NCDEX

NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all trading and clearing members of the Exchange

Circular No. : NCDEX/TECHNOLOGY - 016/2024

Circular Date : April 18, 2024

Subject : Mock trading for testing readiness for relaunch of Options on Commodity Futures Contract on 20 April 2024

Exchange is pleased to announce a mock trading session for testing the readiness for relaunch of Options on Futures contract on **Saturday**, **20 April 2024** to familiarize members and enable them to perform testing of third party CTCL software of empaneled vendors or in-house developed systems.

Members may take note of the schedule for mock as per table below.

Particulars	**Trade Timing** **Saturday, 20 April 2024**	**Trade Modification Timing**
Pre-open	09:45 AM - 10:00 AM	-
All Commodities	10:00 AM – 04:00 PM	10:00 AM – 04:15 PM
Re-login session	06:00 PM - 06:30 PM	-

Exchange would launch the below Options on Futures contracts only for the purpose of mock trading on Saturday.

Symbol	**Underlying Futures Expiry Date**	**Options Expiry date**
GUARSEED10	20-May-2024 20-June-2024 19-July-2024	20-April-2024 31-May-2024 28-June-2024
GUARGUM5	20-May-2024 20-June-2024 19-July-2024	20-April-2024 31-May-2024 28-June-2024

Members are requested to refer to the following Annexures for details of scope of mock.

Annexure A - Product design for options on commodity futures
Annexure B - Mock Contract Specification
Annexure C - Test Cases for Mock
Annexure D - Details of activities to be performed by members in NCFE and Extranet

Web NCFE and Web Extranet

Members are hereby informed that production WEB NCFE and Web Extranet will not be available from Saturday, **20 April 2024 - 02:00 A.M. to 9:00 P.M**. However, for the purpose of mock, the test Web NCFE and Web Extranet portal will be available.

Members are requested to note that client allocation, client collateral segregation reporting and limit files for production will not be processed on Saturday, 20 April 2024 from 12:00 AM to 9:00 PM.

Mock URLs

Please refer to the URLs below that will be used during the mock session.

Member Extranet	https://mockwebextranet.ncdex.com/Login.aspx
Web NCFE	https://mockncfe.ncdex.com/Login/NCFEMain.aspx

Members using third party CTCL software of empanelled vendors or in-house developed systems can use this opportunity to test their respective trading application during mock trading session for various functionalities.

BOD Files for Mock Session -

All BOD files i.e. NCDEX.zip, BMS_RA, BMS_RPF will be available on the Extranet Common server from the below secured FTP path on port 990 - common/Mock/

Files will also be available at Extranet Common server - https:\\common.ncdex.com\ at NCDEXDocs → Mock Section.

Trading Members kindly note that the contract file consisting of newly launched Option on Futures contracts will be available at Extranet Common server - https:\\common.ncdex.com\ at NCDEXDocs → Mock Section. This contract file has to be used for mock purposes only.

EOD Files for Mock Session -

Trading members may kindly note that they shall be able to download their end-of-day files from their respective mock folders on the existing Production Extranet Member server post mock.

Members are requested to note that trades resulting from this session shall not attract any obligation in terms of funds and commodities pay-in / pay-out.

The stock brokers should ensure to put in place adequate mechanism to restore their trading systems to 'production state' at the end of the testing session so as to ensure integrity of stock brokers' trading system.

Members using third party CTCL software of empaneled vendors or in-house developed systems are required to use this opportunity to test their respective trading application during mock trading session for various functionalities related to Options on Futures, and re-login into the live environment to check the connectivity, to avoid any login issues on **Monday, 22 April 2024**.

For and on behalf of

National Commodity & Derivatives Exchange Limited

Shreekanth Shivram

Senior Vice President - Technology

Encl: Annexure

For further information / clarifications, please contact

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Annexure A

Product Design For Options On Commodity Futures

TRADING PARAMETERS

1. Underlying

Option on Commodity Futures contract shall have Commodity Futures contract (of a specified month) traded on the exchange as the underlying.

