



Physical Settlement in Equity Derivative

Dear Valued Customer,

With Reference to SEBI circular [SEBI/HO/MRD/DP/CIR/P/2018/67](#) dated 11th April, 2018 regarding physical settlement in equity derivative:

- a. All open contracts in future segment and in the money, option will be compulsorily settle in physical mode for the list of securities in [click here](#).
- b. The settlement process will happen in the equity segment and customers have to provide additional funds or securities as per the delivery marking given by exchange [click here](#).

Futures and Short Option (Calls & Puts) positions

1. Span + Exposure margin for all contracts which are going to be physically delivered will be increased to at least 40% or what is charged by the exchange (whichever is higher) 4 days prior to expiry or on Monday leading to the Thursday expiry (This will be increased to 100% on Thursday). These margins will be debited on your trading ledger.

DAY	Percentage of Contract value that will be blocked
4 days before Expiry	10%
3 days before Expiry	25%
2 days before Expiry	45%
1 day before Expiry	70%
Expiry Date	100%

2. These margins debits will be shown on your trading ledger. The increase in margin is to cover for the additional obligation that will arise if these contracts are held till expiry and result in a physical settlement. If the SPAN + Exposure margin is higher than the above-mentioned margins, the exchange margin will be levied.

- c. Additionally, according to guideline, stock which do not meet the enhanced eligibility criteria for introduction in derivative segment shall move from cash settlement to physical settlement.

Please note that you need to close positions on or before 1 day prior to expiry day of the contract. Else Canara Bank Securities Limited shall square off your position in stock futures (Long /short position) and in the money option contract – which are exercised and assigned for the list of securities prescribed by Exchange for physical settlement – 1 day prior to expiry day.

Long/Buy option (Calls & Puts) positions

Exchanges have defined Close to money (CTM) contracts which are a subset of 'in the money (ITM)' or contracts which expire with some intrinsic value.

For Call Options – 3 ITM options strikes immediately below the final settlement price shall be considered as 'CTM'

For Put Options – 3 ITM options strikes immediately above the final settlement price shall be considered as 'CTM'.

OTM (Out of the money) options are those strikes which are above the final settlement price for calls and below the final settlement price for puts

Canara Bank Securities shall not be responsible or liable for the loss arising from the same.

In case CBSL is unable to square-off, then such contracts will be compulsorily delivery settled as per regulatory guideline and you will be required to honor the securities and funds settlement obligations resulting out of such a settlement. Any profit/loss arising out of such obligation shall be borne by you and Canara Bank Securities Ltd. shall not be responsible/ liable for the loss arising from the same.

Illustration

- For a March 2024 contract where expiry date is 28th March 2024, you need to close it on or before 27th March, 2024 before 3.p.m.
- However, if the March 2024 contract is open beyond above time, it shall be **Squared Off** by Canara Bank Securities Ltd on or after **3.00 p.m.**
- In case CBSL is unable to square-off, then such contracts will be compulsorily delivery settled as per regulatory guideline and you will be required to honor the securities and funds settlement obligations resulting out of such a settlement.

Levy of STT

As per Exchange circular [NSE/FATAX/38348](#) STT* of 0.10% will be applicable on the settlement price to be paid by the purchaser of the futures contract which are settled by way of physical delivery.

We would like to request you to take necessary steps in accordance with this communication. For any further clarification or assistance, please write to us at cbslmo@canmoney.in.

Warm Regards,

Canara Bank Securities Limited