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Additional Information

Level 1 Regulation

Markets in Financial Instruments Directive II (MiFID II) Directive 2014/65/EU- Secondary Markets

Topic

Position limits

Subject Matter

Position limits for options and futures

Question

Will there be a different position limit for options and futures? If so, how should options be converted into futures for the application of position limits?

23-09-2022

Original language

[ESMA70-872942901 Commodity derivatives , Position limits, Q&A 9]

No, there will be no separate limits for futures and options on the same commodity derivative. Futures and options are fungible in terms of their economic effect at expiry if an option expires in the money with the respective future expiring at the same time. During the life of an option contract, the probability of the option expiring in the money is reflected in its delta value.

Option positions should therefore be converted into positions in their respective future contracts on the basis of the current delta to arrive at a delta equivalent futures position. Long delta equivalent positions on calls and short delta equivalent positions on puts should be added to positions on futures. Short delta equivalent positions on calls and long delta equivalent positions on puts should be subtracted from positions on futures.

If available, position holders should use the delta value published by the trading venue or the CCP to report their positions in options. In the absence of a published delta value, position holders may use their own calculation. Position holders should be able to demonstrate, on demand, to the NCA responsible for the application of the position limit that their calculations correctly reflect the value of the option.

To determine which commodity derivative contracts are critical or significant under Article 57(1) of MiFID II and which agricultural commodity derivatives are liquid under Article 17 of RTS 21a and also to establish position limits based on the quantity of open interest, the open interest of futures plus the delta-adjusted open interest of options should be used, where there is a future and/or option traded on the commodity derivative and the relevant data are available. This is consistent with the reporting of positions made under Article 58 of MiFID II.