

# Conditions for Stock Options

## Client margin profiles and option strategies

G&T TRADER operates with two margin profiles:

- A **basic** profile which, by default, enables clients to buy options only – puts and/or calls.
- An **advanced** profile for individually assessed clients which enables the client to do the same as the basic profile and to write (sell/short) options and receive margin benefits on option strategies (combinations of options and/or underlying positions).

For more information about margin requirements and margin reduction schemes please refer to the sections margin requirements and margin reduction schemes below this section.

In case of a margin breach and stop-out is triggered, all option positions will be closed.

Details of the margin requirements and allowances for the advanced profile can be seen below:

Strategy	Initial & maintenance margin
Long straddle	None
Long strangle	
Out-of-the-money naked calls	<p><b>Stock Options</b>            Call Price + Maximum((X%* Underlying Price) - Out of the Money Amount), (Y% * Underlying Price))            Out-of-the-Money Amount in case of a Call option equals: Max (0, Option Strike Price - Underlying Future Price)  <b>Example</b> : short 1 DTE jan14 12.50 Call at 0.08            Spot at 12.30  <math>(0.08 * 100 \text{ shares}) + ((0.15 * 12.30) - (12.50 - 12.30) * 100 \text{ shares})</math>            8€ of premium + 164.5€ of margin</p>
Uncovered put write	<p><b>Stock Options</b>            Put Price + Maximum((X%* Underlying Price) - Out of the Money Amount), (Y% * Strike Price))              Out-of-the-Money Amount in case of a Put option equals: Max (0, Underlying Future Price – Option Strike Price)  <b>Example</b>: short 1 DTE jan14 12 Put at 0.06            Spot at 12.30  <math>(0.06 * 100 \text{ shares}) + ((0.15 * 12.30) - (12.30 - 12) * 100 \text{ shares})</math>              6€ of premium + 154.5€ of margin</p>

Bear call spread	(Maximum ((Strike Long Call - Strike Short Call), 0) Example: short DTE Jan14 12.5 Call at 0.10 and long DTE Jan14 13.5 Call at 0.02 (0.10-0.02)*100 shares + (13.5-12.5)*100 shares  8€ of premium + 100€ of margin
Bull put spread	Example: Short DTE Jan14 Put 12 Put at 0.08 and long DTE Jan14 11 Put at 0.02 (0.08-0.02)*100 shares + (12-11)* 100 shares 6€ of premium + 100€ of margin
Short straddle Short strangle	If Initial Margin Short Put > Initial Short Call, then Initial Margin Short Put + Price Short Call else If Initial Margin Short Call >= Initial Short Put, then Initial Margin Short Call + Price Short Put

### Margin reduction schemes

Short option positions in American Style Options can be combined with long option positions or covering positions in the underlying deliverable to offset the high risk exposure. As such, the margin charges can be reduced or even waived. We will provide margin reduction on the following position combinations:

- Covered Call
- Call/Put Spread
- Short Straddle

#### Covered Call

A short call position can be offset with a long position in the underlying stock.

#### Call / Put Spread

A spread position allows a long option position to cover for a short option position of an option of the same type, and same underlying deliverable. When the long option is deeper in the money compared to the short option (debit spread), the value of the long option is used up to the value of the short option for coverage with no additional margin to be required. When the short leg is deeper in the money compared to the long leg (credit spread), the full value of the long option is used for coverage plus an additional margin equal to the strike difference.

**Note:** To trade out of a spread position, it is recommended to first close the short leg before closing the long leg to avoid the high margin charge of the naked short option position. However, as the spread margin reservation might not be sufficient to cover the cash amount required to buy back the short option position, a client might find himself locked into a position that he cannot trade out of without additional funds being made available.

#### Short Straddle / Strangle

The short straddle / strangle rule is different compared to the Covered and Spread rules as the legs of the short straddle do not provide coverage for each other. A short straddle / strangle combines a short call with a short put. Since the exposure of the short call and short put are opposite in regard

to market direction, only the additional margin of the leg with the highest margin charge is required.

When the call leg of the strangle position is assigned, the client needs to deliver the underlying stock. Vice versa, when the put is assigned, the client needs to take delivery of the underlying Stock. The long Stock can be combined with the remaining call leg of the original strangle, resulting in a covered call.

