Exercise and Assignment Policy for Futures Options

Exercise and assignment is the procedure by which an option position is converted into a futures position. The buyer of an option on a futures contract has the right (but not the obligation) to assume a specified futures position at a predetermined price (the exercise or strike price) at any time prior to the expiration of the option. The seller of the option must assume the opposite futures position if the buyer exercises this right.

There are four major differences between exercising an option on a futures position and making or taking delivery on a futures contract:

1. An option may be exercised on any business day between its sale and execution.
2. An option is exercised by the buyer's Clearing Member while a selling Clearing Member is randomly selected to satisfy the obligation of the option.
3. An option contract does not have to be exercised; it may be allowed to expire, or be liquidated (offset).
4. When an option is exercised, assignment of the short and long futures position is accomplished by the Clearing House or corporation through a book entry into the futures clearing system. The Clearing Members of the buyer and the seller are assigned futures positions at the strike price, and are subject to immediate variation margin calls.

The commodity exchanges have various provisions for exercising in-the-money options at expiration date. Customers have an obligation to monitor in-the-money options as the expiration dates approach. TradeStation Securities will automatically exercise in-the-money options. TradeStation Securities has procedures for assuring exercise notices to customers on a first-in-first-out non-preferential basis when it receives a notice from the Clearing House or corporation.

When a customer who has a short position is assigned an exercise notice, the broker should attempt to notify such customer prior to trading the next business day. If the assigned futures positions results in an open futures position, as opposed to offsetting an existing futures position, the customer must promptly pay any additional margins required.