CME Group

Special Executive Report

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REMINDER: OPTION VALUATION ON OPTION EXPIRATION DAY WHEN UNDERLYING FUTURES ARE LOCKED LIMIT

The Exchange determines whether an option is in-the-money or out-of-the-money for automatic exercise purposes based on the difference between an option's strike price and the actual settlement price for its underlying futures contract, even if that settlement price is constrained by price limits[1].

For example, suppose August Soybean Meal futures settle limit down on option expiration day at $427.80 per ton. Further, suppose the option market is suggesting a synthetic value for August Soybean Meal futures of $417.90 per ton. Under this hypothetical scenario, a $420 call option would be deemed in-the-money and would be automatically exercised. Similarly, a $420 put option would be deemed out-of-the-money and would not be automatically exercised.

CBOT and KCBT grain and oilseed option rules allow for option buyers to issue contrary instructions to the Clearing House prior to 6:00 p.m. Central Time on option expiration day if they want to cancel automatic exercise. Thus, the holder of the $420 call option in the hypothetical situation above would need to provide contrary instructions to the Clearing House if that option holder did not want the $420 call option to be automatically exercised. Similarly, the holder of the $420 put option in the hypothetical situation above would not receive automatic exercise and would need to exercise by 6:00 p.m. Central Time on option expiration day if the holder wanted the $420 put option to exercise into futures.

Customers wishing to issue contrary instructions should contact their futures commission merchant, who will advise the Clearing House.

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[1] Grain and oilseed options do not have price limits on option expiration day while their underlying futures still have price limits in place.