Nikkei 225 Covered Call ATM Index

Index Guidebook

Nikkei Inc.

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1: Introduction

The Nikkei 225 Covered Call ATM Index is designed to indicate the performance of "Covered Call strategy" to hold a long position of the Nikkei Stock Average (Nikkei 225) as the underlying asset and to sell the near-term call option of the Nikkei 225 every month. In particular, the call option would be settled on the next trading day after the last trading day (i.e. SQ Date) of the Nikkei 225 option and the newly near-term call option with the strike price same as the Nikkei 225 would be sold.

2: Name

(Japanese)
Official : 日経平均カバードコール ATM インデックス
(English)
Official : Nikkei 225 Covered Call ATM Index

3: Index Calculation

(1) Basic Point

- Index value on a day is calculated by multiplying the index value on the previous day by the change rate on the day based on the prices of the Nikkei 225 and the near-term call option on the Nikkei 225.
- The Special Quotations (SQ) and the prices of the options on the day and the previous day (including the night session on a day before respective business days), as published by the Osaka Exchange (OSE) are used for the calculation.
- Unit of the index value is "points" and the figure is rounded to two decimal places.
- Index value on December 28, 2001 is set at 10,000 points.
- Index is calculated and published on an end-of-day basis.

(2) Selection of the call option

- Use the near-term option to calculate the index (The weekly options are not used).
- The option used to calculate the index is rolled to the next delivery month on the "SQ date", the day when the SQ value is published by the OSE (on the trading day after the last trading day of the option).
- The strike price of the call option is the minimum strike price greater or equal to the Nikkei 225 closing price on the day before the SQ date.

(3) Calculation Formula

・The Nikkei 225 Covered Call ATM Index shall be calculated by the following formula.
・In the following formula, “Nikkei 225” indicates its closing value and “Call Option” indicates the price defined at “(4) Call Option Price”.

i) On each trading day excluding the roll date

$$\text{Index value (Current Day)} = \text{Index value (Previous Day)} \times \frac{\text{Nikkei 225 (Current Day)} - \text{Call Option (Current Day)}}{\text{Nikkei 225 (Previous Day)} - \text{Call Option (Previous Day)}}$$

ii) Roll date (SQ date)

$$\text{Index value (Current Day)} = \text{Index value (Previous Day)} \times \frac{\text{Nikkei 225 (Current Day)} \times S}{\text{Nikkei 225 (Previous Day)} - \text{Call Option (Previous Day)}}$$

$$\text{Where } S = \frac{\text{SQ (*1)} - \text{Final settlement price of the call option (*2)}}{\text{SQ (*1)}}$$

*1 : SQ value for the call option with (former) near-term delivery month.
*2 : Final settlement price determined by strike price of the call option and the SQ value.

(4) Call Option Price

・Priority in the usage of prices are as follows:
i) Closing price (Last traded price)
ii) Mid price of the valid Bid price and Ask price at the closing
iii) Settlement price

(5) Modification of the index value

・If any event which affects the index value occurs, as a general rule, retroactive calculation for the modification will not be conducted. However, if the Nikkei

Stock Average (Nikkei 225) used to calculate the Nikkei 225 Covered Call ATM Index is modified retroactively, this index may also be modified retroactively.

(6) Retroactive calculation in the past

・Nikkei 225 Covered Call ATM Index was calculated retroactively on an end-of-day basis to December 28th 2001, base date of the index (=10,000 points). The strike price of call option with Jan 2002 delivery month used to calculate the index on the base date was determined based on the Nikkei 225 closing price on Dec 13, 2001 (the last trading day of the call option with Dec 2001 delivery month).

4: Others

(1) Total Return Index calculation

Nikkei calculates "Nikkei 225 Covered Call ATM Index (Total Return)" as the related indexes of the "Nikkei 225 Covered Call ATM Index" by adding the dividends. These indexes are calculated on an end-of-day basis.

i) On each trading day excluding the roll date

$$\text{Index value (Current Day)} = \text{Index value (Previous Day)} \times \frac{\text{Nikkei 225 (Current Day)} - \text{Call Option (Current Day)} + \text{Dividend } (*1)}{\text{Nikkei 225 (Previous Day)} - \text{Call Option (Previous Day)}}$$

ii) Roll date (SQ date)

$$\text{Index value (Current Day)} = \text{Index value (Previous Day)} \times \frac{\text{Nikkei 225 (Current Day)} \times S + \text{Dividend } (*1)}{\text{Nikkei 225 (Previous Day)} - \text{Call Option (Previous Day)}}$$

$$\text{Where } S = \frac{\text{SQ } (*2) - \text{Final settlement price of the call option } (*3)}{\text{SQ } (*2)}$$

*1 : Dividend is the sum of the Estimated Ex-Dividend and Dividend Adjustment used for the calculation of the Nikkei 225 Total Return Index on the date.
*2 : SQ value for the call option with (former) near-term delivery month.
*3 : Final settlement price determined by strike price of the call option and the SQ value.

The basic points for the total return calculation such as the method to incorporate dividends conform to the Nikkei 225 Total Return Index.

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In addition, the disclaimers in the above are also applied to Nikkei Stock Average (Nikkei 225) which is used to calculate the Nikkei 225 Covered Call ATM Index.

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