FAQs on Straddle Contracts – Currency Derivatives

1. **What is meant by a Straddle Contract?**
   Straddle contracts are specialised two-legged option contracts that allow a trader to take positions on two different option contracts belonging to the same product, at the same strike price and having the same expiry.

2. **What are the components of a Straddle contract?**
   A straddle contract comprises of two individual legs, the first being the call option leg and the second being the put option leg, having same strike price and expiry.

3. **In which segment will Straddle contracts be offered?**
   To start with, straddle contracts will be offered in the Currency Derivatives segment.

4. **What will be the market lot of the straddle contract?**
   Market lot of a straddle contract will be the same as that of its corresponding individual legs i.e. the market lot of the call option leg and the put option leg.

5. **What will be the tick size of the straddle contract?**
   Tick size of a straddle contract will be the same as that of its corresponding individual legs i.e. the tick size of the call option leg and the put option leg.

6. **For which expiries will straddle contracts be made available?**
   Straddle contracts will be made available on all existing individual option contracts - current, near, & far monthly as well as quarterly and half yearly option contracts.

7. **How many in-the-money, at-the-money and out-of-the-money contracts will be available?**
   Minimum two In-the-Money, two Out-of-the-Money and one At-the-Money straddle contracts will be made available. Once created, these contracts will be retained till expiry.

8. **What will be the nomenclature of a straddle contract?**
   Nomenclature of a straddle contract will be as follows:
   <Product code><Type of Contract i.e. STD><Year and Month of Expiry><Strike price>

   Given below is an example of USDINR straddle contract with December 2015 expiry and 65.25 strike price.

USD STD 15-DEC 65.2500	USD: - Option product code as defined in contract master.
	STD :- Straddle Contract
	15 DEC :- Expiry Year and Month
	65.2500 :- Strike Price

9. **What will be the matching logic followed for orders entered in case of straddle contract?**

Orders in a straddle contract will be executed as per the normal price-time priority logic and within the same straddle contract order book, i.e. a buy order shall match with a sell order in the same straddle contract order book as per their price-time priority.

10. **How will the trades get generated when two counter orders match?**

Matching in straddle contract will result in two trades – one trade in the individual call option contract and other trade in the individual put option contract.

11. **What trades are generated when one 'Buys' a straddle contract?**

On 'Buying' a straddle contract, 2 buy trades get generated in the individual option legs – one each in call and put option contracts of the same strike price & expiry. In other words, 'Buying' a straddle contract shall create a buy position each in the call as well as put option contracts.

12. **What trades are generated when one 'Sells' a straddle contract?**

On 'Selling' a straddle contract, 2 sell trades get generated in the individual option legs – one each in call and put option contracts of the same strike price & expiry. In other words, 'Selling' a straddle contract shall create a sell position each in the call as well as put option contracts.

13. At what price will the trades in the individual legs get generated?

The trade executed between a buy order and a sell order in the straddle contract will be split into its respective individual contract legs, similar to the calendar spread futures contract. Kindly refer to the below example for the same.

Illustration of Straddle Contract

Consider following example:

Straddle Contract	USD STD 16-JAN 66.5000 (USDINR Option, January '16 expiry, strike price of 66.5000 and STD denotes straddle strategy)
Leg 1 (Call option contract)	USDINR16JAN66.5000CE
Leg 2 (Put option contract)	USDINR16JAN66.5000PE
LTP (otherwise previous close price) of Leg 1 contract in normal market	2.0000
LTP (otherwise previous close price) of Leg 2 contract in normal market	0.9000

Client Code	Buy Qty	Buy Price	Sell Price	Sell Qty	Client Code
A	1	3.0000	3.0000	1	B

In the above example Client A has bought USD STD 16-JAN 66.5000 straddle contract at Rs.3.0000 whereas client B has sold USD STD 16 JAN 66.5000 at Rs.3.0000

This shall result in execution of trades between client A and client B for 1 Qty @ Rs.3.0000. The execution of trade in this straddle contract shall result into 2 trades on its individual legs. The prices at which trade shall get executed on individual legs shall be based on the trade price decomposition logic. The same is explained below:-

As per the trade price decomposition logic, the price of call leg and put leg shall get adjusted in such a manner that the sum of the prices of the two legs should be equal to the trade price of straddle contract i.e. Rs.3.0000.

