delivery Period in Commodity Futures Contracts.

Members are requested to note that the Exchange, as per the approval received from Securities and Exchange Board of India (SEBI), has modified the contract specification of Option on Guar Seed futures contract expiring in the month of July 2020 and thereafter. The contracts expiring in the month of **July 2020** will be available for trading with effect from **March 03, 2020**. Contracts for further expiries will be launched as per the enclosed contract launch calendar.

Currently, Options on Guar Seed futures contracts expiring in the months of February 2020, March 2020 and April 2020 are available for trading and would continue to be traded as per the existing contract specifications. The Option on Guar Seed futures contract which will be launching in the month of February 2020 (i.e. May 2020 expiry contract) will also be traded as per the existing contract specifications.

Members are requested to take note of the following:

1. Summary of the modifications in contract specifications of Option on Guar Seed futures contract as mentioned in Annexure I.
2. The Existing Contract Specifications are enclosed as Annexure II
3. The Modified Contract Specifications are enclosed as Annexure III.

The contracts and the transactions therein will be subject to Bye Laws, Rules, and Regulations of the Exchange and circulars issued by the Exchange as well as directives, if any, issued from time to time by SEBI. It is clarified that it is the sole obligation and responsibility of the Members and market participants to ensure that apart from the approved quality standards stipulated by the Exchange, the commodity deposited / traded / delivered through the approved warehouse of the Clearing corporation either on their own or on behalf of them by any third party acting on behalf of the Market Participants/Constituents is in due compliance with the applicable regulations laid down by authorities like Food Safety and Standards Authority of India, AGMARK, Bureau of Indian

Standards (BIS), Warehousing Development and Regulatory Authority (WDRA), Orders under Packaging and Labelling etc., as also other State/Central laws and authorities issuing such regulations in this behalf from time to time, including but not limited to compliance of provisions and rates relating to GST, APMC Tax, Mandi Tax, LBT, stamp duty, etc. as applicable from time to time on the underlying commodity of any contract offered for deposit / trading / delivery and the Exchange shall not be responsible or liable on account of any noncompliance thereof.

For and behalf of

National Commodity & Derivatives Exchange Limited

Kapil Dev

Executive Vice President-Business

Encl: Annexures

For further information / clarifications, please contact

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Annexure I: Summary of modifications in contract specifications of Option on Guar Seed Futures Contracts

Parameters	Existing Contract Specification	Modified Contract Specification	Rationale
Expiry Date	<p>Last Wednesday of the month that precedes the month of expiry of the underlying Futures contract.</p> <p>If Wednesday happens to be a holiday, then the Expiry Date shall be the next trading day of the Exchange. In case of banking transaction closing days etc. close to the Options Expiry Date, the same shall be fixed to provide for sufficient time ahead of such days.</p> <p>The Expiry Date shall be fixed so that it falls before the start of Near Month in the underlying Futures contract. However, launch calendar with exact date of expirations shall be notified in advance</p>	<p>One trading day prior to the start of staggered delivery of the underlying Futures Contract.</p>	<p>In order to align it with other options contracts having compulsory delivery futures contract as underlying.</p>
Position limits	<p>Numerical value for client level/member level limits in Options shall be twice of corresponding numbers applicable for Futures contract.</p> <p>Guar seed: 25,800 MT and 2,58,000 MT for clients and members respectively</p>	<p>Numerical value for client level/member level limits in Options shall be twice of corresponding numbers applicable for Futures contract.</p> <p>Guar seed: 25,800 MT and 2,58,000 MT for clients and members respectively.</p> <p>For near month contracts: The following limits would be applicable from 1st of every month in which the contract is due to expire.</p> <p>If 1st happens to be a non-trading day, the near month limits would start from the next trading day.</p> <p>Member-wise: 32,250 MT or one-eighth of the member's overall position limit in that commodity, whichever is higher.</p>	<p>Near month position limits made applicable in order to align it with other options contracts having compulsory delivery futures contract as underlying.</p>

Parameters	Existing Contract Specification			Modified Contract Specification			Rationale
				Client-wise: 3,225 MT.			
Launch Calendar	Options Contract Launch Month	Options Expiry Month	Underlying Contract Expiry Month	Options Contract Launch Month	Options Expiry Month	Underlying Contract Expiry Month	Options expiry month has been changed as per the modification in expiry date.
	March 2020	June 2020	July 2020	March 2020	July 2020	July 2020	
	April 2020	September 2020	October 2020	April 2020	October 2020	October 2020	
	May 2020	October 2020	November 2020	May 2020	November 2020	November 2020	
	June 2020	November 2020	December 2020	June 2020	December 2020	December 2020	

**Annexure II: Existing Contract Specifications of Options on Guar Seed Futures
(Applicable for contracts expiring in the months of February 2020 and thereafter)**