### Margin requirements

For certain instruments, including Stock Options, we require a margin charge to cover potential losses involved on holding a position in the instrument.

Stock Options are treated as full premium style options.

### Full premium example:

When acquiring a long position in a full premium option, the premium amount is deducted from the client's cash balance. The value from an open long option position will not be available for margin trading other than indicated in the margin reduction schemes.

In the following example, a client buys one Apple Inc. DEC 2013 530 Call @ \$25 (Apple Inc. stock is trading at \$529.85. One option equal 100 shares, buy/sell commissions \$6.00 per lot and exchange fee is \$0.30.

With a cash balance of \$10,000.00, his account summary will show:

<b>Cash and Position Summary</b>		
Position Value	1 * 25 * 100 shares =	\$2,500.00
Unrealized Profit/Loss		
Cost to Close	- 1* (\$6 + \$0.30) =	- \$6.30
<b>Unrealised Value of Positions</b>		<b>\$2,493.70</b>
Cash Balance		\$10,000.00
Transactions not Booked	- (\$2,500 + \$6.30) =	- \$2,506.30
<b>Account Value</b>		<b>\$9,987.40</b>
Not Available as Margin Collateral	- 1 * 25 * 100 shares =	- \$2,500.00
Used for Margin Requirement		
<b>Available for Margin Trading</b>		<b>\$7,487.40</b>

In case of a full premium option, the transactions not booked will be added to the client's cash balance in overnight processing. The next day, when the options market has moved to \$41 (spot at 556.50), the account summary will show:

<b>Cash and Position Summary</b>		
Position Value	1 * 41 * 100 shares =	\$4,100.00
Unrealised Profit/Loss		
Cost to Close	- 1*(\$6+\$0.30) =	-\$6.30
<b>Unrealised Value of Positions</b>		<b>\$4,093.70</b>
Cash Balance		\$7,493.70
Transactions not Booked		--
<b>Account Value</b>		<b>\$11,587.40</b>
Not Available as Margin Collateral	- 1 * 41 * 100 shares =	-\$ 4,100.00
Used for Margin Requirement		
<b>Available for Margin Trading</b>		<b>\$7,487.40</b>

*Position Value:* Increased due to the price of the option being higher.

*Unrealised Value of Positions:* Increased due to the price of the option being higher.

*Cash Balance:* Reduced by the price of the option. 'Transactions not Booked' is now zero.

*Account Value:* Increased due to the price of the option being higher.

*Not Available as Margin Collateral:* Increased due to the new value of the position.

## Short Option Margin

A short option position exposes the holder of that position to being assigned to deliver the underlying proceeds when another market participant who holds a long position exercises his option right. Losses on a short option position can be substantial when the market moves against the position. We will therefore charge premium margin to ensure that sufficient account value is available to close the short position and additional margin to cover overnight shifts in the underlying value. The margin charges are monitored in real-time for changes in market values and a stop out can be triggered when the total margin charge for all margined positions exceeds the client's margin call profile.

The generic formula for the short option margin charge is:

$$\text{Short Option Margin} = \text{Premium Margin} + \text{Additional Margin}$$

The premium margin ensures that the short option position can be closed at current market prices and equals the current Ask Price at which the option can be acquired during trading hours. The additional margin serves to cover overnight price changes in the underlying value when the option position cannot be closed because of limited trading hours.

## Stock Options

For options on Stocks, the additional margin equals a percentage of the underlying reference value minus a discount for the amount that the option is out-of-the-money.

$$\text{Additional Margin Call} = \text{Max}(X\% * \text{Underlying Spot}) - \text{Out-of-the-Money Amount}, Y\% * \text{Underlying Spot}$$

$$\text{Additional Margin Put} = \text{Max}(X\% * \text{Underlying Spot}) - \text{Out-of-the-Money Amount}, Y\% * \text{Strike Price}$$

The margin percentages are set by G&T TRADER and are subject to change. The actual values can vary per option contract and are configurable in the margin profiles. Clients can see the applicable values in the trading conditions of the contract.

