

PSX/N-1140

SEPTEMBER 24, 2021

## APPROVED AMENDMENTS TO PAKISTAN STOCK EXCHANGE LIMITED (PSX) REGULATIONS IN RELATION TO INTRODUCTION OF REGULATORY FRAMEWORK GOVERNING SINGLE STOCK OPTIONS CONTRACTS MARKET

This is in continuation to PSX Notice No. PSX/N-772 dated June 23, 2021 whereby PSX notified proposed amendments to PSX Regulations in relation to introduction of Single Stock Options Contracts for seeking public comments as required u/s 7(3) of the Securities Act, 2015.

In this regard, PSX is pleased to introduce regulations governing Single Stock Options Contracts Market in PSX Regulations, in exercise of powers conferred upon it u/s 7 of the Securities Act, 2015, with prior approval of the Securities and Exchange Commission of Pakistan. The new regulations titled 'Single Stock Options Contracts Market Regulations' have been incorporated as Chapter 15A in PSX Rulebook and the same are attached as **Annexure A**.

The approved amendments shall be implemented after the deployment of new Trading System of PSX. PSX will hold an awareness session for market participants to explain in detail nature, functions and other related aspects for thorough understanding of this new product in due course of time.

All concerned are advised to note the above.



**AJEET KUMAR**  
Chief Regulatory Officer

**Cc:**

1. The Director/HOD (PRDD), SMD, SECP
2. The Chief Executive Officer, PSX
3. The Chief Executive Officer, CDC
4. The Chief Executive Officer, NCCPL
5. The Chief Executive Officer, PMEX
6. The Chief Executive Officer, IFMP
7. All Heads of Departments, PSX
8. PSX Website

## “ANNEXURE A”

### CHAPTER 15A: SINGLE STOCK OPTIONS CONTRACTS MARKET REGULATIONS

#### 15A.1. DEFINITIONS:

In this chapter, unless the subject or context otherwise requires:

- (a) “At-The-Money” shall mean when the Exercise Price of the Option Contract is at the same level as the Exercise Settlement Price of Underlying Security;
- (b) “Call Option” shall mean, the Option Contract which gives the buyer/holder a right to buy the Underlying Security at the Exercise Price at the Expiration as per the terms of these Regulations;
- (c) “Contract Multiplier” shall mean 500 shares or any other quantity, as may be prescribed and notified by the Exchange from time to time;
- (d) “European Style Option Contract” shall mean, an Option Contract, which shall only be exercised on the Expiration Day;
- (e) “Exercise Price Interval” shall mean, the gap to be maintained between any two successive Exercise Prices as specified in the contract specifications of each Option Contract which the Exchange may notify and prescribe from time to time;
- (f) “Exercise Price” shall mean a fixed price of the Underlying Security at which the buyer/holder of Option Contract have right (not obligation) to buy (in case of Call Option), or sell (in case of Put Option) as per these Regulations;
- (g) “Exercise Settlement Price” shall mean, the Closing Price of Underlying Security in Ready Market;
- (h) “Expiration Day” shall mean the day on which the final settlement obligations are determined in the Option Contract;
- (i) “In-The-Money” shall mean:
  - i. in case of Call Option, when the Exercise Price of the Option Contract is less than Exercise Settlement Price; and
  - ii. in case of Put Option, when the Exercise Price of the Option Contract is higher than the Exercise Settlement Price.
- (j) “Intrinsic Value” shall mean the value any option would have if it were exercised today. For Call Options, it is the maximum of Zero or Exercise Settlement Price minus Exercise Price. For Put Options, it is the maximum of Zero or Exercise Price minus Exercise Settlement Price;
- (k) “Open Interest” shall mean the total value and number of Option Contracts of a Securities Broker and its clients in a particular Underlying Security which have not been subject of offsetting transactions nor reached Expiration Day. For calculation of Open Interest only one side of the Option Contract is counted;
- (l) “Option Contract” shall mean, a standardized Option Contract which gives the buyer/holder of the Option Contract the right (but not the obligation) to buy and/or sell the Underlying Security at the Exercise Price subject to these Regulations and as per the contract specifications provided in Annexure-A;
- (m) “Option Seller” shall mean a Securities Broker that (A) writes/sells a new options position (Call or Put) either for its proprietary account or on behalf of the clients; or (B) sells a Call or Put Option to offset/ squares off an existing open position in the same Option Series. Option seller shall be entitled to collect Premium payment from the buyer of respective Option Contract. The options sold can be covered or uncovered, as per the applicable limits;
- (n) “Option Series” shall mean, all Option Contracts of a particular Underlying Security having same Exercise Price and Expiration Day;
- (o) “Option Type” shall mean the classification of an option as either a Put or a Call;

