

Circular C-DF-03/2024

Stock Options. Exercise of Option contracts



BME CLEARING

27 May 2024

Segment: Financial Derivatives
Effective Date: 3 June 2024
Replaces: C-DF-09/2018

Timetable for Early Exercise, Exercise at Expiration and associated procedures. It is modified to delete point 5 Mistakes in early exercises.

1. INTRODUCTION

This Circular is issued in accordance with the Market Regulations and with sections 4 and 5 of BME CLEARING General Conditions of Option Contracts on Listed Shares which govern the Form of Settlement for Contracts.

2. EARLY EXERCISE

- Notification of a request for Early Exercise will be made via the electronic clearing system.
- Early Exercise Requests can be entered until 18:30 (CET time).
- In order to notify Members of the Early Exercise Requests, BME CLEARING will publish in the electronic trading system the series and contracts that have been exercised. This notification will be made, when applicable, after the End of Exercise Requests.
- The Member can modify or cancel the Early Exercise Requests during the trading session and until 18:30 CET.
- BME CLEARING determines the counterparties of the Early Exercise Requests by proportionally dividing the volume early exercised amongst the accounts with short positions. This allocation process begins once the period for the allocation of the Daily Account has ended.
- Those Members with short positions in the series that have been exercised should check if any of their short positions have been exercised. This information is generated at the end of the clearing processes on the day the exercise is made.
- BME CLEARING notifies to SOCIEDAD DE BOLSAS (Stock Exchange Company) which spot trades are generated by the Early Exercise. SOCIEDAD DE BOLSAS will make available the relevant information to the affected Members of the Stock exchange through the Interconnected Stock Trading System.

3. EXERCISE AT EXPIRATION

In the event that a Member wishes to exercise or not, option contracts that do not meet the conditions indicated in paragraphs “Contract settlement by delivery” in the General Conditions, the Member can submit Exceptional Exercise Requests or Requests Not to Exercise.

These types of Exercise Requests can only be entered for the series of options that expire on the Expiration Date.

The Exceptional Exercise Requests allow Call Options, with an Exercise Price that is higher than the Closing Price, and Put Options, with an Exercise Price that is less than the Closing Price, to be exercised.

The Requests not to Exercise allow Call Options, with an Exercise Price below the Closing Price, and Put Options, with an Exercise Price that is higher than the Closing Price, not to be exercised.

- Notification of the Exceptional Exercise/Not to Exercise Request will be made through the electronic clearing system.
- On the Expiration Date, if this is a standard Expiration Date and only if it is the third Friday of the expiration month (or the preceding working day in case the former is a bank holiday), there is a 75 minute extension after the close of trading to allow Exceptional Exercise Requests and Requests Not to Exercise on Contracts that expire.
- On non-standard Expiration Dates, Exceptional Exercise Request or Requests Not to exercise can be submitted until 18:30 CET.
- The Member can modify or cancel the Exercise Requests/Requests Not to Exercise during the trading session and the extension, until the “End of Exercise Requests Extension” message is received.
- Once the period for notification to BME CLEARING of Exceptional Exercise Requests/Requests Not to Exercise has concluded, the counterparties will be determined in accordance with the procedures established in the General Conditions.
- The Members with short open positions must check if any of their positions have been exercised, as well as the resulting trade.
- BME CLEARING notifies to SOCIEDAD DE BOLSAS (Stock Exchange Company) of the trades in the Underlying Asset that must be made due to options exercised on the Expiration Date.
- SOCIEDAD DE BOLSAS (the Stock Exchange Company) will make the relevant information available to affected Members of the Stock exchange through the Interconnected Stock Trading System.

4. EXCEPTIONAL CIRCUMSTANCES

In the event that a Member does not have access to the Electronic Clearing System for technical reasons, he should contact the Operations Department of BME CLEARING by telephone in the +34 91 709 5860 or by email in the address clearinghelpdesk@grupobme.es.

Any verbal notification of exercise will have to be immediately written confirmed following the instructions from personnel of the Operations Department of BME CLEARING.

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