



BAJAJ FINANCIAL SECURITIES LIMITED

PHYSICAL SETTLEMENT OF EQUITY DERIVATIVES

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PHYSICAL SETTLEMENT OF EQUITY DERIVATIVES

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PHYSICAL SETTLEMENT OF EQUITY DERIVATIVES

Document Control

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Roles and Responsibility

Executive Name	Role
RMS	Responsible of Square of the shares at the expiry day of the contract.
Trade Process Team	Responsible for processing of Trades executed by customer and importing the data received from exchange and made available for settlement of securities.
Settlement Team	Responsible for Settlement of securities through Pay-in and Pay-out module
Banking Team	Responsible for settlement of funds.

PHYSICAL SETTLEMENT OF EQUITY DERIVATIVES

1. Purpose and Objective

- 1.1. This is with reference to SEBI Circular number SEBI/HO/MRD/DP/CIR/P/P/2018/67 dated April 11, 2018 (SEBI circular) on physical settlement in equity derivatives.
- 1.2. As per the circular, all open contracts in futures segment and in the future options will be compulsorily settled in physical mode on contract expiry day of the month for the list of securities specified by NSE circular from time to time. The settlement process will happen in the Equity Derivatives segment and customers has to provide additional funds or securities on expiry day of contract.

2. Applicability

- 2.1. Additionally, according to the guideline, stocks which do not meet the enhanced eligibility criteria for introduction in derivative segment shall also move from cash settlement to physical settlement. The current list of securities available for physical settlement is available at NSE https://www1.nseindia.com/content/fo/fo_underlyinglist.htm and it will be modified by NSE from time to time.

3. Process

Client(s) may rollover all their positions or close the same on or before 2 days of expiry day of the Physical settlement contract or BFSL RMS Team may square off Client(s) open position in these stock futures (Long / Short Positions) and in-the-money & at-the-money options contracts, which are exercised and assigned for the list of securities prescribed by Exchange for physical settlement, 1 days prior to expiry day on best effort basis.

To rollover your position below is the chart to maintain the Margin requirement

Day (BOD-Beginning of the day)	Margins applicable
E-4 Day (Friday BOD)	10% of VaR + ELM +Adhoc margins
E-3 Day (Monday BOD)	25% of VaR + ELM +Adhoc margins
E-2 Day (Tuesday BOD)	45% of VaR + ELM +Adhoc margins
E-1 Day (Wednesday BOD)	70% of VaR + ELM +Adhoc margins
E-0 Day (Thursday BOD)	100% of VaR + ELM +Adhoc margins

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4. Settlement

Client(s) may convert all their positions on or before 2 days of expiry day of the Physical settlement contract for all open position in these stock futures (Long / Short Positions) and in-the-money & at-the-money options contracts, which are exercised and assigned for the list of securities prescribed by Exchange for physical settlement, 1 days prior to expiry day on best effort basis.

In case clients as well as BFSL RMS teams unable to square off due to any reason, then such contracts will be automatically physically settled by exchange and Client will be required to honor the securities and funds settlement obligations resulting out of such a settlement.

Let's say a trader has the following open positions in May 2022 expiry contracts as on End of Day of May Expiry Day.

Physical Settlement Example

Stock Symbol	Instrument Type	Position (+ denotes Long, - denotes short)	Strike Price
ABC	Future	+200	-
PQR	Future	-150	
XYZ	Call Option	+50	100
IJK	Call Option	-100	80
DEF	Call Option	+75	40
BCD	Put Option	+50	100
EFG	Put Option	-100	80
FGH	Put Option	+75	40
LMN	Future	+150	-
LMN	Call Option	-150	60
RST	Future	-200	-
RST	Put Option	+100	45

Basis the above open positions, below attached excel sheet is the obligation calculation for securities and fund for each stock with comments.



Microsoft Excel
97-2003 Worksheet

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5. Policy regarding Close to Money contracts (CTM)

Exchanges have defined Close to money (CTM) contracts which are a subset of 'in the money (ITM)' or contracts that expire with some intrinsic value.

- For Call Options: 3 ITM options strikes immediately below the final settlement price shall be considered as CTM . If Wipro contract settles at 243 on expiry day, call options with strike 230, 235, and 240 will be marked as CTM contracts and it will be goes worthless.
- For Put Options - 3 ITM options strikes immediately above the final settlement price shall be considered as CTM . If Wipro contract settles at 243 on expiry day, put options with strike 245, 250, and 255 will be marked as CTM contracts it will be goes worthless.

Exchanges have provided an option to not exercise long CTM contracts.

Buy/Sell price of the physically settled stocks

For all stocks that get credited or debited due to physical delivery of F&O, the expiry day is considered as the trade date. The buying or selling price will be as shown below:

Futures : The settlement price of the futures contract on the expiry date.

Options : The strike price of the contract.

F&O P&L for physically settled contracts

Futures : For all positions that are held till expiry, the settlement price of the futures contract is used as the exit price.

Options : All ITM stock options that are held till the expiry are exercised. The exit price used is 0 for the P&L as the stock delivery happens at the strike price.