2. Option Symbol Descriptor

Instrument symbol is combination of following - Example: For GUARSEED10 option contract expiring on 20-Apr-2024, the underlying future contract shall be GUARSEED10 expiring on 20-Apr-24 and the Option symbol will be GUARSEED1020APR24CE5500FMAY24

For option instruments
Underlying : Underlying Future contract name
Market type : N (Normal)
Instrument Type : OPTFUT

3. Number of Strikes

Each option expiry shall be as per the respective contract specification. have minimum strikes available viz., In the Money (ITM), Out of the Money (OTM) and one At the Money (ATM).

4. Trading Hours and Holidays

Trading Hours and Trading Holidays for option contracts shall be the same as of corresponding futures contracts.

5. Order and Trading parameters

The trading parameters and order attributes are given below:

a. Order Type / Order TIFs
- Regular lot order
- Stop loss order
- Immediate or cancel
- Good till canceled order
- Good till date order

b. Expiry period of GTC orders

Good Till Canceled (GTC) orders shall be canceled at the end of the period of 7 calendar days from the date of entering an order.

c. Order matching rule

The orders in the Normal market shall be matched on price-time priority basis. Best buy order shall match with the best sell order. The best buy order would be the one with the highest price and the best sell order would be the one with the lowest price. Orders are numbered and time-stamped on receipt and then immediately processed for potential match. Every order has a distinctive order number and a unique time stamp on it. Orders are stored in price-time priority in the following sequence:

i. Best Price

ii. Within Price, by time priority

d. Permitted lot Size

The permitted trading lot size for the options contracts shall be as per the respective contract specification.

e. Maximum Order Size

The maximum order size shall be same as corresponding Futures contract.

f. Tick size for contracts

The tick size is the smallest price change that can occur for the trades on the Exchange. The tick size in respect of options contracts shall be as per the respective contract specification.

g. Base Price

Base Price on launch date of option contract shall be theoretical price computed as per Black76 option pricing model.

The base price of the contracts on all subsequent trading days will be the closing price of the option contracts on the previous trading day.

h. Daily Price Range

Daily price range will be computed based on Daily Price Range (DPR) of the underlying Futures contract and the volatility. The DPR (minimum / maximum operating price range) shall be applicable for the trading day. Orders submitted beyond the price range will be rejected by the Exchange. Daily price range for each option contract shall be available daily on extranet common folder.

6. Client Code Modification (CCM)

The client code modification shall be allowed during the regular trading session and further upto15 minutes after the close of the trading session.
The guidelines issued vide circular no NCDEX/TRADING-033/2016/072 dated April 06, 2016 and NCDEX/TRADING-041/2016/093 dated April 25, 2016 will also be applicable for CCM's carried out for trades executed in option contracts.

7. Position Limits:

a. The Exchange vide Circular NCDEX/RISK-037/2016/244 dated September 28, 2016 prescribed norms for position limits for commodity futures, clubbing of open positions, penalties for violation of position limits. Position limits for options shall follow the same norms as provided in the said circular for futures.

b. Position limits of options would be separate from position limits of futures contracts and numerical value for client level/member level limits shall be twice of corresponding numbers applicable for futures contracts.

c. Due to separate position limits for options, there is a possibility that post exercise of options i.e. after devolvement of options into corresponding futures positions open positions for clients/members may exceed their permissible position limits for future contracts. Such clients/members shall be permitted maximum up to two trading days post option expiry day to reduce their futures positions to bring them within the permissible position limits.

Annexure B

Mock Contract Specification for Options on Futures on Guar Seed

Type of Contract	Options on Futures
Underlying	GUARSEED10 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-DDMMMYY><CE/PE><STRIKE PRICE><UNDERLYINGTYPE-F/S><UNDERLYINGEXPIRY-MMMYY> Example: GUARSEED1020APR24CE5500FMAY24
Unit of trading	5 MT
Delivery Unit	5 MT
Maximum Order Size	500 MT
Settlement Type	Devolvement into Corresponding Futures
Opening of Contracts	Options contract shall be launched on the trading day following the day on which the Futures contract with the same underlying is launched
Closing of Contract	Upon the expiry of the contract all the outstanding open position shall result in devolvement into Futures.
Final Settlement Price	Daily Settlement Price (DSP) of the underlying Futures contract on the Options Expiration day.
Options Type	European
Premium Quotation/base value	Rs. Per Quintal
Tick Size	Rs.0.50 per Quintal
Expiry Date	Last Friday of the month preceding the expiration month of the underlying futures contract. If the last Friday is a holiday, then the preceding working day will be the expiry day for options.
Strike Interval	100
Number of Strikes	7-1-7

