



SNS College of Technology

Coimbatore - 35

23BAE703 – Derivatives
and Risk Management

Unit III – Options Contract



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Guess the Topic!!!

Specifications of Options





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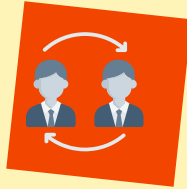
Recap



1. Why to study Options?
2. Options: Definition
3. Exchange Traded Options
4. OTC Options



Why to Study Specification of Options Contract





Options

WHAT IS AN OPTIONS CONTRACT?



That's the stock that the option is based on. Not an indication your fly is down. It usually represents 100 shares.

That's the "strike price" for the stock. So the stock will change hands at \$70 if the option is exercised.

That's the "premium" or per-share cost of the option. Option contracts usually represent 100 shares of the underlying stock so you'll actually pay \$310 plus commission for this contract. $(\$3.10 \times 100 = \$310)$

XYZ DECEMBER 17, 2011 70 CALL AT \$3.10

That's the date the option expires. The last day to trade this option is usually the third Friday of this month.

That's the type of option. There are two kinds of options: calls and puts.



Example: Weekly Grain Options



WEEKLY GRAIN OPTIONS CONTRACT SPECIFICATIONS

WEEKLY CORN OPTIONS		
Contract Size	One Corn futures contract (of a specified month) of 5,000 bushels	
Tick Size	1/8 of one cent per bushel (\$6.25 per contract)	
Strike Price Intervals	Trading shall be conducted for put and call options with strike prices in integral multiples of five (5) cents per bushel. More details on strike price intervals are outlined in Rule 10A01.E.	
Expiration Dates	Week 1 – 1 st Friday of the month Week 2 – 2 nd Friday of the month Week 3 – 3 rd Friday of the month Week 4 – 4 th Friday of the month Week 5 – 5 th Friday of the month	
Daily Price Limit	Same as the daily price limit applied to standard and serial options.	
Last Trade Date	A given Friday that is not also the last trading day of a standard or a serial option. If such a Friday is the last trading day of a standard or a serial option, there will be no Weekly Corn Option listed for trading for that expiration date.	
Exercise	American-style. The buyer of a futures option may exercise the option on any business day prior to expiration by giving notice to CME Clearing by 6:00 p.m. Chicago time. Option exercise results in an underlying futures market position. Options in-the-money on the last day of trading are automatically exercised.	
Expiration	Unexercised Corn futures options shall expire at 7:00 p.m. on the last day of trading.	
Trading Hours	CME Globex	6:00 pm - 7:15 am and 9:30 am - 1:15 pm Central Time, Sunday – Friday
	Open Outcry	9:30 am - 1:15 pm Central Time, Monday - Friday
Ticker Symbols	CME Globex	ZC1-5
	Open Outcry	PY1-5
Exchange Rule	This contract is listed with and subject to the rules and regulations of CBOT	



Knowledge Check

Which of the following are important to be mentioned in the Options Contract.

- a. Underlying Asset & Date of Expiration
- b. Call Vs Put
- c. Strike Price & Credit Price or Debit Price
- d. All the above (a), (b) & (c)
- e. Both (a) and (c)
- f. Both (a) and (b)

All the above



Example: BHEL Options

Quote As on Apr 30, 2015 15:30:36 IST

Bharat Heavy Electricals Limited - BHEL [Get Underlying Quote](#) | [Option Chain](#)

Index Derivatives
 Stock Derivatives
 Currency Derivatives

Instrument Type:
 Symbol:
 Expiry Date:
 Option Type:
 Strike Price:

7.80 ▲ 3.90 100.00%	Prev. Close 3.90	Open 2.25	High 8.00	Low 0.55	Close 4.05
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Fundamentals

Traded Volume (contracts)	1,683
Traded Value (lacs)	3,902.71
VWAP	1.89
Underlying value	240.65
Market Lot	1000
Open Interest	3,80,000
Change in Open Interest	40,000
% Change in Open Interest	11.76
Implied Volatility	-

Historical Data

Order Book

Buy Qty.	Buy Price	Sell Price	Sell Qty.
1,000	7.80	8.00	12,000
5,000	7.75	8.40	1,000
5,000	7.70	8.90	1,000
25,000	7.60	8.95	5,000
1,000	7.55	10.00	2,000
2,35,000	Total Quantity		24,000

Intra-day



Execution of Options





Detailed Execution of Options Contract





Knowledge Check

Which of the following is an example of an option class?

- a. All calls with a particular time to maturity and strike price on a certain stock.
- b. All calls on a certain stock.
- c. All calls with a particular strike price on a certain stock.
- d. All calls with a particular time to maturity on a certain stock.

All Calls on a certain stock



Summary



1. Why to study the Specifications of Options Contract?
2. Specifications of Options Contract
3. Execution of Options Contract



RESOURCES

<https://optionposts.com/option-contract-specifications/>

<https://zerodha.com/varsity/chapter/summarizing-call-put-options/>

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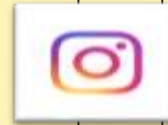


Reach us @

THANKS!



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