

FUTURES LINGO

SETTLEMENT PRICE



WHAT IS SETTLEMENT PRICE?



The price used to determine a position's daily profit or loss as well as the related **margin requirements** for the position.

Serves as the **reference** to mark or evaluate open derivatives contracts.

Settlement prices are calculated using **various methods**, often based on price averages over a specific period.

Different exchanges may use **different procedures** to determine settlement prices, leading to variations in market practices.

IMPORTANCE OF SETTLEMENT PRICE

Market Transparency



Ensure all traders have access to a **fair** and **consistent** reference for **evaluating** their positions and performance

Contract Expiration



It helps to determine the **final settlement value** of the futures contract, used for cash settlement or physical delivery

Profit and Loss Calculation



Acts as a **benchmark** for calculating the profit or loss on a futures contract

Price Discovery



Reflects the **collective sentiment** and **agreement** of market participants at the end of the trading session, providing insights into market's expectations and trends

Margin Requirements



To calculate the **initial margin requirement** for a futures contract that is determined by the exchange, traders must maintain the amount of margin in their account

TYPES OF SETTLEMENT PRICE

Daily Settlement Price

Reflect the **fair market value** of the underlying asset, as determined by buyers and sellers during the settlement period or “close”



Final Settlement Price

The official closing price used to settle a derivatives contract at **expiration** or at the **end of a trading session**



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