

ETORO USA – CUSTOMER AGREEMENT & PLATFORM DOCUMENTATION

ETORO OPTIONS FOR UNITED KINGDOM RESIDENTS

Last updated: December 16, 2024

This Platform Documentation governs the relationship between you (“you” or “Customer”) and eToro USA Securities Inc. (the “Broker” or “eToro”), a United States broker-dealer registered with the [Securities and Exchange Commission](#) and a member of the [Financial Industry Regulatory Authority \("FINRA"\)](#) and [Securities Investor Protection Corporation \("SIPC"\)](#). Learn more about Broker via FINRA’s BrokerCheck website [here](#).

This Platform Documentation governs your participation in an options trading offering that is being made available by the Broker to residents of the United Kingdom (“UK”) who are already customers of eToro (UK) Ltd. (“eToro UK”), which is authorized by and regulated by the Financial Conduct Authority. Learn more about this UK pilot offering [here](#). Additional information about eToro UK is available [here](#). Starting in 2023, Broker previously tested the options trading offering which includes the onboarding process, App, Platform, Website, Documentation, user interface, and associated functionalities and services to help determine whether this offering functions in accordance with the Broker's expectations and requirements ("Pilot"). Broker has since conducted analysis, review, and testing and is expanding this offering. However, by agreeing to the terms in this Customer Agreement you acknowledge that: (a) the App, the Platform and the Website may contain bugs, errors, delays, or other problems; and (b) may not operate as anticipated, be reliable, accessible, be uninterrupted, or error free; (c) you understand that all features, services, promotions, and disclosures that Broker makes available to its United States (“US”) customers may not be available or applicable to you as a resident of the UK. The Broker reserves the right, at any time and for any reason, to discontinue, redesign, modify, enhance, change, update or patch the App, Website, and the Platform, including without limitation, the structure, specifications, design, navigation, features, compatibility, and any other elements of the eToro Options offering. You hereby confirm and acknowledge that you, or anyone acting on your behalf, shall have no claim, demand, suit, or ground for claim, of any nature whatsoever, and/or causes of action at law or in equity, which now have or may hereafter accrue, known or unknown, direct or indirect, against the Broker or any of its affiliates and/or subsidiaries arising out of or in connection with the Pilot to the extent permitted under applicable law or otherwise stated herein. The Broker or any of its affiliates and/or subsidiaries are not responsible for damage, costs, loss, liability, claims for compensation, or expenses incurred or suffered by you, directly or indirectly under or in connection with your participation in the Pilot to the extent permitted under the applicable law or otherwise stated herein.

You also understand that eToro UK is only providing introductory services, marketing information, and some administrative support to you as part of this offering by the Broker. eToro UK is not offering options trading, securities execution, or brokerage services to you and is not a registered US broker-dealer. Brokerage services will only be provided by the Broker. Broker will rely on some information eToro UK shares about Customers when it provides these brokerage services. eToro UK and Broker are both a wholly-owned subsidiary of eToro Group Limited, which is incorporated in the British Virgin Islands and maintains its headquarters in Israel.

Broker provides this options trading offering to you through a product named eToro Options, which is available within the options trading sections of the mobile and online application (the “App”) made available to UK customers by eToro UK. eToro Options is not the name of a separate eToro entity, but it is just the name of this options trading product offered by the Broker. Trading services and other informational and educational content relating to options that is made available to you through the App is provided by Broker, as well as content on the [eToro US website](https://www.etoro.com/en-us) (“Website”) (<https://www.etoro.com/en-us>) that may be relevant to your use of the App (the options trading sections of the eToro UK website and App, as well as the Website are collectively referred to as the “Platform”). Please review the disclosures, agreements, mobile application, and [website associated with eToro UK](#) for information pertaining to the services eToro UK provides for you as part of your broader engagement with eToro. Broker may also make the eToro Options product available through a separate mobile application with the same name and any references to the App or Platform also include that offering.

Customer must open an Account with Broker and use of such account is always subject to this Customer Agreement and the “Platform Documentation” consisting of: (I) the General Terms and Conditions ; (II) the eToro USA Securities Inc. Customer Agreement (the “Broker Customer Agreement” or “Customer Agreement”); (III) the Glossary of Defined Terms, and all other appendices attached to this document and referenced in the Table of Contents below; (IV) all other applicable agreements that govern Customer’s use of software, products, goods, services, content, and tools; and (V) the applicable disclosures and other information provided by Broker, as provided and updated, from time to time, in the Disclosure Library on the Website and the App. The Disclosure Library can be accessed on the App and on the Website at: <https://www.etoro.com/en-us/customer-service/disclosures/>. The Privacy Policy is available on the Website at: <https://www.etoro.com/en-us/customer-service/privacy/>.

Please refer to Appendix A for a glossary of defined terms.

CUSTOMER UNDERSTANDS THAT THIS PLATFORM DOCUMENTATION GOVERNS ALL ASPECTS OF CUSTOMER’S RELATIONSHIP WITH BROKER REGARDING CUSTOMER’S OPTIONS TRADING ACCOUNT OFFERED THROUGH THE APP. CUSTOMER MUST CAREFULLY READ, UNDERSTAND AND ACCEPT THE PLATFORM DOCUMENTATION BEFORE CLICKING “CREATE ACCOUNT” OR OTHER SIMILARLY WORDED BUTTON. IF CUSTOMER HAS ANY QUESTIONS ABOUT THIS PLATFORM DOCUMENTATION, CUSTOMER MAY CONTACT BROKER’S CUSTOMER SERVICE CENTER (“CUSTOMER SERVICE”) AT: <https://www.etoro.com/en-us/customer-service/>. CUSTOMER UNDERSTANDS THAT CLICKING “CREATE ACCOUNT” (OR SIMILAR) IS THE LEGAL EQUIVALENT OF MANUALLY SIGNING THE AGREEMENTS COMPRISING THIS PLATFORM DOCUMENTATION AND CUSTOMER WILL BE LEGALLY BOUND BY THE PLATFORM DOCUMENTATION. BY AGREEING TO THE PLATFORM DOCUMENTATION, CUSTOMER ACKNOWLEDGES RECEIPT OF THE ETORO PRIVACY POLICY AND THE BROKER’S FORM CUSTOMER RELATIONSHIP SUMMARY (FORM CRS), WHICH ARE ACCESSIBLE VIA THE DISCLOSURE PAGE ON THE WEBSITE AND THE APP.

CUSTOMER UNDERSTANDS THAT THIS PLATFORM DOCUMENTATION MAY BE AMENDED FROM TIME TO TIME BY BROKER POSTING REVISED AGREEMENTS

AND/OR APPLICABLE DOCUMENTATION TO THE WEBSITE AND THE APP, WITH OR WITHOUT ADVANCE NOTICE TO CUSTOMER VIA EMAIL OR OTHER ELECTRONIC MESSAGE VIA THE APP AND/OR THE WEBSITE. CUSTOMER UNDERSTANDS THAT BY CONTINUING TO MAINTAIN ACCOUNTS WITH BROKER WITHOUT OBJECTING TO ANY REVISED TERMS OF THE PLATFORM DOCUMENTATION, CUSTOMER WILL BE DEEMED TO HAVE AGREED TO AND ACCEPTED THE TERMS OF THE REVISED PLATFORM DOCUMENTATION (OR ANY PART THEREOF), AND WILL BE LEGALLY BOUND BY SUCH PLATFORM DOCUMENTATION. IF CUSTOMER REQUESTS OTHER SERVICES PROVIDED BY BROKER THAT REQUIRE CUSTOMER TO AGREE TO SPECIFIC TERMS AND CONDITIONS ELECTRONICALLY (THROUGH CLICKS OR OTHER ACTIONS) OR OTHERWISE, SUCH TERMS AND CONDITIONS WILL BE DEEMED INCORPORATED INTO AND MADE PART OF THIS PLATFORM DOCUMENTATION AFTER CUSTOMER AGREES TO SUCH TERMS VIA CLICKS OR OTHER SUCH ACTIONS. CUSTOMER ALSO UNDERSTANDS THAT BY CLICKING “CREATE ACCOUNT” (OR SIMILAR), CUSTOMER HAS ACKNOWLEDGED THAT THE GENERAL TERMS AND CONDITIONS CONTAIN A PREDISPUTE ARBITRATION CLAUSE IN SECTION I.26 THEREOF.

Updates made to this document since the prior version: This document has been updated to reflect that this options trading product may also be available by accessing the eToro (UK) Ltd. application already used by UK residents rather than solely through a separate eToro Options mobile application. Broker has also made additional operational and administrative updates and disclosures throughout the document.

TABLE OF CONTENTS

	Page
I. eToro – General Terms and Conditions	1
1. Acceptance of Terms and Conditions	1
2. Account Opening	2
3. Account Funding and Withdrawals	4
4. Flow of Property in Options Transactions	8
5. Fees	9
6. Customer Representations and Responsibilities	10
7. Broker Does Not Provide Investment Recommendations or Investment Advice	15
8. Promotions	15
9. Third Party Services	16
10. Limited License; Restrictions; Intellectual Property	17
11. Information	19
12. Privacy	22
13. Electronic Access to Platform	22
14. Electronic Signatures and Agreements	24
15. Consent to Electronic Delivery of Documents	24
16. Telephone Conversations and Electronic Communications	27
17. Text Message Terms and Disclaimers	27
18. Customer Instructions	27
19. Effect of Attachment or Sequestration of Accounts	28
20. Unclaimed Property	28
21. Event of Death	28
22. Force Majeure	29
23. Tax Reporting; Tax Withholding	30
24. Effective Date; Termination; Modifications	31
25. Limitation of Liability; Indemnification	32
26. Arbitration Agreement	35
27. Binding Effect; Assignment	37
28. No Waiver; Cumulative Nature of Rights and Remedies	37
29. Conflict of Terms	38

30.	Interpretation	38
31.	Applicable Law; Severability	39
II.	eToro USA Securities Inc. Customer Agreement	40
1.	Platform Trading; Overview	40
2.	Authorization	42
3.	Clearance of Trades	43
4.	Additional Options Trading Details	43
5.	Restrictions on Trading	44
6.	Extended Trading Hours and Brokerage Risks and Disclaimers Regarding Extended Trading Hours	45
7.	Review of Confirmations and Statements	46
8.	Market Data	47
9.	Market Volatility; Market Orders; Limit Orders; Stop Orders; and Queued Orders	49
10.	Customer Representations and Responsibilities	50
11.	Erroneous Distributions	53
12.	Industry Relationships and Disclosure	53
13.	Exchange Traded Funds	54
14.	Bulletin Board/Pink Sheet/Over-the-Counter Stocks	55
15.	Payment For Order Flow	55
16.	Automated Customer Account Transfer Service	56

Appendix A: Glossary of Defined Terms

Appendix B: Apex New Account Application & Agreement

Appendix C: Apex Limited Purpose Margin Agreement

Appendix D: Apex Option Agreement

Appendix E: Broker Form CRS

Appendix F: NYSE Agreement for Market Data Display Services

Appendix G: OPRA Subscriber Agreement

Appendix H: Nasdaq UTP Plan Subscriber Agreement

Appendix I: eToro Privacy Policy and Privacy Notices

Appendix J: eToro Options: Customer Responsibilities

Appendix K: Characteristics and Risk of Standardized Options

Appendix L: Apex FDIC Sweep Program Terms and Conditions

General Terms and Conditions

I. General Terms and Conditions

1. Acceptance of Terms and Conditions

- A. By using the Platform, Customer agrees to follow and be bound by these General Terms and Conditions. Customer understands and acknowledges that Customer's relationship with each Broker is further governed by the terms of the Platform Documentation, including: (i) the Broker's Customer Agreement that further details the services provided by Broker ("Services"); (ii) the Apex New Account Application & Agreement, Limited Purpose Margin Agreement, and Options Agreement, each with the Clearing Broker and Broker, which agreements are incorporated herein as Appendices B through D and (iii) Broker's then-current policies relating to Customer access to Information, the Services and the Platform, and all other Platform Documentation detailed in the preamble. Capitalized terms used but not defined in these General Terms and Conditions have the meaning assigned to them in the Platform Documentation overview above.
- B. CUSTOMER UNDERSTANDS AND AGREES THAT WHEN CUSTOMER OPENS ACCOUNTS AND ACCESSES THE PLATFORM, CUSTOMER WILL INTERACT WITH DIFFERENT ETORO ENTITIES DEPENDING ON CUSTOMER'S ACTIVITIES ON THE PLATFORM. IN THE EVENT THAT CUSTOMER HAS ANY QUESTIONS REGARDING CUSTOMER'S RELATIONSHIP WITH ANY OF THE ETORO ENTITIES, OR QUESTIONS REGARDING ANY OF THE INFORMATION CONTAINED IN THE PLATFORM DOCUMENTATION, CUSTOMER MUST IMMEDIATELY CONTACT US CUSTOMER SERVICE PRIOR TO ENGAGING IN ANY ADDITIONAL TRADING AND/OR RELATED ACTIVITY ON THE PLATFORM. IN SUMMARY TO FURTHER ASSIST WITH YOUR CLEAR UNDERSTANDING: (1) INTRODUCTORY, MARKETING, AND SOME ADMINISTRATIVE SERVICES ARE PROVIDED BY ETORO UK; (2) OPTIONS TRADING IS OFFERED BY THE BROKER THROUGH THE "ETORO OPTIONS" PRODUCT NAME AND BROKER WILL PROVIDE CUSTOMER SERVICE SUPPORT.
- C. CUSTOMER UNDERSTANDS THAT BROKER DOES NOT GUARANTEE UNINTERRUPTED ACCESS TO ITS PLATFORM AND SERVICES OR THAT ALL ORDERS AND REQUESTS SUBMITTED TO BROKER WILL BE EXECUTED SUCCESSFULLY. CUSTOMER UNDERSTANDS THAT THERE MAY BE INSTANCES WHEN CERTAIN SERVICES ARE AVAILABLE TO SOME CUSTOMERS BUT NOT OTHERS SUCH AS WHEN BROKER IS IN THE PROCESS OF TESTING AND DEPLOYING NEW AND UPDATED SERVICES. SPECIFICALLY, NOT ALL CONTENT, PROMOTIONS, FEATURES, AND SERVICES THAT BROKER MAKES AVAILABLE TO ITS US

General Terms and Conditions

CUSTOMERS ARE AVAILABLE TO UK CUSTOMERS. CUSTOMER ALSO UNDERSTANDS THAT AS PART OF THIS UK PILOT, BROKER MAY WAIVE SOME FEES FOR UK CUSTOMERS FOR A LIMITED PERIOD OF TIME. THIS DOES NOT MEAN SUCH FEES WILL ALWAYS BE WAIVED AND IT IS AT BROKER'S DISCRETION TO DETERMINE IF AND WHEN TO START CHARGING SUCH FEES FOR UK CUSTOMERS. LEARN MORE ABOUT TYPICAL FEES FOR OPTIONS ACCOUNTS [HERE](#).

2. Account Opening

- A. To access the Platform, Customer will be required to have opened an account with eToro UK, as well as an options trading account with the Broker held at the Clearing Broker (a "Options Account") to trade options on securities (exchange-traded funds and stocks). Customer will only be eligible to open and trade in that Options Account after: (i) they satisfy initial and ongoing eligibility criteria determined by the Broker and the Clearing Broker (as well as whatever eligibility analysis already performed by eToro UK); and (ii) the Options Account is funded in accordance with the instructions below. Not all products and services offered by Clearing Broker are made available to Broker and its Customers and so there may be some language in Clearing Broker's agreements that is not applicable to you.
- B. To help the US government fight the funding of terrorism and money laundering activities, United States federal law (and other jurisdictions) requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.
- C. Therefore, before opening an Options Account on your behalf, Broker will ask for Customer's name, address, date of birth and other identifying information and may ask for copies of Customer's driver's license, passport, or other identifying documents in order to verify the accuracy of information provided. Broker will also seek additional information from Customer for evaluation and may seek to verify the information provided by Customer or conduct additional follow up, prior to the Customer having options trading access. Customer agrees to provide accurate information to Broker and will provide prompt notification to Broker of any changes in information previously provided including, without limitation, Customer's name, address, email address, and telephone number. Customer further agrees not to impersonate any person or entity, misrepresent any affiliation with another person, entity or association, use false headers, or otherwise conceal Customer's identity from Broker for any purpose. Broker may take steps to verify the accuracy of the

General Terms and Conditions

information provided by Customer, and Broker may restrict Customer's access to the Options Account, Platform, and the Services pending such verification.

- D. To facilitate the completion of the account opening process described above, you authorize your wireless telephone carrier to use or disclose information about your account and your wireless device, if available, to Broker or its service provider for the duration of your relationship with Broker, solely to help Broker or its service provider identify you or your wireless device and to prevent fraud. See eToro's [Privacy Policy](#) for how we treat your data. This service may not be available for or required of all Customers.
- E. Broker reserves the right to assess, limit, terminate, or reassess at any time Customer's eligibility to maintain an Options Account and utilize the Platform and Services. Without limiting the foregoing, by accessing the Platform and utilizing the Services, Customer acknowledges and understands that laws regarding financial instruments may vary and it is Customer's obligation alone to ensure that Customer fully complies with any law, regulation, or directive relevant to Customer's country or state of residency with regard to the use of the Platform and the Services. The Customer's ability to open an Options Account and access the Platform does not necessarily mean that Customer's activities in connection therewith are legal under the laws, regulations, or directives relevant to Customer's country or state of residency.
- F. Customer understands that if Customer attempts to access the Options Account from a jurisdiction subject to certain U.S. sanctions, if Customer is ordinarily resident in such a jurisdiction, or if Broker reasonably believes that Customer is attempting such access or has become a resident in such a jurisdiction, Broker may restrict the Options Account, and any pending orders may be canceled. In such case, Broker may liquidate existing positions in the Options Account and the liquidated funds, less any portion thereof owing to Broker in the form of fees shall be transferred to Customer's funding account unless we are prohibited from doing so by any applicable laws or regulations. Upon termination of the Options Account, Broker may immediately deactivate Customer's access to the Platform, Services, and Information, as further described in Section I.24 below.
- G. eToro may administratively combine multiple Options Accounts held by a Customer. eToro may also limit the number of Accounts that a Customer may hold, as well as the number of Options Accounts that one household may hold.

General Terms and Conditions

3. Account Funding and Withdrawals

You are responsible for funding your options account, and we reserve the right not to execute any options purchases for you unless you have deposited adequate U.S. dollars into your eToro Options Account. You can fund your eToro Options Account by using a bank transfer from or to your own bank account, by instructing eToro UK to transfer money from your trading account operated by eToro UK ("UK Trading Account"), or any other methods which we may accept at our sole discretion from time to time, all subject to the terms and conditions detailed herein. By Transferring money to your eToro Options Trading Account you hereby confirm and acknowledge the following:

- A. You understand that you should not transfer money that originated by using a credit card to fund the purchase of options. Broker has the authority to block such funding transfers that ultimately come from credit cards if it deems it appropriate.
- B. In addition, you hereby acknowledge that the Options Account is denominated in US dollars only and that any transfer may be subject to certain fees and charges imposed by the applicable payment provider (such as, but not limited to, currency exchange fees and transfer fees) which may be deducted by your payment provider from the requested amount.
- C. When you use a bank transfer, you must enter the correct bank account details provided to you by us, otherwise we may not receive your deposit.
- D. The Broker will use reasonable efforts to process requests for deposits or withdrawals within 7 business days. Broker has the authority to reject incoming wire requests if the number or dollar value of such requests is unreasonable or overly burdensome for Broker to process.
- E. Broker has the authority to implement, adjust, and enforce minimum deposit and withdrawal amounts. These requirements and any corresponding fees are subject to change at Broker's decision. Learn more about such fees in Broker's Fee Schedule at https://www.etoro.com/wp-content/uploads/2021/10/Fees_Schedule.pdf.
- F. When Customer deposits and withdraws money to and from the Options Account, those funds move directly between the Clearing Broker and the Customer's source of funds (i.e., the Customer's own bank account or Uk Trading Account). In addition to the information disclosed in this document, Customer should review the Clearing Broker's Customer Agreement for additional information. Clearing Broker may also charge certain money transfer fees. Clearing Broker's agreements may be found in the [Disclosure Library](#).

General Terms and Conditions

CUSTOMER ACKNOWLEDGES THAT ANY CASH USED TO FUND TRADES IN THE OPTIONS ACCOUNT IS DEPOSITED WITH AND HELD AT CLEARING BROKER, AND IS SUBJECT TO THE TERMS OF THE APPLICABLE AGREEMENTS WITH THE CLEARING BROKER.

- G. eToro will have the right to setoff all liabilities of Customer for any eToro entities against the Options Account and all Property therein in accordance with Section 5.D. eToro will also have the right to setoff all liabilities of Customer for debts relating to the Options Account against Property in Customer's other eToro accounts. This means that if Customer has liabilities to eToro UK due to activity in an eToro UK account, Broker may sell Property in Customer's Options Account to satisfy those debts, and vice versa. "Property" means all fiat currency (cash), securities, Options, and other financial instruments, whether for present or future delivery, and all related distributions, proceeds, products and accessions.
- H. It is the discretion of Broker and Clearing Broker to determine which transfer payments will be accepted. All payments must be made in Customer's name. For the avoidance of doubt, unless otherwise approved by Broker, Third Party-directed payments or payments directed by anonymous sources shall not be accepted. All methods of deposit and withdrawal that are available for Options Accounts opened by US customers may not be available for Broker's UK customers.
- I. Broker reserves the right to impose payment, deposit or withdrawal limits and payment, deposit or withdrawal fees by giving Customer reasonable advance notice. These fees are subject to change and such updates will be posted on the "Fees" webpage noted below. If Broker accepts any payment method that may charge processing fees, Broker reserves the right to charge Customer a transfer fee. **Broker's deposit, withdrawal, and transfer fees are as set forth on the Website in Broker's Fee Schedule at: https://www.etoro.com/wp-content/uploads/2021/10/Fees_Schedule.pdf.** Broker's decision to waive such fees in one instance does not mean those fees are waived without Broker's explicit agreement in writing in the future.
- J. Customer understands that from time to time Broker, or Clearing Broker may request Customer to provide certain documents to verify the details of any means of payment used by Customer to deposit funds into the Options Account. Customer may be required to submit additional documentation as required by "know-your customer" or anti-money laundering regulations and any other similar regulations, or related internal policies concerning such regulations. While verification is pending, Customer may not be permitted to deposit fiat money into the Options Account or use or continue to use any of the Services. Broker's internal investigations may cause Broker to hold Customer Property significantly

General Terms and Conditions

longer than the period indicated herein. Failure to provide requested information or the provision of inaccurate or misleading information may result in Broker blocking, suspending, or limiting Customer's access to the Platform and the termination of the Options Account. Broker reserves the right to decline a transaction and return Property to the remitter net of any transfer fees or other charges, for any reason, including if the Broker is not satisfied that Customer is the sender of the Property.

K. Customer understands and acknowledges that Customer's Property is treated differently and subject to separate regulatory regimes. Customer agrees to and understands the following:

- a. The Broker is a member of the Securities Investor Protection Corporation ("[SIPC](#)"), which protects the securities of customers of its members up to \$500,000 (including \$250,000 for claims for cash). SIPC coverage protects against the failure of a member firm but does not protect against a decline in the market value of securities. Customer should review the [Clearing Broker's Customer Agreement](#) for additional details regarding SIPC coverage of assets held in the Options Account(s). Customers can also contact SIPC at (202) 371-8300 or visit www.sipc.org.
- b. By agreeing to the Platform Documentation and by opening an Options Account, you are instructing Clearing Broker to sweep dormant cash in your Options Account to a deposit account opened by the Clearing Broker at an FDIC-member bank, and then back to your Options Account when you place an options trade. Clearing Broker's list of banks that participate in its cash sweep program is available [here](#). You can review the relevant terms and conditions for the Clearing Broker's cash sweep program [here](#). As described in that document, the Clearing Broker sweeps cash held in the Options Account into an omnibus account in its name at a bank. That available cash earns interest which is retained by the Clearing Broker and Broker and not shared with customers. However, Clearing Broker and Broker also offer Customers with an Options Account a voluntary High Interest Cash Program where a Customer can earn and receive interest on cash held in their Options Account. Such Customers must indicate to Broker that they want to participate in this program, agree to the relevant [terms and conditions](#), and may be charged a monthly fee for participating in that program. Please learn more [here](#), [here](#), and [here](#). As noted previously, FDIC insurance covers the failure of an FDIC-insured bank, not the failure of the Clearing Broker, Broker, or any other entity. You can contact [Broker's Customer Service](#) if you'd like to opt out of the Clearing Broker's cash sweep program.

General Terms and Conditions

L. ACH/Wires

- a. Where applicable, Customer agrees to be bound by the National Automated Clearing House Association (“ACH”) operating rules, and any applicable local ACH operating rules, and any similar operating rules governing the use of wire transfers.
- b. Customer agrees not to exercise the right to claim Property back pursuant to rules governing the use of wire or ACH transfers (a “Chargeback”) other than for an unauthorized transfer or for a breach by Broker of the Platform Documentation, in which circumstance Customer will have a right to a refund not to exceed the unauthorized amount. Customer understands Broker may seek reimbursement from Customer for any costs and expenses associated with an improperly requested Chargeback, including retaining any profits from trades associated with the improperly transferred funds and/or improper Chargeback request.
- c. Customer agrees that money transferred via ACH or wire transfer may not be reflected in a deposit credited to the Options Account during periods of processing delays. Without limiting any other rights of eToro to delay a transfer from the Options Account or to deny a request from a transfer, Broker reserves the right to delay or prevent a withdrawal of proceeds of any deposit pending verification of final payment. If Customer believes that a transfer has not been properly credited to the Options Account, Customer agrees to notify the relevant eToro promptly. If final payment is not received, or if the Options Account has been credited by mistake, Customer hereby agrees to reimburse Broker, as applicable for such final payment or the amount of such erroneous credit, as applicable.

M. Debit Cards

- a. Customer may use debit cards to deposit and withdraw funds. Broker has the right to determine which debit card providers to support, and eToro reserves the right to change which debit card providers Broker supports at any time without notice. Broker reserves the right to increase and/or decrease daily debit card purchase limits, in Broker’s sole discretion and without notice.
- b. Debit card transactions are executed immediately; however, Broker reserves the right to hold fiat money and/or other Property sufficient to cover Property drawn in connection with debit card transactions, which amount may exceed the amount of Property drawn in connection with such debit card transaction based on Broker’s assessment of potential fluctuations of the price of such Property, and to prevent withdrawal of

General Terms and Conditions

Property from the eToro Options Account until any transactions effected with Property drawn from debit card transactions are considered settled. Customer agrees and understands that in certain circumstances, debit card transaction settlement times may be delayed in connection with Force Majeure Event, Platform downtime or disruptions to Third Party Services.

c. If Customer uses a debit card to deposit Property, Customer declares that they will not exercise the right to claim a Chargeback other than for unauthorized use of the debit card or for a breach by eToro of the Agreements, in which circumstance Customer will have a right to a refund not to exceed the unauthorized amount. Customer understands eToro may seek reimbursement from Customer for any costs and expenses associated with an improperly requested Chargeback.

N. PayPal

If a Customer uses PayPal to deposit Property, Customer declares that they will not exercise the right to claim a Chargeback other than for unauthorized use of their PayPal account or for a breach by eToro of the Agreements. In those cases, Customer will have a right to a refund not to exceed the unauthorized amount. Customer understands that eToro may seek reimbursement from Customer for any costs and expenses associated with an improperly requested Chargeback

O. Without derogating from any other provision, whether it is due to trade errors, or other operational issues, there may be instances where Broker seeks to provide limited cash credits to Customers. Broker will make reasonable efforts to deliver such assets to Customers and former Customers who have closed their accounts. Broker does not guarantee the successful delivery of such assets and has the authority to decide not to make efforts to provide *de minimis* credits.

4. Flow of Property in Options Transactions

- A. Customer understands and acknowledges that the Platform is operated by the Broker. All options transactions effected on the Platform are handled exclusively by Broker through the Clearing Broker.
- B. Any funds associated with options transactions initiated by Customer on the Platform move between Customer's source of funds to the Customer's Options Account at the Clearing Broker. The proceeds for any Options Account transactions settle in the Options Account at Clearing Broker. Any withdrawals move from the Options Account to Customer's selected recipient of those funds.

IN THE EVENT THAT CUSTOMER HAS ANY QUESTIONS REGARDING ANY OF THE ABOVE REFERENCED PLATFORM DISCLOSURES OR IS UNCERTAIN AS TO HOW OR IN WHAT CAPACITY AN OPTIONS BUY OR

General Terms and Conditions

SELL ORDER WILL BE HANDLED OR TREATED, CUSTOMER AGREES THAT CUSTOMER SHOULD IMMEDIATELY CONTACT ETORO CUSTOMER SERVICE PRIOR TO ENGAGING IN ANY TRADING AND/OR RELATED ACTIVITY ON THE PLATFORM.

5. Fees

- A. General. Any charges to Customer's Accounts shall accrue until paid and posted to the applicable Account on the day following payment of the debit balance. Interest due on an Account is payable on demand. Customer agrees to pay such expenses incurred by Broker in connection with collection of any unpaid balance due on an Options Account, including attorneys' fees allowed by law.
- B. Fees and Commissions. Customer will be subject to certain fees and commissions, which may vary, and Customer agrees to promptly pay the contract fees, commissions, charges, wire processing fees, and other fees and costs (including fees of the Clearing Broker), at the then-prevailing rate, as set forth on the Website at: https://www.eto.com/wp-content/uploads/2021/10/Fees_Schedule.pdf, as applicable to Customer's Accounts and the transactions and Services Customer receives, which Broker may modify from time to time. Customer acknowledges that the prevailing rate of commissions and fees may change without notice, and Customer agrees to be bound by such changes. Customer understands that when Broker agrees to waive or not impose certain fees in a specific situation or during certain time periods, it does not mean those fees will be waived in the future too. Customer also agrees to pay all applicable federal, state, local, and foreign taxes.
- C. Additional Fees. Broker may charge Customer for the provision of Market Data or any other Account feature or such other fees as Broker may reasonably decide from time to time. This includes Broker having the authority to charge an inactivity fee if Customer has not engaged with Broker for an extended period of time as defined on the fees page. Such fees will be deducted from a relevant Customer's cash balance.
- D. Lien and Right of Setoff, Reserve. To secure repayment of Customer's obligations with respect to eToro, the Services, the Platform, and/or the Options Account, and Customer's other accounts at Broker's affiliates, Customer hereby pledges and grants to eToro and agrees eToro will have, to the maximum extent permitted by law, a continuing first lien and security interest in, and right of setoff against, the Options Account and all Property therein. Further, with prior written notice to Customer, eToro may establish a reserve account ("Reserve Account") to ensure Customer pays all amounts owed if Customer: (i) breaches the Platform Documentation; (ii) is subject to a material regulatory action or proceeding that eToro reasonably determines makes it prudent for it to engage counsel

General Terms and Conditions

or incur expenses to manage the Accounts; or (iii) is likely to become the subject of bankruptcy or insolvency proceedings, each as reasonably determined by eToro. If eToro creates a Reserve Account, eToro will provide prior written notice to Customer of the reasons therefore and the required Reserve Account balance. eToro may use Reserve Account Property to pay Customer obligations to eToro, and if such Property is used, eToro will account to Customer for such Property used in Customer's Account Statements. For the avoidance of doubt, to secure repayment of Customer's obligations pursuant to this Section I.5.D, Customer authorizes Broker to liquidate outstanding positions in the Options Account (including instructing the Clearing Broker to liquidate any such outstanding positions) and use the proceeds to satisfy any liabilities owed to eToro in respect to the Options Account or other accounts Customer has with Broker's affiliates.

6. Customer Representations and Responsibilities

- A. General. Each time Customer accesses the Platform and utilizes the Services, Customer is deemed to represent and warrant that: (i) Customer is of legal age under the laws of the jurisdiction where Customer resides and is authorized to enter into the Platform Documentation; (ii) Customer is of sound mind and capable of taking responsibility for Customer's own actions and has full capacity and authority to enter into and be bound by transactions effected using the Services; (iii) if an entity, Customer is duly formed, validly existing and in good standing in its state of organization, has full power and authority to enter, agree to, and satisfy the obligations noted in the Agreements, and the persons signing account applications and related documentation are fully authorized to act on Customer's behalf; (iv) no person, except Customer (or any person named in a separate agreement or joint Account), has any interest in the Options Account opened pursuant to the Platform Documentation; (v) Customer is neither insolvent nor has Customer been found by a court or regulatory body to be bankrupt or insolvent through a judicial or regulatory proceeding; (vi) Customer understands that financial laws, rules, regulations, financial codes, financial ethics, and contractual requirements vary worldwide and from state to state and that Customer has verified and determined that Customer's use of the Services does not violate any such laws or regulations of any jurisdiction that applies to Customer; (vii) Customer understands that Customer is responsible for any regulatory reporting requirements applicable to Customer's transactions effected using the Services; and (viii) all Customer Property used in connection with the Services does not originate in any way from drug trafficking, abduction, terrorist activity, or any other activity that is criminal or unlawful or could be considered unlawful by any relevant authority.
- B. Prohibited Use. Customer may use the Services only for personal, non-business, non-commercial uses. All other uses of the Services by

General Terms and Conditions

Customer are prohibited (“Prohibited Uses”). Broker reserves the right to cancel or suspend an Options Account or block and cancel transactions or freeze Property immediately and without notice if Broker determines, in its sole discretion, that an Options Account is associated with a Prohibited Use. If at any time Customer is uncertain as to whether or not Customer’s use of the Services involves a Prohibited Use, or if Customer has any questions about how these requirements apply, please contact Customer Service. For the avoidance of doubt, Prohibited Uses include, but are not limited to:

- a. Investment Activity: Making statements as to Customer’s eligibility to provide investment advice, portfolio management or any other services or activities which may require a license, registration or notification in the state where Customer is resident or the state where other Customers are resident.
- b. Endorsements: Making statements that eToro endorses, maintains any control or guarantees the accuracy or completeness of any Customer Content or other information published, posted, or shared by Customer with other Customers.
- c. Unlawful Activity: Engaging in activity which would violate, or assist in violation of, any law, statute, ordinance, or regulation, sanctions programs administered in the countries where eToro conducts business, including, without limitation, the U.S. Department of Treasury’s Office of Foreign Assets Control, or which would involve proceeds of any unlawful activity; publish, distribute or disseminate any unlawful material or information.
- d. Abusive Activity: Taking actions which impose an unreasonable or disproportionately large load on eToro’s infrastructure, or detrimentally interfere with, intercept, or expropriate any system, data, or information; transmit or upload any material to the Platform that contains viruses, Trojan horses, worms, or any other harmful or deleterious programs; attempt to gain unauthorized access to the Platform, other Customers’ Accounts, computer systems or networks connected to the Platform, through password mining or any other means; use Account Information of another party to access or use the Platform; or transfer Customer’s Account access or rights to Customer’s Account to a Third Party, unless by operation of law or with the express permission of eToro.
- e. Circumvention and Reverse Engineering: Unlawfully accessing or attempting to gain access, reverse engineer or otherwise circumvent any security measures that Broker has applied to the Services or the Platform.

General Terms and Conditions

- f. Artificial Intelligence Software: Using any software which purpose is to apply any kind of artificial intelligence analysis to the Services or the Platform.
- g. Abusive Trading Techniques: Utilizing trading strategies aimed at manipulating the price of securities (including options trading) or other financial instruments by, among other things, exploiting errors in prices or concluding trades at off-market prices, or taking advantage of internet delays (such a scalping or sniping), including, without limitation, entering into transactions or combinations of transactions which taken together or separately are for the purpose of manipulating the Platform, the Services, or any market. Market manipulation tactics include, but are not limited to:
 - i. False information: Never post misleading information about your account and/or your trading skills.
 - ii. Investment advice: Never offer any direct investment advice, or anything that may be interpreted as investment advice. Do not call for direct action (such as “invest in”).
 - iii. Market manipulation: Do not make false promises or entice others to trade/invest or attempt to create volatile market situations.
 - iv. User manipulation: Do not provide instructions on specific trades or on how to trade.
 - v. Fake news: Do not share/spread misinformation, unverifiable information and rumors.
 - vi. Spamming: Do not use collusive and manipulation practices and avoid transferring misinformation in order to distort the financial markets, and posting the same information multiple times on various posts.
- h. Abuse Other Customers: Interfering with another individual’s or entity’s access to or use of any Services; defame, abuse, extort, harass, stalk, threaten or otherwise violate or infringe the legal rights (such as, but not limited to, rights of privacy, publicity and intellectual property) of others; incite, threaten, facilitate, promote, or encourage hate, racial intolerance, or violent acts against others; harvest or otherwise collect information from the Platform about others, including, without limitation, email addresses, without proper consent.

General Terms and Conditions

- i. Fraud: Engaging in activity which operates to defraud eToro, Customers, or any other person; or provide any false, inaccurate, or misleading information to eToro.
 - j. Gambling: Engaging in activity involving lotteries; bidding fee auctions; sports forecasting or odds making; fantasy sports leagues with cash prizes; internet gaming; contests; sweepstakes; and games of chance.
 - k. Intellectual Property Infringement: Engaging in transactions involving items that infringe or violate any copyright, trademark, right of publicity or privacy or any other proprietary right under the law, including, without limitation, sales, distribution, or access to counterfeit music, movies, software, or other licensed materials without the appropriate authorization from the rights holder; using of eToro intellectual property, name, or logo, including, without limitation, use of eToro trade or service marks, without express consent from eToro or in a manner that otherwise harms eToro or the eToro brand; or taking any action that implies an untrue endorsement by or affiliation with eToro.
 - l. Competition: Utilizing confidential information received by Customer from eToro, eToro's affiliates, or a Third Party to develop a service that competes with any service of eToro, including the Services.
- C. Customer Information. Customer: (i) certifies that the information Customer provides to Broker for purposes of entering into the Platform Documentation and any other document furnished to Broker in connection with Customer's Options Account is complete, true and correct; (ii) understands that information provided to Broker about Customer's Options Account (such as risk tolerance) will be used, among other purposes, to determine Customer's eligibility to trade options and Customer agrees to provide current, accurate and complete information and to update such information as and when any information previously provided becomes inaccurate; (iii) attests that the information Customer has already provided to eToro UK is both correct and current; (iv) understands that information and documents - including tax records - Customer has provided to eToro UK will be shared and utilized by Broker and Clearing Broker; and (v) agrees that the Platform Documentation and any other document furnished in connection with the Options Account are proprietary to Broker. Customer shall promptly advise Broker in writing of any changes to the information that Customer has provided to Broker for purposes of entering into the Platform Documentation and any other document furnished to Broker within seven (7) calendar days of such information or document being incorrect. Customer also understands and

General Terms and Conditions

agrees to all relevant terms in eToro's [Customer Identification Program \(CIP\) Notice](#).

Customer authorizes Broker to contact any individual or firm noted in any of the Platform Documentation and other documents and any other normal sources of debit or credit information and authorizes anyone so contacted to furnish such information to Broker as may be requested. Further, Customer shall immediately advise Broker of any changes to the information in such Platform Documentation or other documents in writing. Customer authorizes Broker to obtain reports and to provide information to others concerning Customer's creditworthiness and business conduct. Upon Customer's request, Broker agrees to provide Customer a copy of any report so obtained. eToro may retain the Platform Documentation and other documents, including the Broker Customer Agreement, Account applications and all other such documents and their respective records, at eToro's sole discretion.

- D. Risks. Customer understands that all investments involve risk, that losses may equal the entire principal invested, and that the past performance of a security or other financial product does not guarantee future results or returns. Customer also understands that options trading involves greater risk. While diversification may help spread risk, it does not assure a profit or protect against loss. There is always the potential of losing money when you invest in securities. Customers should consider their investment objectives and risks carefully before investing. The price of a given security may increase or decrease based on market conditions and Customer may lose money, including their original investment. Customer further understands that there are risks associated with utilizing an internet-based trading system including, without limitation, the failure of hardware, software, and internet connections as well as the risk of malicious software introductions.
- E. Account Defaults. Customer understands that each Account may come with defaulted service instruction features and preferences. Customer further understands that Customer is not required to use these defaulted options or preferences and that once an Account is approved and opened Customer has the sole discretion to control and adjust such defaulted service preferences that relate to the Account. Please review <https://www.etoro.com/settings/> to make certain settings updates.
- F. Assistance by the Broker. Customer understands that when requesting assistance from the Broker or any of its employees in using the investment tools available on the Website or the App, such assistance will be limited to an explanation of the tool's functionality. Customer further understands that when requesting any additional assistance from the Broker or any of its employees, such assistance will be limited to the entry of variables provided by Customer, and that such assistance does not constitute

General Terms and Conditions

investment advice, an opinion with respect to the suitability of any transaction, or solicitation of any orders.

- G. Representatives. Customer understands that they shall not grant trading authority or control of their Options Account to a Third Party. If Customer disregards this requirement, they do so at their own risk and Broker shall not be responsible for any loss to Customer that results from such action. eToro reserves the right to terminate the Options Account or reject proposed transactions if it learns such delegation has occurred.
- H. No Tax or Legal Advice. Customer understands that neither the Broker Customer Agreement nor any other document or communication received from Broker shall be construed as providing any legal, accounting, estate, actuary, or tax advice. Customer agrees to review publicly available information regarding Customer's positions in each of the Accounts, Account Statements, and transaction confirmations. Customer must rely upon its own representatives, including its own legal counsel and accountant, as to legal, tax and related matters concerning any of Customer's activities with respect to the Accounts, including any assets or transactions in the Accounts and for preparation of any legal, accounting or tax documents.

7. **Broker Does Not Provide Investment Recommendations or Investment Advice**

- A. Customer understands and acknowledges that the Broker will not recommend any investment strategies or otherwise offer investment advice of any kind. Likewise, eToro UK does not offer any investment recommendations or investment advice connected to the options trading platform or the Services made available by Broker. Customer is solely responsible for evaluating the merits and risks of investing in particular assets available for trading through the Broker, and Customer agrees to make such evaluation before making any investment or trading decisions through the Platform. As it relates to Customer's Accounts, Customer agrees not to hold Broker or any Third Party liable for any possible claim for damages arising from any investment or trading decision Customer makes based on the Information made available to Customer through the Platform or any Third Party websites, or any other information that is available to Customer.

