

# Physical settlement on all stock derivatives

## Physical Settlement in Stock F&O contracts

As per a SEBI mandate, Physical Settlement is compulsory if you have any open Stock F&O positions on expiry date.

## What is Physical Settlement?

When an open Stock F&O position has not been squared off by its expiry date, Physical Settlement takes place. This means the trader must physically exchange the underlying Stocks or pay the full contract value to settle the Stock F&O position.

## Examples of Physical Settlement:

### 1. Futures

- For a long Futures position of 1 lot of Reliance (250 shares) at ₹2000 per share, the contract value is ₹5 lakhs. With 20% F&O margin, you initially need only ₹1 lakh. However, if you choose to physically settle, you need the full contract value of ₹5 lakhs.
- For a short position of 1 lot of Reliance (250 shares) at ₹2000 per share, the contract value is ₹5 lakhs. With 20% F&O margin, you initially need only ₹1 lakh. If you choose to physically settle, you must hold 250 Reliance shares and also maintain the ₹1 lakh margin until the expiry date.

### 2. Options

- When buying 1 lot (250 shares) of Reliance Call Option with a strike price of ₹2000, if the underlying price of Reliance exceeds ₹2000, the contract is ITM (In-The-Money). For physical settlement, you must have a free ledger balance of ₹5 lakhs in your account; otherwise, physical settlement won't occur.
- When buying 1 lot (250 shares) of Reliance Put Option with a strike price of ₹2000, if the underlying price of Reliance goes below the strike price of ₹2000, the contract is ITM (In-The-Money). For physical settlement, you need to have shares in your Demat account equal to the quantity of Put contracts otherwise physical settlement won't occur.

## Please note:

- Selling of ITM Put Option will have a similar treatment to buying an ITM Call Option. You must maintain a ledger balance equal to the contract value.
- Selling of ITM Call Option will have a similar treatment to buying an ITM Put Option. You must have shares in your Demat account equal to the quantity of Put contracts.

## Process for Physical Settlement on Fortune Fiscal Ltd.

You can opt for Physical Settlement on Fortune Fiscal Ltd. by sharing your consent and keeping the below points in mind:

- Consent for physical settlement of Stock F&O positions has to be shared 2 days before the expiry (by Tuesday in case of NIFTY50) by email or physical letter
- Based on your consent, Fortune Fiscal Ltd. will evaluate whether your positions qualify for physical settlements and if there is sufficient ledger balances/holdings (whichever applicable) is available
- Kindly, plan your trades keeping in mind that you will not be able to trade in fresh positions in the current expiry F&O contracts from Wednesday or expiry - 1 day.
- Correspondingly, position conversion(s) on carry forward of any stock futures positions shall also not be permitted

## What other impact could this have on your positions?

### 1. Auto

Your position will be auto-squared off after 12 PM on expiry day if:

- You have not provided your consent for Physical Settlement
- You provided your consent for Physical Settlement but do not have sufficient Funds/ Holdings available for Physical Settlement of your position
- You have only partial Funds / Holdings

### Square-off

## 2. **Delivery Margin**

Delivery Margins is the minimum amount of Funds/Holdings that you need to maintain in your account to place a trade of a certain value. These will be applied as per Exchange guidelines on all the existing long ITM (In The Money) Stock Option positions in a staggered manner as explained below:

### **Schedule for Delivery Margins:**

- 4 days before expiry (Friday EOD): 10% Delivery Margins
- 3 days before expiry (Monday EOD): 25% Delivery Margins
- 2 days before expiry (Tuesday EOD): 45% Delivery Margins
- 1 day before expiry (Wednesday EOD): 70% Delivery Margins
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## 3. **Margin Shortfall Penalty**

If this Delivery Margin is not maintained, a Margin Shortfall penalty is applicable on the difference between the Delivery Margin required to be maintained and the Funds/Holdings available in your account. To prevent you from this, Fortune Fiscal Ltd. would be blocking Delivery Margins at the Beginning of the Day (BOD) instead of End of the Day (EOD).

## 4. **Illiquid Market**

If you don't close your positions due to illiquidity in the market, you'll need to settle the contract physically and pay the full contract value.

## 5. **Deadline for Physical Settlement**

If you choose physical settlement, ensure you have the necessary Funds or Holdings by Tuesday EOD i.e. 2 days before expiry.

## 6. **Spread Contracts**

For spread contracts, maintain margins for both legs of the trade. If one leg is squared off, the other may need to be settled physically.

## 7. **Brokerage & Charges:**

If Physical Settlement takes place, we will charge you:

- Physical Delivery Brokerage: 0.25% of the Physical Settled Value
- For all netted-off positions, the brokerage will be 0.1% of the physical settled value. Additionally, all physically settled contracts (Futures & Options) will incur an applicable Exchange charge.
- STT: 0.1% of the contract value for both the buyer and the seller of the contract
- Interest: 0.05% per day will be charged if your account has a Margin Shortfall 5 days before the expiry (including long ITM Options positions).

### **NOTE:**

1. New buy positions, specifically fresh long positions, will be restricted on Wednesday and Thursday for OTM Stock Option contracts expiring in the current month.
2. Fortune Fiscal Ltd. reserves the right to square off 3 OTM Stock Option Contracts strikes as they could potentially become In-the-Money (ITM), leading to physical delivery.