

Primer: Exercise and Assignment

The exercise process begins with an investor who is holding a long option position and has decided to exercise their right to either purchase (call) or sell (put) the underlying security. In some instances, the process occurs automatically. In others, the investor must notify their brokerage firm. Regardless of the method, the brokerage firm then submits exercise instructions to their OCC® Clearing Member which in turn submits those same instructions to OCC.

After accepting exercise instructions, OCC then randomly assigns the short position of the exercised option contract and notifies the OCC Clearing Member associated with the short position of the assignment. Then, the assigned Clearing Member firm completes their own method of assignment and notifies one of their customers that is obligated to fulfill the terms of the contract.