8. **Promotions**

- A. All promotions offered by eToro are subject to promotion-specific terms and conditions, which may be available in the [Disclosure Library](#) or elsewhere on the Platform. Customer's eligibility for participation in any offered promotion may be based on any number of objective and/or subjective criteria. Notwithstanding any such criteria, eligibility for a

General Terms and Conditions

promotion will be determined at the sole discretion of eToro. Without limiting the foregoing, eToro may determine not to offer a promotion to Customer even though Customer satisfies the eligibility criteria established by Broker for the promotion. Additionally, UK customers may not be eligible to participate in all promotions offered to US customers offered by Broker. UK customers of Broker are only eligible for Broker's promotions if the promotion includes an explicit statement indicating it is also made available to UK customers. Further, eToro reserves the right to amend, retract, stop, deny, and/or withhold any and all promotions offered by eToro, at any time at eToro's sole discretion. In addition, if eToro suspects that Customer (whether acting alone or with others) manipulated or abused (or attempted to do so) a promotion and/or otherwise acted in bad faith towards eToro, then, eToro reserves the right, at eToro's sole discretion, to take the following actions with respect to Customer and/or to any person eToro considers is acting in concert with Customer: (i) temporarily or permanently block, suspend or terminate the Services or any portion thereof and close the Accounts, and/or (ii) remove and/or deduct any reward which might have been granted to Customer (taking into account any loss sustained which will be fully recognized); and/or (iii) remove and/or deduct any profits gained by Customer as a result of such manipulation or abuse, including without limitation, by closing any open positions in the applicable Options Account(s), and/or (iii) deny, withhold or withdraw from Customer such promotion and any future promotion. For the avoidance of doubt, in such circumstances, rewards or any other bonus granted to Customer and any profit or gains obtained by Customer may be withheld, while any loss suffered by Customer will be recognized and sustained.

9. Third Party Services

- A.** Broker may, at its sole discretion, arrange for certain actions on the Platform to be performed by or through certain Third Parties. In addition, Customer may be made aware of, or offered, Third Party Services. Broker's inclusion or promotion of Third Party Services on the Platform does not reflect a sponsorship, endorsement, approval, investigation, verification and certification or monitoring of such Third Party Services by Broker. Customer's acquisition of Third Party Services, and any exchange of data between Customer and any provider of Third Party Services, is solely between Customer and such Third Party. Customer chooses to use any Third Party Services at Customer's own risk, and under terms and conditions agreed between Customer and such Third Party. Customer further acknowledges that Broker has no control over Third Party Services and that Customer may be charged fees by the Third Party Service provider. Broker is not responsible for any Third Party Services' fees. Customer is solely responsible for the use of any Third Party Service, and Customer agrees to comply with all terms and conditions applicable to any Third Party Service when using such.

General Terms and Conditions

- B. The Services may contain features designed to interoperate with Third Party Applications. To use such features, Customer must procure Third Party Applications from the Third Party providers of such Third Party Applications, and may be required to grant Broker access to Customer's Accounts on the Third Party Applications. If Customer enables a Third Party Application for use with the Services, Customer grants Broker permission to allow the Third Party provider of that Third Party Application to access Customer's Account Information as required for the operation of that Third Party Application with the Services. Broker is not responsible for, and accepts no liability with respect to, any Third Party Application, including any disclosure, modification or deletion of content or personal data resulting from access by a Third Party Application. If the provider of a Third Party Application ceases to make the Third Party Application available for operation with the corresponding Services features on reasonable terms, eToro may cease providing those Services features without entitling the Customer to any refund, credit, or other compensation.
- C. Broker has no control over the delivery, quality, safety, legality or any other aspect of any goods or services that Customer may purchase or sell to or from a Third Party in connection with any Third Party Services or Third Party Applications. If Customer experiences a problem with any goods or services purchased from, or sold to, a Third Party, or if Customer has a dispute with a Third Party, Customer must resolve the dispute directly with that Third Party. If Customer believes a Third Party has behaved in a fraudulent, misleading, or inappropriate manner, or if Customer cannot adequately resolve a dispute with a Third Party, Customer may notify Customer Service so that Broker may consider what action to take, if any.

10. Limited License; Restrictions; Intellectual Property

- A. Limited License; Restrictions. Subject to the registration and eligibility requirements and the terms and conditions set forth herein, Broker hereby grants to Customer a limited, non-exclusive and non-transferable license to use the Services, which includes access to the Platform and Market Data. Customer may not: (i) modify, translate, reverse engineer, decompile, disassemble or create derivative works based on the Services or the related software; (ii) copy, alter, translate, decompile or reverse engineer the software, including, without limitation, modifying the software in any way; or (iii) remove, alter or cause not to be displayed, any trademarks, copyright notices or start-up messages contained in the programs or documentation.
- B. Intellectual Property. All of eToro's intellectual property assets and proprietary rights therein ("IP") including, without limitation, all copyrights, trademarks, patents, service marks, trade names, software

General Terms and Conditions

code, icons, logos, characters, layouts, trade secrets, buttons, color scheme and graphics are eToro's sole and exclusive IP and are all protected by local and international intellectual property laws and treaties including all copyright laws and regulations. Under no circumstances shall Customer remove any copyright notification from any of eToro's IP or unlawfully use the Website, App or Services. The use of the Services does not grant Customer any rights other than those granted to Customer by the revocable license set forth herein in any way. eToro owns or has requisite licenses to use all the images, graphics, video, audio, software code, user interface design or logos, and content displayed on the Website, App and all corresponding software used. Customer may not use IP in any way other than the manner in which eToro provides IP. Customer is not permitted to use any of eToro's IP for any other purpose without obtaining eToro's prior written consent. Nothing contained on the Website, App or the Platform shall be construed as granting, by implication or otherwise, any license or right to use any trademark without either eToro's written permission or the permission of the proprietor of such trademarks. Except as expressly stated herein, Customer may not, without eToro's prior written permission, alter, modify, reproduce, distribute or commercially exploit any materials, including, without limitation, text, graphics, video, audio, software code, user interface design or logos, from the Website, App or the Platform. If Customer links from another website to the Website, Customer's website, as well as the link itself, may not, without eToro's prior written permission, suggest that eToro endorses, sponsors or is affiliated with any non-eToro website, entity, service or product, and may not make use of any of the IP other than those contained within the text of the link.

- C. Notice of Infringement. In accordance with the Digital Millennium Copyright Act and other applicable laws, eToro has adopted a policy of limiting access to the Platform and the Services by, or terminating the Accounts of, individuals who infringe the intellectual property rights of others. If Customer believes that anything on the Platform or relating to the Services infringes any copyright that Customer owns or controls, Customer may file a notification of such infringement as set forth in 17 U.S.C. § 512(c)(3) with eToro's designated agent at the address below:

eToro USA Securities Inc.
Attn: Copyright Agent
Address: 221 River St., Hoboken, NJ 07030
Phone: 1-888-271-8365
Email: copyright-usa@etoro.com

General Terms and Conditions

11. Information

A. Information Made Available to Customer

- a. The Platform and Services may include and make available certain Information to Customer solely for Customer's personal, non-business, and non-commercial use. "Information" includes, without limitation, Customer Content, various analytical tools (such as Market Data), links to other websites, newsletters and other information ("Third Party Information") provided by Third Parties.
- b. By making Information available through the Platform, Broker does not endorse, represent, warrant, guarantee, sponsor or otherwise accept responsibility for, and accepts no liability for, any loss or damage relating to, the accuracy, availability, correctness, timeliness, completeness or suitability of such Information, including Third Party Information. Customer understands that: (i) Broker is not required to continue to provide or update any Information; (ii) the Information is subject to change without notice; (iii) Broker may cease to provide such Information at any time; (iv) Broker does not prepare, edit, or verify Third Party Information; (v) Information provided on the Platform, including any opinions expressed in Customer Content, does not reflect the views of Broker; and (vi) Information is intended for informational and educational purposes only and is not an endorsement by Broker of any securities or a recommendation by Broker to enter into any transactions in securities or to engage in any investment strategies, nor should such information be construed as investment, legal, or tax advice. For example, Broker may show certain tickers or symbols, or utilize lists of assets, on the Platform as examples of assets available for purchase or as informational resources available for Customers to review. Such lists are typically based on objective factors, such as performance and trading data, and are educational in nature. The inclusion of any such information on the Platform is not intended to amount to an investment recommendation or investment advice, and is not meant to be an endorsement of any such investment product by Broker. For the avoidance of doubt, Broker is not responsible for the termination, interruption, delay or inaccuracy of any Information.
- c. None of the Information may be redistributed or used for any purpose other than with respect to the Services, including, without limitation, any trading activity outside of the Platform and the Services. Customer will not enable deep linking or any other form or redistribution or re-use of the Information. Customer's use of

General Terms and Conditions

Third Party Information may be subject to any further terms and conditions imposed by Third Parties.

- d. “Market Data” includes all data and information: (i) concerning securities such as news, headlines, graphs, links to other websites, newsletters or information from other people; (ii) relating to market prices for securities in real time or on a delayed basis, including last sale information and quotation information, opening and closing market prices, the highest and lowest market price on Third Party exchanges, and ranges on Third Party exchanges; (iii) regarding markets in securities, including estimated and actual market volumes and the size, number, and existence of current market bids and offers on a given day, on Third Party exchanges; and (iv) all information that derives from any such information. The inclusion of news articles, Market Data, investment information, and social media posts by Broker or other Customers on the Platform are not investment recommendations, endorsements by Broker, or any type of investment advice.

B. Customer Content

- a. Customer will have access to the “eToro Community” (including the eToro Options website and mobile application, as applicable) where Customers can share information with each other (“Customer Content”). Customer access to the eToro Community is subject to the “Community Guidelines,” which are incorporated herein by reference and available on the Website at: <https://www.etoro.com/en-us/customer-service/community-guidelines/>.
- b. In addition to the Community Guidelines, Customer may not:
 - i. Post that eToro or anyone in eToro endorses or warrants Customer Content;
 - ii. Advertise or promote another business or service, or any type of commercial content, including spam;
 - iii. Post content abusive, inciteful, defamatory, harassing, insulting, sexually explicit, offensive, racist, rude, hateful, threatening, violent, or illegal; or
 - iv. Violate the privacy rights, publicity rights, copyright, contract rights, or any other rights of any individual or make derogatory remarks regarding, defame or otherwise criticize any person or entity. Customer shall be liable for any damage resulting from any infringement or other violation of the copyright, trademarks or other proprietary

General Terms and Conditions

rights of any individual or entity, and for any other harm or losses resulting from any Customer content.

- c. Customer understands and acknowledges that Customer is solely responsible for evaluating the merits and risks of investing in particular assets available for trading through the Broker. Customer further understands and acknowledges that Customer should not rely on any Customer Content to make an investment or trading decision and that eToro accepts no responsibility for losses of any kind by Customer due to Customer's reliance on any Customer Content or any other investment decisions undertaken by Customer on Customer's own volition.
- d. eToro may, in its sole discretion, review, monitor, remove (without notice), and take any other appropriate action (including blocking Customer access to the eToro Community temporarily or permanently, closing Accounts, reporting information to appropriate authorities, and cooperating in any investigation) with respect to any Customer, Customer Content, or Customer activity on the eToro Community.
- e. By posting Customer Content on the eToro Community, Customer specifically grants eToro a non-exclusive, irrevocable, transferable, sub-licensable, royalty-free, worldwide license to use, copy, duplicate, store, present and/or publish all or any part of Customer Content (including Customer username and image), and eToro shall be free to use such content, in any manner or media whatsoever, on an unrestricted basis and without any attribution or royalties or other compensation to Customer, including, without limitation, on social media, on the App, on the Website, in advertisements, in printed media, in newspapers and online.

C. Social Media

- a. eToro is not affiliated with any Third Party-hosted or -sponsored social media platforms and has no control over how these and other Third Party sites use the information you share. eToro is not responsible for the terms of use or privacy or security policies of any social media platforms, and you use such platforms at your own risk. eToro will report any posts that appear to violate the terms of use or privacy or security policies of any social media platforms and may remove posts for any reason or no reason.
- b. Any retweets, favorites, likes, or links to Third Party Information by eToro should not be construed as recommendations or endorsements by eToro, and any opinions expressed by a Third Party do not necessarily represent the views of eToro. eToro makes

General Terms and Conditions

no representations or warranties with respect to the accuracy or completeness of the information provided.

12. Privacy

- A. Customer consents to having Customer Information transferred to and processed by Broker, subject to the Privacy Policy, as may be amended from time to time, the receipt of which Customer hereby acknowledges. “Customer Information” means all information about Customer, which may include, among other things, information about Customer’s identity, liquidity needs, email address, physical address, tax residency, financial situation, or other information which Customer supplies through the Platform.
- B. Customer acknowledges that Broker shares some or all of the Customer Information with its affiliates, the Clearing Broker, regulators, vendors, and service providers, who are engaged by, or working with, Broker in connection with the operation of the Services provided to you, as further described in the Privacy Policy. Subject to the terms and conditions of the Platform Documentation, the Clearing Broker relies on some or all of the Customer Information to perform certain compliance functions including verifying Customer identity for Customer identification purposes and anti-money laundering purposes and confirming that the clearing broker is permitted to provide Customer with the Services under applicable U.S. economic sanctions against various countries, individuals, and organizations.
- C. Except as required by law or requested by regulatory authorities, Broker agrees to maintain all Customer Information in strict confidence, other than information that Customer agrees to share publicly. For more information about how Broker collects, uses, shares and otherwise processes information about Customer, please see the Privacy Policy, which is available on the Website at: <https://www.eto.com/en-us/customer-service/privacy/>. The default setting for eToro customers is to have public profiles in the Community , which means other users will be able to see a Customer’s username, photo, portfolio holdings, and/or other information the Customer makes available. This privacy setting can be changed by going to <https://www.eto.com/settings/privacy> or by contacting Customer Service.

13. Electronic Access to Platform

- A. To access the Platform, Customer will be required to choose a username and password (“Customer Login Information”) that will personally identify Customer and allow Customer to access the Options Account. Customer Login Information, Customer Information, and other Account

General Terms and Conditions

information, including Account numbers (“Account Information”) should be secure and kept confidential at all times, and it is Customer’s sole responsibility to safeguard Account Information.

- B. By using the Services, Customer represents and warrants to Broker that Customer has installed and implemented appropriate means of protection relating to the security and integrity of the internet-connected device(s) that Customer uses to access the Platform and the Services and that Customer has taken appropriate action to protect such devices from viruses or other similar harmful or inappropriate materials, devices, information, or data. Customer also represents and warrants to Broker that Customer will enable and maintain security measures, including, if applicable, multi-factor authentication, enabled by Broker with respect to the Accounts. Customer further undertakes to protect Broker from any wrongful transmission of computer or other viruses or similarly harmful or inappropriate materials or devices to the Platform. The use and storage of Account Information on Customer’s Mobile Device or Customer’s personal computer is at Customer’s own risk and is Customer’s sole responsibility. Except where Customer has provided notice to Broker of the occurrence of a Potential Fraudulent Event, Customer represents that Customer is solely responsible for and has authorized any orders or instructions appearing in, originating from, or associated with the Accounts, Customer Login Information, and/or Account Information.
- C. Customer agrees to immediately, but in no event more than twenty-four (24) hours following discovery, notify Broker in writing, delivered via email or a recognized international delivery service, if Customer becomes aware of: (i) any loss, theft, or unauthorized use of Account Information; (ii) any failure by Customer to receive any communication from Broker indicating that an order was received, executed or canceled, as applicable; (iii) any failure by Customer to receive an accurate written confirmation of an order, execution, or cancellation; (iv) any receipt by Customer of confirmation of an order, execution or cancellation, which Customer did not place; (v) any inaccurate information in or relating to Customer orders, trades, Account balances, deposits, withdrawals, securities positions or transaction history; or (vi) any other unauthorized use or access of the Accounts. Each of the foregoing events shall be deemed a “Potential Fraudulent Event.”
- D. Upon the notice to Broker of the occurrence of a Potential Fraudulent Event or Broker’s reasonable suspicion that a Potential Fraudulent Event has occurred or is likely to occur, Broker may amend or issue Customer new Account Information, require Customer to change Customer Login Information, and/or suspend or limit access to the Platform and Services.
- E. Upon request by eToro, Customer agrees to report any Potential Fraudulent Event promptly to legal authorities and to provide eToro a

General Terms and Conditions

copy of any report prepared by such legal authorities. Customer agrees to cooperate fully with the legal authorities and eToro in any investigation of any Potential Fraudulent Event. Customer understands that if Customer fails to do any of these things Customer may encounter delays in regaining access to Property in the Accounts.

14. Electronic Signatures and Agreements

- A. Customer agrees to transact business with Broker electronically. By electronically signing the Platform Documentation, Customer acknowledges and agrees that such electronic signature is valid evidence of Customer's consent to be legally bound by the Platform Documentation and such subsequent terms as may govern the use of the Platform. The use of an electronic version of any document fully satisfies any requirement that the document be provided to Customer in writing. Customer accepts notice by electronic means as reasonable and proper notice, for the purpose of any and all laws, rules and regulations. Customer understands that, if required by applicable law, or if Broker decides in its sole discretion, Broker may provide Customer with notices by other means, including emails linking to the Platform, other emails, text messages, and push notifications. The electronically stored copy of the Platform Documentation on the Website is considered to be the true, complete, valid, authentic and enforceable record of the Platform Documentation, admissible in judicial or administrative proceedings to the same extent as if the documents and records were originally generated and maintained in printed form. Customer agrees to not contest the admissibility or enforceability of Broker's electronically stored copies of the Platform Documentation.
- B. If Customer requests other Services provided by eToro that require Customer to agree to specific terms and conditions electronically (through clicks or other actions) or otherwise, such terms and conditions will be deemed an amendment and will be incorporated into and made part of the Platform Documentation, including the Broker Customer Agreement.

15. Consent to Electronic Delivery of Documents

- A. Consent. By agreeing to electronic delivery, Customer is giving informed consent to electronic delivery of all Agreement Documents. "Agreement Documents" include all Platform Documentation, notices, disclosures, current and future Account Statements, regulatory communications (such as prospectuses, proxy solicitations, and privacy notices), trade confirmations, tax-related documents, and any other information, documents, data, and records regarding the Accounts, Broker's Customer Agreement, and the Services delivered or provided to Customer by Broker, the issuers of the securities or other Property in which Customer invests, and any other parties. Customer represents that Customer can

General Terms and Conditions

access, view, download, save, and print any Agreement Documents received via electronic delivery for Customer's records.

- B. Electronic Delivery System. Customer acknowledges that Broker's primary methods of communication with Customer include: (i) posting information on the Website, (ii) providing information via the App, (iii) sending email(s) to Customer's email address of record, and, to the extent required by law, (iv) providing Customer with notice(s) that will direct Customer to the App or the Website where information can be read and printed. Unless otherwise required by law, Broker reserves the right to post Agreement Documents, including any amendments to Platform Documentation, on the Website without providing notice to Customer.
- a. Broker reserves the right to send Agreement Documents to Customer's postal or email address of record, or via the App or Website. Customer agrees that all Agreement Documents provided to Customer in any of the foregoing manners is considered delivered to Customer personally when sent or posted by Broker, whether Customer receives it or not.
 - b. All email notifications regarding Agreement Documents will be sent to Customer's email address of record. Customer agrees to maintain the email address provided to Broker until Customer provides Broker with a new one. Customer understands that email messages may fail to transmit promptly or properly, including being delivered to SPAM folders.
 - c. Customer agrees not to send any confidential information, including, without limitation, Account Information, in any unencrypted emails. Customer agrees to hold Broker, and all directors, officers, employees and agents of Broker harmless for any access by unauthorized or unintended Third Parties regardless of the cause.
 - d. Customer agrees to promptly and carefully review all Agreement Documents when they are delivered and notify Broker in writing within five (5) calendar days of delivery if there is objection to the information provided (or other such time specified in the Agreement Documents). If Customer fails to object in writing within such time, Broker is entitled to treat such information as accurate and conclusive. Customer will contact Broker to report any problems with accessing the Agreement Documents.
- C. Costs. Potential costs associated with electronic delivery of Agreement Documents may include charges from internet access providers and telephone companies, and Customer agrees to bear these costs. Broker will

General Terms and Conditions

not charge Customer additional online access fees for receiving electronic delivery of Agreement Documents.

- D. Revocation of Consent. Subject to the terms of the Broker Customer Agreement, Customer may revoke or restrict consent to electronic delivery of Agreement Documents at any time by notifying Broker in writing of the intention to do so. Customer also understands that Customer has the right to request paper delivery of any Agreement Document that the law requires Broker to provide to Customer in paper form. Broker will not treat Customer request for paper copies as a withdrawal of consent to electronic delivery of Agreement Documents. Customer understands that if revoking or restricting consent to electronic delivery or requesting paper delivery of Agreement Documents, Broker, in its sole discretion, may charge Customer a service fee for the delivery of any Agreement Documents that would otherwise be delivered to Customer electronically, restrict or close the Account(s), or terminate Customer's access to the Platform. Customer understands that neither the revocation or restriction of consent, nor the request for paper delivery, nor Broker's delivery of paper copies of any Agreement Documents will affect the legal effectiveness or validity of any electronic communication provided while consent was in effect. Customer further understands that Customer may not be able to opt out from receiving certain electronic communications from Broker, such as service announcements and administrative messages, that are part of providing the Platform to Customer.
- E. Duration of Consent. Customer consent to receive electronic delivery of Agreement Documents will be effective immediately and will remain in effect unless and until either Customer or Broker revokes it. Customer understands that it may take up to three (3) business days to process a revocation of consent to electronic delivery, and that Customer may receive electronic notifications until such consent is processed.
- F. Hardware and Software Requirements. Customer understands that in order to access the Platform, utilize the Services and receive electronic deliveries, Customer must have access to a computer or Mobile Device, a valid email address, and the ability to download such applications as eToro may specify and to which Customer has access. Customer also understands that if Customer wishes to download, print, or save any information, that Customer must have access to a printer or other device in order to do so.
- G. Consent and Representations. Customer hereby agrees that Customer has carefully read the above information regarding informed consent to electronic delivery and fully understands the implications thereof. Additionally, Customer hereby agrees to all conditions outlined above with respect to electronic delivery of any Agreement Document. Customer

General Terms and Conditions

will maintain a valid email address on record with Broker and continue to have access to the internet.

16. Telephone Conversations and Electronic Communications

- A. Customer understands and agrees that Broker may record and monitor any telephone or electronic communications with Customer, and Customer expressly consents to such recording and monitoring. Unless otherwise agreed in writing in advance, Broker does not consent to the recording of telephone conversations by any Third Party or Customer. Customer acknowledges and understands that not all telephone or electronic communications are recorded by Broker, and, subject to compliance with applicable law, Broker does not guarantee that recordings of any particular telephone or electronic communications will be retained or are capable of being retrieved.

17. Text Message Terms and Disclaimers

- A. Broker may send you SMS text messages for accessing the Platform through multi-factor authorization processes. These terms apply to the use of such text messages.
- B. As always, message and data rates may apply for any messages sent to you from Broker and to messages sent by you. If you have any questions about your text or data plan, you should contact your wireless provider. For questions about the services Broker provides, contact [Customer Service](#).
- C. Broker will not be liable for any delays in the receipt of any text messages. Delivery is subject to effective transmission from your network operator.
- D. If you have questions regarding how Broker collects, uses, shares, and protects Customer information, read our privacy policy [here](#) and other additional privacy documents [here](#).

18. Customer Instructions

- A. Any instruction or order given for the Account, including via the Platform or using your Customer Login Information, will be treated as being from Customer and fully authorized by Customer. Customer agrees that Broker shall be entitled (but not required) to act upon any oral instructions given by Customer so long as Broker reasonably believes such instruction was actually given by Customer or Customer's authorized agent. Customer instructs and authorizes Broker to rely on such instruction or order without further inquiry, and agrees that Broker will not be liable for doing so.

General Terms and Conditions

19. Effect of Attachment or Sequestration of Accounts

- A. If Broker is served with levies, attachments, garnishments, summons, subpoenas, court orders, or other legal process that name Customer as a debtor or otherwise, Broker shall be entitled to rely upon the representations, warranties, and statements made in such legal process. Customer hereby agrees that Broker may respond to any such legal process in its own discretion without regard to jurisdiction or forward such legal process to any other party as may be appropriate. Broker shall not be liable for refusing to obey any orders given by or for Customer with respect to any Account that has or have been subject to an attachment or sequestration in any legal proceeding against Customer, and Broker shall be under no obligation to contest the validity of any such attachment or sequestration.

20. Unclaimed Property

- A. If there is Property in Customer's Account, and Broker is unable to contact Customer at the address shown in Broker's records, and has no record of Customer's use of the Services for an extended period, Broker may be required to report and deliver this Property to the applicable governmental authority as unclaimed property. Broker reserves the right to deduct a dormancy fee or other administrative charges from such unclaimed property, as permitted by applicable law.

21. Event of Death

- A. It is agreed that in the event of Customer's death or the death of one of the joint Account holders, the representative of Customer's estate or the survivor or survivors shall immediately give Broker written notice thereof, and Broker may, before or after receiving such notice, take such proceedings, require such papers and inheritance or estate tax waivers, retain such portion of, or restrict transactions in the Account as Broker deems advisable to protect Broker against any tax, liability, penalty or loss under any present or future laws or otherwise. You can learn more about Broker's current process [here](#). Notwithstanding the foregoing, in the event of Customer's death or the death of one of the joint Account holders, all open orders shall be canceled, but Broker shall not be responsible for any action taken on such orders prior to the actual receipt of notice of death. Further, in Broker's discretion, Broker may close out any or all of the Accounts without awaiting the appointment of a personal representative for Customer's estate and without demand upon or notice to any such personal representative. The estate of any of the Customer who died shall be liable and each survivor shall continue to be liable, jointly and severally, to Broker for any net debit balance or loss in said the Options Account in any way resulting from the completion of transactions initiated prior to the receipt by Broker of the written notice of the death of the

General Terms and Conditions

decendent or incurred in the liquidation of the Account or the adjustment of the interests of the respective parties, and for all other obligations pursuant to the Platform Documentation. Such notice shall not affect Broker's rights under the Platform Documentation to take any action that Broker could have taken if Customer had not died.

- B. Upon the death or incapacity of an Account owner if the legal heirs or representatives of such Account owner would like to withdraw the remaining balance in the Account, to the extent there is any, such legal heirs should present to Broker the necessary official legal documents from the applicable authorities in the relevant jurisdiction, and Broker, upon checking such documents, shall allow such withdrawal in accordance with any applicable laws.

22. Force Majeure

- A. Broker may, in its reasonable opinion, determine that a Force Majeure Event exists. A "Force Majeure Event" will include, but is not limited to, the following: (i) any fire, strike, riot, civil unrest, terrorist act, war or industrial action; (ii) any natural disaster such as floods, tornadoes, earthquakes and hurricanes; (iii) any epidemic, pandemic or public health emergency of national or international concern; (iv) any act or regulation made by a government, supra national body or authority that Broker believes stops it from maintaining an orderly market in relation to the instruments traded on the Platform; (v) the suspension or closure of any exchange, bank, intermediate broker, agent, principal custodian, sub-custodian, dealer, clearing house or regulatory organization; (vi) the nationalization of any exchange by a government; (vii) the imposition of limits or unusual terms by a government on any instrument and/or its derivative traded on the Platform; (viii) the abandonment or failure of any instrument that uses to make quotes; (ix) excessive changes to the price, supply or demand of any product. Broker may also call a Force Majeure Event where Broker anticipates this change (within reason); (x) technical failures in transmission, communication or computer facilities including power failures and electronic or equipment failures; (xi) the failure of any supplier, bank, intermediate broker, agent, principal custodian, sub-custodian, dealer, exchange, clearing house or regulatory organization to perform its obligations to us; (xii) liquidity providers not providing, or being unable to provide liquidity, to Broker. Liquidity describes the degree to which a product can be quickly bought or sold at a price reflecting its appropriate value; and/or (xiii) an event which significantly disrupts the market, which could include (but is not limited to) the premature close of trading in the market of a product, excessive movements in the price, supply or demand of a product, whether regulated or unregulated that the Services relate to.

General Terms and Conditions

- B. If Broker determines that a Force Majeure Event exists, Broker may without notice and at any time, acting reasonably, take one or more of the following steps: (i) close all or any of Customer's open transactions or orders at such closing prices as the Broker reasonably believes to be appropriate; (ii) limit the availability of instructions that Customer can give in respect of an order or trade; (iii) suspend or modify the application of all or part of these General Terms and Conditions, the Broker Customer Agreement, or any other Platform Documentation to the extent that the Force Majeure Event makes it impossible or impracticable for Broker to comply thereto; (iv) alter the trading hours for a particular transaction, as applicable; or (v) void all open transactions or cancel all pending orders.
- C. Customer agrees that Broker will not be liable in any way to Customer or to any other person in the event of a Force Majeure Event, nor for Broker's actions pursuant to this Section if Broker decides to take such action. The parties shall be released of all responsibilities for partial or full non-fulfilment, as well as for improper fulfillment of the obligations under the Platform Documentation, if such non-fulfilment or improper fulfillment was a result of a Force Majeure Event, which occurred after the Services were terminated.

23. Tax Reporting; Tax Withholding

- A. Generally, any sales, exchanges, or dispositions of investments may have U.S. federal, state, local and non-U.S. income tax consequences for Customer and may result in Customer having to pay additional income taxes. The taxation of securities transactions is extremely complex and no attempt is made herein or in any of other agreements to fully describe the various tax rules that apply to such transactions or to explain in complete detail the rules which are mentioned. Customers may have a variety of tax reporting obligations with respect to certain securities. Each Customer should confer with their tax advisor regarding the tax consequences of utilizing the Options Account based upon Customer's particular circumstances. Customer and Customer's tax advisors are responsible for how Customer's activity in the Options Accounts is reported to the IRS or any other taxing authority. Broker assumes no responsibility to the Customer for the tax consequences of any transactions.
- B. The proceeds of sale transactions in securities and/or other distributions paid to Customer, including the proceeds of transactions in options, will be reported to the [IRS](#) in accordance with applicable law. Under penalties of perjury, Customer certifies that the taxpayer identification number provided, or that will be provided, to Broker (including any taxpayer identification number on any Form W-8, W-9, or similar document that Customer has provided or will provide to eToro) is Customer's correct taxpayer identification number. Customer certifies that Customer is not subject to backup U.S. tax withholding. If a correct Taxpayer

General Terms and Conditions

Identification Number (or similar document when applicable) is not provided to Broker, Customer understands Customer may be subject to backup withholding tax at the appropriate rate on all interest and gross proceeds paid to Customer. Backup withholding taxes are sent to the IRS and cannot be refunded by Broker. Customer further understands that if Customer waives tax withholding and fails to pay sufficient estimated taxes to the IRS, Customer may be subject to tax penalties. Customer understands and acknowledges that tax regulations, including rules about tax withholding and reporting, are subject to change at any time.

24. Effective Date; Termination; Modifications

- A. Effective Date. Customer is bound by the Platform Documentation as of the moment Customer indicates to Broker that they agree to these terms. Customer's acceptance of the Platform Documentation does not obligate eToro to open or maintain an account for Customer..
- B. Termination by Broker. Customer agrees that, without notice, Broker may terminate the Broker Customer Agreement, suspend, restrict or shutdown all or part of the Information and the Services, as well as Customer's access to the Platform (including, without limitation, any Third Party Service or Third Party Application), with or without cause at any time and effective immediately, whether for maintenance or otherwise. Broker shall not be liable to Customer or any Third Party for the termination or suspension of the Services, Platform or the Information, or any claims related to such termination or suspension.
- C. Termination by Customer. Customer may request to close the Options Account after paying any obligations owed to Broker by contacting Customer Service; provided, however, that Customer shall remain responsible for any activity associated with the Options Account during the time between sending Broker an email and the termination of the Options Account.
- D. Effect of Termination. Customer understands and acknowledges that the termination of a single account with an eToro entity may result in Broker's decision to terminate the Options Account. Likewise, termination of the Options Account may result in the termination of Customer's accounts with other eToro entities. Customer shall remain liable to Broker for all obligations incurred under these Terms and Conditions and such Customer Agreements or otherwise, whether arising before or after termination of the Options Account. Upon the termination of the Options Account, Customer authorizes Broker to: (i) immediately settle all outstanding transactions in the Options account, (ii) liquidate outstanding positions in the Options Account, and (iii) transfer the U.S. cash in the Options Account with Broker to Customer's payment method previously authorized by Customer, less any portion thereof owing to Broker or a

General Terms and Conditions

Third Party. If the Broker is unable to send requested Property or any partial amount thereof back through the payment method previously authorized by Customer, it reserves the right to pay the amount through an alternative payment method indicated by Customer, in U.S. Dollars. Broker shall not be held responsible for any transfer fees, currency exchange fees, or charges charged by the receiver or bank resulting from the payment of such amount. Upon the cancellation or termination of the Options Account, Broker may immediately deactivate Customer's access to the Platform, Services, and Information.

- E. Discontinued or Modified Services. Broker and/or the Third Parties may discontinue or modify the Information, Platform or Services, or any portion thereof, at any time. Customer releases and agrees to indemnify and hold harmless Broker, and the Third Parties, for any loss or damages arising from or relating to such discontinuation or modification.
- F. Modifications to Platform Documentation. Broker may amend some or all of the Platform Documentation from time to time upon posting the amended Platform Documentation to the Website and the App. Customer's continued use of the Platform after such amendment will constitute Customer's acknowledgment and acceptance of such amendment, and Customer will be deemed to agree to be bound by all then-in-effect amendments to the Platform Documentation, regardless of whether Customer has actually reviewed them. **Again, please note that prior notice of all updates to the Platform Documentation is not required. Customer agrees to regularly consult the Website for up-to-date information about the Services and any modifications to the Broker Customer Agreement.** Broker is not bound by any oral statements that seek to amend these documents. No provision of any Platform Documentation can be amended by Customer in any respect.

25. Limitation of Liability; Indemnification

- A. Customer agrees that Customer's use of the Information, Services and Platform is provided by Broker at Customer's sole risk. The Platform, Services, Information, or any other information or features provided, or made available by, Broker or any Third Party, including, without limitation, Third Party Services and Third Party Applications, are provided on an "as is," "as available" basis without warranties of any kind, either express or implied, statutory (including, but not limited to, timeliness, truthfulness, sequence, completeness, accuracy, freedom from interruption), implied warranties arising from trade usage, course of dealing, course of performance, or the implied warranties of merchantability or fitness for a particular purpose or application, other than those warranties which are implied by and incapable of exclusion, restriction or modification under the laws applicable to the Platform Documentation.

General Terms and Conditions

- B. CUSTOMER UNDERSTANDS AND AGREES THAT BROKER, ITS AFFILIATES, AND THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, AND THIRD PARTY PROVIDERS OF BROKER WILL NOT BE LIABLE TO CUSTOMER OR TO THIRD PARTIES UNDER ANY CIRCUMSTANCES, OR HAVE ANY RESPONSIBILITY WHATSOEVER, FOR ANY SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS, TRADING LOSSES, AND DAMAGES) THAT CUSTOMER MAY INCUR IN CONNECTION WITH CUSTOMER'S USE OF THE SERVICES (INCLUDING BUT NOT LIMITED TO THIRD PARTY SERVICES OR THIRD PARTY APPLICATIONS) OR THE PLATFORM PROVIDED BY BROKER UNDER THE PLATFORM DOCUMENTATION. BROKER AND THE DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS OF BROKER SHALL NOT BE LIABLE BY REASON OF DELAYS OR INTERRUPTIONS OF INFORMATION, THE PLATFORM OR SERVICES (INCLUDING BUT NOT LIMITED TO THIRD PARTY SERVICES AND THIRD PARTY APPLICATIONS) OR TRANSMISSIONS, OR FAILURES OF PERFORMANCE OF BROKER'S OR THIRD PARTY SYSTEMS, REGARDLESS OF CAUSE, INCLUDING, WITHOUT LIMITATION, THOSE CAUSED BY GOVERNMENTAL OR REGULATORY ACTION, THE ACTION OF ANY EXCHANGE OR OTHER SELF REGULATORY ORGANIZATION, OR THOSE CAUSED BY SOFTWARE OR HARDWARE MALFUNCTIONS.
- C. Except as otherwise provided by law, Broker, its affiliates, and their respective directors, officers, employees or agents (collectively, "Indemnified Parties") shall not be liable for any expenses, losses, costs, damages, liabilities, demands, debts, obligations, penalties, charges, claims, causes of action, penalties, fines and taxes of any kind or nature (including, without limitation, legal expenses and attorneys' fees) (whether known or unknown, absolute or contingent, liquidated or unliquidated, direct or indirect, due or to become due, accrued or not accrued, asserted or unasserted, related or not related to a Third Party claim, or otherwise) (collectively, "Losses") by or with respect to any matters pertaining to the Platform Documentation, the Services, Information, Third Party Services or Third Party Applications, except to the extent that such Losses are actual Losses and are determined by a court of competent jurisdiction or an arbitration panel in a final non-appealable judgment or order to have resulted solely from Broker's gross negligence or intentional misconduct.
- D. Customer agrees that the Indemnified Parties shall have no liability for, and Customer agrees to indemnify, defend and hold harmless the Indemnified Parties from all Losses that result from: (i) any noncompliance by Customer with any of the terms and conditions of the

General Terms and Conditions

Platform Documentation, Third Party Services or Third Party Applications; (ii) any Third Party actions related to Customer's receipt and use of any Information, Third Party Services, Market Data, other Third Party content, or other such information obtained through the Platform, whether authorized or unauthorized under the Platform Documentation; (iii) any Third Party actions related to Customer's use of the Platform, Information, Third Party Services or Third Party Applications; (iv) Customer's or Customer's agent's misrepresentation or alleged misrepresentation, or act or omission; (v) Indemnified Parties following Customer's or Customer's agent's directions or instructions, or failing to follow Customer's or Customer's agent's unlawful or unreasonable directions or instructions; (vi) any activities or services of the Indemnified Parties in connection with an Account (including, without limitation, any technology services, reporting, trading, research or capital introduction services); (vii) the occurrence of, and any Indemnified Parties' action or inaction with respect to, a Potential Fraudulent Event; or (viii) the failure by any person not controlled by the Indemnified Parties to perform any obligations to Customer.

- E. If Customer authorizes or allows Third Parties to gain access to the Platform, Information or Accounts, whether by virtue of Third Party Services or Third Party Applications, or otherwise, Customer will indemnify, defend and hold the Indemnified Parties harmless against any Losses arising out of claims or suits by such Third Parties based upon or relating to such access and use. Broker does not warrant against loss of use or any direct, indirect or consequential damages or Losses to Customer caused by Customer's assent, expressed or implied, to a Third Party accessing an Account or information, including, without limitation, access provided through any Third Party Service or Third Party Application.
- F. Customer also agrees that Indemnified Parties will have no responsibility or liability to Customer in connection with the performance or non-performance by any exchange, clearing organization, Market Data provider, or other Third Party (including, but not limited to, other broker-dealers, money services businesses, clearing firms, and banks) or any of their respective agents or affiliates, of its or their obligations relative to any securities or other products. Customer agrees that Indemnified Parties will have no liability to Customer or to Third Parties, or responsibility whatsoever for: (i) any Losses resulting from a cause over which Indemnified Parties do not have direct control, including, without limitation, the failure of mechanical equipment, unauthorized access, theft, operator errors, government restrictions, force majeure, Market Data availability or quality, exchange rulings or suspension of trading; and (ii) any special, indirect, incidental, consequential, punitive or exemplary damages (including, without limitation, lost profits, trading losses and damages) that Customer may incur in connection with

General Terms and Conditions

Customer's use of the Platform, and other services provided by Indemnified Parties under the Platform Documentation.

26. **ARBITRATION AGREEMENT**

- A. THESE GENERAL TERMS AND CONDITIONS CONTAIN AN ARBITRATION PROVISION. UNLESS OTHERWISE INDICATED IN WRITING BETWEEN THE PARTIES, BY ENTERING INTO THE PLATFORM DOCUMENTATION, THE PARTIES AGREE AS FOLLOWS:
- a. ALL PARTIES TO AGREEMENTS ARE GIVING UP THE RIGHT TO SUE EACH OTHER IN COURT, INCLUDING THE RIGHT TO A TRIAL BY JURY, EXCEPT AS PROVIDED BY THE RULES OF THE ARBITRATION FORUM IN WHICH A CLAIM IS FILED.
 - b. ARBITRATION AWARDS ARE GENERALLY FINAL AND BINDING; A PARTY'S ABILITY TO HAVE A COURT REVERSE OR MODIFY AN ARBITRATION AWARD IS VERY LIMITED.
 - c. THE ABILITY OF THE PARTIES TO OBTAIN DOCUMENTS, WITNESS STATEMENTS AND OTHER DISCOVERY IS GENERALLY MORE LIMITED IN ARBITRATION THAN IN COURT PROCEEDINGS.
 - d. THE ARBITRATORS DO NOT HAVE TO EXPLAIN THE REASON(S) FOR THEIR AWARD EXCEPT IN VERY LIMITED CIRCUMSTANCES.
 - e. THE PANEL OF ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.
 - f. THE RULES OF SOME ARBITRATION FORUMS MAY IMPOSE TIME LIMITS FOR BRINGING A CLAIM IN ARBITRATION. IN SOME CASES, A CLAIM THAT IS INELIGIBLE FOR ARBITRATION MAY BE BROUGHT IN COURT.
 - g. THE RULES OF THE ARBITRATION FORUM IN WHICH THE CLAIM IS FILED, AND ANY AMENDMENTS THERETO, SHALL BE INCORPORATED INTO THE AGREEMENTS, AS APPLICABLE.
 - h. THIS ARBITRATION PROVISION SHOULD BE READ IN CONJUNCTION WITH THE DISCLOSURES IN THE

General Terms and Conditions

PLATFORM DOCUMENTATION. ANY AND ALL CONTROVERSIES, DISPUTES OR CLAIMS BETWEEN BROKER AND CUSTOMER OR THEIR REPRESENTATIVES, EMPLOYEES, DIRECTORS, OFFICERS, AGENTS OR CONTROL PERSONS, ARISING OUT OF, IN CONNECTION WITH, FROM, OR WITH RESPECT TO (A) ANY PROVISIONS OF OR THE VALIDITY OF THE AGREEMENTS RELATING TO CUSTOMER'S PARTICIPATION ON THE PLATFORM, (B) THE RELATIONSHIP OF THE PARTIES HERETO, OR (C) ANY CONTROVERSY ARISING OUT OF BROKER'S BUSINESS OR CUSTOMER'S ACCOUNTS (COLLECTIVELY, "CLAIMS"), SHALL BE SETTLED BY ARBITRATION IN ACCORDANCE WITH THE RULES OF FINRA DISPUTE RESOLUTION, INC.

