

Policy and FAQ for Physical Settlement for Equity Derivatives

Clients are advised to note that based on review of framework for stocks in Derivatives Segment as prescribed by SEBI vide circular no. SEBI/HO/MRD/DP/CIR/P/P/2018/67 dated April 11, 2018, MNCL have adopted following policy in all physical contract F&O. As stated in this SEBI circular, All F&O derivative contracts will be settled via compulsory physical delivery. If you hold a position in any of these contracts at expiry, you will be required to give delivery/take delivery of stocks.

1. As per a SEBI mandate, physical settlement is compulsory if a trader holds a position in any of the stock F&O contracts on an expiry date.
 - > All open futures positions after close of trading on expiry day
 - > All in-the-money contracts which are exercised and assigned

Physical Delivery settlement obligation should be considered as per below Table

TYPES	LONG	SHORT
Futures	security Receivable	Security Deliverable
ITM CALL OPTION	security Receivable	security Deliverable
ITM PUT OPTION	security Deliverable	security Receivable

2. All physical contracts would be kept on RMS square off mode in delivery 1 day prior to Expiry date. However futures on such Physical Contracts would be available for trading in Intraday MIS mode till expiry day
3. As per NSE circular ref no. **NCL/CMT/38807 dated September 04, 2018**, In addition to margin applicable for F&O segment, **Delivery margin shall be levied on potential in the Money long option positions four Trading days prior to expiry** of derivative contract which has to be settled through delivery. Example-If expiry of derivative contract is on Thursday, the delivery margin on potential in the **Money long option positions** shall be applicable from previous Friday EOD.
4. **Delivery margin on potential in the money long positions** shall be levied at client level and collected from clearing member in a staggered manner as under. Delivery margin at the client level shall be computed as per the margin rate applicable in Capital Market segment (i.e VAR, Extreme loss margin) of the respective Script as per NSE circular NCL/CMPT/43262 dated 17th January 2020.

Day	Delivery Margin computed on Expiry
T-4	10%
T-3	25%
T-2	45%
T-1	70%

So As guided by Exchange Members/Clients shall be required to collect the additional delivery margins on potential in-the-money long option positions and shall be included in the client margin reporting and to pursue this guidelines Branches/clients need to monitor such positions and update collection or to regularize the existing **in the money long option position before 1 day prior to expiry** to avoid short margin reporting.

5. All near month Future contracts will remain open in intraday as well as delivery product for trading.
6. If any client intend to **BUY delivery** in given physical contracts in case of Long Future then need to keep upfront Sufficient margin in CLIENT A/c and for **short Future/ option sell positions**, client need to maintain adequate equal stock delivery in their Demat A/c or Broker A/c of respective contract Before Expiry.
7. OTM (Out of Money) options contracts will not be squared off from RMS, but same positions if it turns into CTM or ITM on Expiry date then Branches and Clients need to monitor positions i.e. expiry day.
8. In the event that Broker is unable to square off the position before expiry, for whatsoever reason, Client will be liable to make funds (in case of long futures/calls or short put option positions) or stocks (in case of short futures/calls or long put option positions) available in your account to the extent of the settlement value.
9. it is to be noted that with the movement of securities to T+1 settlement in the Capital market segment from the trade date of January 27, 2023, the physical settlement in equity derivatives shall happen on a T+1 basis from February 2023
10. The quantity to be delivered/ received shall be equivalent to the market lot* number of contracts which result into physical settlement
11. The final deliverable/receivable positions at a clearing member shall be arrived after netting the obligations of all clients/constituent/trading members clearing through the respective clearing member

• **Disclaimer on Physical Settlement Policy**

Important Notice: Clients are responsible for managing their open positions in stock options contracts approaching expiry. If any In-the-Money (ITM) position is not squared off before expiry, it may result in compulsory physical settlement as per exchange regulations.

In the event a client fails to square off their ITM position on or before expiry:

1. The broker shall **not be liable** for any resulting obligations, including delivery settlement, additional margins, or penalties imposed by the exchange.
2. The **Risk Management System (RMS)** will attempt to auto-square off open positions, but if unsuccessful due to liquidity issues, exchange rules, or other factors, the client shall bear full responsibility.
3. Clients who wish to take physical delivery must ensure **sufficient margins** are maintained as per exchange requirements and must communicate their intent in advance.

By trading in physically settled contracts, the client acknowledges and accepts these risks and agrees to comply with exchange and broker policies.

