1. Which coal option contracts are available with futures-style?
   Both API2 CIF ARA and API4 FOB Richards Bay options on calendar and quarterly futures strips are available.

2. Are these futures-style options physically settled?
   The above futures-style options are physically deliverable swaption/European style options.
   When exercised the option transforms into a position in its underlying futures, e.g. for a calendar strip the options deliver a strip of twelve monthly futures covering the underlying year and for a quarterly strip the options deliver a strip of three monthly futures covering the underlying quarter.

3. Do equity-style and futures-style options offset against each other?
   Futures and options margins are valued through the clearing house's SPAN margin model, therefore any offsets available to one style will also be available to the other. However, the two options will be priced differently and as such there will not be a perfect offset between the two.
   The methodologies used for each mean that in any scenario where an investor is long the futures and short the option (or vice versa), there will be collateral that will be required to be posted to maintain that position.

4. Does the futures-style option replace the existing equity-style options?
   Yes. Starting with options expiring in 2020 (January 2021 for calendar strips option, and April 2020 for quarterly strip options), only futures-style margining options will be available. To facilitate the transition from equity-style to futures-style, 2019 expiries are available under both margining styles.

5. Will I be exercised if I am “At-the-money”?
   All options that are “In-the-money” will be automatically exercised at expiration. “At-the-money” options are considered “Out-of-the-money” for exercise and assignment purposes and can only be exercised via contrary instructions.

6. What options model is used?
   Black-Scholes - The basic equation for European options on physicals with no dividends (and hence with cost of carry equal to the risk-free interest rate).

7. What is the difference between equity-style and futures-style options?
   Futures-style margin options behave in a manner somewhat analogous to that of a futures contract. The trade of the option itself does not result in any cash flow as the premium does not immediately move. Instead, every open position is marked to market and the resulting settlement variation (or variation margin) amounts are netted together with other such amounts in determining the net pay/collect amount. The total premium of a futures-style option is calculated and paid only on the day the option position is removed, whether by exercise, assignment, or expiration without exercise or assignment. When exercise or expiration of the option contract occurs, the buyer makes a premium settlement payment.
   Unlike equity-style margin options, futures-style options have daily realized variation margins calculated. So, margins are paid daily according to the changing value of the option. Also, since interest rates do not factor into futures-style margin options, their price differs from equity-style margin options. This is most apparent in long-dated options where interest rates have more time to change option values.

8. So, do I pay a premium in futures-style options?
   In equity-style margining, also known as “traditional” or “premium-paid-upfront” margining, the premium is paid in full at the time of the option purchase. Because the premium is immediately paid, the current market value of the option becomes a credit (if net long) or debit (if net short) to the margin requirement. The premium is calculated at the original trade price and is recognized on the day the trade clears. Thereafter, as long as the trade remains open, the current market value of the option is taken into account in determining the total initial margin requirement.
9. What are the timings on the final exercise day?

The timings can be found in the table below. They apply equally to futures-style and equity-style margined options.

### Options Exercise Process

<table>
<thead>
<tr>
<th>Option Ceases Trading</th>
<th>12:30 p.m. London Time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trading terminates 30 calendar days prior to the first calendar day of the first month in the strip. If such day is not a UK business day, trading terminates on the first preceding UK business day.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Auto-exercise Prices</th>
<th>Around 1:00 p.m. London Time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Intraday prices provided by the London Energy Brokers’ Association (’LEBA’) are received. Those prices are used in the auto-exercise process.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contra Instructions</th>
<th>2:30 p.m. London Time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contra-instructions can be submitted to your Clearer up to 2:30 p.m.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exercise / Assignment process</th>
<th>2:30 p.m. London Time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All options are exercised/assigned based upon the LEBA intraday prices and any contra-instructions received. All options that are “In-the-money” are auto-exercised (considering any contra-instructions). The CME Positions and Expiration Report is made available.</td>
</tr>
</tbody>
</table>

View a list of contrary instructions.

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