- i. THE AGREEMENT TO ARBITRATE CONSTITUTES A WAIVER OF A RIGHT TO SEEK A JUDICIAL FORUM UNLESS SUCH WAIVER WOULD BE VOID UNDER THE FEDERAL SECURITIES LAWS.
- j. IF CUSTOMER IS NOT A US CITIZEN OR RESIDENT, OR IF CUSTOMER DOES NOT RESIDE IN THE UNITED STATES, THEN CUSTOMER AGREES TO WAIVE THE RIGHT TO FILE AN ACTION AGAINST BROKER OUTSIDE THE UNITED STATES. CUSTOMER AGREES TO BRING ANY CLAIMS IN AN ARBITRATION FORUM IN THE UNITED STATES
- k. ARBITRATION MUST BE COMMENCED BY SERVICE OF A WRITTEN DEMAND FOR ARBITRATION OR A WRITTEN NOTICE OF INTENTION TO ARBITRATE UPON THE OTHER PARTY.
- l. THE DECISION AND AWARD OF THE ARBITRATOR(S) SHALL BE CONCLUSIVE AND BINDING UPON ALL PARTIES, AND ANY JUDGMENT UPON ANY AWARD RENDERED MAY BE ENTERED IN A COURT HAVING JURISDICTION THEREOF, AND NEITHER PARTY SHALL OPPOSE SUCH ENTRY.
- m. ANY SUCH ARBITRATION SHALL BE HELD IN THE REGIONS WHERE BROKER'S PRINCIPAL OFFICE IS LOCATED AT THE TIME SUCH ARBITRATION IS COMMENCED.
- n. THE PARTIES AGREE THAT THERE SHALL BE NO RIGHT OR AUTHORITY FOR ANY CLAIMS TO BE ARBITRATED ON A CLASS ACTION BASIS, AND CUSTOMER EXPRESSLY

General Terms and Conditions

WAIVES ANY RIGHT TO BRING A CLASS ACTION LAWSUIT OR ARBITRATION AGAINST BROKER OR ITS REPRESENTATIVES, EMPLOYEES, DIRECTORS, OFFICERS, AGENTS OR CONTROL PERSONS WITH RESPECT TO ANY CLAIMS. NO PERSON SHALL BRING A PUTATIVE OR CERTIFIED CLASS ACTION TO ARBITRATION, NOR SEEK TO ENFORCE ANY PRE-DISPUTE ARBITRATION AGREEMENT AGAINST ANY PERSON WHO HAS INITIATED IN COURT A PUTATIVE CLASS ACTION; OR WHO IS A MEMBER OF A PUTATIVE CLASS WHO HAS NOT OPTED OUT OF THE CLASS WITH RESPECT TO ANY CLAIMS ENCOMPASSED BY THE PUTATIVE CLASS ACTION UNTIL: (I) THE CLASS CERTIFICATION IS DENIED; OR (II) THE CLASS IS DECERTIFIED; OR (III) CUSTOMER IS EXCLUDED FROM THE CLASS BY THE COURT. SUCH FORBEARANCE TO ENFORCE AN AGREEMENT TO ARBITRATE SHALL NOT CONSTITUTE A WAIVER OF ANY RIGHTS UNDER THIS AGREEMENT EXCEPT TO THE EXTENT STATED HEREIN.

- o. IN THE EVENT THAT CUSTOMER DOES NOT PREVAIL IN ANY CLAIM INITIATED AGAINST BROKER, CUSTOMER SHALL BE RESPONSIBLE FOR THE COSTS AND EXPENSES ASSOCIATED WITH BROKER'S DEFENSE OF SUCH CLAIM.

27. Binding Effect; Assignment

- A. The Platform Documentation shall bind Customer's heirs, assigns, executors, successors, conservators, and administrators. Customer may not assign any of the Platform Documentation or any rights or obligations under the Platform Documentation without first obtaining Broker's prior written consent. Broker may assign, sell, or transfer the Options Account or the Broker Customer Agreement, or any portion thereof, at any time, without Customer's prior consent. Customer agrees that any reorganization, restructuring, or other transaction affecting the ownership of Broker will not be deemed to be an assignment of the Broker Customer Agreement, so long as such reorganization, restructuring, or transaction does not result in a change of actual control or management.

28. No Waiver; Cumulative Nature of Rights and Remedies

- A. Customer understands that Broker's failure (with respect to these Terms and Conditions) to insist at any time upon strict compliance with any term contained therein, or any delay or failure on Broker's behalf to exercise any power or right given to Broker shall at no time operate as a waiver of such power or right, nor shall any single or partial exercise preclude any other further exercise. All rights and remedies given to Broker in the

General Terms and Conditions

Platform Documentation are cumulative and not exclusive of any other rights or remedies to which Broker is entitled.

29. Conflict of Terms

- A. In the event of any inconsistency or conflict between the provisions of the General Terms and Conditions and the Customer Agreement, the terms and provisions of the Customer Agreement shall govern and control.

30. Interpretation

- A. The heading of each provision of the General Terms and Conditions and the Customer Agreement is for descriptive purposes only and shall not be: (i) deemed to modify or qualify any of the rights or obligations set forth in the General Terms and Conditions or the Customer Agreement; or (ii) used to construe or interpret any of the provisions under the General Terms and Conditions or the Customer Agreement.
- B. When a reference is made in the Customer Agreement to a Section, such reference shall be to a Section of that Customer Agreement unless otherwise indicated. Whenever the words “include,” “includes” or “including” are used in the Customer Agreement, they shall be deemed to be followed by the words “without limitation.”
- C. The word “or,” when used in the Platform Documentation, has the inclusive meaning represented by the phrase “and/or.”
- D. Unless the context of the Platform Documentation otherwise requires: (i) words using the singular or plural number also include the plural or singular number, respectively; and (ii) the terms “hereof,” “herein,” “hereunder” and derivative or similar words refer to the Platform Documentation in its entirety.
- E. The word “will” expresses an obligation equivalent to “shall.”
- F. The Platform Documentation will not be construed in favor of or against any party by reason of the extent to which any party participated in the preparation of the Platform Documentation. Customer may contact Customer Service with any question or concerns.
- G. For technical questions and troubleshooting, please consult Customer Service.
- H. For more information on how to file a complaint with Broker or about Broker’s complaint handling procedures, please visit <https://www.etoro.com/en-us/help/>.

General Terms and Conditions

- I. References to any law shall be deemed to refer to such law as amended from time to time and to any rules or regulations promulgated thereunder.

31. Applicable Law; Severability

- A. Customer agrees that the General Terms and Conditions as well as the Customer Agreement and other Platform Documentation shall be governed by and interpreted in accordance with the laws of the State of New Jersey, without giving effect to principles of conflicts of law. If any provision of the Platform Documentation is deemed unlawful, void or for any reason unenforceable, then that provision will be deemed severable from the Platform Documentation and will not affect the validity and enforceability of the remaining provisions.
- B. Customer understands that all transactions in the Options Account will be subject to federal securities laws and regulations, the applicable laws and regulations of any state or jurisdiction in which the Broker is registered, the rules of any applicable self-regulatory organization of which the Broker is a member and the rules, regulations, customs and usages of the exchange or market, and its clearing house, if any, where the transactions are executed. In no event will the Broker be obligated to effect any transaction it believes would violate any federal or state law, rule or regulation or the rules or regulations of any regulatory or self-regulatory organization.
- C. Nothing in the Platform Documentation shall waive or limit any rights that Customer may have under federal or state securities laws or regulations.

eToro USA Securities Inc. Customer Agreement

II. eToro USA Securities Inc. Customer Agreement

In consideration of Broker opening an Options Account on Customer's behalf for the purchase and sale of securities (specifically, options trading in an Options Account), Customer represents and agrees with the terms set forth in this Broker Customer Agreement. This Broker Customer Agreement supplements, forms part of and is subject to the Platform Documentation. The Options Account is governed by the terms and conditions of the Options Agreement, which is attached as Appendix D, in addition to the terms and conditions of this Broker Customer Agreement and the General Terms and Conditions. Unless otherwise indicated, capitalized terms used but not defined herein shall have the respective meanings given to them in the General Terms and Conditions.

1. Platform Trading; Overview

- A. Self-Directed Investing; No Recommendations. The Options Account is self-directed. Customer is solely responsible for the suitability of any transaction in the Options Account. Customer is solely responsible for any and all orders placed within the Options Account. Customer acknowledges that all orders placed within the Options Account are unsolicited and based upon Customer's own investment decisions and evaluation of the benefits and risks associated with trading in the Options Account.

CUSTOMER ACKNOWLEDGES THAT BROKER DOES NOT: PROVIDE ANY INVESTMENT ADVICE IN CONNECTION WITH THE OPTIONS ACCOUNT; RECOMMEND ANY SECURITY, TRANSACTION, STRATEGY, OR ORDER; SOLICIT ORDERS; ACT AS A MARKET MAKER IN ANY SECURITY; OR MAKE DISCRETIONARY TRADES ON CUSTOMER'S BEHALF.

- B. Limited Purpose Margin Account; No Extension of Credit. Customer may have access to margin and other borrowing capabilities through the Options Account. Any use of margin or other borrowing capabilities through the Options Account, if applicable, is subject to the terms of the Clearing Broker's Options Agreement. However, Broker may, in its sole discretion, limit Customer's ability to transact in Property until Property is settled in the Options Account. Customer acknowledges receipt of the "[Margin Disclosure Statement](#)" provided by Broker.

THE PROCEEDS OF SETTLED OPTIONS TRANSACTIONS WILL REMAIN IN THE OPTIONS ACCOUNT HELD AT THE CLEARING BROKER SUBJECT TO CUSTOMER'S FURTHER INSTRUCTIONS. ANY ACTIVITY INVOLVING THE OPTIONS ACCOUNT IS SUBJECT TO THE TERMS OF THE CLEARING BROKER'S OPTIONS AGREEMENT.

- C. Pattern Day Trading. Customers will typically only have a cash account at Broker. Customers who are eligible may be able to add a margin account

eToro USA Securities Inc. Customer Agreement

(“Margin Account”) where they can gain access to additional options trading strategies such as spreads. Customer may not engage in “pattern day trading” in such a Margin Account unless the account maintains minimum equity of \$25,000. Pattern day trading occurs when Customer initiates four (4) or more day trades within five business days, provided that the number of day trades are more than six percent of Customer’s total number of trades for that same five (5) day period. A day trade occurs when Customer buys and sells, or sells and buys, the same security (including options positions) on the same day. Learn more about the risks of day trading [here](#) in eToro’s [Disclosure Library](#) and review what [FINRA](#) (a broker-dealer regulator) has published about day trading [here](#).

A Customer who has upgraded the Options Account to be a Margin Account that will enable Customer to engage in additional options trading strategies such as spreads, will have their Options Account blocked from engaging in PDT. This is accomplished by blocking Customer from opening a new trade if they have already made three day trades within the prior five trading days. Customers who have upgraded to a Margin Account and who have at least \$25,000 in cash in their Options Account are able to engage in PDT in their Options Account if they have previously made such a request and received an approval via Broker’s [Customer Service](#) team. If Customer has already updated to have PDT status in a Margin Account, Customer will be required to maintain minimum equity in the Margin Account of \$25,000. If the account falls below the \$25,000 requirement, an Equity Maintenance (EM) call will be issued and the pattern day trader will not be permitted to day trade until the account is restored to at least the \$25,000 minimum equity level. If the EM call is not met, the account will be restricted to trading only on a cash available basis for 90 days or until the call is met. Any funds used to meet the day-trading minimum equity requirement or to meet an EM call must remain in the account for two business days following the close of business on any day when the deposit is required. The Broker’s requirements on pattern day trading will apply to self-directed brokerage transactions in the Options Account. A Customer with PDT status in an Options Account must meet the minimum equity requirement to continue trading on margin. Any margin availability in the Options Account is only applicable to options trading, rather than the purchases of stocks or ETFs.

FINRA Rule 4210 allows pattern day traders to use NYSE excess equity (the amount of equity in a margin account in excess of the NYSE maintenance requirement) to calculate day trading purchasing power. The amount of maintenance margin excess is based on your account positions as of the close of business on the previous trading day. Pattern day trading purchasing power normally will be four times the NYSE maintenance margin excess, but it will be reduced to two times NYSE maintenance margin excess if you exceed your day trading purchasing power and create a day trading margin call.

eToro USA Securities Inc. Customer Agreement

Under FINRA Rule 4210, If you receive a day trading margin call, you'll have as long as four business days to deposit funds to meet the call. Please be aware that the only way to satisfy a day trading call is to deposit additional funds. If the day trading margin call is not met by the fourth business day, your account will be further restricted to trading only on a cash-available basis or until the call is met. Customer understands the above as well as the additional day trading risks discussed [here](#).

- D. All securities, assets and other Property held in any Options Account of Customer are subject to a lien in favor of the Broker for the payment of all trades, debit balances, or other obligations arising in connection with all Options Accounts of Customer. In the event of a breach or default by Customer under this Broker Customer Agreement, the Broker shall have all rights and remedies available to a secured creditor under all applicable laws and in addition to the rights and remedies provided herein. In the event Customer fails to meet a margin call promptly, the Broker is authorized in its sole discretion, and without notification to Customer, to take any and all steps necessary to ensure the payment of Customer's obligations in connection with options transactions made for the Options Account. For the avoidance of doubt, to secure repayment of Customer's obligations pursuant to this Section, Customer authorizes eToro to liquidate outstanding positions in any of Customer's eToro accounts (including instructing the Clearing Broker to liquidate any such outstanding positions) and use the proceeds to satisfy any liabilities owed to eToro in respect of any of the Accounts. In addition, eToro's affiliates have the authority to liquidate positions in Customer's accounts with those entities to satisfy obligations Customer owes to Broker. Likewise, Broker has the authority to liquidate positions in the Options Account to satisfy liabilities owed to Broker's affiliates.

2. Authorization

- A. Customer understands that any Options Account is exclusively offered on a self-directed basis. Accordingly, Customer appoints the Broker as Customer's agent for the purpose of carrying out Customer's directions to the Broker in accordance with the terms and conditions of this Broker Customer Agreement and any attendant risks with respect to the purchase or sale of securities. The Broker is authorized to open or close Customer's Options Account, place and withdraw orders and take such other steps as are reasonable to carry out Customer's directions. All transactions will be effected only on Customer's order or the order of Customer's authorized delegate, except when Broker exercises any of its rights under this Broker Customer Agreement. Customer attests that they have not granted trading authorization for the Options Account to another individual.

eToro USA Securities Inc. Customer Agreement

3. Clearance of Trades

- A. Customer understands that the Broker has entered into a clearing agreement with the Clearing Broker (Apex Clearing Corporation) whereby the Broker will introduce the Options Account to the Clearing Broker, and the Clearing Broker will clear all transactions, on a fully-disclosed basis. Customer understands that the Clearing Broker carries the Options Account and is responsible for the clearing and bookkeeping of transactions (including the final price at which a transaction is executed by the Clearing Broker), but is not otherwise responsible for the conduct of the Broker. Customer further understands that the Clearing Broker has custody of securities in the Options Account.
- B. To open an Options Account, Customer will enter into the Customer Agreement with the Clearing Broker and Broker included as Appendix B, and also enter into the Options Agreement with the Clearing Broker and Broker included as Appendix D, and the Options Account will be subject to terms of such agreement(s) in addition to this Broker Customer Agreement.
- C. Until receipt from Customer of written notice to the contrary, the Clearing Broker may accept from the Broker, without inquiry or investigation, any instructions concerning an Options Account. The Clearing Broker shall look solely to the Broker unless otherwise directed by the Broker, and not to Customer, with respect to any orders or instructions concerning the Options Account. Customer understands that the Clearing Broker will deliver confirmations, statements, and all written or other notices with respect to the Options Account directly to Customer with copies to the Broker. The Clearing Broker's statements will be made available by the Broker via the App. Customer further understands that the Clearing Broker will look directly to Customer or the Broker for delivery of payment or securities in, or with respect to, the Options Account. The foregoing shall be effective as to the Options Account until written notice to the contrary is received from Customer by the Clearing Broker or the Broker.

4. Additional Options Trading Details

- A. Subject to the approval of Customer for options trading by the Broker and the Clearing Broker, Customer may buy and sell put and call options on equity securities, as well as other offerings made available, with the Options Account so long as the Customer has satisfied certain eligibility criteria. This eligibility criteria includes an assessment of Customer's risk tolerance, investment objective, investment experience, income, net worth, and age, among other criteria. The Options Account is governed by the terms and conditions of the Options Agreement, which is attached as

eToro USA Securities Inc. Customer Agreement

Appendix D, in addition to the terms and conditions of this Customer Agreement and the General Terms and Conditions.

- B. All options transactions shall be subject to the constitutions, rules, regulations, customs and usages of The Options Clearing Corporation (“OCC”) and any exchange or other marketplace where executed. In addition, Customer is aware of, and agrees to be bound by, the rules of FINRA, the New York Stock Exchange, Inc. (“NYSE”) and OCC applicable to option contracts. Broker may, in its sole discretion, limit Customer’s ability to transact in put and call options until Customer satisfies the obligations set forth in this Broker Customer Agreement. Customer may have access to margin and other borrowing capabilities through the Options Account, subject to the terms and conditions of the Options Agreement and the approval of the Broker and the Clearing Broker.
- C. Before writing any option, Customer must have in the Options Account a minimum equity or appropriate position in such amounts as the Broker or the Clearing Broker may specify from time to time. No withdrawals of cash or securities will be permitted from the Options Account which would reduce either the equity or position below the requirements. Any orders to sell any securities held in the Options Account pursuant to such minimum maintenance requirements may be refused by the Broker or the Clearing Broker at their sole discretion.
- D. The Broker will make best efforts to automatically close out any expiring options positions as of 3:30 p.m. (ET) on the day of expiration. The Broker will not proactively reach out to the Customer to ask about Customer’s intention or desire to exercise. Submission of “Do Not Exercise” instructions by the Customer to the Broker does not guarantee the Customer against being exercised or from having the option position closed automatically as outlined above. Learn more by contacting Customer Service [here](#). In the event Customer’s option contract(s) are exercised or assigned, the customer is solely responsible to meet any cash or margin requirements to cover the exercise or assignment. Customer agrees to make full and timely settlement for any underlying security covered by the exercised option contract(s). If Customer has a debit spread and one leg of the contract is exercised or assigned, Customer may be required to deposit additional funds to cover the second leg of the spread position.

5. Restrictions on Trading

- A. Customer understands that the Broker may, in its discretion, prohibit or restrict, or otherwise limit, in any manner deemed appropriate by the Broker (including by placing limits on trade size and/or overall trade volume or during the period before Property has settled), the trading of

eToro USA Securities Inc. Customer Agreement

securities in any Options Account or instruct the Clearing Broker to do the same. Customer understands that the Broker may execute all orders by Customer on any exchange or market, unless Customer specifically instructs the Broker to the contrary. Customer understands that the Broker may at any time, at its sole discretion and without prior notice to Customer: (i) prohibit or restrict Customer's access to use the App or the Website or related services and Customer's ability to trade; (ii) refuse to accept any of Customer's orders; (iii) refuse to execute any of Customer's orders; or (iv) terminate the Options Account(s). The closing of the Options Account will not affect the rights or obligations of either party incurred prior to the date of the closure.

- B. The Broker will not tolerate any foul or abusive language, physical violence, threatening behavior, or other inappropriate conduct directed toward Broker or its affiliates, directors, officers, employees, contractors, or Customers. If Customer engages in any such behavior, as determined by the Broker in its sole discretion, Customer agrees that the Broker is authorized to: (i) liquidate any securities, instruments or other Property in the Options Account; (ii) deduct Losses caused by the liquidation of securities, instruments or other Property pursuant to this paragraph, including any tax liabilities; (iii) send Customer the proceeds; and (iv) close the Options Account. The Broker will not be responsible for any Losses caused by the liquidation of securities, instruments, or other Property pursuant to this paragraph, including, without limitation, Losses due to any tax liabilities or activities amounting to market abuse.

6. Extended Trading Hours and Brokerage Risks and Disclaimers Regarding Extended Trading Hours

- A. Regular trading hours ("RTH") generally means trading between 9:30 a.m. and 4:00 p.m. Eastern Time. Customer agrees that orders will be executed only during RTH, and orders placed outside of RTH, either before or after such hours on a particular trading day, will be queued and executed upon market open on that trading day or the next trading day, as applicable. The Broker does not offer extended trading hours. However, should the Broker elect to offer extended trading hours in the future, the risks presented by such activity are as follows:

- a. Risk of Lower Liquidity. Lower liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower levels of liquidity in extended hours trading as compared to RTH. As a result, Customer's order may only be partially executed, or not at all.

eToro USA Securities Inc. Customer Agreement

- b. Risk of Higher Volatility. Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater levels of volatility in extended hours trading than in RTH. As a result, Customer's order may only be partially executed, or not at all, or Customer may receive an inferior price in extended hours trading to what Customer might receive during RTH.
- c. Risk of Changing Prices. The prices of securities traded in extended hours trading may not reflect the prices either at the end of RTH, or upon the opening of the next morning. As a result, Customer may receive an inferior price in extended hours trading to what Customer might receive during RTH.
- d. Risk of Unlinked Markets. Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hour's system may not reflect the prices on other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, Customer may receive an inferior price on one extended hours trading system than Customer might receive on another extended hours trading system.
- e. Risk of News Announcements. Normally, issuers release news announcements that may affect the price of their securities after RTH. Similarly, important financial information is frequently announced outside of RTH. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
- f. Risk of Wider Spreads. The spread refers to the difference in price between what Customer can buy a security for and what Customer can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

7. Review of Confirmations and Statements

- A. Customer understands that Account Statements will evidence all activity in an Options Account for the stated period, including securities transactions, cash balances, credits to the OptionsAccount and all fees paid from the Options Account. Confirmations will be considered binding on Customer unless Customer notifies the Broker of any objections within three (3) calendar days from the date confirmations are delivered to Customer. In all cases, the Broker reserves the right to determine the validity of Customer objection. If Customer objects to a transaction for any reason, Customer understands and agrees that Customer is obligated

eToro USA Securities Inc. Customer Agreement

to take action to limit any losses that may result from such transaction or Customer will bear sole responsibility for any losses relating to the transaction, even if Customer's objection to the transaction is ultimately determined to be valid. Nothing in this Section shall limit Customer responsibilities as described in Section II.10 of this Broker Customer Agreement.

8. Market Data

- A. Permitted Use. Customer may receive and use Market Data regarding securities only as a Nonprofessional. Except as otherwise declared to the Broker in writing, by executing this Broker Customer Agreement, Customer certifies to meet the definition of Nonprofessional as set forth in this Broker Customer Agreement. Customer shall notify the Broker promptly in writing of any change in Customer's circumstances that may cause Customer to cease to qualify as a Nonprofessional. "Nonprofessional" means any natural person who receives market data solely for his/her personal, non-business, non-commercial use and who is not a "Professional." A "Professional" includes an individual who, if working in the United States, is: (i) registered or qualified with the SEC, the Commodity Futures Trading Commission, any state securities agency, any securities exchange or association, or any commodities or futures contract market or association; (ii) engaged as an "investment advisor" as that term is defined in Section 202(a)(11) of the Investment Advisers Act of 1940 (whether or not registered or qualified under that Act); or (iii) employed by a bank or other organization exempt from registration under federal and/or state securities laws to perform functions that would require him or her to be so registered or qualified if he or she were to perform such functions for an organization not so exempt. A customer who qualifies as "Professional" will be responsible for the monthly Options Price Reporting Authority (OPRA) fees.
- B. Proprietary Nature of Data. Customer understands and acknowledges that each Authorizing SRO and Other Data Disseminator has a proprietary interest in Market Data that originates on or derives from it or its market(s).
- C. Enforcement. Customer understands and acknowledges that (a) the Authorizing SROs are third party beneficiaries under this Broker Customer Agreement and (b) the Authorizing SROs or their authorized representative(s) may enforce this Broker Customer Agreement, by legal proceedings or otherwise, against Customer or any person that obtains Market Data that is made available pursuant to this Broker Customer Agreement other than as this Broker Customer Agreement contemplates.
- D. Data Not Guaranteed. Customer understands that neither the Broker nor any Authorizing SRO, other entity whose information is made available

eToro USA Securities Inc. Customer Agreement

over the Authorizing SROs' facilities (an "Other Data Disseminator"), information provided for over the Platform and Website, or information processor that assists any Authorizing SRO or Other Data Disseminator in making Market Data available (collectively, the "Disseminating Parties") guarantees the timeliness, sequence, accuracy, completeness, reliability, or content of Market Data or of other Website and Platform content and market information or messages disseminated to or by any Disseminating Party. Customer understands that neither the Broker nor any Disseminating Party guarantees the timeliness, sequence, accuracy, completeness, reliability or content of market information (including information used for Market Data and asset price quotes), or messages disseminated to or by any party. Customer understands that neither the Broker nor any Disseminating Party warrants that the service provided by any such entity will be uninterrupted or error-free.

- E. Dissemination, Discontinuance, or Modification. Customer understands and acknowledges that, at any time, the Authorizing SROs may discontinue disseminating any category of Market Data, may change or eliminate any transmission method and may change transmission speeds or other signal characteristics. The Authorizing SROs shall not be liable for any resulting liability, loss or damages that may arise therefrom.
- F. Applicable Law. This Section is subject to the Securities Exchange Act of 1934, the rules promulgated under that Act, and the joint-industry plans entered into pursuant to that Act.
- G. Special Provisions for NYSE. Without derogation of the foregoing, the Agreement for Market Data Display Services attached hereto as Appendix F shall apply with respect to Market Data as defined in Appendix F. In the event of any conflict between this Section and Appendix F, the provisions of Appendix F shall control. Customer acknowledges that he has read the terms and conditions of Appendix F, that Customer understands them and that Customer hereby manifests his assent to, and his agreement to comply with, those terms and conditions of Appendix F by accepting this Broker Customer Agreement as set forth above.
- H. NEITHER THE BROKER, ANY OF ITS AFFILIATES, THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES, NOR ANY DISSEMINATING PARTY SHALL BE LIABLE IN ANY WAY FOR (A) ANY INACCURACY, ERROR OR DELAY IN, OR OMISSION OF, (I) ANY MARKET DATA, INFORMATION OR MESSAGE, OR (II) THE TRANSMISSION OR DELIVERY OF ANY SUCH DATA, INFORMATION OR MESSAGE; OR (B) ANY LOSS OR DAMAGE ARISING FROM OR OCCASIONED BY (I) ANY SUCH INACCURACY, ERROR, DELAY OR OMISSION, (II) NON-PERFORMANCE OR (III) INTERRUPTION IN ANY SUCH MARKET DATA, INFORMATION, OR MESSAGE, WHETHER DUE

eToro USA Securities Inc. Customer Agreement

TO ANY ACT OR OMISSION BY THE BROKER, ANY OF ITS AFFILIATES, THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES, OR ANY DISSEMINATING PARTY, OR TO ANY FORCE MAJEURE OR ANY OTHER CAUSE BEYOND THE REASONABLE CONTROL OF THE BROKER, ITS AFFILIATES, THEIR RESPECTIVE DIRECTORS, OFFICERS AND EMPLOYEES, OR ANY DISSEMINATING PARTY.

9. Market Volatility; Market Orders; Limit Orders; Stop Orders; and Queued Orders

- A. Customer understands that, whether Customer places a market or limit order, the order will be transmitted by the Broker to the Clearing Broker for execution, and Customer will receive the price at which Customer order is executed in the marketplace by the Clearing Broker, subject to any clarification stated below. Particularly during periods of high volume, illiquidity, fast movement or volatility in the marketplace, the execution price received by Customer may differ from the quote provided to Customer on entry of an order, and Customer may receive partial executions of an order at different prices. Customer understands that the Broker is not responsible for execution of Customer transactions, including the execution price, and accepts no liability for any price fluctuations. Customer also understands that price quotes generally are for only a small number of shares as specified by the marketplace, and larger orders are relatively more likely to receive executions at prices that vary from the quotes or in multiple lots at different prices.
- B. Customer understands that securities may open for trading at prices substantially higher or lower than the previous closing price or the anticipated price. If Customer places a market order (whether during RTH or when the market is closed), Customer agrees to pay or receive the prevailing market price at the time Customer's market order is executed. Customer understands that the price Customer pays may be significantly higher or lower than anticipated at the time Customer placed the order. To avoid buying a security at a higher price and possibly exceeding Customer's purchasing power, Customer understands that the Broker may allow Customer to enter a limit order. Customer also understands that limit orders may not be executed at any particular time, or at all, if there is not sufficient trading at or better than the specified Customer limit price and are only good until the end of the trading day in which they are entered. A limit order may be "good till canceled," which means the order remains valid until the earlier of: (i) the order is executed; (ii) Customer cancels the order; (iii) approximately ninety (90) days after the date on which the order is first placed; or (iv) the contract to which it relates is closed. Customer understands that the Broker will cancel a "good till canceled" order at the end of every trading day (on the exchange on which the instrument to which the contract relates is traded) and place such order

eToro USA Securities Inc. Customer Agreement

again at the start of the following trading day. This process will be repeated every day for as long as the “good till canceled” order remains valid. Further, Customer agrees that any “good till canceled” orders Customer places should be treated as “do not reduce” orders.

- C. Customer also understands that stop prices are not guaranteed execution prices. A “stop order” becomes a “market order” when the “stop price” is reached and firms are required to execute a market order fully and promptly at the current market price. Therefore, the price at which a stop order ultimately is executed may be very different from the investor’s “stop price.” Accordingly, while Customer may receive a prompt execution of a stop order that becomes a market order, during volatile market conditions, the execution may be at a significantly different price from the stop price if the market is moving rapidly. Stop orders may be triggered by a short-lived, dramatic price change. Customer should be aware that, during periods of volatile market conditions, the price of a stock can move significantly in a short period of time and trigger an execution of a stop order (and the stock may later resume trading at its prior price level). Customer should understand that if Customer’s stop order is triggered under these circumstances, Customer may sell at an undesirable price even though the price of the stock may stabilize during the same trading day. Sell stop orders may exacerbate price declines during times of extreme volatility. The activation of sell stop orders may add downward price pressure on a security. If triggered during a precipitous price decline, a sell stop order also is more likely to result in an execution well below the stop price. The Website will contain further information regarding order types and limitations, which Customer agrees to read and understand before placing such orders.
- D. In the event that an order cannot be executed at a given time, Customer has the ability to place a queued order request on the Platform to be executed when permissible (“Queued Order”). Customer understands that Queued Order requests are prioritized based on the order in which they are received by the Broker, and that Queued Order requests are sent out for execution shortly after the market opens on the next permissible day of trading for Customer. Customer further understands that each Queued Order request is sent out per Customer and per security in a similar manner as to the Broker’s market orders (described above), and that they are not aggregated. Customer understands that the fulfillment of such orders is not guaranteed and that eToro is not obligated to compensate Customer for any delay or inability to have an attempted or Queued Order executed..

10. Customer Representations and Responsibilities

- A. Self-directed Account. Customer understands that the Options Account is exclusively offered on a self-directed basis, and so Customer is solely

eToro USA Securities Inc. Customer Agreement

responsible for any and all orders placed in the Options Account and that all orders entered by Customer or on behalf of Customer are unsolicited and based on Customer's own investment decisions or the investment decision of Customer's duly authorized representative or agent. Accordingly, Customer agrees that neither the Broker nor any of its employees, agents, principals, or representatives:

- a. Provide investment advice in connection with the Options Account(s);
- b. Recommend any security, transaction or order;
- c. Act as a market maker in any security;
- d. Make discretionary trades; or
- e. Produce or provide first-party research providing specific investment strategies such as buy, sell or hold recommendations, first-party ratings and/or price targets.

B. Knowledge of Account. Customer understands that Customer is solely responsible for knowing the rights and terms for all securities purchased, sold and maintained in the Account including mergers, reorganizations, stock splits, name changes or symbol changes, and dividends. Customer further understands that certain securities may grant Customer valuable rights that may expire unless Customer takes specific action. Customer is responsible for knowing all expiration dates, redemption dates, and the circumstances under which rights associated with Customer's securities may be called, canceled, or modified. The Broker may, but is not obligated to, notify Customer of any upcoming expiration or redemption dates, or take any action on Customer's behalf without specific instructions from Customer except as required by law and the rules of regulatory authorities. Customer acknowledges that the Broker may adjust the Options Account to correct any error.

C. Purchases. All orders for the purchase of securities given for the Options Account will be authorized by Customer and executed in reliance on Customer's promise that an actual purchase is intended. It is Customer's obligation to pay for purchases immediately or on the Broker's demand. Customer understands the Broker may at any time, in its sole discretion and without prior notice to Customer, prohibit or restrict Customer's ability to trade securities. Customer further agrees not to allow any person to trade for the Options Account unless a trading authorization for that person has been received and approved by the Broker. The Broker reserves the right to require full payment in cleared Property prior to the acceptance of any order. In the event that Customer fails to provide sufficient Property, the Broker may, at its option and without notice to Customer: (i)

eToro USA Securities Inc. Customer Agreement

charge a reasonable rate of interest, (ii) liquidate the Property subject of the buy order, or (iii) sell other Property owned by Customer and held in the Options Account. The Broker may also charge any consequential Loss to the Accounts.

- D. Sales. Upon settlement of an options trade, proceeds from such sale will remain in the Options Account at the Clearing Broker until the Customer instructs otherwise. Broker, in its sole discretion, may limit Customer's ability to trade before settlement is complete. In the event that settlement is not completed for any reason, Broker, in its sole discretion, may reverse the relevant transaction and/or exercise any of the rights described in the Platform Documentation, including Section I.5.D of the General Terms and Conditions and Section II.13.C of this Broker Customer Agreement.
- E. Options. Customer makes the following additional representations about opening an Options Account:
- a. Customer attests that all personal and financial information provided to the Broker is accurate and complete. Customer will advise the Broker of any changes in Customer's investment objectives, financial situation and needs or to any of the information provided by Customer to the Broker.
 - b. Customer understands that options trading comes with a higher level of risk and is not suitable for all investors. Customer further understands that options trading may lead to the total loss of Customer's investment. Customer represents that it possesses the financial capacity to engage in trading Options and to withstand the losses that may result from options trading, Customer has read and fully understands the eToro Options: Customer Responsibilities, attached as Appendix J hereto.
 - c. Customer has read and fully understands the Options Disclosure Document ("ODD") attached as Appendix K hereto. The ODD explains the characteristics and risks of standardized options in more detail. Broker will provide Customer with a copy of the ODD upon Customer's request. This document may also be found on the Options Clearing Corporation's website [here](#).
 - d. Customer, alone or in concert with others, will not violate the position limits or the exercise limits of the options exchanges as set forth in the ODD.
 - e. Customer has read, fully understands and agrees to the NYSE Agreement for Market Data Display Service, attached as Appendix E hereto.

eToro USA Securities Inc. Customer Agreement

- f. Customer has read and fully understands the OPRA Subscriber Agreement, attached as Appendix G hereto, and certifies that it qualifies as a non-professional as defined by the Options Price Reporting Authority, LLC. Customer has also read and understands these additional eToro Options Data Disclosures.

CUSTOMER FURTHER UNDERSTANDS THAT NEITHER BROKER, OPRA, OPRA'S PROCESSOR NOR ANY OPRA PARTICIPANT GUARANTEES THE TIMELINESS, SEQUENCE, ACCURACY OR COMPLETENESS OF ANY OF THE OPRA DATA SUPPLIED TO CUSTOMER HEREUNDER AND NEITHER BROKER, OPRA, OPRA'S PROCESSOR NOR ANY OPRA PARTICIPANT SHALL BE LIABLE IN ANY WAY, TO CUSTOMER OR TO ANY OTHER PERSON, FOR ANY LOSS, DAMAGES, COST OR EXPENSE WHICH MAY ARISE FROM ANY FAILURE OF PERFORMANCE BY BROKER, OPRA, OPRA'S PROCESSOR OR ANY OPRA PARTICIPANT, OR FROM ANY DELAYS, INACCURACIES, ERRORS IN OR OMISSIONS OF, ANY OF THE OPRA DATA OR IN THE TRANSMISSION OR DELIVERY THEREOF, WHETHER OR NOT DUE TO ANY NEGLIGENT ACT OR OMISSION ON THE PART OF BROKER, OPRA, OPRA'S PROCESSOR OR ANY OPRA PARTICIPANT, IN NO EVENT SHALL BROKER, OPRA, OPRA'S PROCESSOR OR ANY PARTICIPANT BE LIABLE FOR ANY INCIDENTAL, SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS, TRADING LOSSES, OR DAMAGES RESULTING FROM INCONVENIENCE OR LOSS OF USE OF THE SERVICE.

- g. Customer has read, fully understands, and agrees to the Nasdaq UTP Plan Subscriber Agreement, attached as Appendix H hereto, and certifies that it qualifies as a non-professional as defined therein.
- h. Customer fully understands and agrees that not all promotions made available to US residents will be offered to UK residents.

- F. Trusted Contact Person. Customer understands that, pursuant to FINRA rules, the Broker is authorized to contact the Trusted Contact Person (as defined by FINRA Rule 4512) designated for the Options Account and to disclose information about the Options Account to address possible financial exploitation, to confirm the specifics of Customer's current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of a power of attorney, or as otherwise permitted by Rule 2165. Please contact [Customer Service](#) to provide Broker with a Trusted Contact Person.

eToro USA Securities Inc. Customer Agreement

11. Erroneous Distributions

- A. Customer agrees to promptly return to the Broker any assets erroneously distributed to Customer.

12. Industry Relationships and Disclosure

- A. Customer acknowledges that unless the Broker receives written objection from Customer, the Broker may provide Customer's name, address, and securities positions to requesting companies in which Customer holds securities. Except as otherwise disclosed to the Broker in writing, neither Customer nor any member of Customer's immediate family is an employee of any exchange, any corporation of which any exchange owns a majority of the capital stock, a member of any exchange or self-regulatory organization, a member of any firm or member corporation registered on any exchange, a bank, trust company, insurance company or any corporation, firm or individual engaged in the business of dealing either as a broker-dealer or as principal in securities. Customer understands and agrees to Customer's obligation to promptly notify the Broker in writing if Customer or Customer's immediate family becomes registered or employed in any of the above-described capacities. Except as otherwise disclosed to the Broker in writing, Customer is not a Professional and further agrees to promptly notify the Broker in writing if Customer is now or if in the future becomes a Professional or an officer, director or 10% stockholder of any publicly traded company.

13. Exchange Traded Funds

- A. Customer understands that Customer should consider the investment objectives and unique risk profile of pooled investment vehicles that operate as ETFs carefully before investing, and that ETFs are subject to risks similar to those of other diversified portfolios. Further, Customer understands that leveraged and inverse ETFs may not be suitable for all investors and may increase exposure to volatility through the use of leverage, short sales of securities, derivatives, and other complex investment strategies, and that although ETFs are designed to provide investment results that generally correspond to the performance of their respective underlying indices, they may not be able to exactly replicate the performance of the indices because of expenses and other factors. Customer further understands that ETFs are required to distribute portfolio gains to shareholders at year end, which may be generated by portfolio rebalancing or the need to meet diversification requirements, and that ETF trading will also generate tax consequences. Customer understands that Customer can obtain prospectuses from issuers or their Third Party agents who distribute such prospectuses. Learn more about ETFs at the following Investor Bulletins published by the Securities and Exchange Commission: [ETFs](#) and [Leveraged and Inverse ETFs](#).

14. Bulletin Board/Pink Sheet/Over-the-Counter Stocks

A. Bulletin board, pink sheet and other thinly-traded securities (collectively “bulletin board stocks”) present particular trading risks, in part because they are relatively less liquid and more volatile than actively traded securities listed on a major exchange. Customer understands that bulletin board stocks may be subject to different trading rules and systems than other securities and that Customer may encounter significant delays in executions, reports of executions, and updating of quotations in trading bulletin board stocks. The Broker in its sole discretion may require limit orders on certain bulletin board stock transactions. In addition, learn more in Broker’s Low-Priced Securities Disclosure [here](#).

B. The Broker and Clearing Broker will limit securities offered on the Platform to those that have high liquidity and generally attractive trading characteristics primarily based upon average daily trading volume (“ADTV”). The Broker will institute parameters in order to generate accurate and appropriate trading thresholds. These parameters may change based on environmental, political or other events at the discretion of Broker and Clearing Broker. Broker will restrict the availability of and trading in securities that do not meet Broker’s ADTV thresholds. Customer understands that securities not subject to limitations in this way is not an endorsement by the Broker or Clearing Broker of any such securities or in any way meant to recommend such securities. There may be instances when a previously-listed stock is delisted from the relevant exchange (for example, if the company goes bankrupt). The prices that Customers see on the Platform for such stocks may not be the current price available in over-the-counter markets where shares continue to trade. Customers who wish to place a trade in such a stock should contact Customer Service for the latest available pricing information.

15. Payment For Order Flow

A. SEC rules require all registered broker-dealers to disclose their policies regarding any “payment for order flow” arrangement in connection with the routing of Customer orders. “Payment for order flow” includes, among other things, any monetary payment, service, property, or other benefit that results in remuneration, compensation, or consideration to a broker-dealer from any broker-dealer in return for directing orders. The nature and source of any payments or credits received by the Broker in connection with any specific transactions will be furnished upon written request. More information regarding payment for order flow and routing information is [available online](#), including Broker’s quarterly Rule 606 Reports. You can also learn more about payment for order flow at eToro’s Help Center [here](#). Broker, as well as Clearing Broker, will earn payment for order flow from your options trading through the Platform. eToro UK will not receive any of these payments, nor will it receive payment for order flow through any trading you conduct through that entity.

eToro USA Securities Inc. Customer Agreement

16. Automated Customer Account Transfer Service

A. Automated Customer Account Transfer Service (ACATS) refers to the electronic process by which a broker-dealer transfers an investor's brokerage account assets to another broker-dealer. This process may take up to 7+ business days to be completed.

B. Customer understands that another broker-dealer may charge Customer a fee to process an ACATS to Broker and that it is Customer's responsibility to pay such fee. Customer also acknowledges that the successful completion of the ACATS process requires steps to be completed by both Customer and the transferring broker-dealer. eToro is not responsible for any delays relating to the efforts of Customer or the transferring broker-dealer to complete this process. Securities positions transferred to Broker will be held at Clearing Broker just like other securities in the Options Account.

C. Not all investment holdings are eligible for ACATS. For example, Broker does not support mutual funds, all stocks or ETFs, and fractional shares cannot be transferred via ACATS. Additionally, ACATS may not be possible if the accounts at the relevant broker-dealers are not the same account type or in the same Customer name. Transfer requests made for investment holdings not supported by Broker or not like titled accounts will be rejected.

D. Broker will charge Customer a fee, which can be found in its [Brokerage Fee Schedule](#), to process an ACATS from Broker to another broker-dealer. Any fractional shares will be sold by Broker as part of this process.

ACCEPTED AND AGREED: CUSTOMER ACKNOWLEDGES THAT IT HAS READ THE PRECEDING TERMS AND CONDITIONS OF THIS BROKER CUSTOMER AGREEMENT, THAT IT UNDERSTANDS THEM, AND THAT CUSTOMER MANIFESTS ITS ASSENT TO, AND AGREEMENT TO COMPLY WITH, THOSE TERMS AND CONDITIONS BY ACCEPTING THIS CUSTOMER AGREEMENT. CUSTOMER ALSO UNDERSTANDS THAT BY ACCEPTING THIS CUSTOMER AGREEMENT CUSTOMER HAS ACKNOWLEDGED THAT THIS CUSTOMER AGREEMENT CONTAINS A PREDISPUTE ARBITRATION CLAUSE IN SECTION 1.26 OF THE GENERAL TERMS AND CONDITIONS, WHICH IS INCORPORATED BY REFERENCE. CUSTOMER ALSO AGREES THAT CUSTOMER HAS RECEIVED A COPY OF THIS BROKER CUSTOMER AGREEMENT.

Appendices

Appendix A: Glossary of Defined Terms

“Account” has the meaning given in the preamble.

“Account Information” has the meaning given in Section I.13.A.

“Account Statements” has the meaning given in Section I.5.D.

“Agreement Documents” has the meaning given in Section I.15.A.

“Agreements” and “Customer Agreements” have the meaning given in the preamble.

“App” means the eToro Options mobile application.

