

## FAQs on Paired Option Contracts

### 1. What is meant by a Paired Option Contract?

Paired options contracts are two-legged contracts that allow a trader to take positions on two different option contracts belonging to the same option product, at the same strike price and having the same expiry.

### 2. What are the components of a paired option contract?

A paired option contract comprises of the individual legs, the first being the call leg and the second being the put leg, having same strike price and expiry.

### 3. In which segment will paired option contracts be offered?

To start with, paired option contracts will be offered in the equity derivative segment.

### 4. What will be the market lot of the paired option contract?

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

### 5. What will be the tick size of the paired option contract?

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

### 6. For which expiry will paired option contracts be made available?

Paired option contracts will be made available on current, near and far monthly 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 paired option contracts will be made available. Once created, these contracts will be retained till expiry.

### 8. What will be the nomenclature of a paired option contract?

Nomenclature of a paired option contract will be as follows:

<Product code><Type of Contract i.e. CNV><Year and Month of Expiry><Strike price>

Given below is an example of SENSEX paired option contract with March 2015 expiry and 29500 strike price.

|                      |  |
|----------------------|--|
| BSXCNV15-MAR29500.00 | BSX: - Option product code as defined in contract master.<br>CNV :- Paired Option Contract<br>15-MAR :- Expiry Year and Month<br>29500 :- Strike Price |
|----------------------|--|

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

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

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

Matching in each paired option 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 paired option contract?**

On ‘Buying’ a paired option contract, a buy trade gets generated on the individual call option contract (1<sup>st</sup> leg) and a sell trade gets generated on the individual put option contract (2<sup>nd</sup> leg) with same strike price and expiry. Thus, ‘Buying’ a paired option contract creates a buy position in the individual call option contract and sell position in the individual put option contract.

**12. What trades are generated when one ‘Sells’ a paired option contract?**

On ‘Selling’ a paired option contract, a sell trade gets generated for the individual call option contract (1<sup>st</sup> leg) and a buy trade gets generated on the individual put option contract (2<sup>nd</sup> leg) with same strike price and expiry. Thus, ‘Selling’ a paired option contract creates a sell position in the individual call option contract and buy position in the individual put option contract.

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

The trade executed between a buy and a sell option spread will be split into its respective simple contract legs, similar to the calendar future spread. Refer to the below example for the same.

**Illustration of Paired Option Contract**

Consider following example:

|   |   |
|---|---|
| Paired Option Contract  | BSX CNV 15-Mar 29500.00<br>(BSX – SENSEX Option, March '15 expiry, strike price of 29500 and CNV denotes the paired option) |
| Leg 1 Simple Contract   | BSX15Mar29500.00CE  |
| Leg 2 Simple Contract   | BSX15Mar29500.00PE  |
| LTP (otherwise previous close price) of Leg 1 contract in normal market | 80  |
| LTP (otherwise previous close price) of Leg 2 contract in normal market | 70  |

| Client Code | Buy Qty | Buy Price | Sell Price | Sell Qty | Client Code |
|-------------|---------|-----------|------------|----------|-------------|
| A           | 15      | 7.00      | 7.00       | 15       | B           |

In the above example Client A has bought BSX CNV 15-Mar 29500.00 paired option contract at Rs.7 and client B has sold BSX CNV 15-Mar 29500.00 at Rs.7.

This shall result in execution of trades between client A and client B for 15 Qty @ Rs.7. The execution of trade in this paired option 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 price difference between the two legs should be equal to the trade price of spread contract i.e Rs 7.

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

|          |      |                    |                  |
|----------|------|--------------------|------------------|
| Client A | Buy  | BSX15Mar29500.00CE | Trade Price 78.5 |
|          | Sell | BSX15Mar29500.00PE | Trade Price 71.5 |

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

|          |      |                    |                  |
|----------|------|--------------------|------------------|
| Client B | Sell | BSX15Mar29500.00CE | Trade Price 78.5 |
|          | Buy  | BSX15Mar29500.00PE | Trade Price 71.5 |

**14. How will the paired option contracts be made available to the user?**

Separate contracts for paired options will be made available to the user in the existing spread contract master file (EQD\_SPD\_CO<ddmmy>.csv) for equity derivatives segments.