- (p) “Out-Of-The-Money” shall mean:
  - i. in case of Call Option, when Exercise Price of the Option Contract is higher than the Exercise Settlement Price; and
  - ii. in case of Put Option, when Exercise Price of the Option Contract is less than the Exercise Settlement Price.
- (q) “Premium” shall mean the price obtained by the Option Seller from the buyer of Option Contract for the rights conveyed by the Option Contract. Premium shall be quoted in Pakistani rupees on per share basis;
- (r) “Put Option” shall mean the Option Contract which gives the buyer/holder a right to sell the Underlying Security at an Exercise Price at the Expiration Day as per the terms of these Regulations;
- (s) “Underlying Security” shall mean, the Securities selected on the basis of Futures Eligibility Criteria for selection of securities eligible for trading in Deliverable Futures Contract Market and Cash-Settled Futures Contract Market or any other basis as may be devised by the Exchange for the purpose of trading in Single Stock Options Contract Market.

## 15A.2. TRADING:

15A.2.1. Trading in Option Contracts shall take place only through the Trading System.

15A.2.2. Any Securities Broker may enter into Option Contracts under these Regulations subject to prior notification in writing and payment of basic deposit of the requisite amount as may be specified in the Schedule of Charges. This deposit along with any return earned on it is to be kept separate by the Exchange and cannot be used for purposes other than to meet any obligations of the Securities Broker to the Exchange arising from the such market.

Provided further that in case of default of a Securities Broker, this deposit shall be utilized in accordance with the Chapter 21 of these Regulations.

15A.2.3. All Option Contracts shall be on standard terms as per the format attached as Annexure-A with this chapter.

15A.2.4. The Option Contract as specified in these Regulations shall be deemed to have been executed into when a buyer/seller accepts a bid/offer in the Single Stock Options Contracts Market.

15A.2.5. All offers/bids made may be accepted for or up to the limit of the offer/bid as prescribed by the Exchange from time to time and the Securities Broker making an offer/bid shall be bound by the terms of the Option Contract.

15A.2.6. Upon opening of any Option Contract, the Exchange shall notify the name of the Option Contract, the date of opening and closing of such Option Contract, the date of settlement and other relevant details governing such Option Contract as mentioned in Annexure-A to this chapter.

15A.2.7. There shall be a minimum of fourteen standardized 90 days Option Contracts which shall be issued each month on the first Trading Day following last Friday of each calendar month for each Underlying Security.

15A.2.8. The Exchange shall ensure that three In-The-Money, three Out-Of-The-Money and one At-The-Money Option Contracts in each Option Type shall remain available for trading at all times.

15A.2.9. All At-The-Money Option Contracts shall, for the purpose of exercise be considered the same as Out-Of-The-Money Option Contracts and expire without getting exercised at the end of the

Option Contract. All Out-Of-The-Money Option Contracts shall expire without getting exercised at the end of the Option Contracts.

- 15A.2.9. The Expiration Day for the 90 days Option Contracts shall be the last Friday of the expiry month of the Option Contract. If the last Friday is a trading holiday the Option Contract shall expire on the preceding Trading Day.
- 15A.2.10. The Exchange shall issue Single Stock Options Contracts of same Expiration Day at new Exercise Prices on real-time basis using Exercise Price Intervals as notified by the Exchange from time to time.
- 15A.2.11. Trading shall be permitted only in available Option Series and opening of new Option Series shall not affect other Option Series opened previously.
- 15A.2.12. Option Contract shall be adjusted in case of corporate actions in the manner as prescribed by the Exchange.
- 15A.2.13. The Exchange shall specify the methodology for determining Daily Option Settlement Price with prior approval of the Commission.
- 15A.2.14. The Exchange shall place on its website necessary and relevant information with respect to Open Interest and other ancillary trading information on daily basis along with any other report that the Exchange and/or the Commission intends to make available to the public.

