

FAQs on Paired Option Contracts – Currency Derivatives

1. What is meant by a Paired Option Contract?

Paired options contracts are specialised two-legged 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 paired option contract?

A paired option 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 paired option contracts be offered?

Paired option contracts are already available in in Equity Derivatives segment. Now, they will also be available in the Currency Derivatives 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 option leg and the put option 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 option leg and the put option leg.

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

Paired option 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 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 USDINR paired option contract with December 2015 expiry and 65.25 strike price.

USD CNV 15-DEC 65.2500	USD: - Option product code as defined in contract master. CNV :- Paired Option Contract 15 DEC :- Expiry Year and Month 65.2500 :- Strike Price
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9. What will be the matching logic followed for orders entered in case of paired option contract?

Orders in a paired option contract 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 (1st leg) and a sell trade gets generated on the individual put option contract (2nd leg) with same strike price and expiry. In other words, ‘Buying’ a paired option contract shall create a buy position in the call option contract and sell position in the 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 (1st leg) and a buy trade gets generated on the individual put option contract (2nd leg) with same strike price and expiry. In other words, ‘Selling’ a paired option contract shall create a sell position in the call option contract and buy position in the put option contract.

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 paired option 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 Paired Option Contract

Consider following example:

Paired Option Contract	USD CNV 16-JAN 66.5000 (USDINR Option, January '16 expiry, strike price of 66.5000 and CNV denotes the paired option)
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	0.6000	0.6000	1	B

FAQs on Paired Option Contracts

In the above example Client A has bought USD CNV 16-JAN 66.5000 paired option contract at Rs.0.6000 whereas client B has sold USD CNV 16-JAN 66.5000 at Rs.0.6000.

This shall result in execution of trades between client A and client B for 1 Qty @ Rs.0.6000. 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 option leg and put option leg shall get adjusted in such a manner that the price difference between the two legs should be equal to the trade price of the paired option contract i.e. Rs.0.6000.

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

Client A	Buy	USDINR16JAN66.5000CE	Trade Price 1.7500
	Sell	USDINR16JAN66.5000PE	Trade Price 1.1500

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

Client B	Sell	USDINR16JAN66.5000CE	Trade Price 1.7500
	Buy	USDINR16JAN66.5000PE	Trade Price 1.1500

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

Separate paired options contracts will be made available to the user in the existing spread contract master file (BFX_SPD_CO<ddmmy>.csv) for Currency Derivatives segment.

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

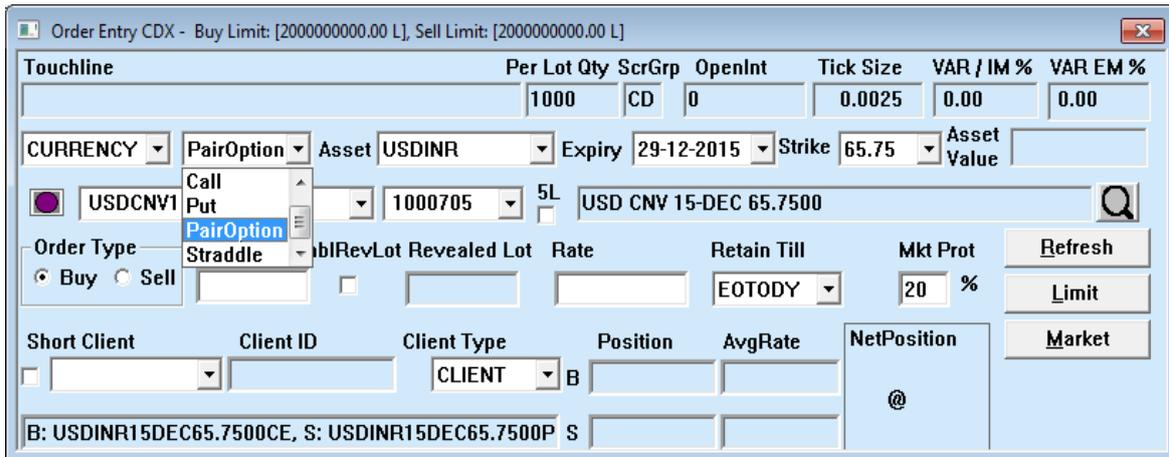
There will be minor modifications in spread contract master file and the order log file in order to accommodate paired option contracts. These have been explained vide Exchange circular no. 20151116-30, dated November 16, 2015 and circular no. 20151123-34, dated November 23, 2015.

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 'Currency' 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' (the option available will be USDINR) 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. 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:



The screenshot shows the 'Order Entry CDX' window. The title bar indicates 'Buy Limit: [2000000000.00 L], Sell Limit: [2000000000.00 L]'. The 'Touchline' section includes 'Per Lot Qty' (1000), 'ScrGrp' (CD), 'OpenInt' (0), 'Tick Size' (0.0025), 'VAR / IM %' (0.00), and 'VAR EM %' (0.00). The main order entry area shows 'CURRENCY' (USD), 'PairOption' (Call), 'Asset' (USDINR), 'Expiry' (29-12-2015), 'Strike' (65.75), and 'Asset Value'. A dropdown menu for 'PairOption' is open, showing 'Call', 'Put', 'PairOption', and 'Straddle'. The 'Order Type' is set to 'Buy'. Other fields include 'Short Client', 'Client ID', 'Client Type' (CLIENT), 'Position' (B), 'AvgRate', and 'NetPosition'. The bottom status bar shows 'B: USDINR15DEC65.7500CE, S: USDINR15DEC65.7500P S'.

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 USDINR options.

19. Will orders entered in paired option contracts reflect in the RTRMS – ZT pending order view screen?

Yes, orders entered in paired option contracts will reflect in the RTRMS – ZT screen under the menu 'View All Pending Orders (Currency)'.

20. Will single order limits be applicable for paired option contracts?

Yes, the single order limits applicable for the individual contracts of an option product will also be applicable for the paired option contracts.

21. Will there be any impact of the trades resulting from orders in paired option contracts on post trade processes like risk management, position management or settlement?

There will be no impact of trades resulting from orders in paired option 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 paired option contracts when the member is in RRM?

Orders cannot be entered in paired option contracts when a member is in RRM.

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