**15. What are the changes to the file formats in view of introduction of paired option contracts?**

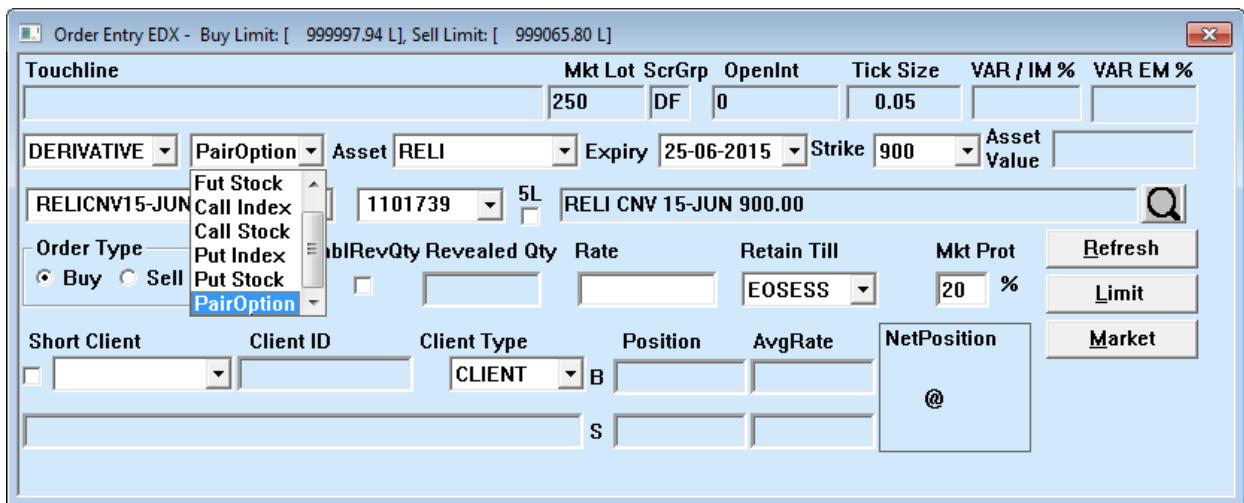
There will be minor modifications in spread contract master file and the order log file in order to accommodate paired option contracts. These have been explained vide Exchange circular no. 20150522-54, dated May 22, 2015 and circular no. 20150526-31, dated May 26, 2015 regarding Introduction of Paired Option contracts in Equity Derivatives segment with effect from Monday, June 22, 2015.

**16. How can a user enter order in a paired option contract on the BOLT TWS front end?**

To enter an order in a paired option contract, a user has to select the segment as 'Derivative' and then the option 'Pair Option' from the dropdown besides it, on the order entry screen of the BOLT TWS front end. Subsequently the user needs to select the 'Asset' followed by the 'Expiry' and the 'Strike'.

To support trading in paired option contracts, there shall be a new version release of BOLT TWS ver. 71.10. This new version shall be **COMPULSORY** release for trading members who use BOLT TWS for trading in Equity Derivatives segment.

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



The screenshot shows the 'Order Entry EDX' window with the following details:

- Touchline:** Mkt Lot 250, ScrGrp DF, OpenInt 0, Tick Size 0.05, VAR / IM %, VAR EM %
- DERIVATIVE:** PairOption (selected), Asset RELI, Expiry 25-06-2015, Strike 900, Asset Value
- RELICNV15-JUN:** 1101739, 5L, RELI CNV 15-JUN 900.00
- Order Type:** Buy (selected), Sell
- Retain Till:** EOSESS, Mkt Prot 20%
- Client Information:** Client ID, Client Type CLIENT, Position B, AvgRate, NetPosition @

**17. Which order types are allowed in case of paired option contracts?**

- Only regular limit orders are allowed for paired option 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 paired option contracts be made available?**

Paired option contracts will be made available on SENSEX option and 10 single stock option products that are part of the SENSEX index. List of option products with paired options may be reviewed in future to introduce paired option contracts on more option products.

**19. What will be the impact of trades in paired option contract on risk management functionalities such as RRM?**

Trades generated in individual legs as shown above would result in positions in a call leg and a put leg of respective contract. Hence collateral and product related risk management measures would be applicable in same manner as normally done for these contracts.

\*\*\*End of Document\*\*\*