

SINGLE STOCK OPTIONS (SSOs) CONTRACTS: THE LATEST PRODUCT TO SAUDI ARABIA'S DERIVATIVES MARKET

تداول السعودية
Saudi Exchange

Following the launch of the derivatives market in 2020, Saudi Exchange is introducing its third derivatives product, Single Stock Options (SSOs) contracts, which will be cleared by Securities Clearing Center Company "Muqassa".

This latest development in the Saudi capital market reinforces Saudi Exchange's commitment to provide investors with new and diversified investment opportunities and tools to manage portfolio risk effectively, in turn increasing market liquidity and efficiency.

WHAT ARE SINGLE STOCK OPTIONS CONTRACTS?

SSOs are contracts that give the owner the right but not the obligation to buy or sell an underlying asset at an agreed-upon price and date.

KEY FACTS:

-  Single Stock Option is a standard Option contract with an individual stock as its underlying asset
-  SSOs holders do not have voting rights in the General Assembly of listed companies
-  SSOs value are derived from the value of its underlying stock
-  SSOs enable short selling without actually owning the underlying stock
-  SSOs will be American style and shall be physically settled
-  SSOs typically move in tandem with the underlying stock
-  SSOs can be traded on the Saudi Exchange by opening an account with a registered derivatives Exchange Member
-  SSOs allow investors to hedge their equity portfolio and traders to gain exposure to the price movement of the underlying stock
-  Margin requirements apply to the sellers only
-  SSOs holders do not receive company dividends

WHY DID SAUDI EXCHANGE INTRODUCE SINGLE STOCK OPTIONS CONTRACTS?

Saudi Exchange continues to deliver on its commitment to provide an innovative range of products and services to both local and international investors.

WHAT SHOULD INVESTORS BE AWARE OF BEFORE TRADING SINGLE STOCKS OPTIONS CONTRACTS?

Derivatives contain risks similar to other capital market products. SSOs may expose the trading parties to certain risks including:

- Market volatility
- Market liquidity

WHAT ARE THE BENEFITS OF TRADING SINGLE STOCK OPTIONS CONTRACTS?

- Companies and individuals can hedge their portfolio using SSOs to minimize losses in adverse market conditions
- Allow investors to construct a strategy focused on one individual company's stock instead of a basket of stocks (in comparison to index contracts)
- Enable investors to gain exposure at a lower capital outlay
- Boost profitability by utilizing financial leverage
- Further complements liquidity flow towards the equity market

WHAT IS THE DIFFERENCE BETWEEN TRADING STOCKS AND SINGLE STOCK OPTIONS CONTRACTS?

While both stocks and SSOs are traded on the Saudi Exchange and provide exposure to the price movement of the underlying stock, SSOs provide different investment opportunities for market participants:

KEY DIFFERENCES

STOCK TRADING

Owning a stock represents ownership in the underlying company

Maturities are perpetual – there is no expiry date

Investors must provide 100% of the price of the stock to own a share

Investors must own stock before selling, unless they use a short selling strategy

SSOs TRADING

Owning a contract does not represent ownership in the underlying company (ex: having the right to receive dividends and vote at the General Assembly)

Maturities are finite – they have an expiry date

Investors can buy options contracts by paying premiums, which are typically a minor portion of the total value

Investors can make gains from downward movements by either buying Put Options or selling Call Options

KEEN TO LEARN MORE?

For more information about the risks and benefits of derivatives products and for more general educational investment material, please visit our [website](#).