“Authorizing SRO” means a U.S.-registered national securities exchange or national securities association.

“Broker” has the meaning given in the preamble.

“Broker Customer Agreement” has the meaning given in the preamble.

“Business days” mean Monday through Friday, excluding any federal holidays.

“Chargeback” has the meaning given in Section I.3.L.b.

“Claims” has the meaning given in Section I.26.A.h.

“Clearing Broker” has the meaning given in the preamble.

“Customer” has the meaning given in the preamble.

“Customer Content” has the meaning given in Section I.11.B.

“Customer Information” has the meaning given in Section I.12.A.

“Customer Login Information” has the meaning given in Section I.13.A.

“Customer Service” has the meaning given in the preamble.

“Disclosure Library” means the location on the Website and the App in which disclosures and other information are provided and updated by Broker and its US affiliates.

“Disseminating Parties” has the meaning given in Section II.8.D.

“ETF” means an open-end mutual fund that operates as an exchange-traded fund.

“eToro” means eToro USA Securities Inc., the United States broker-dealer offering the eToro Options product.

“eToro Options” is the product name used to describe the options trading service offered to eligible customers by eToro USA Securities Inc.

Appendices

“FDIC” means the Federal Deposit Insurance Corporation.

“FINRA” means the Financial Industry Regulatory Authority, Inc.

“Force Majeure Event” has the meaning given in Section I.22.A.

“General Terms and Conditions” has the meaning given in the preamble.

“Indemnified Parties” has the meaning given in Section I.25.C.

“Information” has the meaning given in Section I.11.A.

“IP” has the meaning given in Section I.10.B.

“IRS” means the Internal Revenue Service.

“Losses” has the meaning given in Section I.25.C.

“Market Data” has the meaning given in Section I.11.A.

“Market Maker” means a firm that provides on request buy and sell prices.

“Mobile Device” means a wireless, web-enabled cellular telephone or similar wireless communications device.

“Nonprofessional” has the meaning given in Section II.8.A.

“ODD” has the meaning given in Section II.10.E.

“Options Account” has the meaning given in Section I.2.A.

“Other Data Disseminator” has the meaning given in Section II.8.D.

“Platform” has the meaning given in the preamble.

“Platform Documentation” has the meaning given in the preamble.

“Portfolio” has the meaning given in Section I.8.A.

“Potential Fraudulent Event” has the meaning given in Section I.13.C.

“Privacy Policy” means eToro’s privacy policy.

“Professional” has the meaning given in Section II.8.A.

“Prohibited Uses” has the meaning given in Section I.6.B.

“Property” has the meaning given in Section I.3.G.

“Queued Order” has the meaning given in Section II.9.D.

“Reserve Account” has the meaning given in Section I.5.D.

Appendices

“RTH” has the meaning given in Section II.6.A.

“SEC” means the U.S. Securities and Exchange Commission.

“Services” mean the services provided by Broker under the General Terms and Conditions and the Customer Agreements.

“Settlement Date” means the date on which fiat money and securities, as applicable, must exchange hands between a buyer and a seller (as opposed to the transaction or trading date on which an order is executed).

“SIPC” means the Securities Investor Protection Corporation.

“Third Parties” mean persons and entities not affiliated with Broker.

“Third Party Applications” mean Third Party Services, programs, websites or content that is provided to, owned by or licensed to Customer by a Third Party.

“Third Party Services” mean services, content, features, products, non-eToro applications, offers and promotions provided through Third Parties.

“U.S.” means United States.

“Website” means the Website published by Broker and its US affiliates.

Appendices

Appendix B: Apex New Account Application & Agreement



BRANCH-ACCOUNT NO.
REGISTERED REP CODE

NEW ACCOUNT APPLICATION & AGREEMENT

I (We) would like to open a brokerage account with you ("my Broker").
I (We) understand you have designated Apex Clearing Corporation ("Clearing Firm") as your clearing firm.

ACCOUNT INFORMATION			
ALL INFORMATION MUST BE COMPLETED. PLEASE TYPE OR PRINT.			
ACCOUNT TYPE		CASH – <i>Customer Account Agreement follows this Application</i>	
		OPTIONS – <i>Request Option Agreement</i>	
		MARGIN – <i>Request Margin Agreement</i>	
CUSTOMER TYPE		Individual	Estate – <i>Furnish Court Appointment</i>
		Joint – <i>Request Joint Account Agreement</i>	Sole Proprietorship – <i>Request Form</i>
		Trust – <i>Trustee Certification Required</i>	UTMA – <i>Indicate State Code:</i>
		Other: _____	UGMA – <i>Indicate State Code:</i>
	<i>To be answered if the account holder is a Broker or Dealer (which includes a Foreign Broker or Dealer, or a Foreign Bank acting as a Broker or Dealer)</i> Is this account a PAB account; a proprietary account of a Broker or Dealer as defined by SEC 15c3-3(a)(16)? <i>Selection required</i> <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, complete a "New Account Form for Proprietary Account Broker (PAB)" form AND a "New Account Application Entity" form. The New Account Form is not sufficient to open a PAB account.		
ACCOUNT INFORMATION	PRIMARY APPLICANT NAME (Or NAME OF MINOR if Custodial Account)		DATE OF BIRTH
	U.S. CITIZEN <input type="checkbox"/> YES <input type="checkbox"/> NO	IF NO, WHAT COUNTRY?	
	SOCIAL SECURITY NUMBER/ITIN	FTIN (Required for Foreign Persons)	COUNTRY OF ISSUE
	HOME ADDRESS (Cannot be a Post Office Box)		
	CITY	STATE/COUNTRY	ZIP CODE
	E-MAIL ADDRESS	CELL PHONE/HOME PHONE	BUSINESS PHONE
	MARITAL STATUS (Select One) <input type="checkbox"/> SINGLE (S) <input type="checkbox"/> MARRIED (M) <input type="checkbox"/> DIVORCED (D) <input type="checkbox"/> WIDOWED (W)		NUMBER OF DEPENDENTS
	EMPLOYER	YEARS EMPLOYED	POSITION
	BUSINESS ADDRESS		
	CITY	STATE/COUNTRY	ZIP CODE
	MAIL TO (Select One) <input type="checkbox"/> Business Address <input type="checkbox"/> Mailing Address <input type="checkbox"/> Post Office Box		
	MAILING ADDRESS		
	CITY	STATE/COUNTRY	ZIP CODE

ACCOUNT INFORMATION (continued)	Is the Primary Account Holder a Control Person of a publicly traded company? (Director, Officer, or 10% Stockholder) <input type="checkbox"/> Yes <input type="checkbox"/> No If YES: Provide the name of the company(s) and the stock ticker symbol(s) below. I/We promise to notify you of any changes. Company(s)/Ticker Symbol(s): _____				
	Is the Primary Account Holder an employee of, or affiliated with, the Introducing Broker firm? If NO: Is the Primary Account Holder affiliated with, work with, or work for another member firm of a Stock Exchange or FINRA? If YES: Provide the name of Firm: _____			<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No	
	JOINT APPLICANT NAME (Executor, Trustee, Custodian)		DATE OF BIRTH		
	U.S. CITIZEN <input type="checkbox"/> YES <input type="checkbox"/> NO	IF NO, WHAT COUNTRY?			
	SOCIAL SECURITY NUMBER/ITIN /ITIN	FTIN (Required for Foreign Persons)	COUNTRY OF ISSUE		
	JOINT APPLICANT HOME ADDRESS (Cannot be a Post Office Box)				
	CITY	STATE/COUNTRY	ZIP CODE		
	E-MAIL ADDRESS	CELL PHONE/HOME PHONE	BUSINESS PHONE		
	JOINT APPLICANT MARITAL STATUS (Select One) <input type="checkbox"/> SINGLE (S) <input type="checkbox"/> MARRIED (M) <input type="checkbox"/> DIVORCED (D) <input type="checkbox"/> WIDOWED (W)		NUMBER OF DEPENDENTS		
	JOINT APPLICANT EMPLOYER		YEARS EMPLOYED	POSITION	
	BUSINESS ADDRESS				
	CITY	STATE/COUNTRY	ZIP CODE		
	Is the Joint Account Holder a Control Person of a publicly traded company? (Director, Officer, or 25% Stockholder) <input type="checkbox"/> Yes <input type="checkbox"/> No If YES: Provide the name of the company(s) and the stock ticker symbol(s) below. I/We promise to notify you of any changes. Company(s)/Ticker Symbol(s): _____				
	Is the Joint Account Holder an employee of, or affiliated with, the Introducing Broker firm? If NO: Is the Joint Account Holder affiliated with, work with, or work for another member firm of a Stock Exchange or FINRA? If YES: Provide the name of Firm: _____			<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No	
	TRADING AUTHORIZATION TO ANOTHER PARTY Request the Trading Authorization Form from your introducing broker-dealer to grant trading authority to a third party.				
GOVERNMENT IDENTIFICATION	PRIMARY APPLICANT - TYPE OF IDENTIFICATION Attach a color copy of the photo identification <div style="display: flex; justify-content: space-between;"> <input type="checkbox"/> Driver's License <input type="checkbox"/> INS Permanent Resident Alien Card </div> <div style="display: flex; justify-content: space-between;"> <input type="checkbox"/> Passport <input type="checkbox"/> Foreign National Identification Document </div> <div style="display: flex; justify-content: space-between;"> <input type="checkbox"/> Other: _____ </div>				
	IDENTIFICATION NUMBER	STATE/COUNTRY OF ISSUANCE	ISSUE DATE	EXPIRATION DATE	

LARGE TRADER ID*	LARGE TRADER ID ("LTID") <i>If you have an SEC assigned LTID for any of your accounts, provide the ID(s)</i>		EFFECTIVE DATE
	END DATE	END REASON <input type="checkbox"/> Correction <input type="checkbox"/> Ended <input type="checkbox"/> Replaced <input type="checkbox"/> Other: _____	
	* Additional LTIDs may be added in the section "FOR OFFICE USE ONLY" below		
DIVIDEND REINVESTMENT	<p align="center">FREE DIVIDEND REINVESTMENT</p> <p>Select whether or not you would like to have your dividends reinvested on all eligible securities. You can always change your selection by calling your investment representative.</p> <p>Select ONE: <input type="checkbox"/> YES, Reinvest dividends on ALL eligible securities <input type="checkbox"/> NO, Do not reinvest any dividends</p>		
E-DELIVERY ELECTION	<p align="center">E-DOCUMENTS ENROLLMENT</p> <p>When you enroll your account in E-Docs, you will receive trade confirmations, account statements, tax-related documents, proxies, prospectuses, annual reports, and all other eligible account documents electronically. An e-mail notification will be sent to the Account Owner's e-mail address on the same day that any electronic documents become available. Just log into your account to access E-Docs and view, print, or download your electronic documents. Please speak with your investment representative for enrollment information.</p>		
SERVICE INSTRUCTIONS <i>Voluntary Sweep Program</i>	<p>By opening your account and/or selecting yes below, you agree to enroll in the Apex Clearing Corporation Sweep Program (the "Sweep Program") and agree that you have read and understand the terms and conditions of the Sweep Program. The Sweep Program terms and conditions and the list of banks participating and/or products available in the Sweep Program can be located at ApexClearing.com/disclosures. Free credit balances in the account, including dividends and proceeds from the sale of securities that are credited to the account while enrolled in the Sweep Program, may automatically be swept in accordance with the terms of the Sweep Program. Further, you agree Apex Clearing Corporation may make changes to the Sweep Program terms and conditions or any products or banks in the Sweep Program at any time in Apex's sole discretion. Your enrollment in the Sweep Program does not guarantee free credit balances in your account will be swept. If you wish to opt out of the Sweep Program you may select "No" in this Section or you may notify your introducing firm at any time.</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>		
DIRECT COMMUNICATION RULE <i>Rule 14b-1(c)</i>	<p>Rule 14b-1(c) of the Securities Exchange Act, unless you object, requires us to disclose to an issuer, upon its request, the names, addresses, and securities positions of our customers who are beneficial owners of the issuer's securities, held by us in nominee name. The issuer would be permitted to use your name and other related information for corporation communication only.</p> <p>If you object to this disclosure, check the box below.</p> <p><input type="checkbox"/> YES, I object to the disclosure of such information.</p>		
ADDITIONAL ACCOUNT INFORMATION	IS THE ACCOUNT MAINTAINED FOR A CURRENT OR FORMER POLITICALLY EXPOSED PERSON OR PUBLIC OFFICIAL? <i>(Includes U.S. & Foreign Individuals)</i>		
	<input type="checkbox"/> Yes <input type="checkbox"/> No		
	If YES: Provide the name(s) of the Official and the Official's immediate family members <i>(including former spouses)</i> and the name of the related political organization.	NAME OF OFFICIAL AND IMMEDIATE FAMILY MEMBER(S)	
		NAME(S) OF OFFICIAL'S IMMEDIATE FAMILY MEMBER(S)	
		RELATED POLITICAL ORGANIZATION	
IS THE ACCOUNT MAINTAINED FOR A FOREIGN FINANCIAL INSTITUTION AS DEFINED BY TITLE 31 OF THE CODE OF FEDERAL REGULATIONS?			
<input type="checkbox"/> Yes <input type="checkbox"/> No <i>If Yes, complete the form "Foreign Financial Institution Due Diligence Questionnaire"</i>			
IS THE ACCOUNT A FOREIGN BANK ORGANIZED UNDER FOREIGN LAW AND LOCATED OUTSIDE OF THE UNITED STATES AS DEFINED BY TITLE 31 OF THE CODE OF FEDERAL REGULATIONS?			
<input type="checkbox"/> Yes <input type="checkbox"/> No If YES, provide U.S. Agent for Service of Process: _____ <i>If YES, complete the form "Certification Regarding Correspondent Accounts" in addition to the form "Foreign Financial Institution Due Diligence Questionnaire"</i> NOTE: Broker-Dealers are prohibited from establishing, maintaining, administering, or managing correspondent accounts in the United States for Foreign Shell Banks. The prohibition does not include Foreign Shell Banks that are regulated affiliates.			

TAX CERTIFICATION	<p>FORM W-9</p> <p>Under penalties of perjury, I certify that: (1) The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and (2) I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and (3) I am a U.S. citizen or other U.S. person (defined below), and (4) the FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.</p> <p><input type="checkbox"/> I am subject to withholding. Item 2 (above) is not applicable to me.</p> <p>Definition of a U.S. person. For federal tax return purposes, you are considered a U.S. person if you are: An individual who is a U.S. citizen or U.S. resident alien, A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States, an estate (other than a foreign estate), or a domestic trust (as defined in Regulations section 301.7701-7). The Internal Revenue Service does not require your consent to any provisions of this document other than the certifications required to avoid backup withholding.</p> <p>See instructions for a list of Exceptions</p>		
	EXEMPT PAYEE CODE <i>(if any)</i>	EXEMPTION FROM FATCA REPORTING CODE <i>(if any)</i>	
	<p>FORM W-8</p> <p>Complete Form W-8 if you are a foreign person or business entity.</p>		
	SIGNATURES		
<p>I authorize my broker and/or Clearing Firm to obtain a consumer report at the time of application to verify my creditworthiness and to obtain a consumer report from time to time for updates, renewals, extensions, and collection activity on any approved account. Upon my written request, my broker and/or Clearing Firm will disclose to me whether it obtained a report, and if so, the name and address of the consumer-reporting agency that provided it. In the event that my account is denied by Clearing Firm, as a result of the consumer report verification, I authorize Clearing Firm to provide to my broker the reason(s) for such denial.</p> <p>BY SIGNING THIS APPLICATION, I (WE) ACKNOWLEDGE THE FOLLOWING (1) THAT PARAGRAPH 8 OF THE CUSTOMER ACCOUNT AGREEMENT CONTAINS A PREDISPUTE ARBITRATION CLAUSE AND IN ACCORDANCE WITH THIS AGREEMENT I (WE) AGREE IN ADVANCE TO ARBITRATE ANY CONTROVERSIES WHICH MAY ARISE BETWEEN OR AMONG ME (US), MY BROKER, AND/OR CLEARING FIRM, (2) RECEIPT OF A COPY OF THE CUSTOMER ACCOUNT AGREEMENT FOLLOWING THIS APPLICATION AND MY (OUR) AGREEMENT WITH THE TERMS THEREIN AND (3) THE INFORMATION PROVIDED ABOVE IS ACCURATE.</p>			
SIGNATURE			DATE
SIGNATURE – JOINT APPLICANT <i>(Executor, Trustee, Custodian)*</i>		DATE	

* For Joint Accounts, BOTH parties must sign

FOR OFFICE USE ONLY			
CUSTOMER ID VERIFICATION	CUSTOMER IDENTIFICATION VERIFIED <i>Must be completed</i>		<input type="checkbox"/> YES
SIGNATURES	BRANCH MANAGER APPROVAL SIGNATURE	BRANCH MANAGER NAME	DATE
	REPRESENTATIVE SIGNATURE	REPRESENTATIVE NAME	DATE
CAT FDID	CAT FDID <i>By default, the FDID will be assigned at account opening. Any updates to this field post account opening will be reported as FDID replacement values</i>		CAT FDID
LTID	LTID		EFFECTIVE DATE
	END DATE	END REASON <input type="checkbox"/> Correction <input type="checkbox"/> Ended <input type="checkbox"/> Replaced <input type="checkbox"/> Other: _____	
	LTID		EFFECTIVE DATE
	END DATE	END REASON <input type="checkbox"/> Correction <input type="checkbox"/> Ended <input type="checkbox"/> Replaced <input type="checkbox"/> Other: _____	
	LTID		EFFECTIVE DATE
	END DATE	END REASON <input type="checkbox"/> Correction <input type="checkbox"/> Ended <input type="checkbox"/> Replaced <input type="checkbox"/> Other: _____	
	LTID		EFFECTIVE DATE
	END DATE	END REASON <input type="checkbox"/> Correction <input type="checkbox"/> Ended <input type="checkbox"/> Replaced <input type="checkbox"/> Other: _____	
	LTID		EFFECTIVE DATE
	END DATE	END REASON <input type="checkbox"/> Correction <input type="checkbox"/> Ended <input type="checkbox"/> Replaced <input type="checkbox"/> Other: _____	
CAT AND OATS ACCOUNT TYPES	CAT ACCOUNT TYPE <i>(Selection Required)</i>	OATS ACCOUNT TYPE	
	CAT ACCOUNT TYPES: A: Institutional Customer - An institutional account as defined in FINRA Rule 4512(c) E: Employee Account - An employee or associated person of your Broker-Dealer F: Foreign - A non-broker-dealer foreign affiliate or non-reporting Foreign Broker-Dealer I: Individual Customer - An account that does not meet the definition of FINRA Rule 4512(c) and is also not a proprietary account. O: Market Making - See CAT FAQ C5 V: Firm Agency Average Price Account P: Other Proprietary X: Error Account - Error account of the firm	OATS ACCOUNT TYPES: A: Institutional Customer - An institutional account as defined in FINRA Rule 4512(c) C: Combined - An order representing more than one type of account E: Employee Account - An employee or associated person of your Broker-Dealer. I: Individual Customer - An account that does not meet the definition of FINRA Rule 4512(c) and is also not a proprietary account. O: Market Making P: Other Proprietary X: Error Account - Error account of the firm.	

CUSTOMER ACCOUNT AGREEMENT

This Customer Account Agreement (the "Agreement") sets forth the respective rights and obligations of Apex Clearing Corporation ("you" or "your" or "Apex") and the Customer's (as defined below) brokerage firm (the "Introducing Broker"), and the customer(s) identified on the New Account Application (the "Customer") in connection with the Customer's brokerage account with the Introducing Broker ("the Account"). The Customer hereby agrees as follows with respect to the Account, which the Customer has established with the Introducing Broker for the purchase, sale or carrying of securities or contracts relating thereto and/or the borrowing of funds, which transactions are cleared through you. To help the government fight the funding of terrorism and money laundering, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. In order to open an account, the Customer will provide information that will allow you to identify the Customer including, but not limited to, the Customer's name, address, date of birth, and the Customer's driver's license or other identifying documents.

1. Applicable Rules and Regulations.

All transactions for the Account shall be subject to the constitution, rules, regulations, customs and usages of the exchange or market and its clearing house, if any, upon which such transactions are executed, except as otherwise specifically provided in this Agreement.

2. Definitions.

"Obligations" means all indebtedness, debit balances, liabilities, or other obligations of any kind of the Customer to you, whether now existing or hereafter arising. "Securities and other property" shall include, but shall not be limited to, money, securities, commodities or other property of every kind and nature and all contracts and options relating thereto, whether for present or future delivery.

3. Breach; Security Interest.

Whenever in your discretion you consider it necessary for your protection, or for the protection of the Customer's Introducing Broker or in the event of, but not limited to; (i) any breach by the Customer of this or any other agreement with you or (ii) the Customer's failure to pay for securities and other property purchased or to deliver securities and other property sold, you may sell any or all securities and other property held in any of the Customer's accounts (either individually or jointly with others), cancel or complete any open orders for the purchase or sale of any securities and other property, and/or borrow or buy-in any securities and other property required to make delivery against any sale, including a short sale, effected for the Customer, all without notice or demand for deposit of collateral, other notice of sale or purchase, or other notice or advertisement, each of which is expressly waived by the Customer, and/or you may require the Customer to deposit cash or adequate collateral to the Customer's account prior to any settlement date in order to assure the performance or payment of any open contractual commitments and/or unsettled transactions. You have the right to refuse to execute securities transactions for the Customer at any time and for any reason. Any and all securities and other property belonging to the Customer or in which the Customer may have an interest held by you or carried in any of the Customer's accounts with you (either individually or jointly with others) shall be subject to a first and prior security interest and lien for the discharge of the Customer's obligations to you, wherever or however arising and without regard to whether or not you have made advances with respect to such securities and other property, and you are hereby authorized to sell and/or purchase any and all securities and other property in any of the Customer's accounts, and/or to transfer any such securities and other property among any of the Customer's accounts to the fullest extent of the law and without notice where allowed. The losses, costs and expenses, including but not limited to reasonable attorneys' fees and expenses, incurred and payable or paid by you in the (i) collection of a debit balance and/or any unpaid deficiency in the accounts of the Customer with you or (ii) defense of any matter arising out of the Customer's securities transactions, shall be payable to you by the Customer. The Customer understands that because of circumstances beyond broker-dealers control, its customers' voting rights may be impaired. For example, if the stock of a company that another customer has purchased has not yet been received from the seller(s), then other customers' abilities to vote that company's stock could be impaired until those shares are received. In addition, if the stock of a company that the Customer has purchased has not yet been received from the seller(s), then payments received by the Customer from the Introducing Broker, in lieu of the dividends on that stock not yet received, may receive tax treatment less favorable than that accorded to dividends.

4. Cancellation.

You are authorized, in your discretion, should you for any reason whatsoever deem it necessary for your protection, without notice, to cancel any outstanding order, to close out the accounts of the Customer, in whole or in part, or to close out any commitment made on behalf of the Customer.

5. Payment of Indebtedness Upon Demand.

The Customer shall at all times be liable for the payment upon demand of any obligations owing from the Customer to you, and the Customer shall be liable to you for any deficiency remaining in any such accounts in the event of the liquidation thereof (as contemplated in Paragraph 3 of this Agreement or otherwise), in whole or in part, by you or by the Customer; and the Customer shall make payment of such obligations upon demand.

6. Accounts Carried as Clearing Broker.

The Customer understands that you are carrying the accounts of the Customer as clearing broker by arrangement with the Customer's Introducing Broker through whose courtesy the account of the Customer has been introduced to you. Until receipt from the Customer of written notice to the contrary, you may accept from and rely upon the Customer's Introducing Broker for (a) orders for the purchase or sale in said account of securities and other property, and (b) any other instructions concerning the Customer's accounts. The Customer represents that the Customer understands that you act only to clear trades introduced by the Customer's Introducing Broker and to effect other back office functions for the Customer's introducing broker. The Customer confirms to you that the Customer is relying for any advice concerning the Customer's accounts solely on the Customer's Introducing Broker. The Customer understands that all representatives, employees and other agents with whom the Customer communicates concerning the Customer's account are agents of the Introducing Broker, and not your representatives, employees or other agents and the Customer will in no way hold you liable for any trading losses that the Customer may incur. The Customer understands that you are not a principal of or partner with, and do not control in any way, the Introducing Broker or its representatives, employees or other agents. The Customer understands that you will not review the Customer's accounts and will have no responsibility for trades made in the Customer's accounts. You shall not be responsible or liable for any acts or omissions of the Introducing Broker or its representatives, employees or other agents. Notwithstanding the foregoing, in the event that the Customer initiates a claim against you in your capacity as clearing broker and does not prevail, the Customer shall be responsible for the costs and expenses associated with your defense of such claim. The Customer understands you shall be entitled to exercise and enforce directly against the Customer all rights granted to the Introducing Broker.

a. Accounts Carried as Custodian.

In some cases the Customer's account is being carried by arrangement with the Customer's Investment Advisor or Investment Manager, who uses you as their Broker-Dealer custodian. The Customer acknowledges that your role as custodian is to hold or custody account assets, distribute or collect funds on behalf of the Customer's account, execute and clear trades under instruction of the Customer's Investment Advisor or Investment Manager, generate account statements and provide other custodial services as may be mandated by various regulatory standards and requirements. The Customer understands that in the capacity as custodian, you will not offer investment advice, review the Customer's accounts, and will have no responsibility for trades made in the Customer's accounts. Additionally, in your capacity as custodian, you will not verify the accuracy of management fees that the Customer pays to Investment Advisors or Investment Managers pursuant to the terms of the Investment Management Agreement executed between the Customer and the Investment Advisor or Investment Manager. Notwithstanding the foregoing, in the event that the Customer initiates a claim against you in your capacity as custodial broker and does not prevail, the Customer shall be responsible for the costs and expenses associated with your defense of such claim.

7. Communications.

You may send communications to the Customer at the Customer's address on the New Account Application or at such other address as the Customer may hereafter give you in writing, and all communications so sent, whether by mail, telegraph, or otherwise, shall be deemed given to the Customer personally, whether actually received or not. Reports of execution of orders and statements of accounts of the Customer shall be conclusive if not objected to in writing to you, the former within five (5) days and the latter within ten (10) days, after forwarding by you by mail or otherwise. In consideration of your sending any mail to me in care of a Post Office Box Address or a third party, I hereby agree that "all correspondence of any nature whatsoever" sent to me in such address will have the same force and effect as if it had been delivered to me personally.

8. ARBITRATION AGREEMENT.

THIS AGREEMENT CONTAINS A PREDISPUTE ARBITRATION CLAUSE. BY SIGNING AN ARBITRATION AGREEMENT, THE PARTIES AGREE AS FOLLOWS:

- a. ALL PARTIES TO THIS AGREEMENT ARE GIVING UP THE RIGHT TO SUE EACH OTHER IN COURT, INCLUDING THE RIGHT TO A TRIAL BY JURY EXCEPT AS PROVIDED BY THE RULES OF THE ARBITRATION FORUM IN WHICH A CLAIM IS FILED**
- b. ARBITRATION AWARDS ARE GENERALLY FINAL AND BINDING; A PARTY'S ABILITY TO HAVE A COURT REVERSE OR MODIFY AN ARBITRATION AWARD IS VERY LIMITED**
- c. THE ABILITY OF THE PARTIES TO OBTAIN DOCUMENTS, WITNESS STATEMENTS AND OTHER DISCOVERY IS GENERALLY MORE LIMITED IN ARBITRATION THAN IN COURT PROCEEDINGS**
- d. THE ARBITRATORS DO NOT HAVE TO EXPLAIN THE REASON(S) FOR THEIR AWARD UNLESS, IN AN ELIGIBLE CASE, A JOINT REQUEST FOR AN EXPLAINED DECISION HAS BEEN SUBMITTED BY ALL PARTIES TO THE PANEL AT LEAST 20 DAYS PRIOR TO THE FIRST SCHEDULED HEARING DATE**
- e. THE PANEL OF ARBITRATORS MAY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY**
- f. THE RULES OF SOME ARBITRATION FORUMS MAY IMPOSE TIME LIMITS FOR BRINGING A CLAIM IN ARBITRATION. IN SOME CASES, A CLAIM THAT IS INELIGIBLE FOR ARBITRATION MAY BE BROUGHT IN COURT**

g. THE RULES OF THE ARBITRATION FORUM IN WHICH THE CLAIM IS FILED, AND ANY AMENDMENTS THERETO, SHALL BE INCORPORATED INTO THIS AGREEMENT

THE FOLLOWING ARBITRATION AGREEMENT SHOULD BE READ IN CONJUNCTION WITH THE DISCLOSURES ABOVE. ANY AND ALL CONTROVERSIES, DISPUTES OR CLAIMS BETWEEN THE CUSTOMER AND YOU, OR THE INTRODUCING BROKER, OR THE AGENTS, REPRESENTATIVES, EMPLOYEES, DIRECTORS, OFFICERS OR CONTROL PERSONS OF YOU OR THE INTRODUCING BROKER, ARISING OUT OF, IN CONNECTION WITH, FROM OR WITH RESPECT TO (a) ANY PROVISIONS OF OR THE VALIDITY OF THIS AGREEMENT OR ANY RELATED AGREEMENTS, (b) THE RELATIONSHIP OF THE PARTIES HERETO, OR (c) ANY CONTROVERSY ARISING OUT OF YOUR BUSINESS, THE INTRODUCING BROKER'S BUSINESS OR THE CUSTOMER'S ACCOUNTS, SHALL BE CONDUCTED PURSUANT TO THE CODE OF ARBITRATION PROCEDURE OF THE FINANCIAL INDUSTRY REGULATORY AUTHORITY ("FINRA"). THE DECISION AND AWARD OF THE ARBITRATOR(S) SHALL BE CONCLUSIVE AND BINDING UPON ALL PARTIES, AND ANY JUDGMENT UPON ANY AWARD RENDERED MAY BE ENTERED IN A COURT HAVING JURISDICTION THEREOF, AND NEITHER PARTY SHALL OPPOSE SUCH ENTRY.

No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is de-certified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein.

9. Representations.

The Customer represents that the Customer is of majority age. The Customer represents either that the Customer is not an employee of any exchange, or of any corporation of which any exchange owns a majority of the capital stock, or of a member of any exchange, or of a member firm or member corporation registered on any exchange or of a bank, trust company, insurance company or of any corporation, firm or individual engaged in the business dealing either as broker or as principal in securities, bills of exchange, acceptances or other forms of commercial paper, or alternatively, that the Customer has obtained and will provide to you additional documentation which may include information required under FINRA Rule 407 from its employer authorizing the Customer to open and maintain an account with you. If the Customer is a corporation, partnership, trust or other entity, the Customer represents that its governing instruments permit this Agreement, that this Agreement has been authorized by all applicable persons and that the signatory on the New Account Application is authorized to bind the Customer. The Customer represents that the Customer shall comply with all applicable laws, rules and regulations in connection with the Customer's account. The Customer further represents that no one except the Customer has an interest in the account or accounts of the Customer with you.

10. Joint Accounts.

If the New Account Application indicates that the Account shall consist of more than one person, the Customer's obligations under this Agreement shall be joint and several. References to the "Customer" shall include each of the customers identified on the New Account Application. You may rely on transfer or other instructions from any one of the Customers in a joint account, and such instructions shall be binding on each of the Customers. You may deliver securities or other property to, and send confirmations; notices, statements and communications of every kind, to any one of the Customers, and such action shall be binding on each of the Customers. Notwithstanding the foregoing, you are authorized in your discretion to require joint action by the joint tenants with respect to any matter concerning the joint account, including but not limited to the giving or cancellation of orders and the withdrawal of money or securities. In the case of Tenants by the Entirety accounts, joint action will be required for all matters concerning the joint account. Tenants by Entirety is not recognized in certain jurisdictions, and, where not expressly allowed, will not be a permitted designation of the account.

11. Other Agreements.

If the Customer trades any options, the Customer agrees to be bound by the terms of your Customer Option Agreement. The Customer understands that copies of these agreements are available from you and, to the extent applicable, are incorporated by reference herein. The terms of these other agreements are in addition to the provisions of this Agreement and any other written agreements between you and the Customer.

12. Data Not Guaranteed.

The Customer expressly agrees that any data or online reports is provided to the Customer without warranties of any kind, express or implied, including but not limited to, the implied warranties of merchantability, fitness of a particular purpose or non-infringement. The Customer acknowledges that the information contained in any reports provided by you is obtained from sources believed to be reliable but is not guaranteed as to its accuracy or completeness. Such information could include technical or other inaccuracies, errors or omissions. In no event shall you or any of your affiliates be liable to the Customer or any third party for the accuracy, timeliness, or completeness of any information made available to the Customer or for any decision made or taken by the Customer in reliance upon such information. In no event shall you or your affiliated entities be liable for any special incidental, indirect or consequential damages whatsoever, including, without limitation, those resulting from loss of use, data, or profits, whether or not advised of the possibility of damages, and on any theory of liability, arising out of or in connection with the use of any reports provided by you or with the delay or inability to use such reports.

13. Payment for Order Flow Disclosure.

Depending on the security traded and absent specific direction from the Customer, equity and option orders are routed to market centers (i.e., broker-dealers, primary exchanges, or electronic communication networks) for execution. Routing decisions are based on a number of factors including the size of the order, the opportunity for price improvement and the quality of order executions, and decisions are regularly reviewed to ensure the duty of best execution is met. You or the Introducing Broker may receive compensation or other consideration for the placing of orders with market centers for execution. The amount of the compensation depends on the agreement reached with each venue. The source and nature of compensation relating to the Customer's transactions will be furnished upon written request.

14. Credit Check.

You are authorized, in your discretion, should you for any reason deem it necessary for your protection to request and obtain a consumer credit report for the Customer.

15. Miscellaneous.

If any provision of this Agreement is held to be invalid or unenforceable, it shall not affect any other provision of this Agreement. The headings of each section of this Agreement are descriptive only and do not modify or qualify any provision of this Agreement. This Agreement and its enforcement shall be governed by the laws of the state of Texas and shall cover individually and collectively all accounts which the Customer has previously opened, now has open or may open or reopen with you, or any introducing broker, and any and all previous, current and future transactions in such accounts. Except as provided in this Agreement, no provision of this Agreement may be altered, modified, or amended unless in writing signed by your authorized representative. This Agreement and all provisions shall inure to the benefit of you and your successors, whether by merger, consolidation or otherwise, your assigns, the Introducing Broker, and all other persons specified in Paragraph 8. You shall not be liable for losses caused directly or indirectly by any events beyond your reasonable control, including without limitation, government restrictions, exchange or market rulings, suspension of trading or unusually heavy trading in securities, a general change in economic, political, or financial conditions, war or strikes. You may transfer the accounts of the Customer to your successors and assigns. This Agreement shall be binding upon the Customer and the heirs, executors, administrators, successors and assigns of the Customer. Failure to insist on strict compliance with this Agreement is not considered a waiver of your rights under this Agreement. At your discretion, you may terminate this Agreement at any time on notice to the Customer, the Customer will continue to be responsible for any obligation incurred by the Customer prior to termination. The Customer may not assign the Customer's rights or delegate the Customer's obligations under this Agreement, in whole or in part, without your prior consent.

16. Sweep Program.

If the Customer elects to participate in one of your FDIC or money market sweep programs, the Customer acknowledges and agrees that: (a) the Customer has read and understands the sweep program terms and conditions and/or prospectuses available at www.apexclearing.com/disclosures/ and is aware of the products available in such sweep programs; (b) you may make changes to your FDIC and/or money market sweep programs and products at any time, in your sole discretion and with or without notice to Customer; (c) the free credit balances in the Customer's Account may begin being included in the sweep program upon Account opening; and (d) you have no obligation to monitor the applicable sweep program elected for the Customer's Account or to make recommendations about, or changes to, the sweep program that might be beneficial to the Customer.

17. SIPC Protection.

As a member of the Securities Investor Protection Corporation (SIPC), funds are available to meet customer claims up to a ceiling of \$500,000, including a maximum of \$250,000 for cash claims. For additional information regarding SIPC coverage, including a brochure, please contact SIPC at (202) 371-8300 or visit www.sipc.org. Apex has purchased an additional insurance policy through a group of London Underwriters (with Lloyd's of London Syndicates as the Lead Underwriter) to supplement SIPC protection. This additional insurance policy becomes available to customers in the event that SIPC limits are exhausted and provides protection for securities and cash up to certain limits. Similar to SIPC protection, this additional insurance does not protect against a loss in the market value of securities.

18. Tax Treaty Eligibility.

This agreement shall serve as the Customer's certification that you are eligible to receive tax treaty benefits between the country or (of) residence indicated on the new account form and the country (ies) of origin holding jurisdiction over the instruments held within the customer's account.

19. Trusted Contact.

"Under FINRA Rule 4512 Apex Clearing Corporation is required to disclose to you (the customer) that Apex Clearing Corporation or an associated person of Apex Clearing Corporation is authorized to contact the trusted contact person and disclose information about the customer's account to address possible financial exploitation, to confirm the specifics of the customer's current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of a power of attorney, or as otherwise permitted by FINRA Rule 2165.

20. ACH Agreement.

If I request Automated Clearinghouse ("ACH") transactions from my Account at Clearing Firm, I authorize Clearing Firm to originate or facilitate transfer credits/debits to/from my eligible bank account. Transactions sent through the NACHA network will be subject to all applicable rules of NACHA and all rules set forth in Federal Reserve Operating circulars or other applicable laws and regulations. ACH deposits to my brokerage account are provisional. If the beneficiary bank does not receive final and complete payment for a payment order transferred through ACH, the beneficiary bank is entitled to recover from the beneficiary any provisional credit and Clearing Firm may charge my account for the transaction amount. I understand Clearing Firm or my Broker may not notify me of any returned or rejected ACH transfers. I agree to hold Clearing Firm and Clearing Firm's agents free of liability for compliance with these instructions. I hereby agree to hold harmless Clearing Firm and each of its affiliates, offices, directors, employees, and agents against, any claims, judgments, expenses, liabilities or costs of defense or settlement relating to: (a) any refusal or failure to initiate or honor any credit or debit request, by Clearing Firm or my Broker, whether (i) due to a lack of funds necessary to credit my account; (ii) due to inadvertence, error caused by similarity of account holder names or (iii) otherwise provided Clearing Firm has not acted in bad faith; (b) if the routing number is incorrect or the routing number or other information changes at another U.S. financial institution or (c) any loss, damage, liability or claim arising, directly or indirectly, from any error, delay or failure which is caused by circumstances beyond Clearing Firm's direct control. To the extent permitted by applicable law or regulation, Clearing Firm hereby disclaims all warranties, express or implied, and in no event shall Clearing Firm be liable for any special indirect, incidental, or consequential damages whatsoever resulting from the ACH electronic service or any ACH transactions. Nothing in this herein shall constitute a commitment or undertaking by Clearing Firm or my Broker to effect any ACH transaction or otherwise act upon my instructions or those of my Broker with respect to any account at Clearing Firm. This authorization shall remain in full force and effect until I revoke authorization by written notification to my Broker that is forwarded to Clearing Firm. I understand that Clearing Firm has the right to terminate or suspend the ACH agreement at any time and without notice.

PRIVACY POLICY

Apex Clearing Corporation ("Apex") carries your account as a clearing broker by arrangement with your broker-dealer or registered investment advisor as Apex's introducing client. At Apex, we understand that privacy is an important issue for customers of our introducing firms. It is our policy to respect the privacy of all accounts that we maintain as clearing broker and to protect the security and confidentiality of non-public personal information relating to those accounts. Please note that this policy generally applies to former customers of Apex as well as current customers.

Personal Information Collected

In order to service your account as a clearing broker, information is provided to Apex by your introducing firm who collects information from you in order to provide the financial services that you have requested. The information collected by your introducing firm and provided to Apex or otherwise obtained by Apex may come from the following sources and is not limited to:

- Information included in your applications or forms, such as your name, address, telephone number, social security number, occupation, and income
- Information relating to your transactions, including account balances, positions, and activity
- Information which may be received from consumer reporting agencies, such as credit bureau reports
- Information relating to your creditworthiness
- Information which may be received from other sources with your consent or with the consent of your introducing firm

In addition to servicing your account, Apex may make use of your personal information for analysis purposes, for example, to draw conclusions, detect patterns or determine preferences.

Sharing of Non-public Personal Information

Apex does not disclose non-public personal information relating to current or former customers of introducing firms to any third parties, except as required or permitted by law, including but not limited to any obligations of Apex under the USA PATRIOT Act, and in order to facilitate the clearing of customer transactions in the ordinary course of business.

Apex has multiple affiliates and relationships with third party companies. Examples of these companies include financial and non-financial companies that perform services such as data processing and companies that perform securities executions on your behalf. We may share information among our affiliates and third parties, as permitted by law, in order to better service your financial needs and to pursue legitimate business interests, including to carry out, monitor and analyze our business, systems and operations.

Security

Apex strives to ensure that our systems are secure and that they meet industry standards. We seek to protect non-public personal information that is provided to Apex by your introducing firm or otherwise obtained by Apex by implementing physical and electronic safeguards. Where we believe appropriate, we employ firewalls, encryption technology, user authentication systems (i.e. passwords and personal identification numbers) and access control mechanisms to control access to systems and data. Apex endeavors to ensure that third party service providers who may have access to non-public personal information are following appropriate standards of security and confidentiality. Further, we instruct our employees to use strict standards of care in handling the personal financial information of customers. As a general policy, our staff will not discuss or disclose information regarding an account except; 1) with authorized personnel of your introducing firm, 2) as required by law or pursuant to regulatory request, or 3) as authorized by Apex to a third party or affiliate providing services to your account or pursuing Apex's legitimate business interests.

Access to Your Information

You may access your account information through a variety of media offered by your introducing firm and Apex (i.e., statements or online services). Please contact your introducing firm if you require any additional information. Apex may use "cookies" in order to provide better service, to facilitate its customers' use of the website, to track usage of the website, and to address security hazards. A cookie is a small piece of information that a website stores on a personal computer, and which it can later retrieve.

Changes to Apex's Privacy Policy

Apex reserves the right to make changes to this policy.

How to Get in Touch with Apex about this Privacy Policy

For reference, this Privacy Policy is available on our website at www.apexclearing.com. For more information relating to Apex's Privacy Policy or to limit our sharing of your personal information, please contact:

Apex Clearing Corporation
Attention: Compliance
350 North St. Paul Street, Suite 1300
Dallas, Texas 75201
(214) 765-1055

Appendices

Appendix C: Apex Limited Purpose Margin Agreement

AGREEMENT FOR LIMITED MARGIN

ACCOUNT NAME	BRANCH-ACCOUNT NUMBER	REPRESENTATIVE ID
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This Agreement for Limited Margin (this “Agreement”) sets forth the terms and conditions under which your broker (“Introducing Broker”) engages Apex Clearing Corporation (“Apex”) to provide limited margin services to the undersigned customer (the “Customer”) in its limited purpose margin account (the “Account”) at Apex. If you are a direct customer of Apex, “Introducing Broker” may also be Apex, in which instance “Introducing Broker” and “Apex” shall be read as the same entity. This Agreement shall be in addition to, and read in conjunction with, the new account application and all other agreements (individually and collectively, the “Customer Agreement”) for the Customer’s specific type of account. In the event of any inconsistency between this Agreement and the Customer Agreement, this Agreement shall control.