Quality Parameters	Same as Corresponding Futures contract
Quality Premium/ Discount	Same as corresponding Futures Contract.
Tolerance limit for Outbound delivery	Same as corresponding Futures Contract.
Quantity Variation	Same as corresponding Futures Contract.
Quality Allowance	Same as corresponding Futures Contract.
Trading Hours	Same as corresponding Futures Contract.
Daily Price Range	Based on the factors of Daily Price Range (DPR) of Futures contract and volatility.
Position Limits	Position limits for 'option on Futures' shall be clubbed with position limits of 'options in Goods' on the same underlying goods but shall remain separate from position limits of futures contracts on the same underlying. Numerical value for client level/member level limits in Options shall be twice of corresponding numbers applicable for Futures contracts. Guar Seed: 3,58,000 MT and 35,800 MT for member and client respectively.
Exercise of Options	European Options to be exercised only on the day of Expiration of the Options contracts
Mechanism of Exercise	a. All In the money (ITM) option contracts shall be exercised automatically, unless 'contrary instruction has been given by long position holders of such contracts for not doing so. b. All Out of the money (OTM) option contracts shall expire worthless. c. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner. In the event contrary instruction are given by ITM option position holders, the positions shall expire worthless.
Final Settlement Method	On exercise, Option position shall devolve into underlying Futures position as follows: ● 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 All such devolved futures positions shall be opened at the strike price of the exercised options.

Initial Margin	NCCL 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 atleast 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least four days. For buyer of the option, 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. NCCL shall fix prudent price scan range and volatility scan range based on the volatility in the price of the underlying commodity. Appropriate Short Option Minimum Margin (SOMM) shall be fixed.
Other Margins	• **Extreme loss margin:** NCCL 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:** NCCL 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. • **Pre expiry margin:** Pre expiry margin will be charged on potential in the money long and short option positions. The pre expiry margin will be increased gradually every day beginning from the pre-determined number of days before the expiry of the contract as applicable. • **Margining at client level:** NCCL 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/CC/Regulator.

Mock Contract Specifications for Options on Futures on Guar Gum Refined Splits:

Type of Contract	Options on Futures
Underlying	GUARGUM5 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-DDMMMYY><CE/PE><STRIKE PRICE><UNDERLYINGTYPE-F/S><UNDERLYINGEXPIRY-MMMYY> Example: GUARGUM520APR24CE10000FMAY24
Unit of trading	5 MT
Delivery Unit	5 MT
Maximum Order Size	250 MT
Settlement Type	Devolvement into Corresponding Futures
Opening of Contracts	Options contract shall be launched on the trading day following the day on which the Futures contract with the same underlying is launched
Closing of Contract	Upon the expiry of the contract all the outstanding open position shall result in devolvement into Futures.
Final Settlement Price	Daily Settlement Price (DSP) of the underlying Futures contract on the Options Expiration day.
Options Type	European
Premium Quotation/base value	Rs. Per Quintal
Tick Size	Rs.0.50 per Quintal
Expiry Date	Last Friday of the month preceding the expiration month of the underlying futures contract. If the last Friday is a holiday, then the preceding working day will be the expiry day for options.
Strike Interval	200
Number of Strikes	10-1-10
Quality Parameters	Same as Corresponding Futures contract
Quality Premium/ Discount	Same as corresponding Futures Contract.
Tolerance limit for Outbound delivery	Same as corresponding Futures Contract.
Quantity Variation	Same as corresponding Futures Contract.