Field	Description
Underlying	1 lot of GUARSEED10 (5 MT Guar Seed Futures) contract traded on NCDEX The underlying commodity specifications on devolvement into Futures will be the same as that mentioned in the contract specifications of underlying Futures.
Symbol	<UNDERLYING SYMBOL><OPTIONS EXPIRY DATE-DDMMYY><CE/PE><STRIKE PRICE><UNDERLYINGTYPEF/S><UNDERLYINGEXPIRY-MMMYY> Example: GUARSEED1026JUL17CE3200FAUG17
Options Type	European
Premium Quotation/base value	Rs. per quintal
Tick Size	Re. 0.50 per quintal
Expiry Date	Last Wednesday of the month that precedes the month of expiry of the underlying Futures contract. If Wednesday happens to be a holiday, then the Expiry Date shall be the next trading day of the Exchange. In case of banking transaction closing days etc. close to the Options Expiry Date, the same shall be fixed to provide for sufficient time ahead of such days. The Expiry Date shall be fixed so that it falls before the start of Near Month in the underlying Futures contract. However, launch calendar with exact date of expirations shall be notified in advance.
Options Launch Calendar	Same as Futures launch Calendar. Options contract shall be launched on the trading day following the day on which the underlying Futures contract is launched.
Strike Interval	First and Second Options Expirations: Rs.50 Third Options Expiration onwards: Rs.50
Minimum Number of Strikes	First and Second Options Expirations:5-1-5 Third Options Expiration onwards:5-1-5
Trading Hours	Same as underlying Futures contract.
Daily Price Range	Based on the factors of Daily Price Range (DPR) of the underlying Futures contract and volatility.
Position Limits	Numerical value for client level/member level limits in Options shall be twice of corresponding numbers applicable for Futures contract. Guar seed: 25,800 MT and 2,58,000 MT for clients and members respectively.
Final Settlement Price	Daily Settlement Price (DSP) of the underlying Futures contract on the Options Expiration day.
Exercise of Options	European Options to be exercised only on the day of Expiration of the Options contract.

Mechanism of Exercise	<p>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 and two option series having strike prices immediately above this ATM strike and two option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' (CTM) option series.</p> <p>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.</p> <p>All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts.</p> <p>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.</p> <p>All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless.</p>
Final Settlement Method	<p>On exercise, Option position shall devolve into underlying Futures position as follows:</p> <ul style="list-style-type: none"> • 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 <p>All such devolved futures positions shall be opened at the strike price of the exercised options.</p>
Initial Margin	<p><input type="checkbox"/> Initial Margin: The Exchange shall adopt appropriate initial margin model and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients. The initial margin shall be imposed at the level of portfolio of individual client comprising of his positions in Futures and Options contracts on each commodity. Margins shall be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least two days. For buyer of the Options, buy premium shall be charged as margins and blocked from the collaterals. On computation of settlement obligation at the end of day, the premium blocked shall be released and collected as pay-in as per process notified. The Exchange shall levy appropriate Short Option Minimum Margin (SOMM) for sellers / writers of the Options contract. The Exchange shall fix prudent price scan range and volatility scan range based on the volatility in the price of the underlying commodity.</p>

Other Margins	<ul style="list-style-type: none"> • Extreme loss margin: The Exchange shall levy appropriate extreme loss margin as applicable. • Calendar spread charge: The calendar spread charge shall be calculated on the basis of delta of the portfolio of Futures and Options. A calendar spread charge of 25% on each leg of the positions shall be charged. • Mark to Market: The Exchange shall mark to market the Options positions by deducting/adding the current market value of Options (positive for long Options and negative for short Options) times the number of long/short Options in the portfolio from/to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for Options positions. • Margining at client level: Exchange shall impose initial margins at the level of portfolio of individual client comprising of his positions in Futures and Options contracts on each commodity. • Other margins: Other margins like additional margins and special margins shall be applicable as and when they are levied by the Exchange. • Pre Expiry margin: Pre expiry margin on Options shall be levied at additional $\frac{1}{3} * \text{Futures margin \%} * \text{Underlying Futures price} * \text{weightage}$ (if any) for each of the three days before expiry of the Options contract. Pre expiry margin on Options shall be levied on Options buyers (holders) and Options sellers (writers). <p>The pre-expiry margin on Options shall be apart from other margins like initial margin, additional margins, spread margins etc.</p> <p>Pre-expiry margins shall not be included in standard client margin reporting and hence no penalty shall be levied on short collection/non-collection of the same by the CMs from their clients.</p>
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Contract Launch Calendar

Options Contract Launch Month	Options Expiry Month	Underlying Contract Expiry Month
November 2019	February 2020	March 2020
December 2019	March 2020	April 2020
January 2020	April 2020	May 2020
February 2020	May 2020	June 2020
March 2020	June 2020	July 2020
April 2020	September 2020	October 2020
May 2020	October 2020	November 2020
June 2020	November 2020	December 2020