LIMITED MARGIN ACCOUNT FEATURES

1. The purpose of the Account is to allow you, the Customer, to purchase securities with the use of unsettled funds. Specifically, the Account allows the Customer to sell a security, and before the trade settles, use the unsettled funds to purchase other securities, up to the amount of the unsettled funds or other cash in the Account.
2. The Account does not have features of a typical margin account. Under no circumstances will Apex extend any credit or margin in the Account. Apex will not lend the Customer any funds in the Account.
3. Limited margin trading does not allow for borrowing of funds, creating a margin debit, withdrawal of unsettled funds, short selling, or selling naked options, which are typical features of a margin account.
4. The Customer is responsible for paying for all transactions in the Account, in full, on settlement date. If the Customer does not submit payment in full on settlement date, Apex reserves the right to refuse to settle the Customer’s transaction and may cease offering limited margin in the Account.
5. The Customer may not enter trades that can result in obligations in excess of the unsettled funds and other available funds in the Account.
6. Apex shall not be responsible for the dishonor of any transaction due to an insufficient balance in the Customer’s Account. To the extent that the Customer’s trade creates a short or debit position in the Account, the position will immediately be covered with other assets from the Account. As stated above, Apex reserves the right to refuse to settle the Customer’s transaction and may cease offering limited margin in the Account.
7. The Customer will only have access to settled funds (i.e., free credits including cash, dividends, and corporate actions) in the Account for withdrawal. Proceeds from a sell trade will not be available for withdrawal until the trade settles.

CUSTOMER ACKNOWLEDGEMENTS

8. The Customer acknowledges and agrees that assets outside of the Account may not be used as collateral for an extension of credit or margin borrowing in the Account for purposes of, including but not limited to, creating a margin debit, short selling, or selling naked options. The Customer shall not have debit balances in the Customer's Account. The Customer authorizes Apex, where reasonably necessary in Apex's discretion, to liquidate or cover deficiencies in the Account or any other account the Customer maintains at Apex without notice to the Customer.
9. The Customer agrees that, in their sole discretion, Apex or Introducing Broker may require a limited minimum equity or asset value in the Customer's Account in order for the Account to be granted limited margin privileges. The Customer understands the Customer is solely responsible for ensuring that sufficient assets are maintained in the Account to cover all possible obligations, including limited minimum equity. Apex may refuse or disable limited margin or options privileges in any account at any time, in its sole discretion and without notice to the Customer or Introducing Broker. The Customer understands that available cash for purchases in the Account may be limited due to amounts needed to satisfy minimum equity requirements at Apex's and/or Introducing Broker's sole discretion. The Customer shall be subject to all obligations and restrictions in the Customer Agreement and nothing in this Agreement shall be construed as in any way reducing or restricting such obligations and restrictions.
10. It shall be the Customer's, and not Apex's or Introducing Broker's, responsibility to ensure transactions do not result in excess obligations in the Account. The Customer understands and agrees that if the Customer's transactions do result in excess obligations in the Account it may result in a taxable event and cause tax consequences to the Customer. The Customer holds harmless Apex and Introducing Broker from any tax consequences caused by excess obligations in the Account and agrees Apex and Introducing Broker shall not be responsible for any excess obligations in the Customer's Account. The Customer understands and agrees that if the Customer fails to hold sufficient assets in the Account to cover its obligations that it may result in a taxable transaction from the account and cause tax consequences to the Customer. The Customer holds harmless Apex and Introducing Broker from any such transactions caused by the Customer's failure to hold sufficient assets in the Account and agrees Apex and Introducing Broker shall not be responsible for the Customer's failure to hold sufficient assets in the account.
11. The Customer acknowledges and agrees that investing using limited margin in the Customer's Account entails extreme risk. Day trading can be very risky and is not appropriate for customers with limited resources, limited investing or trading experience, or a lower risk tolerance. The Customer acknowledges that its decision to utilize limited margin privileges are solely the Customer's decision and Apex has in no way solicited the Customer to use limited margin in any way. The Customer acknowledges and agrees Apex is in no way responsible for determining the suitability or appropriateness of limited margin or of any trades utilizing limited margin in the Account. The Customer acknowledges and agrees Apex is not a fiduciary and does not make recommendations of any securities, investments, investment or portfolio strategy, trades, or trade activity.
12. By establishing the Account, the Customer understands that the Customer is subject to FINRA's Pattern Day Trading Rules. Pattern Day Trading occurs when the Customer initiates four or more day trades within five business days, provided the number of day trades are more than six percent of the Customer's total

number of trades for that same five-day period. A day trade occurs when the Customer buys and sells, or sells and buys, the same security on the same day. Day Trading presents additional risks. The Customer further agrees that if the Account is designated as a pattern day trading account, the Customer will be required to maintain \$25,000 equity at all times in order to continue day trading.

13. The Customer represents that the Customer has had the opportunity to consult with a tax and legal advisor prior to opening the Account and prior to requesting or utilizing limited margin in the Account or any other account at Apex. The Customer acknowledges having been advised by Apex and having had the opportunity to undertake such consultation with tax and legal advisors. Apex shall have no responsibility regarding the suitability or propriety of the Customer opening an account or utilizing limited margin.
14. The Customer represents and warrants to Apex and Introducing Broker that (i) the Customer is solely responsible for any and all orders placed in the Account, and for determining the suitability of any particular transaction, security, or investment strategy, (ii) Apex has not provided any sort of investment advice or recommendations pertaining to the account or use of limited margin; (iii) that the Customer has determined limited margin is suitable for the Customer and for the account; and (iv) that the Customer will not conduct any transaction that would create a debit balance or result in an extension of credit to the Customer by Apex.
15. The Customer represents and warrants that it is solely the Customer's responsibility to review trade confirmations and Account statements promptly upon receipt. It is the Customer's responsibility to promptly notify Apex of any error on any confirmation or statement for the Account. Apex will not be liable for any losses arising in connection with the Customer's delay in reporting an error, including but not limited to, losses resulting from market fluctuations.
16. The Customer will remain responsible for all charges, debit items, or other transactions initiated or authorized by the Customer, whether arising before or after termination. The Customer understands that Apex may at any time, and in its sole discretion, cease to make limited margin available in the Customer's Account and may, upon 30 days' written notice, amend the terms of this Agreement.
17. The Customer acknowledges and agrees it understands and agrees to be bound by the terms of this Agreement and of the Customer Agreement.

INDEMNIFICATION

18. By consenting to this Agreement and using limited margin trading in the Account, the Customer hereby agrees to indemnify and hold Apex, its affiliates, and their respective officers, directors, employees and agents, and their respective successors and assigns, harmless from and against any and all losses, liabilities, tax consequences, demands, claims and expenses, attorney's fees, damages (including consequential, incidental, special or exemplary) arising out of any actions by Apex, the Customer, or the Customer's agents in connection herewith, which are not caused by Apex's gross negligence or willful misconduct. Apex reserves the right to use the provisions described in this section at any time, except when they would conflict with the IRC, as amended. This provision shall survive the termination of this Agreement and shall be binding upon, and inure to the benefit of, each party's respective successors, assigns, heirs and personal representatives.

APPLICABLE RULES AND REGULATIONS

19. If any provision hereof is or at any time should become inconsistent with any present or future law, rule or regulation of any securities exchange, or of any sovereign government or a regulatory body thereof and if any of these bodies has jurisdiction over the subject matter of this Agreement, the said provision shall be deemed to be superseded or modified to conform to such law, rule or regulation, but in all other respects this Agreement shall continue and retain in full force and effect.

CHOICE OF MARKETPLACE

20. The Customer understands and acknowledges that when securities may be traded in more than one marketplace, in the absence of any specific instructions, Apex may, subject to applicable regulatory requirements, use its discretion in selecting the market in which to enter the Customer's orders.

ACCOUNT SECURITY

21. The Customer is solely responsible for keeping the Account login information and password confidential and for monitoring and safeguarding the Account and access to the Account. The Customer acknowledges that Apex does not know whether a user that has accessed the Account is the Customer.

The Customer incurs risk by permitting a third party to access the Account or act on the Customer's behalf. Apex is not liable for any losses or damages caused by any third party that the Customer authorizes or allows to access the Account.

The Customer agrees to notify Apex as soon as practicable when the Customer becomes aware of (i) any loss, theft, or unauthorized use of the Account; (ii) any failure by the Customer to receive any communication from Apex indicating that an order was received, executed or cancelled, as applicable; (iii) any failure by the Customer to receive an accurate written confirmation of an order, execution, or cancellation; (iv) any receipt by the Customer of confirmation of an order, execution or cancellation that the Customer did not place; (v) any inaccurate information in or relating to orders, account status, account balances, deposits, withdrawals, securities positions or transaction history; or (vi) any other unauthorized use or access of the Account. Upon request, the Customer will report any such activity promptly to legal authorities and will cooperate fully with the legal authorities and Apex in any investigation of the matter.

MISCELLANEOUS

22. If any provision of this Agreement is held to be invalid or unenforceable, it shall not affect any other provision of this Agreement. The headings of each section of this Agreement are descriptive only and do not modify or qualify any provision of this Agreement. This Agreement shall inure to the benefit of Apex's successors and assigns, and shall be binding on the Customer, its heirs, executors, administrators and assigns and this Agreement and its enforcement shall be governed by the laws of the state of Texas and

shall cover individually and collectively all accounts which the Customer has previously opened, now has open or may open or reopen with Apex and any and all previous, current and future transactions in such accounts. Apex may transfer the accounts of the Customer to its successors and assigns. Failure to insist on strict compliance with this Agreement is not considered a waiver of Apex's rights under this Agreement.

By consenting to this Agreement and using limited margin trading in the Account, the Customer hereby acknowledges that the Customer has read, understood, and agree to be bound by the terms and conditions in this Agreement.

SIGNATURE & ACKNOWLEDGEMENT
--

Customer Signature: _____ Date: _____

Typed/Printed Name: _____

INTRODUCING BROKER APPROVAL	
REGISTERED REPRESENTATIVE SIGNATURE	DATE
TYPED/PRINTED NAME	TITLE

Appendices

Appendix D: Apex Option Agreement



OPTION AGREEMENT

Please provide the following information as applicable. We cannot approve your account without it.

BRANCH-ACCOUNT NUMBER

REGISTERED REP CODE

CUSTOMER INFORMATION	TITLE OF ACCOUNT		EMPLOYER NAME (If Unemployed, Source of Income)	
	OCCUPATION/POSITION OR TYPE OF BUSINESS		DATE OF BIRTH	EMPLOYER ADDRESS
	MARITAL STATUS <input type="checkbox"/> M <input type="checkbox"/> S <input type="checkbox"/> D <input type="checkbox"/> W	SPOUSE'S NAME		SPOUSE'S EMPLOYER
			NUMBER OF DEPENDENTS	
	INVESTMENT OBJECTIVE		LIQUID NET WORTH (Cash & Liquid Investments only)	
	<input type="checkbox"/> Capital Preservation (05) <input type="checkbox"/> Income (04) <input type="checkbox"/> Growth (03) <input type="checkbox"/> Speculation (06) <input type="checkbox"/> Other (08)		<input type="checkbox"/> Under \$50,000 (01) <input type="checkbox"/> \$50,001 to \$100,000 (02) <input type="checkbox"/> \$100,001 to \$200,000 (22) <input type="checkbox"/> \$200,001 to \$500,000 (23) <input type="checkbox"/> \$500,001 to \$1,000,000 (24) <input type="checkbox"/> \$1,000,001 to \$5,000,000 (25) <input type="checkbox"/> Over \$5,000,001 (26)	
			TOTAL NET WORTH (Excluding Residence)	
		<input type="checkbox"/> Under \$50,000 (01) <input type="checkbox"/> \$50,001 to \$100,000 (02) <input type="checkbox"/> \$100,001 to \$200,000 (22) <input type="checkbox"/> \$200,001 to \$500,000 (23) <input type="checkbox"/> \$500,001 to \$1,000,000 (24) <input type="checkbox"/> \$1,000,001 to \$5,000,000 (25) <input type="checkbox"/> Over \$5,000,001 (26)		
ANNUAL INCOME (From all sources)		SPOUSE'S INCOME (From all sources)		
<input type="checkbox"/> Under \$25,000 (01) <input type="checkbox"/> \$25,001 to \$50,000 (02) <input type="checkbox"/> \$50,001 to \$100,000 (03) <input type="checkbox"/> \$100,001 to \$200,000 (23)		<input type="checkbox"/> Under \$25,000 (01) <input type="checkbox"/> \$25,001 to \$50,000 (02) <input type="checkbox"/> \$50,001 to \$100,000 (03) <input type="checkbox"/> \$100,001 to \$200,000 (23)		
<input type="checkbox"/> \$200,001 to \$300,000 (24) <input type="checkbox"/> \$300,001 to \$500,000 (25) <input type="checkbox"/> \$500,001 to \$1,200,001 (26) <input type="checkbox"/> Over \$1,200,001 (27)		<input type="checkbox"/> \$200,001 to \$300,000 (24) <input type="checkbox"/> \$300,001 to \$500,000 (25) <input type="checkbox"/> \$500,001 to \$1,200,001 (26) <input type="checkbox"/> Over \$1,200,001 (27)		
PRIOR INVESTMENT EXPERIENCE	NAME OF FIRM(S)			NUMBER OF YEARS
	STILL OPEN?			ESTIMATED VALUE \$
	TYPE OF ACCOUNT (Indicate number of trades per year)		ANTICIPATED TYPES OF TRADES	
	<input type="checkbox"/> Stocks _____ <input type="checkbox"/> Corporate Bonds _____ <input type="checkbox"/> Municipal Bonds _____ <input type="checkbox"/> Government Bonds _____ <input type="checkbox"/> Funds _____		<input type="checkbox"/> Level 1 Covered Calls, Including: Covered calls sold against stocks held long in your brokerage account. Buy-writes (simultaneously buying a stock and writing a covered call). Covered call roll-up/sell downs. <input type="checkbox"/> Level 2 All Level 1 Strategies, Plus: Long Calls. Long Straddles. Long Puts. Long Strangles. Covered Puts (Short Stock & Short Put Position) <input type="checkbox"/> Level 3 All Level 1 & 2 Strategies, Plus: Equity Credit Spreads. Equity Calendar/Diagonal Spreads. Equity Debit Spreads. Index Calendar/Diagonal Spreads. Index Debit Spreads. Index Credit Spreads. <input type="checkbox"/> Level 4 All Level 1 – 3 Strategies, Plus: Naked Equity Puts. <input type="checkbox"/> Level 5 All Level 1 – 4 Strategies, Plus: Naked Equity Calls. <input type="checkbox"/> Level 6 All Level 1 – 5 Strategies, Plus: Naked Index Calls. Naked Index Puts.	
	<input type="checkbox"/> Options _____ <input type="checkbox"/> Commodities _____ <input type="checkbox"/> Tax Shelters _____ <input type="checkbox"/> Margin Account _____			
PLEASE LIST ANY OTHER RELEVANT FINANCIAL INFORMATION				
SIGNATURES	I hereby confirm that I have read the provisions of this option agreement and understand the contents hereof. I hereby expressly confirm all the information contained in the Customer Information section, especially those concerning income, net worth and investment objectives, and will advise you of any changes in such information which could be deemed to affect the suitability of executing options transactions for my account.			
	BY SIGNING THIS APPLICATION, I (WE) ACKNOWLEDGE THE FOLLOWING: (1) THAT, PAGE 2 PARAGRAPH 9 OF THE ATTACHED AGREEMENT CONTAINS A PREDISPUTE ARBITRATION CLAUSE AND IN ACCORDANCE WITH THIS AGREEMENT I (WE) AGREE IN ADVANCE TO ARBITRATE ANY CONTROVERSIES WHICH MAY ARISE BETWEEN OR AMONG ME (US), MY BROKER, AND/OR CLEARING FIRM, (2) RECEIPT OF A COPY OF THE AGREEMENT FOLLOWING THIS APPLICATION AND MY (OUR) AGREEMENT WITH THE TERMS THEREIN AND (3) THE INFORMATION PROVIDED ABOVE IS ACCURATE.			
	APPLICANT'S SIGNATURE ➡			DATE
SIGNATURE OF CO-APPLICANT ➡			DATE	
FOR OFFICE USE ONLY (Must be completed for Apex to accept)	Please note date of delivery on the items listed below: Characteristics & Risk of Standard Options: Special Statement for Uncovered Option Writers:		Approved for Option Trading as follows: <input type="checkbox"/> Option Level 1 <input type="checkbox"/> Option Level 2 <input type="checkbox"/> Option Level 3 <input type="checkbox"/> Option Level 4 <input type="checkbox"/> Option Level 5 <input type="checkbox"/> Option Level 6	
			INTRODUCING BROKER APPROVAL	
			Registered Representative Signature _____ Date _____ Option Principal Signature _____ Date _____ Registered Principal Signature _____ Date _____	

In connection with any transactions in options which have been or may be purchased, sold, exercised or endorsed for the undersigned's account with an introducing broker(s) which clears through Apex Clearing Corporation, the undersigned agrees as follows:

1. **Definitions.** "Introducing broker" means any brokerage firm which introduces security transactions on behalf of the undersigned, which transactions are cleared through Apex, whether one or more. "Obligations" means all indebtedness, debit balances, liabilities or other obligation of any kind of the undersigned to Apex, whether now existing or hereafter arising. "Options" means all types of options, including puts, calls, equity, debt, index or otherwise. "Securities and other property" shall include, but shall not be limited to money, securities, commodities or other property of every kind and nature and all contracts and options relating thereto, whether for present or future delivery. "Apex" refers to Apex Clearing Corporation.
2. **Limits.** The undersigned shall not, acting alone or in concert with others, exceed the position/exercise limits set forth by any exchange or market or by any other regulatory authority having jurisdiction.
3. **Authority, Execution of Orders, Security Interest.** The undersigned hereby authorizes Apex in its discretion, should Apex deem it necessary for Apex's protection for any reason, including death of the undersigned, to buy, sell, or sell short for the undersigned's account any risk, puts, calls or other forms of option and/or to buy, sell or sell short any part or all of the underlying shares represented by options endorsed by Apex for the undersigned's account. Any and all expenses incurred by Apex in connection with such transactions shall be reimbursed by the undersigned to Apex. The undersigned understands and acknowledges that when transactions on the undersigned's behalf are to be executed and the options are traded in more than one marketplace Apex may use its discretion in selecting the market in which to enter the undersigned's order unless the undersigned specifically instructs otherwise. All monies, securities, or other property which Apex may hold in any account of the undersigned shall be held subject to a general lien for the discharge of the undersigned's obligations to Apex under this Agreement or otherwise. The decision to enter into options transactions was made entirely by the undersigned without any investment advice from Apex or the introducing broker.
4. **Notice, Exercise, Random Allocation.** The undersigned is aware of Apex's requirements and time limitations for accepting an exercise notice and expiration date. The undersigned understands that the undersigned may not receive actual notice of exercise until the week following exercise. The undersigned bears full responsibility for taking action to exercise or sell valuable options; however, in the absence of the undersigned notifying the introducing broker to exercise a valuable options contract by 3 P.M. Central Standard Time on the last business day prior to the expiration date of the options contract, and the introducing broker instructing Apex to sell valuable options on the undersigned's behalf within such time, the undersigned agrees that Apex may exercise the options contract on the undersigned's behalf. In the event of such exercise, the profit in excess of commission costs created thereby will be credited to the undersigned's account. In the event that the commissions to be charged for such an expiration transaction exceeds the proceeds to be realized, the undersigned agrees and hereby relinquishes the undersigned's ownership in said option to Apex, and Apex may exercise such option for its own account. If the undersigned does not instruct the introducing broker to exercise the valuable option by the time stated above, and Apex for whatever reason, does not exercise such option on the undersigned's behalf, the undersigned hereby waives any and all claims for damage or loss which the undersigned might at the time or any time thereafter have against Apex arising out of the fact that the option was not exercised. The undersigned is aware that Apex utilizes a random method of allocation for all option(s) assignments received from the Option Clearing Corporation. Exercise assignment notices for options contracts are allocated among all customers' short options, including positions established on the day of assignment, those contracts which are subject to exercise. All American short positions are liable for assignment at any time. The undersigned understands that a more detailed description of this procedure is available upon request by the undersigned.
5. **Uncovered Options.** The undersigned agrees that in connection with any uncovered options(s) for the undersigned's account, uncovered options are prohibited in IRA accounts. The undersigned agrees not to sell, during the life of the options in the account, the underlying securities collateralizing such options, including any cash or securities which may accrue on the underlying covered securities until such options are closed, exercised or expired or the undersigned has met the collateral requirements established by Apex and or the introducing broker for carrying uncovered options. The undersigned also agrees that the introducing broker and or Apex, in its respective sole discretion, may refuse any order to sell such underlying securities received from the undersigned or by means of a "give up" basis through another firm unless, prior to such sale, the undersigned has met the collateral requirements established by Apex and/or the introducing broker for carrying uncovered options. Apex has the right, in its sole discretion, to permit the undersigned to apply the proceeds of such sale to such collateral requirements.
6. **Risks.** The undersigned is aware of the high degree of risk involved in options transactions and has given the introducing broker, in strict confidence, information to demonstrate that this account and the trading anticipated in connection therewith is not unsuitable for the undersigned in light of the undersigned's investment objectives, financial situation and needs, experience and knowledge. The undersigned agrees to advise the introducing broker of any changes in the undersigned's investment objectives, financial situation or other circumstances that may be deemed to materially affect the suitability of executing options transactions for the undersigned's account.
7. **Options Account Form, Disclosure Documents.** The undersigned has reviewed the contents of the options account form and represents that they are accurate. Although certain types of transactions are indicated as anticipated, Apex and the introducing broker may execute any other types of transactions for the undersigned's account upon the undersigned's instructions. The undersigned has received an Options Disclosure Document relating to options on the categories of underlying securities which the undersigned has been approved for trading.
8. **Accounts Carried as Clearing Broker.** The undersigned understands that Apex is carrying the accounts of the undersigned as clearing broker by arrangement with the undersigned's introducing broker through whose courtesy the account of the undersigned has been introduced to Apex. Until receipt from the undersigned of written notice to the contrary, Apex may accept and rely upon the introducing broker for (a) orders for the purchase or sale in said account of securities and other property, and (b) any other instructions concerning the undersigned's accounts. The undersigned represents that the undersigned understands that Apex acts only to clear trades introduced by the undersigned's introducing broker and to effect other back office functions for the undersigned's introducing broker. The undersigned confirms to Apex that the undersigned is relying for any advice concerning the undersigned's accounts solely on the undersigned's introducing broker. The undersigned understands that all representatives, employees and other agents with whom the undersigned communicates concerning the undersigned's account are agents of the introducing broker, and not Apex's representatives, employees or other agents. The undersigned understands that Apex will not review the undersigned's accounts and will have no responsibility for trades made in the undersigned's accounts, including but not limited to for appropriateness or suitability. Apex shall not be responsible or liable for any acts or omissions of the introducing broker or its representatives, employees or other agents. The execution of any such trades shall not be deemed to be an approval of such trades.
9. **ARBITRATION AGREEMENT. THIS AGREEMENT CONTAINS A PREDISPUTE ARBITRATION CLAUSE. BY SIGNING AN ARBITRATION AGREEMENT THE PARTIES AGREE AS FOLLOWS:**
 - a. **ALL PARTIES TO THIS AGREEMENT ARE GIVING UP THE RIGHT TO SUE EACH OTHER IN COURT, INCLUDING THE RIGHT TO A TRIAL BY JURY, EXCEPT AS PROVIDED BY THE RULES OF THE ARBITRATION FORM IN WHICH A CLAIM IS FILED;**

- b. **ARBITRATION AWARDS ARE GENERALLY FINAL AND BINDING; A PARTY'S ABILITY TO HAVE A COURT REVERSE OR MODIFY AN ARBITRATION AWARD IS VERY LIMITED.**
- c. **THE ABILITY OF THE PARTIES TO OBTAIN DOCUMENTS, WITNESS STATEMENTS AND OTHER DISCOVERY IS GENERALLY MORE LIMITED IN ARBITRATION THAN IN COURT PROCEEDINGS;**
- d. **THE ARBITRATORS DO NOT HAVE TO EXPLAIN THE REASON(S) FOR THEIR AWARD UNLESS, IN AN ELIGIBLE CASE, A JOINT REQUEST FOR AN EXPLAINED DECISION HAS BEEN SUBMITTED BY ALL PARTIES TO THE PANEL AT LEAST 20 DAYS PRIOR TO THE FIRST SCHEDULED HEARING DATE.**
- e. **THE PANEL OF ARBITRATORS MAY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.**
- f. **THE RULES OF SOME ARBITRATION FORUMS MAY IMPOSE TIME LIMITS FOR BRINGING A CLAIM IN ARBITRATION. IN SOME CASES, A CLAIM THAT IS INELIGIBLE FOR ARBITRATION MAY BE BROUGHT IN COURT.**
- g. **THE RULES OF THE ARBITRATION FORUM IN WHICH THE CLAIM IS FILED, AND ANY AMENDMENTS THERETO, SHALL BE INCORPORATED INTO THIS AGREEMENT.**

THE FOLLOWING ARBITRATION AGREEMENT SHOULD BE READ IN CONJUNCTION WITH THE DISCLOSURES ABOVE. ANY AND ALL CONTROVERSIES, DISPUTES OR CLAIMS BETWEEN THE CUSTOMER AND YOU, OR THE INTRODUCING BROKER, OR THE AGENTS, REPRESENTATIVES, EMPLOYEES, DIRECTORS, OFFICERS OR CONTROL PERSONS OF YOU OR THE INTRODUCING BROKER, ARISING OUT OF, IN CONNECTION WITH, FROM OR WITH RESPECT TO (a) ANY PROVISIONS OF OR THE VALIDITY OF THIS AGREEMENT OR ANY RELATED AGREEMENTS, (b) THE RELATIONSHIP OF THE PARTIES HERETO, OR (c) ANY CONTROVERSY ARISING OUT OF YOUR BUSINESS, THE INTRODUCING BROKER'S BUSINESS OR THE CUSTOMER'S ACCOUNTS, SHALL BE CONDUCTED PURSUANT TO THE CODE OF ARBITRATION PROCEDURE OF THE FINANCIAL INDUSTRY REGULATORY AUTHORITY ("FINRA"). THE DECISION AND AWARD OF THE ARBITRATOR(S) SHALL BE CONCLUSIVE AND BINDING UPON ALL PARTIES, AND ANY JUDGMENT UPON ANY AWARD RENDERED MAY BE ENTERED IN A COURT HAVING JURISDICTION THEREOF, AND NEITHER PARTY SHALL OPPOSE SUCH ENTRY.

No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein.

10. **Other Agreements.** The undersigned agrees to be bounded by the terms of Apex's Retirement Custodial Account Agreement, Apex's Customer Account Agreement and/or Apex's Customer Margin and Short Account Agreement. The undersigned understands that copies of this agreement are available from Apex and, to the extent applicable, are incorporated by reference herein. The terms of this other agreement is in addition to the provisions of this Agreement and any other written agreements between Apex and the undersigned.
11. **Data Not Guaranteed.** The undersigned expressly agrees that any data or online reports is provided to the undersigned without warranties of any kind, express or implied, including but not limited to, the implied warranties of merchantability, fitness of a particular purpose or non-infringement. The undersigned acknowledges that the information contained in any reports provided by Apex are obtained from sources believed to be reliable but is not guaranteed as to its accuracy or completeness. Such information could include technical or other inaccuracies, errors or omissions. In no event shall Apex or any of Apex's affiliates be liable to the undersigned or any third party for the accuracy, timeliness, or completeness of any information made available to the undersigned or for any decision made or taken by the undersigned in reliance upon such information. In no event shall Apex or Apex's affiliated entities be liable for any special incidental, indirect or consequential damages whatsoever, including, without limitation, those resulting from loss of use, data or profits, whether or not advised of the possibility of damages, and on any theory of liability, arising out of or in connection with the use of any reports provided by Apex or with the delay or inability to use such reports.
12. **Credit Check.** Apex is authorized, in Apex's discretion, should Apex for any reason deem it necessary for Apex's protection to request and obtain a consumer credit report for the undersigned.
13. **Miscellaneous.** The undersigned is aware of and agrees that this Agreement and all transactions in the undersigned's accounts shall be governed by the constitution, rules, regulations, customs, usages and bylaws of the Options Clearing Corporation and the Financial Industry Regulatory Authority, and all exchanges or other facilities upon which options are traded for the account of the undersigned. If any provisions of this Agreement are held to be unenforceable, it shall not affect any other provisions of this Agreement. The headings of each sections of this Agreement are descriptive only and do not modify or qualify any provision of this Agreement. This Agreement and its enforcement shall be governed by the law of the state of Texas and shall cover individually and collectively all accounts which the undersigned has previously opened, now has open or may open or reopen with Apex, or any introducing broker, and any and all previous, current and future transactions in such accounts. Except as provided in this Agreement, no provision of this Agreement may be altered, modified or amended unless executed in writing by Apex's authorized representative. This Agreement and all provisions shall inure to the benefit of Apex and Apex's successors, whether by merger, consolidation or otherwise, Apex's assigns, the undersigned's introducing broker, and all other persons specified in Paragraph 9. Apex shall not be liable for losses caused directly or indirectly by any events beyond Apex's reasonable control, including without limitation, government restrictions, exchange or market rulings, and suspension of trading or unusually heavy trading in securities, a general change in economic, political or financial conditions, war or strikes. Apex may transfer the accounts of the undersigned to Apex's successors and assigns. This Agreement shall be binding upon the heirs, executors, administrators, successors and assigns of the undersigned.

SUPPLEMENTAL PROVISIONS

- A. **Pledging.** The undersigned understands that under Section 408(e)(4) of the Internal Revenue Code of 1986, as amended, if the undersigned pledges any portion of the undersigned's IRA as collateral for a loan, the amount so pledged will be treated as a distribution, and may be included in the undersigned's gross income for the taxable year in which the undersigned pledges the assets to the extent it represents earnings or be subject to excise taxes.
- B. **Prohibited Transactions.** The undersigned understands that the extension of credit through margin, short selling positions, and uncovered options are not permitted in IRA accounts. If the undersigned or the undersigned's beneficiary engage in a prohibited transaction with the undersigned's IRA, as described in Section 4975 of the Internal Revenue Code of 1986, as amended, the undersigned's IRA may lose its tax-deferred or tax-exempt status, and the undersigned must generally include the value of the earnings in the undersigned account in gross income for the taxable year the undersigned engages in the prohibited transactions.
- C. **ERISA.** The undersigned hereby represents, warrants, and covenants that the undersigned's IRA is not subject to the Employee Retirement Income Security Act of 1974, as amended, and the undersigned will not engage in any transaction in the undersigned's IRA that involves any extension of credit by Apex.
- D. **No Advice.** The undersigned has been provided with an opportunity to consult with the undersigned's tax adviser regarding the advisability of holding options or conducting options strategies in the undersigned's IRA account. The undersigned has not and will not, rely on Apex for legal or tax advice in connection with engaging in options transactions in the undersigned's IRA. The undersigned will not hold Apex responsible for any adverse tax consequences or penalties that the undersigned or the undersigned's IRA may incur in connection with options transactions.
- E. **Obligations.** The undersigned understands that the undersigned is solely responsible for ensuring that sufficient assets are maintained in the undersigned's IRA to cover all potential obligations arising from the holding of options and conducting any options strategies, including any potential assignment and exercise. The undersigned acknowledges responsibility for not conducting options transactions that can result in liabilities or obligations in excess of the undersigned's IRA account balance. Apex shall not be responsible for the dishonor of any transaction due to an insufficient balance in the undersigned IRA. If an assignment creates a short position or debit balance, Apex is authorized to immediately cover deficit in the undersigned's IRA with other assets in the undersigned IRA account.
- F. **Indemnification.** By signing this Agreement, the undersigned hereby agrees to indemnify and hold Apex, Apex's affiliates, and their respective officers, directors, employees and agents, and their respective successors and assigns, harmless from and against any and all losses (including but not limited to consequential damages), liabilities, tax consequences (including excise taxes, penalties and interest), demands, claims and expenses, attorneys' fees, damages (including consequential, incidental, special or exemplary) arising out of any actions or omissions by Apex, or Apex's agents in connection herewith, which are not caused by Apex's gross negligence or willful misconduct. This provision shall survive the termination of this Agreement and shall be binding upon, and inure to the benefit of, each party's respective successors, assigns, heirs, and personal representatives.
- G. **Option Levels.**
- Level 1 Covered calls, including:
Covered calls sold against stocks held long in your brokerage account
Buy-writes (simultaneously buying a stock and writing a covered call)
Covered call roll-ups/roll-downs
 - Level 2 All Level 1 strategies, plus:
Married puts
Long calls
Long puts
Long straddles
Long strangles
Covered puts (short stock and short put position)
 - Level 3 All Levels 1 and 2 strategies, plus:
Equity debit spreads
Equity credit spreads
Equity calendar/diagonal spreads
Index debit spreads
Index credit spreads
Index calendar/diagonal spreads
 - Level 4 All Level 1, 2, and 3 strategies, plus:
Naked equity puts
 - Level 5 All Level 1, 2, 3, and 4 strategies, plus:
Naked equity calls
 - Level 6 All Level 1, 2, 3, 4 and 5 strategies, plus:
Naked index calls
Naked index puts

Appendices

Appendix E: Broker Form CRS



INTRODUCTION

eToro USA Securities Inc. (“eToro Securities” or “we” or “our”) is registered with the [Securities and Exchange Commission](#) (“SEC”) as a broker-dealer and is a member of the [Financial Industry Regulatory Authority](#) (“FINRA”) and the [Securities Investor Protection Corporation](#) (“SIPC”). Free and simple tools are available for you to research firms and financial professionals at investor.gov/CRS, which also provides educational materials about broker-dealers, investment advisors, and investing.

WHAT INVESTMENT SERVICES AND ADVICE CAN YOU PROVIDE ME?

eToro Securities offers app-based and online brokerage services allowing retail investors (hereinafter, “customers”) to purchase and sell publicly-traded securities commission-free. We offer customers the ability to trade certain stocks and exchange-traded funds (“ETFs”). We also make exchange-listed equity options available to eligible customers through the eToro Options product. eToro Securities is an introducing broker-dealer, which means your funds and securities will be custodied by our designated clearing firm, Apex Clearing Corporation (“Apex”). Apex is responsible for servicing your account by executing, clearing, and settling your trades; preparing and distributing account statements and trade confirmations, and extending credit to margin accounts. All securities listed on the eToro Platform, as defined below, are supported by Apex. Our brokerage services are self-directed, which means that we execute trades only upon your instruction and have no discretion over your account activity. eToro Securities does not make recommendations regarding securities transactions or investment strategies involving securities. We do not monitor your account or the trade instructions you submit for suitability. We offer access to investment tools and education to help you make investment decisions, but these tools are provided for informational and educational purposes only. It is exclusively the customer's responsibility to select assets that satisfy their individual needs.

eToro Securities, together with its affiliate, eToro USA LLC (“eToro MSB”), offers distinct services and products (stocks, ETFs, and options) that can be found through etoro.com/en-us/ (the “Website”) and mobile applications. Cryptocurrency transactions are facilitated by the eToro MSB, which is not a member of FINRA or SIPC, while stock, ETF, and options transactions are supported by eToro Securities, the broker-dealer. eToro Securities does not offer mutual funds, retirement accounts, bonds, or proprietary products. eToro Securities requires a minimum trade size of \$10. For additional information, please see eToro’s Disclosure Library and [Customer Agreement](#) at etoro.com/en-us/customer-service/disclosures/. eToro MSB does not provide services in all US jurisdictions.

Conversation Starter:

- Given my financial situation, should I choose a brokerage service? Why or why not?
- What is your relevant experience, including your licenses, education, and other qualifications? What do these qualifications mean?

WHAT FEES WILL I PAY?

eToro Securities does not charge commissions for brokerage services or options. Customers may incur charges imposed by the designated custodian and other third parties. These include transfer fees, administrative fees, and other fees and taxes on brokerage accounts and securities transactions. ETFs also charge internal management fees (expense ratio), which are disclosed in the fund’s prospectus. eToro Securities does not receive these fees from ETF managers.

Customers may also use other products or services available through our affiliates and, in such cases, pay additional fees for such services. For example, eToro’s affiliate, eToro MSB, may charge you fees for the services it offers with respect to buying and selling cryptocurrencies and certain custodial wallet services. All fees and additional information can be found on the fees page etoro.com/en-us/trading/fees. Brokerage fees are available on the [Brokerage Fee Schedule](#).

You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.

Conversation Starter:

- Help me understand how these fees and costs might affect my investments.

- If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me? What investment recommendations can you provide to me?

WHAT ARE THE LEGAL OBLIGATIONS TO ME WHEN PROVIDING RECOMMENDATIONS? HOW ELSE DOES YOUR FIRM MAKE MONEY, AND WHAT CONFLICTS DO YOU HAVE?

We **do not** provide recommendations. The way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the services we provide you. Here are some examples to help you understand what this means.

- eToro Securities will share in revenues earned on payment for order flow, margin, and other ancillary fees generated by Apex.
- eToro Securities is incentivized to promote services provided by its affiliate, eToro MSB, because it indirectly benefits from revenue generated from such services, given common beneficial ownership.
- eToro Securities and/or Apex earn interest on your cash deposited through the eToro Options product, and such interest is not shared with you unless you have enrolled in the [High Interest Cash Program](#). Similarly, cash deposited and used for stock, ETF, and cryptocurrency trading is held in bank accounts that may pay the eToro MSB interest. This earned interest is not shared with you.

Conversation Starter:

- How might your conflicts of interest affect me, and how will you address them?

HOW DO YOUR FINANCIAL PROFESSIONALS MAKE MONEY?

eToro Securities' financial professionals receive salaries and bonuses that are based on their overall job responsibilities and performance rather than specific customer activity, commissions, or assets. The firm earns the following fees when providing its services to you:

1. eToro earns revenue in the form of payment for order flow from your trade activity and, therefore, has a monetary incentive for you to trade more. Specifically, we earn revenue from our clearing firm (Apex) after it receives compensation from executing broker-dealers for the customer orders we receive and then send to Apex. This arrangement is subject to our best execution requirements. Learn more about order routing and best execution [here](#).
2. There is an incentive for eToro Securities to have customers keep excess cash in their eToro brokerage or affiliate accounts, as that may make it more likely for customers to engage in future trading activity. Additionally, there are instances when eToro Securities or its affiliates earn interest on customer cash.
3. eToro Securities charges an LQT ("Liquidity") fee of \$.02 per contract, which is partially used to offset the OCC fee. Because we get paid when you complete a transaction, we could have an incentive to encourage you to make larger investments and trade more frequently.
4. Other fees and costs: For a full list of fees and costs, including those charged on transactions such as wires, reversed ACH deposits, regulatory, the LQT ("Liquidity") fee, and others, please see the full brokerage fee schedule [here](#), as well as the [fees webpage](#).

DO YOU OR YOUR FINANCIAL PROFESSIONALS HAVE LEGAL OR DISCIPLINARY HISTORY?

Visit www.investor.gov/CRS for a free and simple search tool to research eToro Securities and its financial professionals. Additionally, certain entities affiliated with eToro Securities through its ultimate parent, eToro Group Ltd., have disciplinary histories.

Conversation Starter:

- As a financial professional, do you have any disciplinary history? For what type of conduct?

WHERE CAN I FIND ADDITIONAL INFORMATION?

For additional information about our brokerage services or to request up-to-date information and a copy of our CRS, please contact our [Customer Service Center](#) or call 1-800-867-5309. Additional information about our financial professionals and the Firm can also be found at brokercheck.finra.org/.

Conversation Starter:

- Who is my primary contact person? Are they representative of an investment adviser or a broker-dealer? Who can I talk to if I have concerns about how this person is treating me?

Summary of latest changes to this form: Updated language regarding disciplinary history, and made language enhancements to the discussion about interest on cash and the availability of the eToro Options product.

Appendices

Appendix F: NYSE Agreement for Market Data Display Services

AGREEMENT FOR MARKET DATA DISPLAY SERVICES

eToro USA Securities Inc. ("Vendor") agrees to make "Market Data" available to you pursuant to the terms and conditions set forth in this agreement. By executing this Agreement in the space indicated below, you ("Subscriber") agree to comply with those terms and conditions. Section 1 sets forth terms and conditions of general applicability.

SECTION 1: TERMS AND CONDITIONS OF GENERAL APPLICABILITY

1. MARKET DATA DEFINITION – For all purposes of this Agreement, "Market Data" means (a) last sale information and quotation information relating to securities that are admitted to dealings on the New York Stock Exchange ("NYSE*"), (b) such bond and other equity last sale and quotation information, and such index and other market information, as United States-registered national securities exchanges and national securities associations (each, an "Authorizing SRO") may make available and as the NYSE* may from time to time designate as "Market Data"; and (c) all information that derives from any such information.

2. PROPRIETARY NATURE OF DATA – Subscriber understands and acknowledges that each Authorizing SRO and Other Data Disseminator has a proprietary interest in the Market Data that originates on or derives from it or its market(s).

3. ENFORCEMENT – Subscriber understands and acknowledges that (a) the Authorizing SROs are third-party beneficiaries under this Agreement and (b) the Authorizing SROs or their authorized representative(s) may enforce this Agreement, by legal proceedings or otherwise, against Subscriber or any person that obtains Market Data that is made available pursuant to this Agreement other than as this Agreement contemplates. Subscriber shall pay the reasonable attorney's fees that any Authorizing SRO incurs in enforcing this Agreement against Subscriber.

4. DATA NOT GUARANTEED – Subscriber understands that no Authorizing SRO, no other entity whose information is made available over the Authorizing SROs' facilities (an "Other Data Disseminator") and no information processor that assists any Authorizing SRO or Other Data Disseminator in making Market Data available (collectively, the "Disseminating Parties") guarantees the timeliness, sequence, accuracy or completeness of Market Data or of

other market information or messages disseminated by any Disseminating Party. Neither Subscriber nor any other person shall hold any Disseminating Party liable in any way for (a) any inaccuracy, error or delay in, or omission of, (i) any such data, information or message or (ii) the transmission or delivery of any such data, information or message, or (b) any loss or damage arising from or occasioned by (i) any such inaccuracy, error, delay or omission, (ii) non- performance or (iii) interruption in any such data, information or message, due either to any negligent act or omission by any Disseminating Party, to any "force majeure" (e.g., flood,extraordinary weather conditions, earthquake or other act of God, fire, war, insurrection, riot, labor dispute, accident, action of government, communications or power failure, equipment or software malfunction) or to any other cause beyond the reasonable control of any Disseminating Party.

5. PERMITTED USE – Subscriber shall not furnish Market Data to any other person or entity. If Subscriber receives Market Data other than as a Nonprofessional Subscriber,it shall use Market Data only for its individual use in its business.

6. DISSEMINATION DISCONTINUANCE OR MODIFICATION – Subscriber understands and acknowledges that, at any time, the Authorizing SROs may discontinue disseminating any category of Market Data, may change or eliminate any transmission method and may change transmission speeds or other signal characteristics. The Authorizing SROs shall not be liable for any resulting liability, loss or damages that may arise therefrom.