FAQ for delivery settlement in equity derivatives

1. Which securities in Futures and Options segment will become eligible for delivery based settlement?

- *Until October 2019, all contracts held till expiry used to be cash settled. However, a SEBI circular in October 2019 made it mandatory for all Stock F&O contracts to be physically settled.*

2. What positions of futures and options contracts in eligible securities shall result in delivery settlement on expiry day?

- *The following positions in respect of securities identified for shall be settled through delivery:*
 - All open futures positions after close of trading on expiry day
 - All in-the-money contracts which are exercised and assigned. However, in respect of Close to Money (CTM) option contracts the option holder shall have a facility of do-not-exercise

3. How will be the quantity of stocks to be delivered as buy quantity/sell quantity shall be computed?

- *The deliverable quantity shall be computed as under*
 - a. *Unexpired Futures*
 - Long futures shall result into a buy (security receivable) positions
 - Short futures shall result into a sell (security deliverable) positions
 - b. *In-the-money call options*
 - Long call exercised shall result into a buy (security receivable) positions
 - Short call assigned shall result into a sell (security deliverable) positions
 - c. *In-the-money put options*
 - Long put exercised shall result into a sell (security deliverable) positions
 - Short put assigned shall result into a buy (security receivable) positions

The quantity to be delivered/ received shall be equivalent to the market lot *number of contracts which result into delivery settlement

4. At what price will the futures and options contracts be delivery settled on the expiry day?

- *The delivery settlement obligation shall be computed at following prices*
 - Futures – Final Settlement price of the futures contract*
 - Options – Strike price of the respective option contract*

5. Will a daily mark to market obligation for future contracts in addition to delivery settlement obligations be computed on expiry day?

- *Yes. All futures positions shall be first mark to market to final settlement price on the expiry day and the same shall be settled on T+1 day as currently being done*

6. Will assignment/exercise value computed for option contracts in addition to delivery settlement obligations be computed on expiry day?

- *No. As the delivery obligations are computed at strike price there shall be no assignment/exercise value computation for option contracts which shall be settled through delivery*

7. For a client having a buy obligation in futures contracts for a particular security as well as sell obligation in option contracts for the same stock or vice-versa; will such obligations in the stock computed at client level be on a net basis or gross basis?

- *Net basis, Client level obligations shall be computed on a net basis across all futures and options contract in a security where there is a delivery settlement. Please refer to attached Annexure 2 for various examples.*

8. How will securities shortages be handled?

- *For securities short-delivered, CC shall conduct a buy-in auction for such securities in the Capital market segment of the Exchange. If auction is unsuccessful, or there is a short delivery in auction settlement, the shortages shall be financially closed out.*

9. What are the timelines for conducting buy-in auction for securities shortages?

- *The buy-in auction shall be conducted on Expiry+1 days along with the auction conducted for Capital Market Segment. Currently, auction is conducted at 2.00 pm.*

10. When will be settlement for auction conducted?

- *Settlement for auction shall be conducted on Expiry + 1 day along with auction settlement for capital market segment.*

11. Are there any instances in which buy-in auction shall not be conducted? If yes, how will be the security shortages handled in the absence of auction?

- *Yes, In case a company announces any corporate action for securities then short deliveries, if any, of such securities which were to be delivered on cum basis shall be directly closed out. In such cases, shortages shall be directly closed out at the highest price prevailing in the Capital Market of the Exchange from the day of trading till the day of closing out or 10% above the official closing price on the auction day, whichever is higher, or at a price as declared from time to time by CC*

12. How will the securities shortages shall be handled if the securities cannot be bought in auction?

- *If auction is unsuccessful, or there is a short delivery in auction settlement, the shortages shall be financially closed out at the closeout price of the security as determined in Capital Market Segment.*

13. What type of margins shall be levied for delivery settlement obligations?

- *For positions which are to be settled through delivery, margins as applicable in Capital Market segment (i.e VAR, Extreme Loss Margins, Mark to Market margins) shall be applicable and levied as delivery margins*

14. How will the margins be computed and at what level?

- *Margins shall be computed at client level. Margins shall be levied on the net settlement obligation value for each client*

15. When will the delivery margins be levied?

- *Delivery margins shall be levied at end of day on expiry day. The same shall be included in the end of day margin files downloaded on expiry day*

16. Till what time the margins levied shall remain applicable?

- *Delivery margins shall be released on completion of settlement or on early pay-in.*

17. Will assignment margin currently levied on in-the-money option contracts on expiry continue to remain applicable?

- *Assignment margins shall not be computed on positions which shall be identified for settlement.*

18. Do members have to report delivery margins levied?

- *Members shall be required to collect delivery margin and report the same through the existing client margin reporting mechanism*