NCDEX
Pragati ka Solid Exchange

NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all trading and clearing members of the Exchange
Circular No : NCDEX/COMPLIANCE-017/2017/266
Date : October 10, 2017
Subject : Client Registration Documents for Options on Commodity Futures

This is with reference to Exchange Circular nos. NCDEX/TRADING-091/2017/246 dated September 28, 2017, NCDEX/TRADING-053/2017/144 dated June 15, 2017, NCDEX/TRADING-100/2016/255 dated September 28, 2016, NCDEX/COMPLIANCE-015/2016/238 dated September 27, 2016 and NCDEX/LEGAL-003/2015/136 dated April 21, 2015

The Exchange is in the process of allowing trading in Options on Commodity Futures. In order to have better clarity regarding client registration documents for Options on Commodity Futures the following points should be taken into consideration:

1. An undertaking/ consent letter duly signed by persons authorized for the purpose should be obtained from all existing clients who intend to trade in Options on Commodity Futures clearly stating that further to their KYC details, they intend to trade in Options on Commodity Futures having clearly understood the Risk involved in options trading subject to regulatory requirements of the Exchange and SEBI from time to time. Such undertaking/ consent letter should be maintained as a part of KYC documents.
2. In view of the above, fresh Know Your Client (KYC) may not be executed by the members for existing clients who intend to trade in Options on Commodity Futures
3. In case of existing clients who are Corporate/ Trust, a resolution from Board of Directors/ Trustees clearly stating that the Corporate/ Trust are authorized to trade in Options on Commodity Futures and they intend to trade in Options on Commodity Futures on National Commodity and Derivatives Exchange Limited.
4. In case of non-individual clients, the member should ensure that their clients authorized person as per constitution (of Firms/LLP etc.) are authorized to trade in Options on Commodity Futures
5. For new clients point no. 1, 3 & 4 as stated above are applicable in addition to KYC documents as applicable from time to time.

Members are advised to communicate and make clients aware about various risks in option trading including Risk in buying or writing Option Contracts, as per Annexure to this circular in electronic or physical mode. . Further, members are required to maintain the proof of communication of the same by way of proof of delivery / acknowledgement / electronic logs as may be applicable.

Members are advised to take note of the above and ensure compliance with the same.

For and on behalf of
National Commodity & Derivatives Exchange Limited

Seema Nayak
Executive Vice President

Encl: Annexure

For further information/clarifications, please contact
1. Customer Service Group on toll free number: 1800 26 62339
2. Customer Service Group by e-mail to : askus@ncdex.com

Annexure

Additional Risk Disclosure documents for Options Trading

Risk of Option holders:

1. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires, to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.

2. The Exchanges may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.

Risks of Option Writers:

1. If the price movement of the underlying is not in the anticipated direction, the option writer runs the risks of losing substantial amount.

2. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position

3. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.