### **15A.3. CLEARING, SETTLEMENT AND RISK MANAGEMENT:**

- 15A.3.1. The Option Seller would be subject to all applicable margins and MtM Losses as prescribed in NCCPL Regulations, as amended from time to time.
- 15A.3.2. Margins shall be applicable on the buyer of the Option Contract in accordance with NCCPL Regulations, which shall be levied on real-time basis, till the completion of pay-in towards Premium settlement.
- 15A.3.3. The Premium shall be payable by buyer/holder of the Option Contract in cash on T+0 basis and distributed onwards by NCCPL to the Option Seller in accordance with NCCPL Regulations.
- 15A.3.4. MtM Losses, determined by NCCPL at the end of a Trading Day, shall be collected by NCCPL in accordance with NCCPL Regulations.
- 15A.3.5. The treatment of MtM Profits shall be in the manner as prescribed under NCCPL Regulations.
- 15A.3.6. Exercise Settlement shall take place on T+2 after expiry of the Option Contract. The Option Contract shall be settled physically on the basis of Exercise Price. The collection and payment of profits or losses on Exercise Settlement to/from Securities Brokers shall be done by the NCCPL in the prescribed manner as per NCCPL Regulations.
- 15A.3.7. The position limits in the Options Market shall be in accordance with NCCPL Regulations.
- 15A.3.8. For the purpose of determining Securities Broker-level and client level Open Interest for calculation of Position Limits, netting shall be in the manner as prescribed under NCCPL Regulations.

## 15A.4. BLANK SALE AND COMPLIANCE:

15A.4.1. A Securities Broker on its proprietary account or client's account in Options Market shall execute:

- (a) Short Call Option through normal sale order window in the Trading System if the Securities Broker or the client, as the case may be, either owns the securities or has a Pre-Existing Interest;
- (b) Short Call Option (whether covered or uncovered) through special order window designed in the Trading System for Blank Sale;
- (c) The combined quantum or value of short Call Option (whether covered or uncovered) executed through the special order window shall be subject to the maximum threshold.

**Explanation:** Threshold for the purpose of this chapter shall mean “up to 0.5% of the Free-Float of a scrip or Rs.50 million, whichever is higher, in the Options Market by a Securities Broker on its proprietary or client’s accounts on UIN basis subject to maximum of 3.0% of the Free-Float of a scrip by such Securities Broker for all its accounts including proprietary and clients’ accounts at any given time during a Contract Period”.

15A.4.2. Pre-Existing Interest in order to remain qualified for the purpose of Sale through normal sale order window shall continue to exist until the sale position in the Options Market is squared off or settled at the expiry of the Option Contract.

## ANNEXURE A

### CONTRACT SPECIFICATIONS FOR SINGLE STOCK OPTIONS CONTRACTS

Contract Multiplier	500 shares or any other quantity as may be determined by the Exchange from time to time.
Contract Description	European Style Call and Put
Minimum Fluctuation (Tick Size)	PKR 0.01 (Premium per Underlying Security)
Option Style	European
Settlement	Physical
Delivery Date	T+2
Currency	Pakistan Rupee
Exercise Price Interval	As notified by the Exchange from time to time.
Daily Price Limit	As provided under Chapter 19 of these Regulations.
Contract Maturity	90 days
Opening of Contract	First Trading Day following the last Friday of calendar month.
Contract Expiry/ Last Trading Day	Last Friday of the expiry month.
Trading Hours	As may be notified by the Exchange from time to time.
Margin Requirements	Exposure Margin shall be in accordance with NCCPL Regulations as amended from time to time.

## Chapter 19: RISK MANAGEMENT REGULATIONS

### 19.3. SCRIP-BASED CIRCUIT BREAKER:

- (e) In case of Single Stock Options Contracts Market, circuit breaker shall be specified by the Exchange with approval of the Commission.