7. DURATION; SURVIVAL – This Agreement remains in effect for so long as Subscriber has the ability to receive Market Data as contemplated by this Agreement. In addition, Vendor may terminate this Agreement at any time, whether at the direction of the Authorizing SROs or otherwise. Paragraphs 2, 3 and 4, and the first two sentences of Paragraph 8, survive any termination of this Agreement.

8. MISCELLANEOUS – The laws of the State of New York shall govern this Agreement and it shall be interpreted in accordance with those laws. This Agreement is subject to the Securities Exchange Act of 1934, the rules promulgated under that act, and the joint-industry plans entered into pursuant to that act. This writing contains the entire agreement between the parties in respect of its subject matter. Subscriber may not assign all or any part of this Agreement to any other person. The person executing this Agreement below represents and warrants that he or she has legal capacity to contract and, if that person is executing this Agreement on behalf of a proprietorship or a business, partnership or other organization, represents and warrants that he or she has actual authority to bind the organization.

ACCEPTED AND AGREED: I, the "Subscriber" to which the preceding terms and conditions refer, acknowledge that I have read the preceding terms and conditions of this Section 1, that I understand them and that I hereby manifest my assent to, and my agreement to comply with, those terms and conditions by "clicking" on the following box:



Appendices

Appendix G: OPRA Subscriber Agreement

ATTACHMENT B-1

OPTIONS PRICE REPORTING AUTHORITY

ELECTRONIC FORM OF
SUBSCRIBER AGREEMENT

IMPORTANT NOTICE: THIS SUBSCRIBER AGREEMENT (THIS “AGREEMENT”) IS AN AGREEMENT BETWEEN YOU AND **eToro USA Securities Inc.** FOR YOU TO RECEIVE INFORMATION PUBLISHED BY THE OPTIONS PRICE REPORTING AUTHORITY, LLC (“OPRA”). PLEASE READ THIS AGREEMENT CAREFULLY. AFTER YOU HAVE READ THIS AGREEMENT, PLEASE INDICATE YOUR AGREEMENT TO BE BOUND BY ITS TERMS AND CONDITIONS BY CLICKING ON THE “I AGREE” BUTTON AT THE END. IF YOU DO NOT AGREE TO THESE TERMS AND CONDITIONS, YOU WILL BE UNABLE TO RECEIVE THE INFORMATION.

By completing and submitting this Agreement, you are applying to receive from **eToro USA Securities Inc., 221 River Street, Hoboken, NJ 07030** (“Vendor”) a market data service (the “Service”) providing access to current options last sale and quotation information and related information (“OPRA Data”) published by OPRA pursuant to a Plan declared effective by the Securities and Exchange Commission. The parties to this Plan (each, an “OPRA Participant”) are those national securities exchanges that are from time to time approved by the Securities and Exchange Commission for the trading of securities options. In reviewing and approving this Agreement, Vendor is authorized to act on behalf of OPRA. The person who acts from time to time as data processor on behalf of OPRA is referred to herein as “OPRA’s Processor.”

By completing and submitting this Agreement and clicking on the “I agree” button at the end of this Agreement, you are consenting to enter into this Agreement in electronic form. You have the right to withdraw your consent by terminating this Agreement and your receipt of the OPRA Data. Your right to terminate this Agreement and your receipt of the OPRA Data, and the procedure you must follow to do so, are described in paragraph 6 below. If any information needed to contact you electronically changes, the procedure for notifying Vendor is described in paragraph 11 below. If you wish to have a copy of this Agreement in paper form and you are unable to print a copy on your own computer system, Vendor will provide you with a paper copy at no charge upon its receipt of your request transmitted as described in paragraph 11. You may access a copy of this Agreement electronically at no charge, if your access to OPRA Data is from a device capable of receiving text, by *[insert description of procedure for accessing the Agreement]*.

This Agreement includes an “Addendum for Nonprofessionals.” The term “Nonprofessional” is defined in the Addendum. The purpose of the Addendum is to determine whether you are a Nonprofessional under this definition. If you are a Nonprofessional under this definition, OPRA’s charges to Vendor for your use of the OPRA Data are subject to a cap, and you may be entitled to pay lower fees to Vendor. You do not need to complete the Addendum, but if you do not do so, or if you cannot agree with all of the statements in the Addendum, OPRA will not consider you to be a Nonprofessional.

You hereby represent and agree as follows:

1. Your full name and address are: *[Information provided during the eToro customer onboarding process]*
2. You shall receive the Service and the OPRA Data included therein solely for your own business or personal use, and you shall not retransmit or otherwise furnish the OPRA Data to any person, other than your own employees on devices that are subject to the control of Vendor. If you are a Nonprofessional and have completed the Addendum for Nonprofessionals, you are only permitted under this Agreement to use the OPRA Data for the investment activities described in the Addendum for Nonprofessionals.
3. You acknowledge that OPRA Data is and shall remain the property of the OPRA Participant on which a reported transaction took place or a reported quotation was entered.
4. **DISCLAIMER OF LIABILITY -- NEITHER VENDOR, OPRA, OPRA'S PROCESSOR NOR ANY OPRA PARTICIPANT GUARANTEES THE TIMELINESS, SEQUENCE, ACCURACY OR COMPLETENESS OF ANY OF THE OPRA DATA SUPPLIED TO YOU HEREUNDER AND NEITHER VENDOR, OPRA, OPRA'S PROCESSOR NOR ANY OPRA PARTICIPANT SHALL BE LIABLE IN ANY WAY, TO YOU OR TO ANY OTHER PERSON, FOR ANY LOSS, DAMAGES, COST OR EXPENSE WHICH MAY ARISE FROM ANY FAILURE OF PERFORMANCE BY VENDOR, OPRA, OPRA'S PROCESSOR OR ANY OPRA PARTICIPANT, OR FROM ANY DELAYS, INACCURACIES, ERRORS IN OR OMISSIONS OF, ANY OF THE OPRA DATA OR IN THE TRANSMISSION OR DELIVERY THEREOF, WHETHER OR NOT DUE TO ANY NEGLIGENT ACT OR OMISSION ON THE PART OF VENDOR, OPRA, OPRA'S PROCESSOR OR ANY OPRA PARTICIPANT. IN NO EVENT SHALL VENDOR, OPRA, OPRA'S PROCESSOR OR ANY PARTICIPANT BE LIABLE FOR ANY INCIDENTAL, SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS, TRADING LOSSES, OR DAMAGES RESULTING FROM INCONVENIENCE OR LOSS OF USE OF THE SERVICE.**
5. The terms of this Agreement may be modified at any time upon notice to you. If you do not assent to this Agreement as modified at or prior to the time you next attempt to access the Service, this Agreement shall automatically be terminated. This Agreement as modified shall apply to your use of the Service from and after the date of the modification.
6. Your receipt of the OPRA Data hereunder may be terminated at any time by you or by Vendor upon 30 days notice from the terminating party to the other party, and may be terminated immediately upon a determination by Vendor or OPRA that you are not in compliance with this Agreement.

7. Nothing herein shall be deemed to prevent or restrict OPRA, OPRA's Processor or any OPRA Participant from discontinuing to furnish OPRA Data for dissemination or from making such changes in the speed of transmission, the characteristics of the electrical signals representing the OPRA Data or the manner of disseminating the same, as OPRA shall from time to time determine to be appropriate, with or without notice to you. You shall not hold OPRA, OPRA's Processor, or any OPRA Participant liable for any resulting liability, loss or damage that may arise therefrom.
8. You agree to notify Vendor promptly of any changes in the information provided herein and to furnish Vendor any additional information requested by it in connection with your receipt of the OPRA Data.
9. The parties acknowledge and agree that this Agreement is for the express benefit of OPRA, OPRA's Processor and each OPRA Participant.
10. The provisions of Sections 3, 4 and 9 will survive any termination of this Agreement and will remain in full force and effect.
11. All notices under this Agreement may be provided either in writing or electronically. All written notices to Vendor shall be sent to the Vendor's street address set forth above and all such notices to you shall be sent to the street address that you provide in paragraph 1. All electronic notices to Vendor shall be sent to Vendor's email address set forth above and all such notices to you shall be provided to you where you access the OPRA Data electronically.

IF YOU AGREE TO THE TERMS AND CONDITIONS SET FORTH ABOVE, PLEASE TYPE IN YOUR NAME AND ADDRESS IN THE SPACES PROVIDED ABOVE AND CLICK ON THE "I AGREE" BUTTON BELOW. By clicking on the "I AGREE" button below and typing in your name as indicated above, you agree that:

- i) you have read and you understand all of the terms and conditions set forth above; and
- ii) you intend to form a legally binding and valid contract under which you will be bound by all of the terms and conditions set forth above.

"I AGREE"

ADDENDUM FOR NONPROFESSIONALS

(To be completed by Nonprofessional Subscribers only)

The purpose of this Addendum is to determine whether you are a "Nonprofessional" for OPRA's purposes. OPRA defines a "Nonprofessional" as a legal person for whom the statements set out in Section 1 of this Addendum are true.

1. You represent and agree that the following statements are and will continue to be true for so long as you receive OPRA Data as a Nonprofessional:

(a) You are either a “natural person” (an individual human being) or a “qualifying trust.”* You are not a corporation, partnership, limited liability company, or other form of entity (including any form of trust that does not qualify as a qualifying trust). If you agree, click on “I AGREE”:

“I AGREE”

(b) If you are a natural person, you shall use the OPRA Data solely in connection with your personal investment activities and the personal investment activities of your immediate family members** and qualifying trusts of which you are the trustee or custodian. If you are a qualifying trust, you shall use the OPRA Data solely in connection with your personal investment activities. In any case, you shall not use the OPRA Data in connection with any trade, business, professional or other commercial activities. If you agree, click on “I AGREE”:

“I AGREE”

(c) You are not a “Professional.” For a natural person who works in the United States, a “Professional” is a natural person who is: (i) registered or qualified with the Securities and Exchange Commission, the Commodities Futures Trading Commission, any state securities agency, any securities exchange/association, or any commodities/futures contract market/association, (ii) engaged as an “investment adviser,” as that term is defined in the Investment Advisers Act of 1940 (whether or not registered or qualified under that Act); or (iii) employed by a bank or other organization exempt from registration under Federal and/or state securities laws to perform functions that would require you to be so registered or qualified if you were to perform such functions for an organization not so exempt. For a natural person who works outside of the United States, a “Professional” is a natural person who performs the same functions as someone who would be considered a “Professional” in the United States. If you agree that you are not a “Professional”, click on “I AGREE”:

“I AGREE”

2. You agree to notify Vendor promptly if your circumstances change such that any of the statements in Section 1 of this Addendum would no longer be true for you.

“I AGREE”

*The term “qualifying trust” means (a) any irrevocable or revocable trust (1) which has only one trustee, who is a natural person and is not receiving any compensation for acting as trustee and (2) of which the only current beneficiaries are any one or more of the trustee and the immediate family members of the trustee, and (b) any custodial account established under a Uniform Transfers to Minors Act or similar state statute (1) which has only one custodian, who is a natural person and is not receiving any compensation for acting as custodian, and (2) of which the beneficiary is a lineal descendant (a child, grandchild, etc.) of the custodian. A “current beneficiary” is a beneficiary to whom the current income or principal of the trust may or must then be distributed, ignoring the possible exercise of any then unexercised power of appointment. The term “immediate family members” is defined in the footnote to paragraph 1(b) of this Addendum.

**The term “immediate family members” means, with reference to a particular natural person, the spouse of that person, that person’s lineal ancestors (that is, parents, grandparents, etc.) and lineal descendants (that is, children, grandchildren, etc.), and the spouses (including surviving spouses) of that person’s lineal ancestors and lineal descendants. The term includes step and adoptive relationships.

12/2014

Appendices

Appendix H: Nasdaq UTP Plan Subscriber Agreement

TERMS AND CONDITIONS

The Vendor and its agents may not modify or waive any term of this Agreement. Any attempt to modify this Agreement, except by Nasdaq, is void.

1. USE OF DATA. Subscriber may not sell, lease, furnish or otherwise permit or provide access to the Information to any other Person or to any other office or place. Subscriber will not engage in the operation of any illegal business use or permit anyone else to use the Information, or any part thereof, for any illegal purpose or violate any Nasdaq or Securities and Exchange Commission ("SEC") Rule or other applicable law, rule or regulation. Subscriber may not present the Information rendered in any unfair, misleading or discriminatory format. Subscriber shall take reasonable security precautions to prevent unauthorized Persons from gaining access to the Information.

a. NON-PROFESSIONAL SUBSCRIBER — For Non-Professional Subscribers, the Information is licensed only for personal use. By representing to Vendor that Subscriber is a Non-Professional Subscriber, or by continuing to receive the Information at a Non-Professional Subscriber rate, Subscriber is affirming to Vendor and to Nasdaq that Subscriber meets the definition of Non-Professional Subscriber as set forth in [Section 16](#) of this Agreement. A Non-Professional Subscriber shall comply promptly with any reasonable request from Nasdaq for information regarding the Non-Professional Subscriber's receipt, processing, display and redistribution of the Information.

b. PROFESSIONAL SUBSCRIBER — For Professional Subscribers, the Information is licensed for the internal business use and/or personal use of the Professional Subscriber. Professional Subscribers may, on a non-continuous basis, furnish limited amounts of the Information to customers in written advertisements, correspondence or other literature or during voice telephonic conversations not entailing computerized voice, automated information inquiry systems or similar technologies. Upon request, Professional Subscribers shall make its premises available to Nasdaq for physical inspection of Vendor's Service and of Professional Subscriber's use of the Information (including review of any records regarding use of or access to the Information and the number and locations of all devices that receive Information), all at reasonable times, upon reasonable notice, to ensure compliance with this Agreement.

2. PROPRIETARY DATA. Nasdaq grants to Subscriber a nonexclusive, non-transferable license during the term of the Agreement to receive and use the Information transmitted to it by Vendor and thereafter to use such Information as permitted under the terms of this Agreement and/or the UTP Plan Requirements. Subscriber acknowledges and agrees that Nasdaq has proprietary rights to the Information that originates on or derives from markets regulated or operated by Nasdaq, and compilation or other rights to Information gathered from other sources. Subscriber further acknowledges and agrees that Nasdaq's third-party information providers have exclusive proprietary rights to their respective Information. In the event of any misappropriation or misuse by Subscriber or anyone who accesses the Information through Subscriber, Nasdaq or its third-party information providers shall have the right to obtain injunctive relief for its respective materials. Subscriber will attribute source as appropriate under all the circumstances.

3. PAYMENT. Subscriber shall assume full and complete responsibility for the payment of any taxes, charges or assessments imposed on Subscriber or Nasdaq (except for federal, state or local income taxes, if any, imposed on Nasdaq) by any foreign or domestic national, state, provincial or local governmental bodies, or subdivisions thereof, and any penalties or interest relating to the provision of the Information to Subscriber. Interest shall be due from the date of the invoice to the time that the amount(s) that are due have been paid. To the extent permitted by applicable law, Subscriber acknowledges and agrees that the termination of the Vendor's Service for failure to make payments shall not be considered an improper limitation of access by Nasdaq. For Professional Subscribers, if any payment is due directly to Nasdaq under this Agreement, payment in full is due Nasdaq in immediately available funds, in US Dollars by a check to Nasdaq, by electronic funds transfer to an institution of Nasdaq's choosing, within fifteen (15) days of the date of an invoice, whether or not use is made of, or access is made to, the Information.

4. SYSTEM. Subscriber acknowledges that Nasdaq, in its sole discretion, may from time-to-time make modifications to its system or the Information. Such modifications may require corresponding changes to be made in Vendor's Service. Changes or the failure to make timely changes by Vendor or Subscriber may sever or affect Subscriber's access to or use of the Information. Nasdaq shall not be responsible for such effects. Nasdaq does not endorse or approve any equipment, Vendor or Vendor's Service.

5. EXCLUSIVE REMEDY. Nasdaq shall endeavor to offer the Information as promptly and accurately as is reasonably practicable. In the event that the Information is not available as a result of failure by Nasdaq to perform its obligations under this Agreement, Nasdaq will endeavor to correct any such failure. If the Information is not available, is delayed, is interrupted, is incomplete, is not accurate or is otherwise materially affected for a continuous period of four (4) hours or more during the time that Nasdaq regularly transmits the Information due to the fault of Nasdaq (except for a reason permitted in this Agreement or in Nasdaq's agreement with the Vendor), Subscriber's or any other Person's exclusive remedy against Nasdaq shall be:

a. If Subscriber or any other Person continues to receive the Information or any other data and/or information offered by

Nasdaq, a prorated month's credit of any monies due for the affected Information directly to Nasdaq from Subscriber or, if applicable, from said other Person, for the period at issue; or

b. If Subscriber or any other Person no longer receives either the Information or any other data and/or information offered by Nasdaq, a prorated month's refund of any monies due for the affected Information directly to Nasdaq from Subscriber or, if applicable, from said other Person, for the period at issue.

Such credit or refund shall, if applicable, be requested in writing to Nasdaq with all pertinent details. Beyond the warranties stated in this section, there are no other warranties of any kind — express, implied, statutory (including without limitation, timeliness, truthfulness, sequence, completeness, accuracy, freedom from interruption), implied warranties arising from trade usage, course of dealing, course of performance or the implied warranties of merchantability or fitness for a particular use or purpose.

6. LIMITATION OF LIABILITY.

a. Except as may otherwise be set forth herein, Nasdaq shall not be liable to Subscriber, its Vendor or any other Person for indirect, special, punitive, consequential or incidental loss or damage (including, but not limited to, trading losses, loss of anticipated profits, loss by reason of shutdown in operation or increased expenses of operation, cost of cover or other indirect loss or damage) of any nature arising from any cause whatsoever, even if Nasdaq has been advised of the possibility of such damages.

b. Nasdaq shall not be liable to Subscriber or any other Person for any unavailability, interruption, delay, incompleteness or inaccuracy of the Information that lasts less than four (4) continuous hours during the time that Nasdaq regularly transmits the Information or if the Information is materially affected for less than four (4) continuous hours during the time that Nasdaq regularly transmits the Information.

c. If Nasdaq is, for any reason, held liable to Subscriber or to any other Person, whether in tort or in contract, the liability of Nasdaq within a single year of the Agreement (one year from the effective date of the Agreement) is limited to an amount of Subscriber's damages that are actually incurred by Subscriber in reasonable reliance (combined with the total of all claims or losses of Subscriber's Vendor and any other Person claiming through, on behalf of or as harmed by Subscriber) and which amount does not exceed the lesser of:

i. For Subscriber or any other person that continues to receive the Information or any other data and/or Information offered by Nasdaq, a prorated month's credit of any monies due directly to Nasdaq from Subscriber or, if applicable, from any other Person, for the Information at issue during the period at issue, or if Subscriber or any other Person no longer receives either the Information or any other data and/or information offered by Nasdaq, a refund of any monies due directly to Nasdaq from Subscriber or, if applicable, from any other Person, for the Information at issue during the period at issue; or

ii. \$500.

d. This section shall not relieve Nasdaq, Subscriber or any other Person from liability for damages that result from their own gross negligence or willful tortious misconduct or from personal injury or wrongful death claims.

e. Subscriber and Nasdaq understand and agree that the terms of this section reflect a reasonable allocation of risk and limitation of liability.

7. DISCLAIMERS OF WARRANTIES. Nasdaq and its third-party information providers make no warranties of any kind — express, implied or statutory (including without limitation, timeliness, truthfulness, sequence, completeness, accuracy, freedom from interruption), any implied warranties arising from trade usage, course of dealing, course of performance or the implied warranties of merchantability or fitness for a particular use or purpose or noninfringement.

8. THIRD-PARTY INFORMATION PROVIDERS' LIMITATION OF LIABILITY. Nasdaq's third-party information providers shall have no liability for any damages for the accuracy of or for delays or omissions in any of the Information provided by them, whether direct or indirect, lost profits, special or consequential damages of the Subscriber or any other Person seeking relief through Subscriber, even if the third-party information providers have been advised of the possibility of such damages. In no event will the liability of the third-party information providers or their affiliates to Subscriber or any other Person seeking relief through Subscriber pursuant to any cause of action, whether in contract, tort or otherwise, exceed the fee paid by Subscriber or any other Person seeking relief through Subscriber, as applicable.

9. CLAIMS AND LOSSES. Subscriber will indemnify Nasdaq and hold Nasdaq and its employees, officers, directors and other agents harmless from any and all Claims or Losses imposed on, incurred by or asserted as a result of or relating to: (a) any noncompliance by Subscriber with the terms and conditions hereof; (b) any third-party actions related to Subscriber's receipt and use of the Information, whether authorized or unauthorized under the Agreement. Each party warrants and represents and will indemnify and

hold harmless (and in every case, Nasdaq shall be permitted to solely defend and settle) another party (including Nasdaq) and their officers, directors, employees and other agents, against any Claims or Losses arising from, involving or relating to a claim of infringement or other violation of an intellectual property right by the indemnifying party, its actions or omissions, equipment or other property. This right is conditioned on the indemnified party giving prompt written notice to the indemnifying party (as does not prejudice the defense) of the Claims or Losses and providing cooperation in the defense of the Claims or Losses (without waiver of attorney-client, work-product or other legal privilege, or disclosure of information legally required to be kept confidential).

10. PERSONAL DATA. Subscriber acknowledges that Nasdaq, in the course of providing services to Subscriber, may process Personal Data (as defined in the The Nasdaq Stock Market LLC Vendor Agreement for UTP Plan Services (“Vendor Agreement”)) in the performance of services or in support of its rights (including, but not limited to, its audit and usage review rights) under the Vendor Agreement. Subscriber shall provide to Vendor or its designee such Personal Data (including, but not limited to, information regarding Subscriber or, for Subscribers that are firms, information regarding individual users of the Information) as reasonably requested by Nasdaq to make Information available to Subscriber, perform Nasdaq’s services under the Vendor Agreement, and/or enforce Nasdaq’s rights (including, but not limited to, its audit and usage review rights) under the Vendor Agreement, and Vendor shall provide such information to Nasdaq or its designee. Provisions for the processing of such data are set forth in the Vendor Agreement. With respect to individuals whose Personal Data is processed by Nasdaq and/or its service providers, the current publicly-posted Privacy Policy identified on the UTP Plan website located at www.utpplan.com, or its successor website, shall apply to such processing. To the extent that the Subscriber is a legal entity established in the European Economic Area (“EEA”), transfers of Personal Data to a Vendor (or its designee) outside of the EEA in connection with this Agreement shall be governed by the Data Processing Addendum of the Vendor Agreement, which is incorporated herein by reference *mutatis mutandis*, with the personal data exporter being the Subscriber and the personal data importer being the Vendor. Transfers of personal data from Vendor to Nasdaq shall be governed by the relevant provisions of the Vendor Agreement.

11. TERMINATION. Subscriber acknowledges that Nasdaq, when required to do so in fulfillment of statutory obligations, may by notice to Vendor unilaterally limit or terminate the right of any or all Persons to receive or use the Information and that Vendor will immediately comply with any such notice and will terminate or limit the furnishing of the Information and confirm such compliance by notice to Nasdaq. Any affected Person will have available to it such procedural protections as are provided by the Act and applicable rules thereunder. In addition to terminations permitted under the Vendor's agreement, this Agreement may be terminated by Subscriber with thirty (30) days written notice to Vendor and by Nasdaq with thirty (30) days written notice either to Vendor or Subscriber. Nasdaq may also alter any term of this Agreement with ninety (90) days written notice either to Vendor or Subscriber, and any use after such date is deemed acceptance of the new terms. In the event of Subscriber breach, discovery of the untruth of any representation of Subscriber, or where directed by the SEC in its regulatory authority, Nasdaq may terminate this Agreement with not less than three (3) days written notice to Subscriber provided either by Nasdaq or Vendor.

12. AMENDMENTS/AGREEMENT. Except as otherwise provided herein, no provision of this Agreement may be amended, modified or waived. No failure on the part of Nasdaq or Subscriber to exercise, no delay in exercising and no course of dealing with respect to any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege under this Agreement. If any of the provisions of this Agreement or application thereof to any individual, entity or circumstance is held invalid or unenforceable, the remainder of this Agreement, or the application of such terms or provisions to individuals, entities or circumstances other than those as to which they are held invalid or unenforceable, shall not be affected thereby and each such term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law. In the event of any conflict between the terms of this Agreement and of the Vendor's agreement, the terms of this Agreement shall prevail as between Nasdaq and Subscriber.

13. REQUIREMENTS OF SELF-REGULATORY ORGANIZATION; ACTIONS TO BE TAKEN IN FULFILLMENT OF STATUTORY OBLIGATIONS.

(a) Subscriber acknowledges that in the United States: (i) Nasdaq is registered with the SEC as national securities exchanges pursuant to Section 6 of the Act, and FINRA is registered with the SEC as a national securities association pursuant to 15A of the Act; (ii) FINRA and Nasdaq have a statutory obligation to protect investors and the public interest, and to ensure that quotation information supplied to investors and the public is fair and informative, and not discriminatory, fictitious or misleading; (iii) Section 19(g)(1) of the Act mandates that FINRA and Nasdaq comply with the UTP Plan Requirements; (iv) Nasdaq has jurisdiction to enforce compliance with certain of the UTP Plan Requirements; (v) FINRA has jurisdiction to enforce compliance with certain of the UTP Plan Requirements; and (vi) Nasdaq is obligated to offer terms that are not unreasonably discriminatory between Subscribers, subject to applicable UTP Plan Requirements. Accordingly, Subscriber agrees that Nasdaq, when required to do so in fulfillment of its statutory obligations, may, temporarily or permanently, unilaterally condition, modify or terminate the right of any or all individuals or entities to receive or use the Information. Nasdaq shall undertake reasonable efforts to notify Subscriber of any such condition, modification or termination, and Subscriber shall promptly comply with any such notice within such period of time as may be determined in good

faith by Nasdaq to be necessary, consistent with its statutory obligations. Any Person that receives such a notice shall have available to it such procedural protections as are provided to it by the Act and the applicable rules thereunder.

(b) If Subscriber is a member of a Nasdaq market, then Subscriber expressly acknowledges and agrees that (i) this Agreement does not limit or reduce in any way Subscriber's obligations and responsibilities as a member of any applicable Nasdaq market; (ii) this Agreement does not in any way alter the procedures or standards generally applicable to disciplinary or other actions taken by Nasdaq to enforce compliance with, or impose sanctions for violations of, the UTP Plan Requirements; and (iii) the nonpayment of amounts due under this Agreement could result in the suspension or cancellation of Subscriber's membership in a Nasdaq market in accordance with the UTP Plan Requirements.

14. GOVERNING LAWS; CONSTRUCTION. This Agreement shall be construed and enforced in accordance with, and the validity and performance hereof shall be governed by, the laws of the State of New York, without reference to principles of conflicts of laws thereof. Any dispute that cannot be amicably settled that arises out of this Agreement shall be referred to arbitration and shall be conducted in accordance with the rules of the American Arbitration Association. All such proceedings shall be held in New York City, NY, and shall be conducted in the English language, which shall also be the language of the documents.

15. NOTICES; NOTIFICATION OF CHANGES. All notices and other communications (except for invoices) required to be given in writing under this Agreement shall be directed to the signatories or, in the alternative, to the individuals identified in subsections (a) and (b) below. Notices shall be deemed to have been duly given: (i) upon actual receipt (or date of first refusal) by the parties, or (ii) upon constructive receipt (or date of first refusal) if sent by certified mail, return receipt requested, or any other delivery method that actually obtains a signed delivery receipt, to the following addresses or to such other address as any party hereto shall hereafter specify by prior written notice to the other party or parties below, or (iii) upon posting the notice or other communication on the www.utpplan.com website or a successor site. If an email address is provided, Nasdaq may, in lieu of the above, give notice to or communicate with Subscriber by email addressed to the persons identified in subsection (a) or to such other email address or persons as Subscriber shall hereafter specify by prior written notice. By providing an email address, Subscriber agrees that any receipt received by Nasdaq from Subscriber's service provider or internet computer server indicating that the email was received shall be deemed proof that Subscriber received the message. If Subscriber cannot see or printout all or any portion of the message, Subscriber agrees that it is Subscriber's responsibility to contact Nasdaq at (301) 978-8080.

(a) If to **Subscriber**:

Name: _____
Title: _____
Address: _____

Telephone #: _____
Fax #: _____
Email: _____

With, in the event of notices of dispute or default,
a required copy to:

(b) If to **UTP Plan Administrator**:

UTP Plan Administrator
805 King Farm Boulevard
Rockville, MD 20850
Phone: +1 301 978 8080
admin@utpplan.com

With, in the event of notices of default or dispute,
a required copy to:

The Nasdaq Stock Market, LLC
Office of General Counsel
805 King Farm Boulevard
Rockville, MD 20850

16. DEFINITIONS.

Act shall mean the Securities Exchange Act of 1934.

Affiliate shall mean any individual, corporation, company, partnership, limited partnership, limited liability company, trust, association or other entity that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such party.

Claims or Losses — Any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, judgments, settlements and expenses of whatever nature, whether incurred by or issued against an indemnified party or a third party, including, without limitation, (a) indirect, special, punitive, consequential or incidental loss or damage, (including, but not limited to, trading losses, loss of anticipated profits, loss by reason of shutdown in operation or increased expenses of operation or other indirect loss or

damage), and (b) administrative costs, investigatory costs, litigation costs and auditors' and attorneys' fees and disbursements (including in-house personnel).

Information shall mean certain market data and other data disseminated that has been collected, validated, processed, and recorded by the System or other sources made available for transmission to and receipt from either a Vendor or from Nasdaq relating to: a) eligible securities or other financial instruments, markets, products, vehicles, indicators, or devices; b) activities of a Nasdaq Company; c) other information and data from a Nasdaq Company. Information also includes any element of Information as used or processed in such a way that the Information can be identified, recalculated or re-engineered from the processed Information or that the processed Information can be used as a substitute for Information.

Nasdaq shall collectively mean The Nasdaq Stock Market LLC, a Delaware limited liability company and its subsidiaries and Affiliates (collectively "Nasdaq").

UTP Plan Requirements — All (i) rules, regulations, interpretations, decisions, opinions, orders and other requirements of the SEC; (ii) the rules and regulations, disciplinary decision and rule interpretations applicable to UTP (iii) the decisions, policies, interpretations, operating procedures, specifications, requirements, and other documentation by Nasdaq, as Administrator of the UTP Plan, that is regulatory or technical in nature (including, but not limited to, user guides) published on the UTP Plan website located at www.utpplan.com or another website accessible by and made known to Vendor; and (iv) all other applicable laws, statutes, rules, regulations, orders, decisions, interpretations, opinions, and other requirements, whether promulgated by the United States or any other applicable jurisdiction (including in the area of intellectual property); and (v) the successors, as they may exist at the time, of the components of the UTP Plan Requirements.

Or — Includes the word "and."

Person — Any natural person, proprietorship, corporation, partnership or other entity whatsoever.

Subscriber — When it appears alone, the word "Subscriber" encompasses all Non-Professional and Professional Subscribers. All Subscribers are deemed Professional unless they are qualified as Non-Professional.

- **Non-Professional Subscriber** — Any natural person who is **NOT**:
 - a) registered or qualified in any capacity with the SEC, the Commodities Futures Trading Commission, any state securities agency, any securities exchange or association or any commodities or futures contract market or association;
 - b) engaged as an "investment adviser" as that term is defined in [Section 202\(a\)\(11\) of the Investment Advisers Act of 1940](#) (whether or not registered or qualified under that Act); or
 - c) employed by a bank or other organization exempt from registration under federal or state securities laws to perform functions that would require registration or qualification if such functions were performed for an organization not so exempt.
- **Professional Subscriber** — All other persons who do **not** meet the definition of Non-Professional Subscriber.

System shall mean any system Nasdaq has developed for the creation and/or dissemination of Information.

Vendor shall mean Vendor and its Affiliates as identified in writing to Nasdaq.

Vendor's Service — The service from a Vendor, including the data processing equipment, software and communications facilities related thereto, for receiving, processing, transmitting, using and disseminating the Information to or by Subscriber.

Appendices

Appendix I: eToro Privacy Policy and Privacy Notices

eToro Privacy Policy

Last Updated: June 2022

This privacy policy (the “**Policy**”) explains how the eToro group (collectively “**eToro**”, “**we**” or “**us**” and each member of the eToro group for whose services you registered, the “**eToro Entity**”) collects, uses and discloses personal information through its websites, mobile applications, and other online products and services that link to this Policy, including any of the products and services detailed in the following paragraph (collectively, the “**Services**”) or when you otherwise interact with us.

The Services include providing: (i) the eToro social trading platform for investing in stocks & EFTs, cryptocurrencies and for CFDs trading which users can sign up for an account with ; (ii) the eToro Money App which facilitates the eToro Money services (e-money account servicing payments and debit card) and eToro Money Crypto Wallet services; (iii) eToroX Digital Assets Exchange Services; (iv) any other site, web platform, mobile application or other service facilitated by any eToro Entity (any account described in (i)-(iv) being an “**eToro Account**” for the purpose of this Policy).

We encourage you to read the Policy carefully as it forms part of the relevant eToro Entity’s terms and conditions, terms of business, agreement with you and/or terms of use, as the case may be.

If you accept or agree to this Policy on behalf of a company or other legal entity, you represent and warrant that you have the authority to bind that company or other legal entity to the Privacy Policy and, in such event, “you” and “your” will refer and apply to that company or other legal entity.

Application of this Policy

Collection of Information

Information About Your Use of the eToro Services

Use of Information

Sharing of Information

Social Sharing Features

Advertising and Analytics Services Provided by Others

Your Choices and Rights

Promotional Communications

Mobile Push Notifications/Alerts

Automated Analysis of Your Personal Information

Transfer of Information to Other Countries

eToro Social Trading Platform

eToro Money Services

[Retention of Personal Information](#)

[Security and Integrity of Information](#)

[Minors](#)

[Important Notice to Residents of the State of California](#)

[Changes to this Privacy Policy](#)

[Links](#)

[Contact Us](#)

Application of this Policy

For the purposes of applicable state and/or international data protection laws, the respective eToro Entity with whom you have registered is the “controller” of personal information collected through www.eto.com (<http://www.eto.com>), other eToro group entities’ websites, widgets, mobile applications (including the eToro Money App) and other platforms (together the “Site”), and is the company to contact if you have questions about the use of your personal information (see the “Contact Us” section below). The Policy also applies to personal data about each authorized representative of a client and about other persons or entities where this personal data is collected in the course of providing the Services (such as directors of corporate clients).

Collection of Information

Information You Provide to Us

We collect information you provide directly to us. For example, we collect information when you create an eToro Account, participate in any interactive features of the Services, fill out a form, participate in a contest or promotion, make a purchase, communicate with us via third party social media sites, request customer support, or otherwise communicate with us.

When You Sign Up or Register for an eToro Account or Services

If you sign up for an eToro Account or other Services, we will collect basic information about you including your name, email address and telephone number. You may provide this information to us directly, or by signing in to your account/service with a third party, including without limitation, Facebook or Google (see “Information We Collect from Other Sources” below). We will use the information that we collect about you to:

- Create and maintain your eToro Account;
- Allow you to log in to eToro;
- Contact you about your eToro Account and/or our Services (this may include marketing emails).

When You Provide Information to Build Your Profile

Once you have created an eToro Account, we will ask you to provide additional information to allow you to make use of certain functions. We will ask you to provide a copy of an identification document, such as a passport, residency permit, visa or national identity card, a utility bill and such other documents as may be required by us in order to comply with our regulatory obligations and to verify your identity. Further details about the identification process can be found in the relevant eToro Entity's terms and conditions, terms of business and/or terms of use or client/customer agreement, as the case may.

Please note that if you choose to provide additional information about yourself to complete your **"Profile"**, then the information we ask for may include your gender, date of birth, place of birth, addresses, nationality, national insurance number, social security number (or other government-issued identification number), citizenship and residency status, Tax ID, and information about your experience trading, education, source of income, investment aims and appetite, occupation, employer and employment position, annual income, investment portfolio, total cash and liquid assets and other details or questions as may be required in the Profile creation and the process may be amended by us from time to time.

It is optional for you to do so but for legal and regulatory reasons you will be unable to proceed to use certain features unless you provide further information.

We will use the information you provide in your Profile to:

- verify your identity and carry out checks that we are required to conduct by applicable laws and regulations, including without limitation, "know your customer" (KYC), anti-money laundering, fraud, sanctions and politically exposed person (PEP) checks;
- contact you on matters related to your eToro Account, including to request any additional information or documentation;
- provide you with notices related to your eToro Account, general updates, market updates and other marketing materials, including about the Services offered by members of the eToro Group;
- tailor the products and services offered through the Site to you, including without limitation, to perform any suitability or appropriateness assessments for using our services and/or products, such as our high-leveraged trading services and Social Trading Features;
- assess your credit risk;
- assess your risk score according to parameters determined by eToro;
- assess whether you qualify as a professional client, wholesale client or other specific category of client;
- maintain administrative records relating to our business;
- set up security measures to secure your account, including without limitation, to carry out two-factor authentication ("2FA"); and
- provide the Services.

You can update your Profile at any time by visiting the "Account" page in the Settings menu when logged into your eToro Account. We recommend that you update your Profile regularly, to ensure that the eToro functions offered to you are appropriate for your current circumstances. You further agree to update such information upon eToro's request, if eToro considers the information

provided as untrue, incorrect, incomplete and/or inconsistent with other information provided by you at any time. You acknowledge that we may rely upon such information and that you are responsible for any damages or losses which may result from any inaccuracies, including without limitation, the inappropriateness of our Services to your Profile. You do not have to complete your Profile and therefore do not have to provide the information; however, if you choose not to, we will be unable to offer eToro's full functionality to you.

When You Contact Us

If you contact us by telephone, email, post or use another function offered by eToro, such as the chat feature, we will collect any information about the communication and any additional information that you choose to give us. We will use this information to review, investigate and respond to any comment or question that you may raise. Please note that we record and retain all telephone calls and other communication with us and may use it in our dealings with you, including any dispute resolution or legal proceedings.

When an eToro User Invites You to Use eToro

Users of eToro can invite their contacts to sign up for an account with us. We only collect the email addresses of individuals that users choose to invite to join eToro and eToro only uses the email addresses for sending an invitation to the individual at the request of the existing eToro user.

Information About Your Use of the eToro Services

Usage and Automatically Collected Information

When you access or use our Services, we automatically collect information about you (the type of information depends on the Site you are using), including:

- *Financial Information:* We collect financial information related to your use of the Services, including information you provide to us or that we collect from public sources.
- *Log Information:* We collect log information about your use of the Services, including the type of browser you use, app version, access times, pages viewed, your IP address, any other network identifiers, and the page you visited before navigating to our Services.
- *Device Information:* We collect information about the computer or mobile device you use to access our Services, including the hardware model, operating system and version, unique device identifiers, and mobile network information.
- *Activities on the Site:* We collect records of activities on the Site, including, any content you post, your eToro Account details, the time, value and currency of any deposit, withdrawal, or transaction made and the payment method.
- *Location Information:* In accordance with your device permissions, we may collect information about the geo-location of your device.
- *Information Collected by Cookies and Other Tracking Technologies:* We use different technologies to collect information, including cookies and web beacons. You can find out more about eToro's use of cookies and similar technologies in our Cookie Policy.

If you are an eToro Money customer, please also see the section "eToro Money" below.

Information We Collect from Other Sources

We may collect personal information about you from third party entities when we seek to verify your identity as part of our regulatory requirements. This may include, for example, identity verification agencies, credit referencing agencies and similar bodies. We may also collect information about you from third parties, when you use or connect to eToro by or through a third-party platform, such as Facebook or another site, you allow us to access and/or collect certain information from your third party platform profile/account as permitted by the terms of the agreement and your privacy settings with the third party platform. We will share such information with the third party platform for their use.

Some of the information we collect from you on installation of the mobile app will be shared by us with vendors and other service providers who are engaged by, or working with, us in connection with operating and analysing the Services we provide to you.

If you are an eToro Money customer, please also see the section “eToro Money” below.

Unsolicited Information

If you provide us with personal information that we have not requested then we will endeavour to only retain the information that we are entitled or required to hold because of the products and services we provide. However, if this additional information is surplus to our requirements but is provided to us in a manner where it is combined with information that we are either required or entitled to retain then you acknowledge that this unsolicited information may be held by us in the same manner as the balance of your personal information.

Use of Information

We use the information we collect to provide, maintain, and improve the Services, such as to administer, verify and maintain your account, to provide the Services you request and customize your experience with us. We also use the information we collect to:

- carry out our obligations owed to you;
- comply with our regulatory and other legal obligations;
- monitor/access any content you post;
- administer transactions including deposits, chargebacks and payments;
- monitor trading activity on eToro, including by detecting inconsistencies in payments and trades and looking out for potentially illegal activities;
- determine whether a payment method is being abused;
- compile statistical analysis of the pages of our platform and websites;
- monitor and analyse our business;
- investigate and to manage enquiries, disputes and legal proceedings and to comply with court orders, mandatory dispute resolution determinations and mandatory government authority or law enforcement orders or directions;
- provide information about you and your trading with us to credit reference/reporting agencies;

- participate in crime prevention, legal and regulatory compliance and to assist regulatory, cybercrime, data and information protection agencies and police with their enquiries and enforcement, even if not compelled to do so;
- develop and to market other products and services; and
- novate, transfer or assign any of the rights or liabilities of the eToro Entity.

Sharing of Information

We will not share the personal information we hold about you except in the following circumstances:

- between and among the eToro Entity, eToro and our current and future parents, affiliates, subsidiaries, and other companies under common control and ownership; and
- with professional advisors, vendors, consultants, and other service providers, such as payment service providers, IT hosting companies, banks, other financial institutions and credit reporting/reference agencies who need access to such information to carry out work on our behalf;
- in connection with, or during negotiations of, any merger, sale of company assets, financing or acquisition of all or a portion of eToro by another company;
- disclosure in accordance with, or required by, any applicable law or legal process, including lawful requests by public authorities to meet national security or law enforcement requirements;
- if we believe your actions are inconsistent with our user agreements or policies, or to protect the rights, property, and safety of eToro or others; or.
- where we have your consent. For example, if you use the “eToro Connect” feature, we will get your permission before sharing your personal information with a third party.

If you are an eToro Money customer, please also see the section “eToro Money” below.

Social Sharing Features

If you have elected to use one of our applications provided via social networks (such as Facebook, Twitter, etc.), our application will be granted access to your social network account general information which includes your name and username in the social network, profile picture, gender, networks, user ID, list of friends, and any other information you have permitted to be shared depending on the settings you establish with the entity that provides the social sharing feature. For more information about the purpose and scope of data collection and processing in connection with social sharing features, please visit the privacy policies of the entities that provide these features.

