

SECTION 7K1 - CONTRACT RULES: ICE FUTURES UKA OPTIONS CONTRACT¹

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¹ Inserted 10 October 2022

7K1.1 SCOPE

The Rules in this Section 7K1 and in Sections I and 7K2 shall apply to Contracts for options in respect of UK Carbon Emissions Allowances (“UKA”).

Each option shall be a put option or a call option in respect of one or more lots for the relevant Contract and contract month and at the strike price specified.

7K1.2 DEFINITIONS

In the Contract Rules and Administrative Procedures the following terms shall bear the meanings set opposite them below, if not inconsistent with the subject or context:

“option”	a put option or a call option in a particular contract month and year in relation to the December ICE Futures UKA Futures Contract of that same year;
“put option”	a right upon the exercise of which the Buyer of the option becomes the Seller, and the Seller of the option becomes the Buyer, under the relevant December Futures Contract;
“call option”	a right upon the exercise of which the Buyer of the option becomes the Buyer, and the Seller of the option becomes the Seller, under the relevant December futures contract;
“strike price”	the price payable under the relevant December Futures Contract resulting from exercise of an option;
“at-the-money option”	an option where the strike price is the same as the relevant December futures market price;
“in-the-money option”	an option where the strike price is greater (in the case of a put option) or is less (in the case of a call option) than the relevant December futures market price;
“out-of-the-money option”	an option where the strike price is less (in the case of a put option) or is greater (in the case of a call option) than the relevant December futures market price; and
“expiry date”	in respect of an option, the date when the option will exercise or expire.

7K1.3 STRIKE PRICE

- (a) The strike price shall, in the case of UK Carbon Emission Allowances, be in multiples of £ 0.50 (50 Pence) per UK Carbon Emissions Allowance or such other multiple as may from time to time be prescribed by the Exchange.
- (b) In the case of UK Carbon Emission Allowances:
 - (i) when options in respect of a contract month are traded for the first time, eleven strike prices, or such other number as may for the time being be determined by the Exchange, will be listed;
 - (ii) Prior to the commencement of trading each day and/or during any day of trading, the Exchange may, at its discretion, list additional strike prices.
- (e) Trading shall not be permitted at strike prices other than those listed for the contract month of the relevant Contract.

7K1.4 EXERCISE

- (a) A Member may not give instructions to the Clearing House to exercise an option, neither may a Member give instructions to the Clearing House not to exercise an option.
- (b) After the cessation of trading on the expiry date in options of that kind, all options of the relevant Contract that are in-the-money options with reference to that day's intraday reference price for the relevant futures business will be automatically exercised. All options of the relevant Contract that are at-the-money options or out-of-the-money options with reference to that day's intraday reference price for the relevant futures business will automatically expire.
- (b) The exercise of an option for UK Carbon Emission Allowances will give rise to a December ICE Futures UKA Futures Contract between Buyer and Seller, in the corresponding year, at the strike price of the options.

7K1.5 PREMIUM PAYMENTS DUE SUBSEQUENT TO EXPIRY OR EXERCISE

The traded premium is debited by the Clearing House from the account of the Buyer and credited to the account of the Seller after the expiry or exercise of the option. The Clearing House will issue a statement of the premium paid or payable to or by it, as the case may be.

7K1.6 PAYMENTS DUE SUBSEQUENT TO EXPIRY OF EXERCISE

On the morning of the Trading Day following exercise of an option, the Clearing House may call for cover for margin in respect of the resulting Futures Contract.

7K1.7 PREMIUM

- (a) The premium for an option shall be in Pound Sterling and pence per UK Carbon Emission Allowance as the case may be, subject to a minimum fluctuation of 1 pence.
- (b) In respect of each strike price of each contract month, of the relevant Contract, an official settlement premium will be established in accordance with section 2.5.2 of the Trading Procedures.

7K1.8 ABANDONMENT

An option may not be abandoned by the Buyer otherwise than by allowing it to expire.