

OTC Equity Options



Converge[®] provides central counterparty clearing services for transactions that originate on the over-the-counter (OTC) markets. It allows market participants to submit their customized OTC transactions for clearing at the Canadian Derivatives Clearing Corporation (CDCC). **Converge**[®] is currently available to clear OTC equity options.

HIGH LEVEL OF CUSTOMIZATION

> Eligible Underlyings

Over 500 names:

- Single-name equities
- Exchange-traded funds (ETFs)

> Exercise Style

European or American

> Settlement

Cash or physical

> Maturity

Up to 5 years

> Strike Price

No constraints

BENEFITS OF USING CONVERGE[®] FOR OTC CLEARING

> Trading "ISDA-FREE"

> Multilateral Netting (OTC and Exchange-Traded)

- Positions
- Collateral requirements
- Daily settlement
- Final settlement

> Centralized Business Processes

> Anonymity

> Scalability

> Optimal usage of capital and collateral

> Risk Mutualization

OPTION PRICING

For margin calculation purposes, CDCC computes a daily theoretical price for each OTC equity option cleared through **Converge®**.

OPTION PRICING MODELS

The option pricing model to use depends on the exercise style of the option:

> **American-style**

- Barone-Adesi & Whaley

> **European-style**

- Black-Scholes

VOLATILITY

The volatility estimate, used as an input when computing the OTC option's price, depends on whether or not the underlying has a listed option at the Montréal Exchange (MX):

> **Underlying has a listed option at MX**

- Implied volatility derived from listed option prices

> **Underlying does not have a listed option at MX**

- Historical volatility of underlying (annual)

MINIMUM SIZE

Instruments	Minimum Size
Single-Name Equity Options	100 contracts
ETF Options	100 contracts

FEE STRUCTURE

Instruments	Clearing Member Cost (By contract)	Client Cost (By contract)	CAP AT 10,000 CONTRACTS	
			Maximum Clearing Member Cost (Total)	Maximum Client Cost (Total)
All underlyings (Single-Name Equity Options and ETF Options)	\$0.30	\$0.70	\$3,000	\$7,000



For more information, please visit our Website at [CDCC.CA](https://www.cdcc.ca)