The out-of-the-money amount for a call option equals:

$$\text{Max}(0, \text{Option Strike} - \text{Underlying Spot})$$

The out-of-the-money amount for a put option equals:

$$\text{Max}(0, \text{Underlying Spot Price} - \text{Option Strike})$$

To get the currency amount involved, the acquired values need to be multiplied with the trading unit (100 shares).

### Example:

Let's suppose FORM applied an X margin of 15% and a Y margin of 10% on Apple stocks.

A Client shorts an Apple DEC 2013 535 Call at \$1.90 (Apple stock at 523.74). The option figure value is 100 shares. The OTM amount is 11.26 stock points (535 – 523.74), resulting in an additional margin of 67.30 stock points (\$6,730). In the account summary, the premium margin is taken out of the position value:

Cash and Position Summary		
Position Value	- 1 * \$1.90 * 100 shares =	- \$190.00
Unrealized Profit/Loss		
Cost to Close	- (6 + \$0.30) =	- \$6.30
<b>Unrealized Value of Positions</b>		<b>- \$196.30</b>
Cash Balance		\$10,000.00
Transactions not Booked	\$190 - (\$6 + \$0.30) =	\$183.70
<b>Account Value</b>		<b>\$9,987.40</b>
Not Available as Margin Collateral		
Used for Margin Requirement	- 100 shares * (0.15 * 523.74) – 11.26)	- \$6,730.00
<b>Available for Margin Trading</b>		<b>\$3,257.40</b>

## **Corporate Actions**

Corporate Actions on shares can affect any options that are listed on those shares. It might be required to adjust the option contracts in such way that the value of a position in such an option before and after the corporate action remains the same.

### **Definitions**

*“Corporate Actions”* shall mean a corporate event that may impact the share price/outstanding share amount of the relevant company. Corporate Actions include share issues, mergers, conversions, share splits, sell-offs and dividends;

*“Ex-Date”* shall mean the effective date of the Corporate Action, the date on which or the date after a security trades without its previously declared dividend or distribution.

### **Dealings between G&T TRADER and the client**

The underlying stock can be subject to corporate actions. As a result of a corporate action, the Stock option contract might need to be adjusted. Various exchanges have different ways of treating corporate actions. The option exchanges will decide on case by case bases how a corporate action will affect the option contract and positions on the option contracts.

The two common methods for adjustment are the ‘Ratio Method’ and the ‘Package Method’. G&T TRADER will follow the exchange notice in regards to applying the adjustment on the option series and the client’s position. However G&T TRADER reserve the right to close out clients open positions prior to an option adjustment on ex-date if a corporate action adjustment is not supported by G&T TRADER.

An example is when an underlying deliverable for the adjusted option contract can be a basket of securities and cash components. Especially for spin-offs and demergers, the corporate action could result into a basket of deliverables where the original option contract would settle into a number of deliverable components. The option contracts by themselves do not need to be adjusted in case of this method; instead the underlying deliverable is redefined. Whenever the underlying deliverable is redefined either as a basket/package containing multiple components, or any ratio of underlying shares, G&T TRADER will not support the action and will close out any open client positions.

### **Early Exercise of Options**

Holders of a long position in American Style options can exercise the option any time prior to expiry. To exercise a long option position, an exercise request can be entered in the trading application; in the “Account Summary”.

When the exercise request is entered, the option position is closed at price 0 and a position in the underlying instrument is created at the strike price. This happens instantly.

Clients should always consider closing the option position in the market and acquiring the underlying instrument separately. Often the market value of the option exceeds the unrealized profit from opening the underlying position at the strike price.

**Exercise Cut-off**

Exercise requests need to be entered before the exercise cut-off time as specified by G&T TRADER; see these in Contract Options Settlement Conditions. The Exercise cut-off time facing G&T TRADER clients is prior to the cut-off times as defined by the exchange in order to give G&T TRADER and its brokers the time to forward the request to the exchanges. If exercise requests are entered after the cut off time clients will be rejected and the client must wait until the next day to exercise before the cut off time.

**Last Trading day**

On the last trading day, clients will not be able to exercise any position, since the expiry auto-exercise process will manage exercising against the exercise settlement value.