**Annexure III: Modified Contract Specifications of Options on Guar Seed Futures
 (Applicable for contracts expiring in the month of July 2020 and thereafter)**

<u>Field</u>	<u>Description</u>
Underlying	1 lot of GUARSEED10 (5 MT Guar Seed Futures) contract traded on NCDEX The underlying commodity specifications on devolvement into Futures will be the same as that mentioned in the contract specifications of underlying Futures.
Symbol	<UNDERLYING SYMBOL><OPTIONS EXPIRY DATE-DDMMYY><CE/PE><STRIKE PRICE><UNDERLYINGTYPEF/S><UNDERLYINGEXPIRY-MMMYY> Example: GUARSEED1012JUL17CE3200FAUG17
Options Type	European
Premium Quotation/base value	Rs. per quintal
Tick Size	Re. 0.50 per quintal
Expiry Date	One trading day prior to the start of staggered delivery of the underlying Futures Contract.
Options Launch Calendar	Same as Futures Launch Calendar. Options contract shall be launched on the trading day following the day on which the underlying Futures contract is launched.
Strike Interval	First and Second Options Expirations: Rs.50 Third Options Expiration onwards: Rs.50
Minimum Number of Strikes	First and Second Options Expirations:5-1-5 Third Options Expiration onwards:5-1-5
Trading Hours	Same as underlying Futures contract.
Daily Price Range	Based on the factors of Daily Price Range (DPR) of the underlying Futures contract and volatility.
Position Limits	Numerical value for client level/member level limits in Options shall be twice of corresponding numbers applicable for Futures contract. Guar seed: 2,58,000 MT and 25,800 MT for members and clients respectively. For near month contracts: The following limits would be applicable from 1 st of every month in which the contract is due to expire. If 1 st happens to be a non-trading day, the near month limits would start from the next trading day. Member-wise: 32,250 MT or one-eighth of the member's overall position limit in that commodity, whichever is higher. Client-wise: 3,225 MT.
Final Settlement Price	Daily Settlement Price (DSP) of the underlying Futures contract on the Options Expiration day.
Exercise of Options	European Options to be exercised only on the day of Expiration of the

	Options contract.
Mechanism of Exercise	<p>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 and two option series having strike prices immediately above this ATM strike and two option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' (CTM) option series.</p> <p>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.</p> <p>All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts.</p> <p>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.</p> <p>All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless.</p>
Final Settlement Method	<p>On exercise, Option position shall devolve into underlying Futures position as follows:</p> <ul style="list-style-type: none"> • 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 <p>All such devolved futures positions shall be opened at the strike price of the exercised options.</p>
Initial Margin	<ul style="list-style-type: none"> • Initial Margin: The Exchange shall adopt appropriate initial margin model and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients. The initial margin shall be imposed at the level of portfolio of individual client comprising of his positions in Futures and Options contracts on each commodity. Margins shall be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least two days. For buyer of the Options, buy premium shall be charged as margins and blocked from the collaterals. On computation of settlement obligation at the end of day, the premium blocked shall be released and collected as pay-in as per process notified. The Exchange shall levy appropriate Short Option Minimum Margin (SOMM) for sellers / writers of the Options contract. The Exchange shall fix prudent price scan range and volatility scan range based on the volatility in the price of the underlying commodity.
Other Margins	<ul style="list-style-type: none"> • Extreme loss margin: The Exchange shall levy appropriate extreme loss margin as applicable. • Calendar spread charge: The calendar spread charge shall be calculated on the basis of delta of the portfolio of Futures and

	<p>Options contract. A calendar spread charge of 25% on each leg of the positions shall be charged.</p> <ul style="list-style-type: none"> • Mark to Market: The Exchange shall mark to market the Options positions by deducting/adding the current market value of Options (positive for long Options and negative for short Options) times the number of long/short Options in the portfolio from/to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for Options positions. • Margining at client level: Exchange shall impose initial margins at the level of portfolio of individual client comprising of his positions in Futures and Options contracts on each commodity. • Other margins: Other margins like additional margins and special margins shall be applicable as and when they are levied by the Exchange. • Pre Expiry margin: Pre expiry margin on Options shall be levied at additional $\frac{1}{3} * \text{Futures margin \%} * \text{Underlying Futures price} * \text{weightage}$ (if any) for each of the three days before expiry of the Options contract. Pre expiry margin on Options shall be levied on Options buyers (holders) and Options sellers (writers). <p>The pre-expiry margin on Options shall be apart from other margins like initial margin, additional margins, spread margins etc.</p> <p>Pre-expiry margins shall not be included in standard client margin reporting and hence no penalty shall be levied on short-collection/non-collection of the same by the CMs from their clients.</p>
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Contract Launch Calendar

Options Contract Launch Month	Options Expiry Month	Underlying Contract Expiry Month
March 2020	July 2020	July 2020
April 2020	October 2020	October 2020
May 2020	November 2020	November 2020
June 2020	December 2020	December 2020