

## Market Consultation: Introduction of Options Contracts

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emsTradepoint is seeking to introduce options contracts against its listed Trading Region South contracts. The purpose of this consultation is to obtain feedback on the overarching Master Options Agreement which will govern the terms of such transactions.

### BACKGROUND

emsTradepoint (**emsTP**) currently lists three natural gas contracts; NGP-TRS (D), (W) and (M). In addition to these firm delivery contracts, emsTP has received strong feedback from Participants that the introduction of options-style execution against these contracts would be a valuable addition.

For the option buyer, options contracts can provide both flexibility and act as a spot-price hedge. Option sellers benefit from the premium paid by the buyer for the option, which can also provide a useful market signal on the value of such flexibility.

There is also the potential for options contracts to be used to assist industry achieve more efficient outcomes across shared areas of risk, particularly around transmission pipeline balancing arrangements. For example, the Balancing Agent may be able to reduce its impact on intra-day spot prices by electing to trade a put/call options strategy instead of solely relying on On-the-Day liquidity.

### MASTER OPTIONS AGREEMENT

Options transactions will be governed by a Master Options Agreement (**MOA**). Participants who wish to have the ability to buy or sell options will be required to execute a MOA, with all options transactions subsequently executed added as a schedule.<sup>1</sup>

The draft MOA is supplied together with this consultation document. The main features are as follows:

- **Option Types**

An options transaction will either be a call (the right to buy) or a put (the right to sell).

- **Product**

Each options transaction will be for a defined (or a series of defined) Products, i.e. NGP-TRS (D), (W) and / or (M).

- **Execution**

Given the number of negotiable terms in an options contract, including both a strike price (the price at which the buyer has the right to buy or sell at) and premium (the fixed price the buyer

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<sup>1</sup> This is intended to function similarly to the ISDA Master Agreement used internationally for OTC derivatives.

pays for that right), the method of execution will be Off-Exchange, i.e. submitted to emsTradepoint as a completed transaction.<sup>2</sup>

Options transactions must, therefore, be agreed directly between two participants, or anonymously through an authorised third-party broker, before being given-up to emsTP. Execution requires the submission of a valid confirmation schedule from the parties or broker to emsTP.

– **Exercise**

The MOA allows European, American and Bermudan put and call options with a fixed strike price and premium.

Exercise of an option forms a trade in the defined Product. Initially, exercise will be via email and verbal notification from the buyer to emsTP within the exercise time periods. The resulting trade(s) will be entered into the trading system as an off-exchange trade(s), and the counterparties will be notified accordingly.

– **Transparency of price**

emsTP will make public to all Participants the terms of all options transactions, including; time of formation, type, exercise terms, premium. emsTP will also report on any subsequent Trades due to an option being exercised.

For the avoidance of doubt, emsTP will not report on the identity of the counterparties, but will report on whether the options transaction was provided on an anonymous-counterparty basis or not.

– **Regulatory Treatment**

emsTP has sought legal advice on the regulatory treatment on the options product as designed. The Options are not "derivatives" under the Financial Markets Conduct Act 2013 (FMCA), and no other regulatory treatment applies outside of the standard Market Rules provisions.

– **Indices**

Trades formed due to the exercise of an options transaction will be omitted from emsTP's FRMI and FRQI Indices.

## **AVAILABLE FOR TRADE IMMEDIATELY**

It is important to note that the agreement is currently deemed as fit for purpose and as such is available for use immediately (subject to interim Options Fees being agreed in advance). However, the intention is to review and update the agreement on an ongoing basis as demand for additional features or amendments emerges.

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<sup>2</sup> If demand for consistent price terms emerges then an electronic listing may be developed.

## **SUBMISSIONS**

emsTP is interested in assessing the level of interest for trading options contracts as well as ensuring that the design and drafting of the MOA meets Participants' needs.

As such, submissions are sought on the following:

1. Would your organisation be interested in buying and/or selling options contracts?
2. If your organisation were to enter into an options transaction, do you consider the terms of the attached draft MOA to be suitable? Please provide feedback on specific terms as relevant.
3. Any other points that should be considered, including the proposed Indices treatment.

Please submit feedback to [supportdesk@emstradepoint.co.nz](mailto:supportdesk@emstradepoint.co.nz) by **Friday, 22 July 2016**.

For more information please contact the Support Desk on (04) 590 6692.