National Stock Exchange of India Limited

Circular

Department: FUTURES & OPTIONS SEGMENT	
Download Ref No: NSE/FAOP/55152	Date: January 06, 2023
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All Members,

Pre-Trade risk controls - Introduction of Hard OPR Limits for Index Options

Exchange has implemented mechanism for 'Underlying movement-based flexing' of operating price range (OPR) in Index and stock option contracts vide circular no. NSE/FAOP/39920 dated January 10, 2019. Wherein, if the prevailing underlying price moves by a defined percentage as set by the Exchange, then system shall automatically re-compute and flex the OPR of all the option contracts for the given underlying subject to the revised (i.e. re-computed) range is beyond the current range on the respective side. For upward movement of underlying (vis-à-vis previous close), High OPR of Call & Low OPR of Put is flexed, and vice versa in case of downward movement of underlying.

Exchange has also implemented mechanism for 'Contract level flexing' of operating price range (OPR) in Index and Stock Option contracts vide circulars no. NSE/FAOP/53475 dated August 29, 2022 and NSE/FAOP/54658 dated November 30, 2022 respectively.

In addition to above, Exchange is now introducing **'Hard OPR Limits'** as an additional criterion for 'Contract level flexing' of operating price range (OPR) as follows:

'Contract level flexing' of OPR shall now be subject to "Hard OPR limits"

- In case 'Contract level flexing' results in 'revised High OPR limit' to be greater than applicable 'Hard OPR limit', high OPR limit of that contract shall not be flexed. Order entry shall continue to be within prevailing High-Low OPR limits.
- Hard OPR limit applicable for the contract shall be computed as below:

    Hard OPR limit = High OPR limit[#] + The required underlying movement (in absolute terms) for

    enabling OPR flexing due to 'Underlying movement-based flexing' mechanism X Exchange Defined Multiplier
    (#Hard OPR limit applicable at the beginning of the day shall be computed considering high OPR limit applicable at beginning of the day)
- Exchange defined Multiplier shall be set as 1.5'

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- 'Hard OPR limit' shall be dynamic in nature, i.e., as soon as underlying movement based OPR flexing gets triggered, 'Hard OPR limit' applicable for the contract shall be revised considering prevailing high OPR limit & underlying movement (in absolute terms) required for enabling subsequent OPR flexing. Revised 'Hard OPR limit' shall be applicable until next such underlying movement based OPR flexing event.

- Validation of 'Hard OPR limit' shall not be applicable for low OPR limit flexing

- Please refer Annexure for the illustration.

- Initially, validation of 'Hard OPR limit' for contract level flexing shall be applicable for Index options only.

- 'Hard OPR Limit' criterion shall not be applicable to underlying movement-based flexing mechanism.

Members are requested to note that the aforesaid changes shall be available for testing during mock session of January 07, 2023 and same shall be made effective from January 09, 2023.

The Exchange may review the aforesaid mechanism and various applicable parameters from time to time based on the experience gained and inputs received from market participants / regulator.

Members should trade responsibly and cautiously, as trading away from normal prices and misleading or causing any disruptions in normal trading may result in inquiry, investigation, and regulatory actions.

For and on behalf of
National Stock Exchange of India Limited

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Annexure

Scenario 1: Beginning of the day

- OPR of CE = 0.05 to 967.90
- Value of underlying movement (in absolute terms) required for enabling OPR flexing due to underlying movement based flexing mechanism = 105.00
- Hard limit = 967.90 + 105.00 * 1.5 = 1125.40

It implies, High OPR of the contract shall not be flexed beyond 1125.40 due to contract level flexing mechanism

Scenario 2: During trading hours (in continuation to scenario 1)

- Underlying moves upward by more than 105.00 points
- OPR of CE = 0.05 to 1078.70
  (Assuming, High OPR limit is flexed from 967.90 to 1078.70 on account of underlying movement-based flexing mechanism)
- Value of underlying movement (in absolute terms) required for enabling subsequent OPR flexing due to underlying movement based flexing mechanism = 420.00
- Revised Hard limit = 1078.70 + 420.00 * 1.5 = 1708.70

It implies, High OPR of the contract shall not be flexed beyond 1708.70 due to contract level flexing mechanism