

21 May 2014

Ms Diane Lewis  
Senior Manager, Regulatory and Public Policy  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

By email: [regulatorypolicy@asx.com.au](mailto:regulatorypolicy@asx.com.au)

Dear Ms Lewis,

**ASX exchange traded options: Consultation on automatic exercise on expiry date and approach for exercise errors**

Optiver welcomes the opportunity to comment on proposals contained in the Consultation Paper dated 4 April 2014 titled *ASX exchange traded options: Consultation on automatic exercise on expiry date and approach for exercise errors*.

Optiver in general supports the AFMA submission, however, we note our strong support for automatic exercise being the default position for both cash-settled and deliverable in-the-money options.

Our response to the detailed questions is below:

**Q1** Do you agree that ASX Clear should change its current policy and provide for automatic exercise as the default position for all ***in-the-money*** cash settled option contracts on the expiry date? Please set out your reasons.

**A1**

Automatic exercise of cash-settled options is the most efficient outcome for the market. It reduces risks associated with errors in exercise, and aligns with all international standards.

The certainty of automatic exercise as the default position may provide increased confidence to market participants.

**Q2** If ASX Clear were to implement the proposal for automatic exercise as the default position for all ***in-the-money*** cash settled options contracts, do you support ASX Clear providing the for clearing participants ***to exclude automatic exercise*** for a specific option position? Please set out your reasons.

**A2**

Optiver is supportive of this proposal. Further we support the provision of a facility for proportional exercise. For example, to be able to exercise 6 out of 10 contracts.

Providing for the ability to exclude automatic exercise maintains the current flexibility in the system and maintains consistency across cash settled and deliverable options.

Consistency across different option classes reduces operational risk for clearing participants.

**Q3** Do you agree that ASX Clear should change its current policy and provide for the automatic exercise as the default position for all *in-the-money* deliverable option contracts on the expiry date? Please set out your reasons.

**A3**

Consistent with our position with regard to cash-settled options we support the default position for in-the-money deliverable options to be automatic exercise.

The certainty of automatic exercise as the default position may provide confidence to market participants, and aligns with international standards.

**Q4** If ASX Clear were to implement the proposal for automatic exercise as the default position for all *in-the-money* deliverable options contracts, do you support ASX Clear providing the ability for clearing participants *to exclude automatic exercise* for a specific option position? Please set out your reasons.

**A4**

Yes, Optiver supports the ability to exclude automatic exercise for specific option positions for deliverable contracts.

There are a range of circumstances where it is rational not to exercise an in-the-money option position. Not allowing automatic exercise to be excluded would detract from the flexibility and value of the market.

**Q5** Do you agree that ASX Clear should change its current approach to addressing participant exercise errors notified to ASX Clear? Please set out your reasons.

**A5**

Optiver supports measures to increase certainty and predictability around errors in general.

**Q6** Should ASX Clear change its current approach so that it does not in any circumstances take steps which may facilitate the correction of exercise errors? Please set out your reasons.

**A6**

While removing exercise error correction mechanisms increases certainty there is still a place for facilitating mutually agreed adjustments.

**Q7** Should ASX Clear impose a notification cut-off time in order for a participant to be able to seek that an erroneous exercise or failure to exercise be addressed, and if so what time should apply? Please set out your reasons.

**A7**

Yes, there should be a clear cut off time. The cut-off time should be no later than thirty minutes before the start of trading on the day following expiry.

**Q8** Should ASX Clear identify the counterparty participant to the requestor regardless of whether the counterparty participant has consented to their identity being revealed? Please set out your reasons.

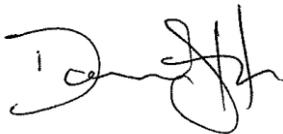
**A8**

Optiver does not support the identity of the counterparty not at error being revealed without their consent.

Market participants should be able to participate in the market when not in error without required participation in error adjustment exchanges.

If you have further questions please do not hesitate to contact me on 9275 6654 or at [Damian.Jeffree@optiver.com.au](mailto:Damian.Jeffree@optiver.com.au).

Yours sincerely



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**Senior Manager Compliance**