Trade details and position in case of client A in following manner:

Client A	Buy	USDINR16JAN66.5000CE	Trade Price 2.0500
	Buy	USDINR16JAN66.5000PE	Trade Price 0.9500

Trade details and position in case of client B in following manner:

Client B	Sell	USDINR16JAN66.5000CE	Trade Price 2.0500
	Sell	USDINR16JAN66.5000PE	Trade Price 0.9500

14. How will the straddle contracts be made available to the user?
Separate straddle contracts will be made available to the user in the existing spread contract master file (BFX_SPD_CO<ddmmyy>.csv) for Currency Derivatives segment.

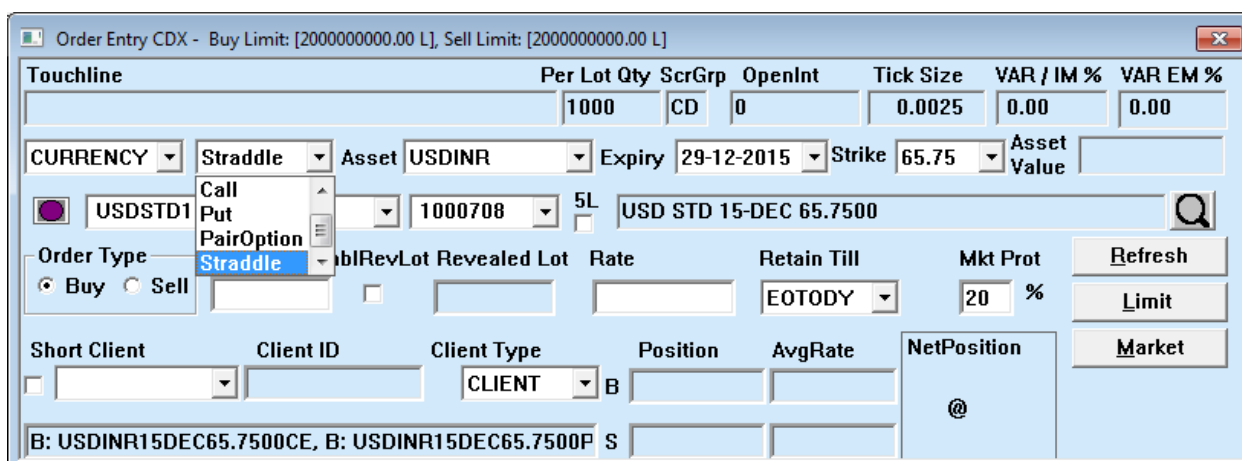**15. What are the changes to the file formats in view of introduction of straddle contracts?**
There will be minor modifications in spread contract master file and the order log file in order to accommodate paired option contracts. These have been explained vide Exchange circular no. 20151116-30, dated November 16, 2015 and circular no. 20151123-34, dated November 23, 2015.

16. How can a user enter order in a straddle contract on the BOLT TWS front end?
To enter an order in a straddle contract, a user has to select the segment as 'Currency' and then the option 'Straddle' from the dropdown besides it, on the order entry screen of the BOLT TWS front end. Subsequently the user needs to select the 'Asset' (the option available will be USDINR) followed by the 'Expiry' and the 'Strike'.

To support trading in straddle contracts, there shall be a new version release of BOLT TWS ver. 72.00. This new version shall be **COMPULSORY** release for trading members who use BOLT TWS for trading in Currency Derivatives segment.

A screen shot of the order entry screen on the BOLT TWS front end is given below:

17. Which order types are allowed in case of straddle contracts?
- Only regular limit orders are allowed for straddle contracts.
- Market and Stop Loss orders are not permitted.
- Disclosed quantity orders are allowed.
- GFD and IOC retention types are allowed

18. On which products will straddle contracts be made available?
Straddle contracts will be made available on USDINR options.

19. Will orders entered in straddle contracts reflect in the RTRMS – ZT pending order view screen?
Yes, orders entered in straddle contracts will reflect in the RTRMS – ZT screen under the menu 'View All Pending Orders (Currency)'.

20. Will single order limits be applicable for straddle contracts?
Yes, the single order limits applicable for the individual contracts of an option product will also be applicable for the straddle contracts.

21. Will there be any impact of the trades resulting from orders in straddle contracts on post trade processes like risk management, position management or settlement?
There will be no impact of trades resulting from orders in straddle contracts and the existing rules across various post trade processes shall be applicable. Trades generated in individual legs would result in positions in a call option leg and a put option leg of respective contract. Hence all post trade processes would be applicable in the same manner as normally done for trades on these contracts.

22. Is it possible to enter orders in straddle contracts when the member is in RRM?
Orders cannot be entered in straddle contracts when a member is in RRM.

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