Advertising and Analytics Services Provided by Others

We may allow others to provide analytics services and serve advertisements about our products and services on our behalf across the web and in mobile applications. This may involve cookies and other technologies to collect information about your use of the Services. This information may be used by eToro to, among other things, analyze and track data, determine the popularity of certain content, deliver advertising and content targeted to your interests on our Services, and better

understand your online activity in connection with the Services. Please refer to our Cookie Policy for more information about the cookies involved and the process of consenting or refusing cookies. For more information about interest-based ads generally, please visit www.aboutads.info/choices if you are in the United States and if you are in the EU or the UK, please visit www.youronlinechoices.eu/.

Your Choices and Rights

You may have certain rights and protections under the law regarding the processing of your personal data. For example, you may also have the right to object to, or request that we restrict, certain processing and in some circumstances to obtain a copy of the personal information in machine readable format. There are limits to such rights where they apply and in certain circumstances we may not be required or able to meet your request, or we may only meet your request in part.

Legal Basis for Processing: For transparency purposes (where relevant under data protection legislation applicable to our processing of your personal information) we process your personal data on the following legal grounds:

- *Entering into and Performing the Contract with You:* If you have an eToro Account or have registered on the Site or for the Services, our legal basis for processing your personal information is that it is necessary for the performance of the relevant eToro Entity's terms and conditions, terms of business and/or terms of use, and to provide the requested service to you. With respect to an eToro Account, this includes facilitating access to our platform, processing payments and executing trades.
- *For other Justifiable Grounds, including Legal Obligation and Legitimate Interests:* We process your personal information where necessary for eToro to comply with legal and regulatory obligations we are under, and also where it is necessary for legitimate interests we have in conducting our business (or the legitimate interests of our partners in complying with their legal obligations), balanced against the rights of our customers, like you. These include without limitation:
 - Learning about your interests and preferences to contact you with information that is relevant to you and helping us target marketing communications and advertisements for our products and services so that they are more relevant to you.
 - Using your pseudonymised details to show you advertising for our products and services on social media platforms, such as Facebook or via other third-party advertising that may appear on other websites you use. The information shared with these platforms is pseudonymised to protect your personal data.
 - Analyzing and continually improving the Site and the Services and helping us pilot test versions of the Site internally to develop new features and ensure the efficient running of eToro's services.
 - Detecting and reducing fraud and credit risk.

If you are an eToro Money customer, please also see the section "eToro Money" below.

Data Subject Requests: You may have the right to access personal data we hold about you and to ask that your personal data be updated, corrected, erased, or transferred. You may also have the right to object to, or request that we restrict, certain processing. If you would like to exercise any of these rights, you can log into your account or contact us via this [Link](#). Alternatively, you may also reach us by email at privacy@etoro.com. If you wish to delete or deactivate your account, please note that we may retain certain information as required by law or for legitimate business purposes. We may also retain cached or archived copies of information about you for a certain period of time.

Questions or Complaints: If you are interested in exercising any of these rights (or confirming if they apply to our processing of your personal data), you can log into your account or contact us. Any such request should be submitted in writing to: www.etoro.com/customer-service/. If you have a concern about our processing of personal data that we are not able to resolve, you may have the right to lodge a complaint with the relevant data protection supervisory authority where you reside. As noted above, even where such rights apply, they are subject to limits. This means that, in certain circumstances, we may not be required or able to meet your request, or we may only meet your request in part.

Promotional Communications

You may opt out of receiving promotional emails or text messages from eToro by following the instructions in those emails or text messages or by visiting the “*Notifications*” tab in the “*Settings*” menu on our platform. If you opt out, we may still send you non-promotional emails, such as service messages about your eToro Account or our ongoing business relationship.

Mobile Push Notifications/Alerts

With your consent, we may send promotional and non-promotional push notifications or alerts to your mobile device. You can deactivate these messages at any time by changing the notification settings on your mobile device.

Transfer of Information to Other Countries

When using the Services, your data is processed and stored in the EU and other countries, including the United Kingdom. We and our service providers may transfer your information to, or store or access it in, jurisdictions that may not provide levels of data protection equivalent to your home jurisdiction.

Where we transfer personal data from the EEA or from the UK to countries outside of the EEA or UK which are not recognized as providing adequate data protection, we provide appropriate safeguards in the form of intercompany agreements based on the Standard Contractual Clauses authorised under EU law or UK law (as applicable). For further information, please contact us at privacy@etoro.com.

eToro Social Trading Platform

eToro provides a real-time social trading platform which integrates rich community and social characteristics into the trading platform. As part of the eToro traders’ network, traders who choose

to be part of the community share their strategies and performance with the community. The amount traded is never publicly disclosed and all these traders have expressly agreed to be part of the network and share their strategies and performance.

Downloading, installing and accessing the eToro Services in relation to the trading platform constitutes your agreement and acknowledgment that the following information and content shall be considered non-confidential and non-proprietary information (other than your personal data as described below), collectively, the “**Content**” and shall be publicly shown on the Site: your username and full name, your picture/avatar (if provided), your state of residency, gender, networks, list of users who follow you, users who copy you, stats related to your trades etc., list of users you follow or copy, and any network status/posts/blogs and any other content options that enable our users to interact amongst themselves, including without limitation content and information you post on the eToro community, comments, feedback, postings, “likes”, blogs and/or all information that you provide to us via the Site, and/or by email, chat, fax or telephone and/or any other means.

You can change your privacy settings at any time, and can make your trading activity private by clicking here: <https://www.etoro.com/settings/privacy> and <https://www.etoro.com/settings/notifications>.

eToro Money

If you are a customer of eToro Money, in addition to the uses of personal data explained in other parts of the Policy, the information in this section also applies.

eToro Money UK Ltd. and eToro Money Malta Ltd. are the regulated entities which provide the eToro Money products and services and are the relevant eToro Entities for this Service. eToro Ltd. provides and runs the relevant IT infrastructure (including the eToro Money App) on behalf of eToro Money.

Collection of Personal Data

When an eToro Money debit card is issued to a customer, eToro will receive the last 4 digits of the long card number (the PAN) from the third party issuer processor for the following purposes: (i) in order to be able to link information about transactions and related activities with the correct eToro Money Account/debit card instance; and (ii) allowing you to associate your debit card with related transactions made with such debit card. eToro does not receive the full card number, the card expiry date or CVV. eToro will never receive the security PIN used with your eToro Money debit card.

If you choose to set up payee information linked to your eToro Money Account (for example, the account number and sort code of a recipient you would like to send payments to from your eToro Money Account), then we will hold and use this information (as well as recipient account holder name) in order for you to do so.

As you use your eToro Money debit card, eToro will also receive a feed of transaction, balance and currency conversion information in order to update and service your eToro Money Account.

Your mobile phone number will be used to facilitate open banking and 3DS secure online transactions.

Sharing of Your Personal Data

To provide the eToro Money products and services, eToro will share your personal data with third parties including: agency banks which provide banking services, including issuing a sort code for UK clients, card networks, such as VISA, issuer processor, card processors and related service providers which support secure online payments and card manufacturers which produce and dispatch the physical card to you.

Retention of Personal Information

We store the information we collect on you for as long as is necessary for the purpose(s) for which we originally collected it, or for other legitimate business purposes, including to meet our legal, regulatory, or other compliance obligations. The period for which we will retain personal information will vary depending on the purposes that it was collected for, as well as the requirements of any applicable law or regulation. For example, if you are invited to use eToro by another user, we will store the personal information about you provided by such other user for a period of six months in order to send an invitation to you by email.

If you have an eToro Account, we will store your personal information for as long as you maintain that account, and after you cease holding an account, for as long as we are required to by laws and regulations that are applicable to us.

Security and Integrity of Information

We protect your personal information by using data security technology and using tools such as firewalls and data encryption. We also require that you use a personal username and password every time you access your account online. As set out in the relevant eToro Entity's terms and conditions, terms of business and/or terms of use, you must not share your password with anyone else. We recommend that you do not re-use a password previously used by you for other platforms/services. We strongly encourage you to activate Two Factor Authentication ("**2FA**") in your account. 2FA requires you to enter a verification code sent to you mobile phone via SMS in order to access your account.

We restrict access to personal information at our offices so that only officers and/or employees with a legitimate business purpose can access it.

Minors

eToro is not available for users under the age of 18 (or the age of legal consent for the jurisdiction the user is located in) (a "**Minor**"). We do not knowingly collect personal information from or about Minors. If you are a Minor, you should not download or use any of our services nor provide any personal information to us.

If we become aware that a Minor has shared any information with us, we will delete such information. If you have any reason to believe that a Minor has shared any information with us, please contact us at www.etoro.com/customer-service/.

Important Notice to Residents of the State of California

Natural persons who reside in the State of California should also review the [Notice to California Residents](#). You may have additional rights under California law.

NEVADA PRIVACY RIGHTS

If you are a resident of Nevada, you have the right to opt-out of the sale of certain personal information to third parties who intend to license or sell that personal information. You can exercise this right by contacting us in accordance with the contact details set out below with the subject line “Nevada Do Not Sell Request” and providing us with your name and the email address associated with your account. Please note that we do not currently sell your personal information as sales are defined in Nevada Revised Statutes Chapter 603A.

Changes to this Privacy Policy

The Policy will be reviewed and updated from time to time to take account of changes to our operations or practices and, further, to make sure it remains appropriate in light of any changes in law, technology and the business environment. Any personal information held will be governed by our most current Policy. Please refer back to the Policy on a regular basis.

Links

The Site may include links to other websites on the internet. We are not responsible for the content of these sites or for any other privacy practices on these internet sites. You should read the terms of use and the privacy statements of any such websites. Our terms of use and our Privacy Policy apply only to information collected by us in accordance with this Policy.

Contact Us

Should you have any questions regarding the Policy, please contact our customer support and open a ticket via this [Link](#). Alternatively, you may also reach us at: privacy@etoro.com and please include your full name, and email address so we are able to handle your query properly. We may require that you provide additional information to verify your identity before allowing you to exercise certain rights outlined above.

FACTS

WHAT DOES ETORO DO WITH YOUR PERSONAL INFORMATION?

Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	<div>The types of personal information we collect and share depend on the product or service you have with us. This information is identified with specificity in our Privacy Policy, and can include:</div> <div><div><div>■ Social Security number and income</div><div>■ Assets and employment information</div><div>■ Investment experience and risk tolerance</div></div></div>
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons eToro chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does eToro share?	Can you limit this sharing?
For our everyday business purposes—such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to or obtain information from credit bureaus	Yes	No
For our marketing purposes—to offer our products and services to you	Yes	No
For joint marketing with other financial companies	No	We do not share
For our affiliates’ everyday business purposes—information about your transactions and experiences	Yes	No
For our affiliates’ everyday business purposes—information about your creditworthiness	No	We do not share
For our affiliates to market to you	Yes	Yes
For nonaffiliates to market to you	No	We do not share

To limit our sharing	<div><div><div>■ Call 1-888-271-8365 —our menu will prompt you through your choice(s);</div><div>■ Visit us on-line at https://www.etoro.com/en-us/customer-service/; or</div><div>■ Mail the form below.</div></div><div>Please note: If you are a <i>new</i> customer, we can begin sharing your information 30 days from the date we sent this notice. When you are <i>no longer</i> our customer, we continue to share your information as described in this notice. However, you can contact us at any time to limit our sharing.</div></div>
Questions?	Call 1-888-271-8365 or go to https://www.etoro.com/en-us/customer-service/

Mail-in Form

	Mark any/all you want to limit: <div><input type="checkbox"/> Do not allow your affiliates to use my personal information to market to me.</div>		
	Name		Mail to: eToro USA LLC 221 River St., 9th Floor Hoboken NJ 07030
	Address		
	City, State, Zip		
	[Account #]		

Who we are	
Who is providing this notice?	eToro USA LLC eToro USA Securities Inc.
What we do	
How does eToro protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does eToro collect my personal information?	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none">■ Open an account or deposit money;■ Use your credit or debit card or make deposits or withdrawals from your account; or■ Give us your contact information or tell us who receives the money. <p>We also collect your personal information from others, such as credit bureaus or identity verification vendors or other companies.</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none">■ Sharing for affiliates' everyday business purposes—information about your creditworthiness■ Affiliates from using your information to market to you■ Sharing for nonaffiliates to market to you <p>State laws and individual companies may give you additional rights to stop sharing.</p>
Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. Our affiliates include companies with an eToro name, such as eToro Group Ltd., which is the ultimate parent company of the eToro USA entities.
Nonaffiliates	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <p>eToro does not share with nonaffiliates so they can market their products to you.</p>
Joint marketing	A formal agreement between non-affiliated financial companies that together market financial products or services to you.
Other important information	
<u>STATE-SPECIFIC DISCLOSURES</u>	
Customer personal information will be collected, used, and stored as required by applicable federal privacy laws. If the Customer's state laws provide more protection of the Customer's personal information than federal privacy laws, eToro will protect the Customer's personal information as required by such state law.	
<u>YOUR AUTHORIZATION REQUIRED</u>	
California. We will not share your personal information with our affiliates other than our agents or service providers unless you authorize us to share it or the law otherwise permits us to share it. You have the right to authorize or not authorize this sharing of personal information.	
<u>FOR VERMONT CUSTOMERS</u>	
We will not disclose information about your creditworthiness to our affiliates and will not disclose your personal information, financial information, credit report, or health information to nonaffiliated third parties to market to you, other than as permitted by Vermont law, unless you authorize us to make those disclosures. Additional information concerning our privacy policies can be found at https://www.eto.com/en-us/customer-service/privacy/ or call 1-888-271-8365.	
<u>ADDITIONAL RIGHTS UNDER THE CALIFORNIA CONSUMER PRIVACY ACT (CCPA)</u>	
The California Consumer Privacy Act (CCPA), as amended by the California Privacy Rights Act (CPRA), may give California residents certain privacy rights with respect to the limited nonpublic personal information we collect. CCPA rights are limited and do not apply to any of the personal information described above that we have collected from you and about you in connection with providing you a financial product or service. To learn how to exercise your rights under the CCPA or if you wish to see a more detailed explanation of your rights, please visit our website at https://www.eto.com/en-us/customer-service/privacy/ .	

California Consumer Privacy Act

Notice to California Residents

We at eToro USA LLC and eToro USA Securities Inc. (collectively “eToro,” “we,” “us,” or “our”) have created this Notice for California Residents (the “CCPA Notice”) to supplement the [Privacy Policy](#). This CCPA Notice applies solely to all natural persons who reside in the State of California (“Consumers” or “you”), and visit or use our website located at <https://www.etoro.com/en-us/> (the “Website”) or our mobile application, purchase products or services from us, or otherwise engage or interact with us (the “Services”). We adopted this notice to comply with the California Consumer Privacy Act of 2018, as amended by the California Privacy Rights Act, Cal. Civ. Code § 1798.100 et. seq. (“CCPA”) and their implementing regulations. Any terms not defined in this CCPA Notice shall have the meaning ascribed to them elsewhere in the Privacy Policy or Customer Agreement, or, if not defined herein or elsewhere in the [Privacy Policy](#) or [Customer Agreement](#), in the CCPA.

To the extent there is any conflict between this CCPA Notice and the provisions of the Privacy Policy, this CCPA Notice shall control only with respect to Consumers and their Personal Information (as defined below). If you reside outside of the State of California, this CCPA Notice does not apply to you and you should refer to our [Privacy Policy](#).

Definition of Personal Information

We collect information that identifies, relates to, describes, references, is capable of being associated with, or could reasonably be linked, directly or indirectly, with a particular Consumer, household, or device (“Personal Information”).

Personal Information does not include: (i) publicly available information (a) from government records; (b) information lawfully made available to the public by the Consumer or from widely distributed media; (c) information made available by a person to whom the Consumer disclosed the information if the Consumer has not restricted the information to a specific audience; (ii) de-identified or aggregated Personal Information; or (iii) information explicitly excluded as Personal Information under the CCPA, including:

- Personal Information (health or medical information) covered by the Health Insurance Portability and Accountability Act of 1996, the California Confidentiality of Medical Information Act, or clinical trial data, and
- Personal Information covered by certain sector-specific privacy laws, including the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the California Financial Information Privacy Act, or the Driver’s Privacy Protection Act of 1994.

How we collect, use, and disclose Personal Information

The Personal Information about you that we may collect, use, and disclose includes information within the below “Categories of Personal Information Collected.” These categories also represent the categories of Personal Information we have collected over the past 12 months. Note the

categories listed below refer to the categories of Personal Information as defined under the CCPA. Inclusion of a category in the list below indicates only that, depending on the services and products we provide you, we may collect or disclose some information within that category. It does not necessarily mean that we collect or disclose all information listed in a particular category for all of our customers.

We may disclose your Personal Information to the following categories of recipients:

- Service Providers, which include IT and cloud hosting companies, payment providers, transactions reporting providers, customer relationship management, email marketing providers, analytics providers, and providers of administrative services (“Service Providers”)
- Affiliates and subsidiaries of eToro and other members in the eToro group of companies (“Affiliates”)
- Other eToro customers or users of the Services who opted-in to make their profile and trading activities public (“Other Customers”)

Categories of Personal Information collected	Sources	Examples of how we may use Personal Information	Parties with whom each category of Personal Information may be disclosed
<p>Identifiers such as a real name, alias, postal address, unique personal identifier, online identifier, Internet Protocol address, email address, account name, social security number, driver’s license number, passport number, or other similar identifiers.</p> <p>Any Personal Information listed in Cal. Civ. Code § 1798.80(e) such as name, signature, social security number, physical characteristics or description, address, telephone number, passport number, driver’s license or state identification card number, insurance policy number, education, employment, employment history, bank account number, credit card number, debit card number, or any other financial information, medical information, or health insurance information.</p> <p>Commercial information, including records of personal property, products or services purchased, obtained, or considered, or other purchasing or consuming histories or tendencies.</p> <p>Audio, electronic, visual or similar information.</p>	<p>Information you provide to us when, for example, you create an eToro Account, participate in any interactive features of the Services, fill out a form, participate in a contest or promotion, make a purchase, communicate with us via third party social media sites, request customer support, or otherwise communicate with us</p> <p>Information automatically collected when you access or use our Services</p> <p>Information collected from third party entities, such as verification agencies, credit referencing agencies, and third party platforms when you use them to connect to eToro</p>	<p>Create and maintain your eToro Account</p> <p>Contact you about your eToro Account and/or Services including responding to your inquiries</p> <p>Comply with our regulatory and other legal obligations</p> <p>Provide you with marketing materials, including about the Services offered to members of the eToro Group</p> <p>Assess your credit risk, risk score, and eligibility as a client</p> <p>Maintain administrative records</p> <p>Set up security measures for your Account</p> <p>Administer transactions including deposits, chargebacks, and payments</p> <p>Provide our Services</p> <p>Participate in crime prevention and to assist regulatory, cybercrime, data and information protection agencies and police with their enquiries and enforcement</p>	<p>Service Providers</p> <p>Affiliates</p>

		<p>Novate, transfer or assign any of the rights or liabilities of the eToro entity</p> <p>At your request, to invite individuals to join eToro</p>	
<p>Internet or other electronic network activity information, including, but not limited to, browsing history, search history, and information regarding a Consumer's interaction with an internet website application, or advertisement.</p> <p>Geolocation data</p>	<p>Information automatically collected when you access or use our Services</p>	<p>Contact you about your eToro Account and/or Services including responding to your inquiries</p> <p>Comply with our regulatory and other legal obligations</p> <p>Provide you with marketing materials, including about the Services offered to members of the eToro Group</p> <p>Set up security measures for your Account</p> <p>Monitor and analyze our business</p> <p>Provide our Services</p> <p>Participate in crime prevention and to assist regulatory, cybercrime, data and information protection agencies and police with their enquiries and enforcement</p>	<p>Service Providers</p> <p>Affiliates</p>
<p>Inferences drawn from any of the Personal Information identified in the CCPA</p>	<p>Information automatically collected when you access or use our Services</p>	<p>Create and maintain your eToro Account</p> <p>Provide you with marketing materials, including about the Services offered to members of the eToro Group</p> <p>Assess your credit risk, risk score, and eligibility as a client</p> <p>Monitor and analyze our business</p> <p>Provide our Services</p>	<p>Service Providers</p> <p>Affiliates</p>

In addition to the categories of Personal Information above, we have collected the following Categories of Sensitive Personal Information from or about Consumers within the twelve (12) months preceding the Last Update:

Categories of Sensitive Personal Information Collected	Sources	Examples of how we may use Sensitive Personal Information	Parties with whom each category of Sensitive Personal Information may be disclosed
<p>Personal Information that reveals Consumers' social security, driver's license, state identification card, or passport numbers.</p> <p>Personal Information that reveals a consumer's account log-in, financial account, debit card, or credit card number in combination with any required security or access code, password, or credentials allowing access to an account.</p>	Information you provide to us when, for example, you create and use an eToro Account, participate in any interactive features of the Services, fill out a form, participate in a contest or promotion, make a purchase, communicate with us via third party social media sites, request customer support, or otherwise communicate with us	<p>Create and maintain your eToro Account</p> <p>Comply with our regulatory and other legal obligations</p> <p>Assess your credit risk, risk score, and eligibility as a client</p> <p>Maintain administrative records</p> <p>Set up security measures for your Account</p> <p>Administer transactions including deposits, chargebacks, and payments</p> <p>Provide our Services</p> <p>Participate in crime prevention and to assist regulatory, cybercrime, data and information protection agencies and police with their enquiries and enforcement</p>	<p>Service Providers</p> <p>Affiliates</p>

In the twelve (12) months preceding the Last Update, we may have disclosed to recipients the following Categories of Personal Information for a Business Purpose:

Categories of Personal Information	Business Purpose for Disclosure	Categories of Recipients
Identifiers	<p>Set up and maintain security and integrity measures</p> <p>Create and maintain your eToro account and provide customer service</p>	Service Providers; Affiliates; Other Customers
Categories of Personal Information listed in the California Customer Records statute (Cal. Civ. Code § 1798.80(e))	<p>Set up and maintain security and integrity measure</p> <p>Create and maintain your eToro account and provide customer service</p>	Service Providers; Affiliates
Commercial information	<p>Set up and maintain security and integrity measures</p> <p>Create and maintain your eToro account and provide customer service</p>	Service Providers; Affiliates; Other Customers
Internet or other similar network activity	<p>Set up and maintain security and integrity measures</p> <p>Create and maintain your eToro account and provide customer service</p>	Service Providers; Affiliates
Sensory data	Set up and maintain security and integrity measures	Service Providers; Affiliates

	Create and maintain your eToro account and provide customer service	
Inferences drawn from other Personal Information	Set up and maintain security and integrity measures Create and maintain your eToro account and provide customer service	Service Providers; Affiliates

Retention of Personal Information

We store the information we collect on you for as long as is necessary for the purpose(s) for which we originally collected it, including to meet our legal, regulatory, or other compliance obligations. The period for which we will retain personal information will vary depending on the purposes that it was collected for, as well as the requirements of any applicable law or regulation.

If you have an eToro Account, we will store your personal information for as long as you maintain that account, and after you cease holding an account, for as long as we are required to by laws and regulations that are applicable to us.

Sales and Sharing of Personal Information

In the twelve (12) months preceding the Last Update, we have not sold Personal Information or shared Personal Information with third parties for cross-context behavioral advertising.

Your Rights and Choices

The CCPA provides Consumers with specific rights regarding their Personal Information. This section describes such rights and explains how to exercise them.

Right to Know About Personal Information

You have the right to request that we disclose certain information to you about our collection, disclosure, sale, and use of your Personal Information. Once we receive and verify your request, we will disclose to you the following (to the extent applicable to your request):

- The Categories of Personal Information we have collected about you in the preceding twelve (12) months
- The Categories of Sources from which the Personal Information was collected
- Our Business or Commercial Purpose for collecting that Personal Information
- The categories of third parties to whom we disclose that Personal Information
- Categories of Personal Information that we disclosed about you for a Business Purpose
- The specific pieces of Personal Information we collected about you

Right to Request Deletion

You have the right to request that we delete any of the Personal Information that we collected from you and retained, subject to certain exceptions. Once we receive and verify your request, we will delete (and direct our service providers and contractors to delete) your Personal

Information from our records, unless an exception applies (such as a regulatory requirement to maintain such information).

Right to Request Correction

You have the right to request correction of any mistakes in your Personal Information. We may not be able to accommodate your request if we believe it would violate any law or legal requirement or cause the information to be incorrect; data solely retained for data backup purposes is generally excluded.

Exercising Your Rights

To exercise any of the rights described above, please submit a verifiable Consumer request to us by submitting your request to <https://www.eto.com/customer-service/>. You can also submit a request via email to privacy@eto.com or via phone at 1-888-271-8365. You may only make a verifiable Consumer request under the right to know twice within a 12-month period.

The verifiable Consumer request must: (i) provide sufficient information that allows us to reasonably verify you are the person about whom we collected Personal Information or an authorized representative; and (ii) describe your request with sufficient detail that allows us to properly understand, evaluate, and respond to it.

We cannot respond to your request or provide you with Personal Information if we cannot verify your identity or authority to make the request and confirm the Personal Information related to you.

Making a verifiable Consumer request does not require you to create an account with us.

Verification Process

To submit a verifiable Consumer request, the Consumer may be required to provide additional Personal Information, to enable us to verify the Consumer's identity with the degree of certainty required by the CCPA.

We will use Personal Information provided in a verifiable Consumer request solely for the purpose of verifying the requestor's identity or authority to make the request. We or a third party on our behalf may follow up with you to determine whether a request is a verifiable Consumer request under applicable law.

If we cannot verify your identity or authority to make the request and confirm the Personal Information relates to you, we will deny the Consumer request in whole or in part and will not disclose, delete, or correct the information requested, as applicable. We will respond to any such Consumer request with a denial and will also explain why it has no reasonable method by which it can verify the identity of the requestor.

Response Timing and Format

We will confirm receipt of a verifiable Consumer request within ten (10) business days of its receipt. We will endeavor to respond to a verifiable Consumer request within forty-five (45) calendar days of its receipt. If we require more time, we will notify you of the extension and provide an explanation of the reason for the extension in writing, and we will provide you with a response no later than ninety (90) calendar days of receipt of the request.

If you have an account with us, we may deliver our written response to that account. If you do not have an account with us, we will deliver our written response by mail or electronically, at your option. If you do not have an account with us, and you do not indicate a preference for delivery, we will use our discretion in choosing the method of delivery of the information.

If applicable, the response we provide will explain the reasons we cannot comply with a request. For data portability requests, we will select a format to provide your Personal Information that is readily usable and should allow you to transmit the information from one entity to another entity without hindrance.

We may charge a reasonable fee to process or respond to your verifiable Consumer requests if they are excessive, repetitive, or manifestly unfounded. If we determine that the request warrants a fee, we will inform you of the reasons for this decision and provide you with a cost estimate before completing your request.

Right to Opt-Out of the Sale or Sharing of Personal Information

We do not sell or share for cross-context behavioral advertising the Personal Information of Consumers (including minors under 16 years of age). However, you do have the right to direct us to not sell or share your Personal Information at any time should we begin to do so.

Right to Limit Use and Disclosure of Sensitive Personal Information

We only use or disclose sensitive Personal Information to the extent necessary to perform the services or provide the goods requested by you or as otherwise permitted under applicable law. However, if we use or disclose sensitive Personal Information for other purposes in the future, you will have the right to limit the use and disclosure of sensitive Personal Information we collect or maintain, to only those purposes necessary to provide our services or as otherwise permitted by law.

Right to Non-Discrimination

We will not discriminate against you for exercising any of your CCPA rights. We will not (i) deny you products or services, (ii) charge you different prices or rates for products or services, including through granting discounts or other benefits, or imposing penalties, (iii) provide you a different level or quality of products or services, and (iv) suggest that you may receive a different price or rate for products or services or a different level or quality of products or services.

Right to Designate an Authorized Agent

If you submit a request to know, correct, or delete your personal information using an authorized agent, we may require that you (i) provide the authorized agent written permission to act on your behalf, and (ii) verify their identity directly with us. We may deny a request from an authorized agent that does not submit proof of authorization.

Other California Privacy Rights

Pursuant to California's "Shine the Light" law (Civil Code Section § 1798.83), California residents have the right to request certain information regarding our disclosure of Personal Information to third parties for their direct marketing purposes, including the names and addresses of those third parties, and examples of the types of services or products marketed by those third parties. To make such a request, please submit your request to <https://www.eto.com/customer-service/>.

Changes to Our CCPA Notice

This CCPA Notice is effective as of the date of the Last Update stated at the top of this CCPA Notice. We may change this CCPA Notice from time to time with or without notice to you. By visiting or accessing the Website or the Services, purchasing products or services from us, or otherwise engaging or interacting with us after we make any such changes to this CCPA Notice, you are deemed to have accepted such changes. You can find the latest version of this document in the [Privacy section](#) of eToro's [Disclosure Library](#).

Contact Information

If you have any questions or comments about this notice, the ways in which we collect and use your information, your choices, and rights regarding such use, or wish to exercise your rights under California law, please do not hesitate to contact us at:

eToro USA
221 River Street, 9th Fl
Hoboken, New Jersey 07030
[https://www.eto.com/en-us/](https://www.eto.com/en-us/privacy@eto.com)
privacy@eto.com
1-888-271-8365

Appendices

Appendix J: eToro Options: Customer Responsibilities

eToro Options: Customer Responsibilities

This document is intended to provide additional details regarding your responsibilities and certain risks of trading options when using the eToro Options platform. Please review this document, as well as the information about options trading and other topics discussed in our Customer Agreement, before trading options.

Securities are offered through eToro USA Securities Inc. ("eToro"), a registered broker-dealer and member of [FINRA](#) and [SIPC](#). Additional information about eToro can be found by clicking [here](#). "eToro Options" is a product name used to refer to the options-related mobile app and website. However, all securities, including options, are offered through eToro USA Securities Inc. As such, references to eToro Options should be considered a reference to eToro USA Securities Inc.

This document shows some, but not all of the risks associated with the eToro Options platform. Please contact us via our help center with any questions [here](#).

CUSTOMER RESPONSIBILITIES

Customers should be familiar with the risks of trading options and must follow all regulatory and exchange rules. You should review the [The Characteristics and Risks of Standardized Options](#) disclosure document for details about the background, operations, and risks of options trading.

ACCOUNT REVIEW

It is always the customer's responsibility to review their account daily. If there is any discrepancy of any kind, including but not limited to, current equity, buying power, or positions, the customer must contact eToro prior to acting on any information that does not match. Also, if you ever believe for any reason that anything is incorrect in your account, please make sure you always contact eToro before acting. If a customer acts before contacting eToro to verify the validity of their account information or fails to review their account on a daily basis, any issues that arise as a result of not reviewing their information or contacting our firm in a timely manner will be solely the customer's responsibility.

TRADING

Customers are solely responsible for any order placed in their account. Customers must be sure to keep their usernames and passwords secure and not allow any other party to have access to that information. Any trades placed in the customer's account are considered valid. The customer will be responsible for any execution or cancellation on those orders, regardless of the

timing of that order. Limit orders placed and left outstanding in customer accounts may be executed at any time, including in pre-market or after-hours trading. Customers are responsible for canceling any order they do not want to be executed.

It is also the customer's responsibility to review all their open orders daily. If you believe you have an order that for some reason is not showing on your software or have any other issue or problem with any order, you will need to contact eToro immediately. You will be responsible for this daily review of your open orders. Any issues caused by the failure to do this review and to contact eToro in a timely manner to resolve any discrepancies will be solely the customer's responsibility. Also, please note that you alone are responsible for any orders you place in your account and the resulting executions from those orders.

STOCK SPLITS, SYMBOL CHANGES & OPTIONS

The customer will also need to contact eToro if you are holding an option that has expired, been exercised, assigned, or changes symbols. Do not assume that the trading software will automatically adjust for these changes in all cases. The customer will need to contact eToro and we will manually adjust their trading software to reflect these changes in the event they are not automatically updated.

SHORT SALES

The term 'short sale' means any sale of a security, which the seller does not own, or any sale, which is consummated by the delivery of a security, borrowed by, or for the account of the seller. For stocks hard to borrow, short sales must be preceded by a request to eToro to make sure stocks can be borrowed. We would then contact Apex Clearing to ensure the availability of the stock. If approval is granted by the APEX Stock Loan Department, eToro would inform you that the stock can be sold short. If approval is not received, the security in question cannot be shorted. If you short a stock that has not been located, the transaction may be canceled, and you will be responsible for any losses incurred. Short sales made on stocks not located will result in a buy-in. All trades that violate these rules will be put into a designated error account. All losses will be charged back to your account. You will not receive any profit from these trades as they are improperly gained. Repeated violations of these rules can result in your account being closed. Assuming the security in question can be shorted, the short sale must take place as 'sell short'. If the trader uses a sell to place a short sale or over-sells a position, it is possible that the trade will be executed in violation of FINRA and SEC rules. The trader is responsible to cover any improper position immediately with a corresponding buy. You will be responsible for any losses from invalid short sales and any invalid gains from these trades are illegal and will be removed. These issues must be reported via email to eToro by the end of the trading day.

CASH ACCOUNTS

It takes one day for traded funds to settle in a cash account for options transactions. When you sell an option, the clearing firm (Apex) will issue you buying power the following business day;

however, those funds cannot be reused for at least 1 business day in the case of options. If unsettled funds are used to buy a new position and you sell that new position before settlement of the original sell order, that is considered a good faith violation of free riding and withholding. Your account will be closed if you get these violations repeatedly. You must hold new positions past settlement of the original sell trade to avoid this good faith violation. This violation can also be avoided by opening a margin account, as margin account funds can be reused before settlement without the 3-day restriction.

Options

Customers are expected to have read the [Apex Options Agreement](#) and understand the contents contained therein. Customers are responsible for and expressly confirm all the information they provided digitally during the on-boarding process, especially concerning their income, net worth and investment objectives, and are expected to advise eToro of any changes to such information that could be deemed to affect their eligibility to trade options at eToro.

Options have a high degree of risk and customers have given eToro, in strict confidence, information to demonstrate that their account and the trading anticipated in connection therewith is not improper for the customer in light of their investment objectives, financial situation and needs, experience, and knowledge. Customers must advise eToro of any changes in their investment objectives, financial situation, or other circumstances that may be deemed to materially affect their eligibility to trade options at eToro. They must also attest that they have read and reviewed the [Options Disclosure: The Characteristics and Risks of Standardized Options](#).

Customers should be aware that eToro does not allow for physical exercise and has the right to liquidate eligible contracts prior to their exercise date, which it is eToro's policy to do. In order to effectuate the auto-liquidation of in-the-money options in their account, customers agree that eToro may cause the Options Clearing Corporation ("OCC") or any Clearing Firm to refrain from automatically exercising in-the-money options in their account. Customers further agree that they shall be solely responsible for any costs, losses, or fees arising from or related to eToro's auto-liquidation of expiring in-the-money options contracts in their account. Customers acknowledge that any action taken by eToro pursuant to this paragraph is made pursuant to the authority and supervision of eToro's Registered Persons.

DISCLAIMER

System response, trade executions and account access may be affected by market conditions, system performance, quote delays and other factors. The risk of loss in electronic trading can be substantial. You should therefore consider whether such trading is suitable for you in light of your financial resources and circumstances. Losses resulting from issues with the use of third-party software quoting systems or third-party order execution routing issues. We only provide our customers with the ability to connect to quoting software and order execution routes, we do not control them.

IMPORTANT NOTICE

The procedures and rules listed on this page are for informational purposes and may be subject to change, which may not be reflected on this page, or may be updated without notice. This is only a partial list of trader's responsibilities. Traders need to understand that they have far more responsibilities than are or can be listed here. If you have any questions about any of your responsibilities, please contact us via our help center [here](#).

For additional information about options trading, please review the following regulator publications:

<https://www.finra.org/investors/investing/investment-products/options>

https://www.sec.gov/oiea/investor-alerts-bulletins/ib_introductionoptions

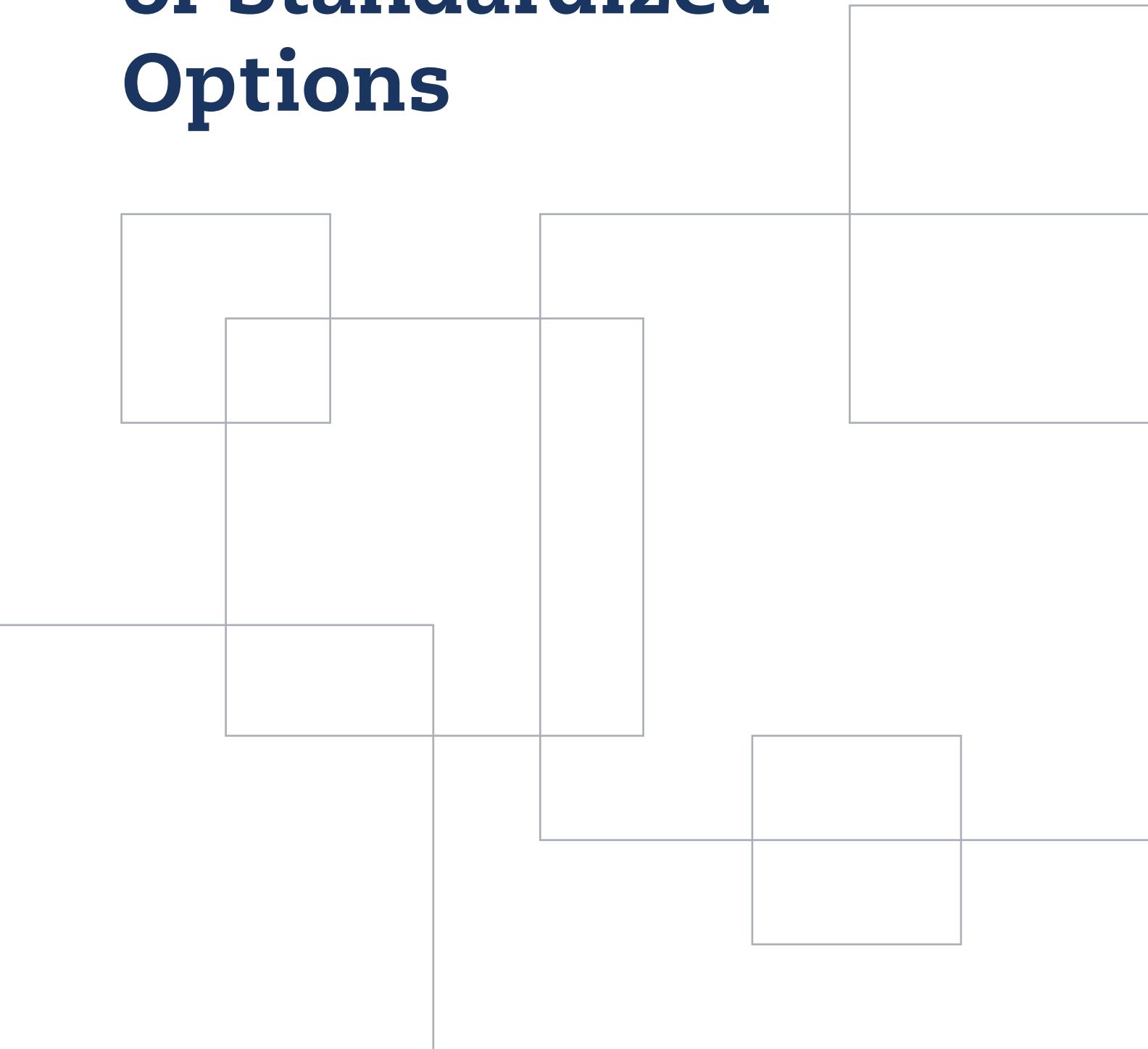
https://www.sec.gov/oiea/investor-alerts-bulletins/ib_openingoptionsaccount

Appendices

Appendix K: Characteristics and Risks of Standardized Options

JUNE 2024

Characteristics and Risks of Standardized Options



BOX EXCHANGE LLC

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Boston, Massachusetts 02110

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Chicago, Illinois 60607

CBOE C2 EXCHANGE, INC.

433 W. Van Buren Street
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CBOE EDGX EXCHANGE, INC.

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CBOE EXCHANGE, INC.

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Chicago, Illinois 60607

MEMX LLC (MEMX OPTIONS)

525 Washington Blvd., Suite 300
Jersey City, NJ 07310

**MIAMI INTERNATIONAL
SECURITIES EXCHANGE, LLC**

7 Roszel Road, Suite 1A
Princeton, NJ 08540

MIAX EMERALD, LLC

7 Roszel Road, Suite 1A
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MIAX PEARL, LLC

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NASDAQ BX, INC

2929 Walnut Street
Philadelphia, Pennsylvania 19104

NASDAQ GEMX, LLC

2929 Walnut Street
Philadelphia, Pennsylvania 19104

NASDAQ ISE, LLC

2929 Walnut Street
Philadelphia, Pennsylvania 19104

NASDAQ MRX, LLC

2929 Walnut Street
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THE NASDAQ OPTIONS MARKET LLC

2929 Walnut Street
Philadelphia, Pennsylvania 19104

NASDAQ PHLX LLC

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Philadelphia, Pennsylvania 19104

NYSE AMERICAN OPTIONS

11 Wall Street
New York, NY 10005

NYSE ARCA, INC.

11 Wall Street
New York, NY 10005

Contents

Chapter I—Introduction	3
Chapter II—Options Nomenclature	6
Chapter III—Options on Equity Securities	18
Features of Stock Options	18
Chapter IV—Index Options	24
About Indexes	24
Stock Indexes	24
Dividend Indexes	26
Variability Indexes	26
Strategy-Based Indexes	28
Relative Performance Indexes	29
Foreign Currency Indexes	30
Information Concerning Underlying Indexes	31
Features of Index Options	32
Adjustment of Index Options	33
Chapter V—Debt Options and Credit Default Options	35
Rates, Yields and Prices of Debt Securities	35
Treasury Securities	36
Yield-Based Options	37
Options on Conventional Index-Linked Securities	38
Credit Default Options and Credit Default Basket Options	40
Adjustment of Credit Default Options	41
Chapter VI—Foreign Currency Options	44
Market for Foreign Currencies	44
Special Characteristics of Foreign Currency Options	45
Special Features of Dollar-Denominated Foreign Currency Options	45
Non-Rate-Modified Cash-Settled Foreign Currency Options	46
Cross-Rate Foreign Currency Options	47
Special Features of Cross-Rate Options	48
Cash-Settled Foreign Currency Options	49
Rate-Modified Cash-Settled Foreign Currency Options	50

Chapter VII—Flexibly Structured Options	52
Special Features of Flexibly Structured Options.....	52
Chapter VIII—Exercise and Settlement	55
How to Exercise.....	55
Assignment.....	56
Settlement.....	56
Chapter IX—Tax Considerations, Transaction Costs and Margin Requirements	58
Tax Considerations.....	58
Transaction Costs.....	58
Margin Requirements	58
Chapter X—Principal Risks of Options Positions	60
Risks of Option Holders.....	61
Risks of Option Writers	63
Other Risks.....	67
Special Risks of Index Options	70
Special Risks of Debt Options.....	77
Special Risks of Foreign Currency Options.....	80
Special Risks of Flexibly Structured Options.....	82
Special Risks of Credit Default Options	83
Special Risks of Binary Options (Other Than Credit Default Options)	85
Special Risks of Range Options.....	86
Chapter XI—Scope and Limitations of This Document	87
Notice of Current Amendment (June 2024).....	90
Archive of ODD Changes	91

Introduction

This document relates solely to options issued by The Options Clearing Corporation (OCC), and all references to “options” in this document are applicable only to such options. As of the date of this document, options are traded on the United States markets listed prior to the Table of Contents. In the future, options may be traded on other markets within or outside the United States. The markets on which options are traded at any given time are referred to in this document as the “options markets.” Options described in this document are those approved for trading on the options markets but may not be actively trading at any given time.