Quality Allowance	Same as corresponding Futures Contract.
Trading Hours	Same as corresponding Futures Contract.
Daily Price Range	Based on the factors of Daily Price Range (DPR) of Futures contract and volatility.
Position Limits	Position limits for 'option on futures' shall be clubbed with position limits of 'options in goods' on the same underlying goods but shall remain separate from position limits of futures contracts on the same underlying. Numerical value for client level/member level limits in Options shall be twice of corresponding numbers applicable for Futures contracts. Guar Gum Refined Splits: 53,600 MT and 5,360 MT for member and client respectively.
Exercise of Options	European Options to be exercised only on the day of Expiration of the Options contracts
Mechanism of Exercise	a. All In the money (ITM) option contracts shall be exercised automatically, unless 'contrary instruction has been given by long position holders of such contracts for not doing so. b. All Out of the money (OTM) option contracts shall expire worthless. c. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner. In the event contrary instruction are given by ITM option position holders, the positions shall expire worthless.
Final Settlement Method	On exercise, Option position shall devolve into underlying Futures position as follows: ● 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 All such devolved futures positions shall be opened at the strike price of the exercised options.
Initial Margin	NCCL 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 atleast 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least four days. For buyer of the option, 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. NCCL shall fix prudent price scan range and volatility scan range based on the volatility in the price of the underlying commodity. Appropriate Short Option Minimum Margin (SOMM) shall be fixed.
Other Margins	• **Extreme loss margin:** NCCL 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:** NCCL 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. • **Pre expiry margin:** Pre expiry margin will be charged on potential in the money long and short option positions. The pre expiry margin will be increased gradually every day beginning from the pre-determined number of days before the expiry of the contract as applicable. • **Margining at client level:** NCCL 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/CC/Regulator.

Annexure C

Test Cases for mock

Members are advised to specifically test the following scope during the mock.Please note that the list is indicative and members are requested to build test cases including negative test cases for testing the functionality thoroughly.

- New order entry, order modification and order cancellation for various order types - IOC, Day, GTD/GTC, Market, Limit, Stop Loss and Undisclosed order on Options contract
- Test Cancel All Options orders functionality via Nextra
- Check order validation for Option Instrument e.g. Trading lot, Tick size, maximum order size, order submission outside Daily Price Limit, User Collateral limit, Client Whitelist and Max Order Value limit
- Entering Market order and IOC orders on an Option instruments through ATS enabled User Ids
- Entering more than 60 orders per second through ATS enabled User Ids
- Updation of market data on Market watch screen of CTCL front end - Order data, Trade data, Greeks, Option chain etc
- Square off order entry testing by placing fresh order
  - When User id is in square off
  - When Member id is in square off
  - When Member id is in Risk Reduction Mode
- Breaching member level OI limit for Option Instrument to test member going in square off only for that contract /symbol
- Self-Trade Prevention check for Option instruments
- Client code modifications on Option Instrument via Nextra
- Give up approvals for Option instrument via Nextra
- Verify intraday and EOD member files as per circular no NCDEX/TRADING-028/2023 Date : June 30, 2023 and NCCL/RISK-033/2023 dated June 30, 2023 and NCCL/CLEARING-063/2023 dated December 11, 2023
- Submit Intention to Not exercise ITM positions in NCFE on Option expiry date
- Verify Position after devolvement of Option contract into underlying future on expiry date
- Scenarios on Option Expiry day - Margining, EOD files namely Intention, Exercise, assignment, Position.

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Annexure D

Details of activities to be performed by members in NCFE and Extranet

- Trades Details Tab including Fresh Position Violation, Contract Level OI, Commodity level OI Violation, View Net Position, View Online Trades, Download Trade Details.
- Download files provided by the Exchange through Extranet.

The clearing and settlement activities will be done as per the below schedule:

Activities	Timings
Intimation of Settlement Price for the purpose of expiring option and future contract	During Trading Hours on Trading Terminal (FSP will be configured as Rs. 10800 for expiring Option and future contract in GUARGUM5 and Rs. 5500 for Options and future contract in GUARSEED10. Members can create position on different strikes to test all cases)
Intention Marking for Exercise of option contracts (Note 1)	5.00 PM - 5.30 PM

Note :-

1. The intention to Not exercise in options contracts can be provided.

2. In case of option contract, the net exercised / assigned open position across all option series and option types shall be clubbed with the open position in the underlying future contract.

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