OCC is a registered clearing agency, and each U.S. options market is a national securities exchange that is subject to regulation by the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934.

What is an option? An **option** is the right to buy or sell a specified amount or value of a particular underlying interest at a fixed exercise price by exercising the option before its specified expiration date. An option that gives the right to **buy** is a **call** option, and an option that gives a right to **sell** is a **put** option. Calls and puts are distinct types of options, and buying or selling of one type does not involve the other. Certain special kinds of options may give a right to receive a cash payment if certain criteria are met.

EXAMPLE: An option to **buy** 100 shares of common stock of the XYZ Corporation at a specified exercise price would be an XYZ **call** option. An option to **sell** 100 shares of common stock of the XYZ Corporation at a specified exercise price would be an XYZ **put** option.

There are two different kinds of options—**physical delivery options** and **cash-settled options**. A **physical delivery option** gives its owner the right to receive physical delivery (if it is a call), or to make physical delivery (if it is a put), of the underlying interest when the option is exercised. A **cash-settled option** (other than a binary option or a range option) gives its owner the right to receive a cash payment based on the difference between a determined value of the underlying interest at the time the option is exercised and the fixed exercise price of the option. A **cash-settled call** conveys the right to receive a cash payment if the determined value of the underlying interest at exercise—this value is known as the **exercise settlement value**—exceeds the exercise price of the option, and a **cash-settled put** conveys the right to receive a cash payment if the exercise settlement value is less than the exercise price of the option. Binary options and range options are special kinds of cash-settled options described in Chapter II. The examples in this document generally refer to options other than binary options or range options except as otherwise stated.

Each options market selects the **underlying interests** on which options are traded on that market. Options are currently available covering four types of underlying interests: **equity securities** (which term includes “**fund shares**” described in Chapter III), **indexes** (including **stock, variability, strategy-based, dividend** and **relative performance indexes**), **debt securities** and **credit events**, and **foreign currencies**. Options on other types of underlying interests may become available in the future.

Most options have **standardized terms**—such as the nature and amount of the underlying interest, the expiration date, the exercise price, whether the option is a call or a put, whether the option is a physical delivery option or a cash-settled option, the manner in which the cash payment and the exercise settlement value of a cash-settled option are determined, the multiplier of a cash-settled option, the exercise price setting date and exercise price setting formula of a delayed start option, the style of the option, whether the option has automatic exercise provisions, and adjustment provisions. These standardized terms are generally described in Chapter II. Each U.S. options market publishes specification sheets setting forth the particular standardized terms of the options traded on that

options market. (The options markets may also provide for trading in options whose terms are not all fixed in advance. Rather, subject to certain limitations, the parties to transactions in these options may designate certain of the terms. These **flexibly structured options** are discussed in Chapter VII of this document.)

Options having the same standardized terms are identical and comprise an options **series**. The standardization of terms makes it more likely that there will be a secondary market on which holders and writers of options can close out their positions by offsetting sales and purchases. By selling an option of the same series as the one she bought, or buying an option of the same series as the one she wrote, an investor can close out her position in that option at any time there is a functioning secondary options market in options of that series.

In some instances, options of the same series may be traded on more than one options market at the same time. Options that are so traded are called **multiply-traded** options. Multiply-traded options can ordinarily be purchased and written, and positions in these options can ordinarily be liquidated in offsetting closing transactions, in any of the options markets in which the options are traded. However, because premiums are affected by market forces, the premiums for identical multiply-traded options may not be the same in all markets at any given time.

If an options market learns that a particular underlying interest no longer meets its requirements for options trading or is not eligible for trading in all U.S. jurisdictions, or if an options market decides to discontinue trading in a particular options series for another reason, the options market may stop introducing new options on that underlying interest and may in certain circumstances impose restrictions on transactions that open new positions in options series that have been previously introduced, although trading in the options series will ordinarily continue on at least one options market until its expiration.

Options generally are traded on U.S. options markets during normal day-time business hours of U.S. securities exchanges and for a short period afterward. However, trading in options may not be confined to those hours. Trading in evening and night trading sessions may occur in options on foreign currencies and may in the future occur in other types of options. Moreover, when there are unusual market conditions, an options market may authorize trading to continue for a substantially longer period than under normal conditions. Trading in an expiring option may close at an earlier time than trading in other options. Trading hours for options are also subject to change from time to time. Readers should ascertain the trading hours of the particular options they are interested in trading from the options markets where those options are traded. Readers should also be aware that trading in underlying interests is not confined to normal exchange trading hours. For example, underlying foreign currencies and debt securities are traded in international markets on virtually an around-the-clock basis, and underlying equity securities may be traded in foreign markets when U.S. markets are closed and in some U.S. markets after the close of their normal trading hours.

Readers should be aware that this document has been written to meet the requirements of an SEC rule that requires the U.S. options markets to prepare, and brokerage firms to distribute, a document that briefly and generally describes the characteristics of options and the risks to investors of maintaining positions in options. Options are versatile instruments that can be used in a wide variety of investment strategies. They give the investor the ability to create positions that reflect the investor's opinion of an underlying interest and to select investment strategies that reflect the investor's tolerance for risk. This document is not designed to describe the various potential benefits of options or how investors may use options to enhance their investment strategies or to reduce risk. Numerous other publications, including some prepared by the U.S. options markets that are available upon request, contain discussions of the uses and potential benefits of options and of the various trading and investment strategies that can be employed with options. Readers who wish to balance the general discussion of

risks that is contained in this document with a discussion of options uses, benefits and strategies should consult one or more of these other publications.

Readers should read and understand this document in its entirety, since a number of the separate chapters will be relevant to every reader interested in buying or writing options. For example, a reader who is interested in options on equity securities should fully read not only Chapter III, but also should read Chapters II, VIII and IX, as well as the discussion of risks in Chapter X. Readers should also be aware that, although this document seeks to describe the various characteristics of options and the risks that are unique to being an investor in options, there are many matters which are beyond the scope of this document that are not discussed. Chapter XI contains a discussion of the scope and limitations of this document.

Options Nomenclature

This chapter contains a description of the standardized terms, and of some of the special vocabulary, applicable to options. Most of the nomenclature is the same for options on the various types of underlying interests. Differences that are applicable to options on a particular underlying interest will be described in the chapter devoted to that underlying interest.

Certain terms—options, options markets, call options, put options, physical delivery options, cash-settled options, options series, and multiply-traded options—have been defined in Chapter I. Readers interested in those definitions should consult that chapter.

OPTION HOLDER; OPTION WRITER—The option **holder** is the person who buys the right conveyed by the option.

EXAMPLE: *The holder of a physical delivery XYZ call option has the right to **purchase** shares of XYZ Corporation stock at the specified exercise price upon exercise prior to the expiration of the option. The holder of a physical delivery XYZ put option has the right to **sell** shares of XYZ Corporation at the specified exercise price upon exercise prior to the expiration of the option. The holder of a cash-settled option has the right to receive an amount of cash equal to the **cash settlement amount** (described below) upon exercise prior to the expiration of the option.*

The option **writer** is obligated—if and when assigned an exercise—to perform according to the terms of the option. The option writer is sometimes referred to as the option **seller**. An option writer who has been assigned an exercise is known as an **assigned writer**.

EXAMPLE: *If a physical delivery XYZ call option is exercised by the holder of the option, the assigned writer must **deliver** the required number of shares of XYZ common stock. He will be paid for the shares at the specified exercise price regardless of their current market price.*

If a physical delivery put option is exercised, the assigned writer must **purchase** the required number of shares at the specified exercise price regardless of their current market price. If a cash-settled option is exercised, the assigned writer must pay the cash settlement amount.

No certificates are issued to evidence options. Investors look to the confirmations and statements that they receive from their brokerage firms to confirm their positions as option holders or writers. An option holder looks to the system created by OCC's rules, rather than to any particular option writer, for performance of the option he owns. Similarly, option writers must perform their obligations under the OCC system and are not obligated to any particular option holder. Since every options transaction involves both a holder and a writer, it follows that the aggregate rights of option holders under the system are matched by the aggregate obligations of option writers.

The OCC system is designed so that the performance of all options is between OCC and a group of firms called **Clearing Members** that carry the positions of all option holders and option writers in their accounts at OCC. To qualify as a Clearing Member, a firm must meet OCC's financial requirements. In addition, Clearing Members must provide OCC with collateral for the positions of option writers that they carry and must contribute to Clearing Funds that protect OCC against a Clearing Member's failure. The Clearing Members' guarantees of the performance of options writers' obligations, the financial strength of the Clearing Members, the collateral that they deposit, the obligations of correspondent clearing corporations, and the Clearing Funds together make up the OCC system backing the performance of options.

EXERCISE PRICE —In the case of a physical delivery option, the exercise price (which is sometimes called the “strike price”) is the price at which the option holder has the right either to purchase or to sell the underlying interest.

EXAMPLE: *A physical delivery XYZ 40 call option gives the option holder the right to purchase 100 shares of XYZ stock at an exercise price of \$40 a share. A physical delivery XYZ 40 put option gives the option holder the right to sell 100 shares of XYZ common stock at an exercise price of \$40 a share.*

The exercise price of a cash-settled option (other than a binary option or a range option) is the base for the determination of the amount of cash, if any, that the option holder is entitled to receive upon exercise (see the discussion of “Cash Settlement Amount and Exercise Settlement Value” below). The exercise price of a binary option is the value or level of the underlying interest above, below, or, in some cases, at which the option will be in the money at expiration, thereby causing the fixed cash settlement amount to become payable (see the “Binary Option” definition below). In the case of a range option, the exercise price is the option’s range length (see the “Range Option” definition below).

Exercise prices for each options series (except for series of delayed start options) are established by the options market on which that series is traded at the time trading in the series is introduced, and are generally set at levels above and below the then market value of the underlying interest. However, the options markets may use other methods to set exercise prices. Specific information regarding the setting of exercise prices may be obtained from the listing options market. The options markets generally have the authority to introduce additional series of options with different exercise prices based on changes in the value of the underlying interest, or in response to investor interest, or in unusual market conditions, or in other circumstances. For series of delayed start options, exercise price setting formulas—rather than exercise prices—are established by the options market on which each series is traded before the time trading commences in each such series. Those exercise price setting formulas provide that on the exercise price setting date the exercise price for the series will be fixed at the money, in the money by a certain amount, or out of the money by a certain amount.

EXPIRATION DATE —This is the date on which the option expires. **If an option has not been exercised prior to its expiration, it ceases to exist—that is, the option holder no longer has any rights, and the option no longer has any value.** The expiration dates for the various options series are fixed by the options market on which the series trades. Readers should learn the expiration date of each option they wish to buy or write.

STYLE OF OPTION —The **style** of an option refers to when that option is exercisable. At the date of this document there are three different styles of options—**American-style**, **European-style** and **capped**. **Subject to certain limitations prescribed in the rules of OCC or the options markets and subject to applicable law**, these three styles are exercisable at the following times:

Each **American-style option** other than a delayed start option may be exercised at any time prior to its expiration. An American-style delayed start option may be exercised at any time after its exercise price is set and before its expiration date.

A **European-style option** may be exercised only during a specified period before the option expires. Every European-style option being traded at the date of this document is exercisable only on its expiration date.

A **capped option** will be automatically exercised prior to expiration if the options market on which the option is trading determines that the value of the underlying interest at a specified time on a trading day “hits the cap price” for the option. Capped options may also be exercised, like European-style options, during a specified period before expiration. This period

is the expiration date for all capped options traded at the date of this document. The special terminology applicable to capped options is discussed at the end of this chapter.

European-style or capped options having an expiration period that is longer or shorter than their expiration date may be introduced for trading in the future.

BINARY OPTION—A binary option is a cash-settled option having only two possible payoff outcomes: either a fixed amount or nothing at all. Some binary options are referred to as “fixed return options.” As of the date this product was approved for trading, the only binary options approved for trading (other than credit default options, as defined below) are binary stock options, which are binary options on individual equity securities, including fund shares; and binary index options, which are binary options on broad-based securities indexes (including volatility indexes). The binary options approved for trading are all subject to automatic exercise. The holder of a binary option other than a credit default option has the right to receive (and the writer of a binary option has the obligation to pay) the exercise settlement amount for the option if the value of the underlying interest as of the time specified by the applicable listing options market (i.e., the exercise settlement value) meets the criteria for automatic exercise of the option, as specified in the rules of the listing options market. If those criteria are not met, the option will expire worthless. Credit default options are a specific kind of binary option discussed at the end of Chapter V. Except for credit default options, binary options are European-style options.

RANGE OPTION—A range option is a European-style, cash-settled option that has a payout if the value of the underlying interest falls within a specific range of values (the range length) at expiration. As the underlying interest value increases throughout the range length, the amount of the payout (i.e., the cash settlement amount) of the range option increases linearly to a maximum value, remains constant at that value through the middle of the range length and then decreases linearly to zero as the value of the underlying continues to increase to the top of the range length. A more detailed description of this feature of range options is set forth below under the caption “Cash Settlement Amount and Exercise Settlement Value.” Range options are of a single type rather than consisting of puts and calls.

UNIT OF TRADING; CONTRACT SIZE—The **unit of trading** (which is sometimes referred to as the **contract size**) of a physical delivery option is the amount of the underlying interest that is subject to being purchased or sold upon the exercise of a single option contract. For example, the unit of trading for most options on equity securities is 100 shares. Thus, a physical delivery XYZ 50 call will give its holder the right upon exercise to purchase 100 shares of XYZ at \$50 per share. If the option is trading at a premium of, say, \$4 per share, then the aggregate premium for a single option contract would be \$400.

The **contract size** of a cash-settled option other than a binary option or a range option is determined by the **multiplier** that is fixed by the options market on which the options series is traded. The multiplier determines the aggregate value of each point of the difference between the exercise price of the option and the exercise settlement value of the underlying interest. For example, a multiplier of 100 means that for each point by which a cash-settled option is in the money upon exercise, there is a \$100 increase in the cash settlement amount. Similarly, if an option with a multiplier of 100 is trading at a premium of, say, \$4, then the aggregate premium for a single option contract would be \$400. As another example, a multiplier of 1 means that for each point by which a cash-settled option is in the money upon exercise, there is a \$1 increase in the cash settlement amount. Similarly, if an option with a multiplier of 1 is trading at a premium of, say, \$4, then the aggregate premium for a single option contract would be \$4. The contract size of a range option is determined by the option’s multiplier and its maximum range exercise value. The contract size of a binary option is its cash settlement amount, which is fixed by the options market for any series of binary options at or before the opening of trading in that series. Some options markets define the cash settlement amount for binary options as being the multiplier times a fixed settlement value. Other options markets define the cash settlement amount for binary options without reference to a multiplier.

EXERCISE—If the holder of a physical delivery option wishes to buy (in the case of a call) or sell (in the case of a put) the underlying interest at the exercise price—or, in the case of a cash-settled option, to receive the cash settlement amount—his option must be exercised. **In order to exercise most options, option holders must give exercise instructions to their brokerage firm in accordance with the firm’s procedures prior to the firm’s exercise cut-off time. The exercise process is discussed in Chapter VIII. Every option holder should understand this process and should learn his brokerage firm’s procedures concerning exercise, and its exercise cut-off time, for each option she may buy.**

Although an option holder must assure that action is taken to exercise most options, capped options and certain cash-settled options provide for automatic exercise in specified circumstances. Other options having automatic exercise provisions may be introduced for trading in the future.

The rules of the options markets generally limit the total number of puts or calls on the same underlying interest that a single investor or group of investors acting in concert may exercise during a specified time period. Information concerning the exercise limits for particular options is available from the options market on which those options are traded or from brokerage firms.

The right to exercise an option may be restricted in certain circumstances. This is discussed under “Risks of Option Holders” in Chapter X.

When an option has been exercised, OCC will **assign** the exercise in accordance with its rules to a Clearing Member whose account with OCC reflects the writing of an option of the same series. The Clearing Member may, in turn, assign this exercise to one of its customers who is a writer in accordance with the Clearing Member’s procedures, and the assigned writer will then be obligated to perform the obligations of the option—that is, to sell (in the case of a physical delivery call) or buy (in the case of a physical delivery put) the underlying interest at the exercise price, or, in the case of a cash-settled option, to pay the cash settlement amount. The assignment process is discussed further in Chapter VIII.

CASH SETTLEMENT AMOUNT, SETTLEMENT CURRENCY and EXERCISE SETTLEMENT VALUE—The **cash settlement amount** is the amount of cash that the holder of a cash-settled option is entitled to receive upon exercise. In the case of a cash-settled option other than a binary option or a range option, it is the amount by which the **exercise settlement value** of the underlying interest of a cash-settled call exceeds the exercise price, or the amount by which the exercise price of a cash-settled put exceeds the **exercise settlement value** of the underlying interest, multiplied by the **multiplier** for the option.

EXAMPLE: Assume that a holder of a cash-settled call on the XYZ index that has an exercise price of 80 exercises it when the exercise settlement value of the index is 85. If the multiplier for XYZ index options is 100, the assigned writer would be obligated to pay, and the exercising holder would be entitled to receive, a **cash settlement amount** of \$500 (\$85 minus \$80 multiplied by 100 = \$500).

EXAMPLE: Assume that a holder of a cash-settled call on the XYZ index that has an exercise price of 80 exercises it when the exercise settlement value of the index is 85. If the multiplier for XYZ index options is 1, the assigned writer would be obligated to pay, and the exercising holder would be entitled to receive, a cash settlement amount of \$5 (\$85 minus \$80 multiplied by 1 = \$5).

In the case of a binary option, the cash settlement amount is determined by the relevant listing options market and, whether or not established through use of a multiplier, is fixed and does not vary (except in the case of certain adjustments described below) regardless of the amount by which the exercise settlement value exceeds (in the case of a binary call option) or is less than (in the case of a binary put option) the exercise price.

EXAMPLE: An investor holds a binary call option on XYZ security that has an exercise price of \$80 and a fixed cash settlement amount of \$100. If the exercise settlement value of XYZ is \$81 at expiration, the investor will receive \$100. If the exercise settlement value is \$90, the investor will still receive \$100. If, on the other hand, the exercise settlement value of XYZ at expiration is below \$80, the investor will receive nothing, and the option will expire worthless.

It is very important to note that the conditions under which a binary option returns a cash settlement amount may vary depending upon the rules of the listing options market. Specifically, the listing options market may list binary options that return a cash settlement amount if: (1) the exercise settlement value of the underlying is *above* the exercise price (a binary call); or (2) the exercise settlement value of the underlying is *below* the exercise price (a binary put). In addition, certain binary call options return a cash settlement amount if the exercise settlement value of the underlying is exactly equal to the exercise price.

EXAMPLE: Assume XYZ stock is the underlying security for a binary stock option with an exercise price of \$80, and the exercise settlement value of XYZ at expiration is exactly \$80. If the listing options market specified that the option would return a cash settlement amount if the exercise settlement value was **above** the exercise price, the option will expire unexercised. If, however, the listing options market specified that the option would return a cash settlement amount if the exercise settlement value was **at or above** the exercise price, the option would be automatically exercised at expiration.

In the case of a range option, the cash settlement amount varies depending on where the exercise settlement value of the underlying index falls within the range length at expiration. At the time a series of range options is opened for trading, the listing options market will specify the range length as well as the range interval, which is a value equal to a certain number of index points that is used to divide the range length into three segments: the low range, the middle range and the high range. The low range begins at the low end of the range length and ends one range interval higher. The high range begins one range interval below the high end of the range length and ends at the high end of the range length. The high range and the low range are of equal length. The middle range is the segment of values between the end of the low range and the beginning of the high range. The listing options market will also set a maximum range exercise value and a multiplier, the product of which is the maximum cash settlement amount. This maximum cash settlement amount will be payable if the level of the underlying index falls anywhere in the middle range at expiration. Within the low range, the cash settlement amount increases from zero to the maximum cash settlement amount as the level of the underlying index increases. Within the high range, the cash settlement amount decreases from the maximum cash settlement amount to zero as the level of the underlying index continues to increase.

EXAMPLE: Assume for a series of range index options that the listing options market has specified a range length from 1000 to 1100, a range interval of 10, a maximum range exercise value of 10 and a multiplier of \$100. The series therefore has a maximum cash settlement amount of \$1,000 (multiplier times the maximum range exercise value), a low range from 1000 to 1010, a middle range from 1010 to 1090 and a high range from 1090 to 1100. The table below summarizes the variations in cash settlement amount based on the foregoing assumptions:

		Low Range					Middle Range	High Range					
Value of the Underlying Index	Below 1000	1000	1001	1002	...	1009	1010 - 1090	1091	...	1098	1099	1100	Above 1100
Cash Settlement Amount (\$)	0	0	100	200	...	900	1,000	900	...	200	100	0	0

The currency in which the cash settlement amount is payable is called the **settlement currency**. The settlement currency for all cash-settled options with standardized terms that are trading at the date of this document is U.S. dollars. It is possible that another currency will be the settlement currency for some options introduced in the future.

The manner of determining the **exercise settlement value** for a particular option series is fixed by the options market on which the series is traded. The exercise settlement values for options on a particular underlying interest traded in one options market will not necessarily be determined in the same manner as the exercise settlement values for options or futures on the same underlying interest that may be traded in other markets.

Options markets may change the method of determining exercise settlement values for particular options series on specified days or on all days. These changes may be made applicable to series outstanding at the time the changes become effective. Alternatively, an options market might phase in a change in the method of determining exercise settlement values by opening new series of options identical to outstanding series in all respects other than the method for calculating exercise settlement values. Such new series would trade alongside the old series until both series expire, but the two series would not be interchangeable. In the future, options markets may, subject to regulatory approval, introduce options whose exercise settlement values may not exceed a specified maximum amount.

ADJUSTMENT — Adjustments may be made to some of the standardized terms of outstanding options upon the occurrence of certain events related to the underlying security. Adjustments that may be made to a particular type of options are discussed in the chapter relating to that type.

The determination of whether to adjust outstanding options in response to a particular event, and, if so, what the adjustment should be, is made by OCC, taking into consideration policies established by a committee consisting of representatives of each of the U.S. options markets and a representative of OCC. OCC and the exchanges are free to discuss considerations pertaining to any adjustment decision or policy, but every adjustment determination is within OCC's sole discretion and is binding on all investors and OCC determines the value of distributed property involved in contract adjustments.

PREMIUM — The **premium** is the price that the holder of an option pays and the writer of an option **receives** for the rights conveyed by the option. It is the price set by the holder and writer, or their brokers, in a transaction in an options market where the option is traded. It is **not** a standardized term of the option. The premium does **not** constitute a "down-payment." It is simply and entirely

a nonrefundable payment in full—from the option holder to the option writer—for the rights conveyed by the option.

The premium is not fixed by the options markets or by OCC. Premiums are subject to continuous change in response to market and economic forces, including changes in the trading conditions on the markets where the particular options are traded. The factors which may generally affect the pricing of an option include such variables as the current value of the underlying interest and the relationship between that value and the exercise price, the current values of related interests (e.g., futures on the underlying interest or other interests related to the underlying interest), the style of the option, the individual estimates of market participants of the future volatility of the underlying interest, the historical volatility of the underlying interest, the amount of time remaining until expiration, cash dividends payable on the underlying stock (in the case of stock and stock index options), current interest rates, current currency exchange rates (in the cases of foreign currency options and options whose premiums or cash settlement amounts are payable in a foreign currency), the depth of the market for the option, the effect of supply and demand in the options market as well as in the markets for the underlying interest and for related interests, the information then available about current prices and operations in the markets for the underlying interest and related interests, the individual estimates of market participants of future developments that might affect any of the foregoing, and other factors generally affecting the prices or volatility of options, underlying interests, related interests or securities generally. Also see the discussion below of “Intrinsic Value and Time Value.” Readers should not assume that options premiums will necessarily conform or correlate with any theoretical options pricing formula, chart, last sale, or the prices of the underlying interest, related interests or other options at any particular time.

The currency in which the premium is payable is called the **premium currency**. The premium currency for most options is U.S. dollars. However, the premium currency for cross-rate foreign currency options, which are discussed in Chapter VI, is a foreign currency, and other options with premiums payable in a foreign currency may be introduced after the date of this document.

OPENING TRANSACTION—This is a purchase or sale transaction by which a person establishes or increases a position as either the holder or the writer of an option.

CLOSING TRANSACTION—This is a transaction in which, at some point prior to expiration, the option holder makes an offsetting **sale** of an identical option, or the option writer makes an offsetting **purchase** of an identical option. A closing transaction in an option reduces or cancels out an investor’s previous position as the holder or the writer of that option.

EXAMPLE: *In June an investor buys a December XYZ 50 call at an aggregate premium of \$500. By September the market price of the option has increased to \$700. To seek to realize his \$200 profit, the investor can direct his broker to sell an offsetting December XYZ 50 call in a **closing transaction**. On the other hand, if by September the market price of the option has decreased to \$300, the investor might still decide to sell the option in a **closing transaction**, thereby limiting his loss to \$200.*

Although holders of American-style options (other than delayed start options for which the exercise price has not yet been set) have the right to exercise at any time before expiration, holders frequently elect to realize their profits or losses by making closing transactions because the transaction costs of the closing transactions may be lower than the transaction costs associated with exercises, and because closing transactions may provide an opportunity for an option holder to realize the remaining time value (described below) of the option that would be lost in an exercise. The holder’s only means of realizing profit or loss on a delayed start option before its exercise price has been set, or on a European-style or capped option when the option is not exercisable, is by selling the option in a closing transaction.

POSITION LIMITS—The rules of the options markets generally limit the maximum number of options on the same side of the market (*i.e.*, calls held plus puts written, or puts held plus calls written) with respect to a single underlying interest that may be carried in the accounts of a single investor or group of investors acting in concert. These limits—which are called **position limits**—differ for options on different underlying interests. Information concerning the position limits for particular options is available from the options market on which those options are traded or from brokerage firms.

COMBINATIONS; SPREADS and STRADDLES—**Combination** positions are positions in more than one option at the same time. **Spreads** and **straddles** are two types of combination positions. A **spread** involves being both the buyer and writer of the same type of option (puts or calls) on the same underlying interest, with the options having different exercise prices and/or expiration dates. A **straddle** consists of purchasing or writing both a put and a call on the same underlying interest, with the options having the same exercise price and expiration date.

LONG and SHORT—The word **long** refers to a person's position as the holder of an option, and the word **short** refers to a person's position as the writer of an option.

COVERED CALL WRITER—If the writer of a physical delivery call option owns or acquires the amount of the underlying interest that is deliverable upon exercise of the call, she is said to be a **covered** call writer.

EXAMPLE: *An individual owns 100 shares of XYZ common stock. If she writes one physical delivery XYZ call option—giving the call holder the right to purchase 100 shares of the stock at a specified exercise price—this would be a covered call. If she writes two such XYZ calls, one would be covered and one would be uncovered.*

The distinction between covered and uncovered call writing positions is important since uncovered call writing can involve substantially greater exposure to risk than covered call writing. A call option writer who is not a covered writer may hold another option in a **spread** position and thereby offsets some or all of the risk of the option he has written. However, the spread may not offset all of the risk of the uncovered writing position. For example, if the long portion of the spread has a higher exercise price than the exercise price of the short, or if the long has an earlier expiration date than the expiration date of the short, then the writer may still be exposed to significant risks from his uncovered writing position.

AT THE MONEY—This term means that the current market value of the underlying interest is the same as the exercise price of the option. A range option, which is of a single type rather than being categorized as a call or a put, is said to be at the money if the current level of the underlying index is at the top or bottom of the range length.

IN THE MONEY—A call option is said to be **in the money** if the current market value of the underlying interest is above the exercise price of the option. A put option is said to be **in the money** if the current market value of the underlying interest is below the exercise price of the option. A range option, which is of a single type rather than being categorized as a call or a put, is said to be in the money if the current level of the underlying index falls within its range length.

EXAMPLE: *If the current market price of XYZ stock is \$43, an XYZ 40 call would be in the money by \$3.*

EXAMPLE: Assume a series of XYZ range options has a maximum cash settlement amount of \$1,000, a low range from 1000 to 1010, a middle range from 1010 to 1090 and a high range from 1090 to 1100. If the current level of XYZ index is 1003, the option would be in the money by \$300. If the current level of XYZ index is from 1010 to 1090, the option would be in the money by \$1,000, the maximum cash settlement amount. If the current level of XYZ index is 1093, the option would be in the money by \$700.

OUT OF THE MONEY—If the exercise price of a call is above the current market value of the underlying interest, or if the exercise price of a put is below the current market value of the underlying interest, the call or put is said to be **out of the money**. A range option, which is of single type rather than being categorized as a call or a put, is said to be out of the money if the current level of the underlying index falls outside of its range length.

EXAMPLE: With the current market price of XYZ stock at \$40, a call with an exercise price of \$45 would be **out of the money** by \$5—as would a put with an exercise price of \$35.

EXAMPLE: Assume a series of XYZ range options has a specified range length from 1000 to 1100. If the current level of XYZ index is either below 1000 or above 1100, the series of XYZ range options would be out of the money.

INTRINSIC VALUE and TIME VALUE—It is sometimes useful to consider the premium of an option as consisting of two components: **intrinsic value** and **time value**.

In the case of an option other than a binary option, the **intrinsic value** reflects the amount, if any, by which the option is in the money. An option that is out of the money would have an intrinsic value of zero. Delayed start options, other than series whose exercise prices are to be set in the money, have no intrinsic value before the exercise price is set. Thereafter, as in the case of any other option, whether a delayed start option has intrinsic value depends on the level of the underlying index at the time. A binary option (other than a credit default option) that is in the money has an intrinsic value equal to the fixed cash settlement amount of the option. Where the listing exchange has specified that a binary call will return a cash settlement amount if the exercise settlement value of the underlying is exactly equal to the exercise price, the call will have an intrinsic value equal to the cash settlement amount if it is either in the money or at the money. As is further discussed under the heading “Credit Default Options and Credit Default Basket Options” in Chapter V, credit default options have no intrinsic value.

Time value is whatever the premium of the option is in addition to its intrinsic value. Time value is that part of the premium that reflects the time remaining before expiration. An American-style option may ordinarily be expected to trade for no less than its intrinsic value prior to its expiration, although occasionally an American-style option will trade at less than its intrinsic value. Because European-style options (including binary options and range options) and capped options are not exercisable at all times, they are more likely than American-style options to trade at less than their intrinsic value when they are not exercisable.

EXAMPLE OF A CALL WITH INTRINSIC VALUE: At a time when the current market price of XYZ stock is \$46 a share, an XYZ 40 call would have an **intrinsic value** of \$6 a share. If the market price of the stock were to decline to \$44, the intrinsic value of the call would be only \$4. Should the price of the stock drop to \$40 or below, the call would no longer have any intrinsic value.

EXAMPLE OF A PUT WITH INTRINSIC VALUE: *At a time when the current market price of XYZ stock is \$46 a share, an XYZ 50 put would have an **intrinsic value** of \$4 a share. Were the market price of XYZ stock to increase to \$50 or above, the put would no longer have any intrinsic value.*

EXAMPLE OF TIME VALUE: *At a time when the market price of XYZ stock is \$40 a share, an XYZ 40 call may have a current market price of, say, \$2 a share. This is entirely **time value**.*

An option with intrinsic value may often have some time value as well—that is, the market price of the option may be greater than its intrinsic value. This could occur with an option of any style.

EXAMPLE: *With the market price of XYZ stock at \$45 a share, an XYZ 40 call may have a current market price of \$6 a share, reflecting an intrinsic value of \$5 a share and a time value of \$1 a share.*

An option's time value is influenced by several factors (as discussed above under "Premium"), including the length of time remaining until expiration. An option is a "wasting" asset; if it is not sold or exercised prior to its expiration, it will become worthless. As a consequence, all else remaining the same, the time value of an option usually decreases as the option approaches expiration, and this decrease accelerates as the time to expiration shortens. However, there may be occasions when the market price of an option may be lower than the market price of another option that has less time remaining to expiration but that is similar in all other respects.

An American-style option's time value is also influenced by the amount the option is in the money or out of the money. An option normally has very little time value if it is substantially in the money. Although an option that is substantially out of the money has only time value, the amount of that time value is normally less than the time value of an option having the same underlying interest and expiration that is at the money.

Another factor influencing the time value of an option is the volatility of the underlying interest. All else being the same, options on more volatile interests command higher premiums than options on less volatile interests.

Time value is also influenced by the current cost of money. Increases in prevailing interest rates tend to cause higher premiums for calls and lower premiums for puts, and decreases in prevailing interest rates tend to cause lower premiums for calls and higher premiums for puts.

The following is a description of the terminology applicable to **capped options**:

CAP INTERVAL—The **cap interval** is a constant established by the options market on which a series of capped options is traded. The exercise price for a capped-style option plus the cap interval (in the case of a call), or minus the cap interval (in the case of a put), equals the **cap price** for the option. For example, if a capped call option with an exercise price of 360 has a **cap interval** of 30, then the **cap price** at which the option will be automatically exercised would be 390.

CAP PRICE—The **cap price** is the level that the automatic exercise value of a capped option must reach in order for the option to be automatically exercised. The **cap price** of a call option is above, and of a put option below, the exercise price of the option.

EXAMPLE: A 360 ABC capped call index option has an exercise price of 360 and a cap interval of 30. The call option has a **cap price** of 390.

EXAMPLE: A 310 XYZ capped put index option has an exercise price of 310 and a cap interval of 20. The put option has a **cap price** of 290.

AUTOMATIC EXERCISE VALUE—The **automatic exercise value** of a capped option is the price or level of the underlying interest determined in a manner fixed by the options market on which the option is traded for each trading day as of a specified time of that day.

EXAMPLE: A 310 XYZ capped put index option has a cap interval of 20, and therefore has a cap price of 290. Assume that the options market on which the option is traded has specified the close of trading on each trading day as the time for determining the automatic exercise value on the XYZ index, and that the index level reaches a low of 289 during a particular trading day, but is at 291 at the close. The **automatic exercise value** has not reached the cap price, and the automatic exercise feature of the option is not triggered, because the index level was not at or below the cap price at the time of day specified by the options market for determining the automatic exercise value.

CASH SETTLEMENT AMOUNT—This is the cash amount that the holder of a cash-settled capped option is entitled to receive upon the exercise of the option. In the case of a capped option that has been automatically exercised, the **cash settlement amount** is equal to the cap interval times the multiplier for the option, even if the automatic exercise value on the day that the automatic exercise feature is triggered exceeds (in the case of a call) or is less than (in the case of a put) the cap price. If the capped option is voluntarily exercised at expiration, the cash settlement amount is determined in the same manner as for other styles of cash-settled options.

EXAMPLE: A 360 ABC capped call index option has a cap interval of 30 and a multiplier of 100. The automatic exercise value of the ABC index is 396 on a particular trading day. The call option is automatically exercised, and the **cash settlement amount** is \$3000 (equal to the cap interval of 30 times the multiplier of 100).

EXAMPLE: A 360 ABC capped call index option has a cap interval of 30 and a multiplier of 100. The automatic exercise value of the ABC index never equals or exceeds the cap price of 390 during the life of the option, and the exercise settlement value of the option is 367 on the final trading day. Upon exercise of the option, the holder is entitled to receive a cash settlement amount of \$700 (equal to the multiplier of 100 times the difference between the exercise settlement value of 367 and the exercise price of 360).

A **delayed start option** is an option that does not have an exercise price when first introduced for trading but instead has an exercise price setting formula pursuant to which the exercise price will be fixed on a specified future date. The following is a description of the terminology applicable to delayed start options:

EXERCISE PRICE SETTING DATE—The exercise price setting date for a series of delayed start options is the date on which the options market on which the series is traded will set the exercise price for the series. The exercise price setting date is specified before the commencement of trading of each series of delayed start options. Specific information regarding exercise price setting dates may be obtained from the listing options market.

EXERCISE PRICE SETTING FORMULA—The exercise price setting formula for a series of delayed start options is the formula used by the options market on which the series is traded to set the exercise price for the series on the exercise price setting date. The exercise price setting formula is specified before the commencement of trading of each series of delayed start option. The formula for a particular series may provide that the exercise price will be at the money, in the money by a specified amount, or out of the money by a specified amount. Exercise prices may be rounded as specified by the listing options market.

EXAMPLE: *In January, an American-style delayed start option on the ABC index is opened for trading with an exercise price setting date of the third Friday in September and an exercise price setting formula specifying that the exercise price will be set at the closing value of the ABC index on the exercise price setting date, rounded to the nearest whole number. The option may not be exercised at all until after the third Friday in September because it will not have an exercise price until that time. At the close of trading on the third Friday in September, the options market on which the delayed start option is trading will determine the closing value of the ABC index and set the exercise price based on that value. For example, if the options market determines that the ABC index closed at 908.10 on the exercise price setting date, the options market would round that value to 908, and from that time until its expiration date the delayed start option would trade as a regular American-style option with an exercise price of 908.*

Options on Equity Securities

The term “stock options” is used broadly in this document to include not only options on common stocks but also options on all other types of equity securities, such as limited partnership interests, “American Depositary Receipts” and “American Depositary Shares” representing interests in foreign entities, preferred stocks, and fund shares. The term “fund shares” includes interests in exchange-traded funds and other entities holding or trading in one or more types of investments, and as used in this document the term “equity securities” includes fund shares.

Issuers of underlying equity securities do not participate in the selection of their securities for options trading (although some options markets may determine not to select an underlying security without the consent of the issuer of that security). Issuers of underlying equity securities have no responsibility regarding the issuance, the terms, or the performance of options, and option holders have no rights as security holders of such issuers.

The principal risks of holders and writers of stock options are discussed in Chapter X. Readers interested in buying or writing stock options should carefully read that chapter.

Features of Stock Options

The following discussion relates primarily to stock options other than binary options. A separate description of the features of binary stock options may be found at the end of this chapter.

As a general rule a single-stock option covers 100 shares of the underlying security, although in the case of options covering fund shares, options covering 100 or 1000 shares may be available. Other stock options departing from the general rule may be introduced in the future. The number of underlying shares covered by any stock option may be adjusted after the option is issued if certain events occur, as described below.

The **exercise prices** of the stock options that are traded at the date of this document are stated in U.S. dollars per share. The exercise price of an option must be multiplied by the number of shares underlying the option in order to determine the aggregate exercise price and aggregate premium of that option.

EXAMPLE: *An XYZ 40 call gives the buyer the right to purchase 100 shares of XYZ stock at a price of \$40 per share, or a total price of \$4,000.*

In the future, stock options may, with regulatory approval, be introduced that have exercise prices in a foreign currency.

Adjustments may be made to certain of the standardized terms of outstanding stock options when certain events occur, such as a stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification in respect of an underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of the underlying security. **In the following discussion, there is a brief description of a number of general adjustment rules applicable to stock options that are in effect at the date of this document. Such rules may be changed from time to time with regulatory approval. OCC has the authority to make such exceptions as it determines to be appropriate to any of the general adjustment rules.**

As a general rule, no adjustment is made for ordinary cash dividends or cash distributions. A cash dividend or distribution will generally be considered “ordinary,” regardless of size, if OCC believes

that it was declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly or other regular basis. No adjustment will normally be made for any cash dividend or distribution that amounts to less than \$0.125 per underlying share. For contracts originally listed with a unit of trading larger than 100 shares, no adjustment normally would be made for any cash dividends or distributions that amount to less than \$12.50 per contract. As an exception to the general rule, options on fund shares will generally be adjusted for capital gains distributions even if made on a regular basis, and adjustments may be made for certain other distributions in respect of fund shares in special circumstances described in OCC's rules, provided in each case that the amount of the adjustment would be \$0.125 or more per fund share. Determinations whether to adjust for cash dividends or distributions not covered by the preceding rules, or when other special circumstances apply, are made on a case-by-case basis.

Because stock options are not generally adjusted for ordinary cash dividends and distributions, covered writers of calls are entitled to retain dividends and distributions earned on the underlying securities during the time prior to exercise. However, a call holder becomes entitled to the dividend if he exercises the option prior to the ex-dividend date even though the assigned writer may not be notified that he was assigned an exercise until after the ex-date. **Because call holders may seek to “capture” an impending dividend by exercising, a call writer’s chances of being assigned an exercise may increase as the ex-date for a dividend on the underlying security approaches.**

Stock dividends, stock distributions and stock splits may result in an adjustment of the number of options held or written or the number of underlying shares, and in some cases may also result in an adjustment of the exercise price.

When a stock distribution, stock split or stock dividend results in the issuance of one or more whole shares of stock for each outstanding share—such as a 2-for-1 or a 3-for-1 stock split—as a general rule the number of underlying shares will not be adjusted. Instead, the number of outstanding options will be proportionately increased and the exercise price will be proportionately decreased.

EXAMPLE: *Before a 2-for-1 stock split, an investor holds an option on 100 shares of XYZ stock with an exercise price of \$60. After adjustment for the split, he will hold two XYZ options, each on 100 shares and each with an exercise price of \$30.*

Other stock dividends, stock distributions and stock splits may result in an adjustment in the number of underlying shares and the exercise price.

EXAMPLE: *An investor bought an XYZ 50 option—either a call or a put—and XYZ Corporation subsequently effected a 3-for-2 stock distribution. Instead of covering 100 shares of stock at an exercise price of \$50 a share, each outstanding option could be adjusted to cover 150 shares at an exercise price of \$33.33 per share. The aggregate exercise price remains substantially the same before and after the adjustment ($\$50 \times 100 = \$5,000$ and $\$33.33 \times 150 = \$4,999.50$).*

As a general rule, adjustments in exercise prices are rounded to the nearest exercise price increment, and adjustments in the number of underlying shares are rounded down to eliminate fractional shares. In the latter case, the property deliverable upon exercise may be adjusted to include the value of the eliminated fractional share, as determined by OCC.

Note that in the preceding example where the exercise price of the adjusted XYZ option was rounded down, the exercising put holder or assigned call writer would lose \$0.50 as a result of the rounding. Rounding up could result in losses to exercising call holders and assigned put writers.

A reverse stock split, combination of shares, or similar event will generally result in an adjustment in the number of shares deliverable upon exercise, while the aggregate exercise price remains unchanged.

EXAMPLE: An investor holds a call option covering 100 shares of XYZ stock with an exercise price of 50 resulting in an aggregate exercise price for the contract of \$5,000 (\$50 x 100). After a 1-for-10 reverse split, the deliverable could be reduced to 10 shares while the nominal exercise price remained \$50. In that case, upon exercise of the adjusted option, the investor would still pay \$5,000 (\$50 x 100, not \$50 x 10), but would receive 10 shares of XYZ stock instead of 100.

An adjustment that substitutes cash for all, such as in the case of a cash merger or other event whereby the underlying security is converted solely to cash, or part of the deliverable security will eliminate or reduce the time value of the option, and therefore the option may lose significant value, both immediately and at exercise, as a result of the adjustment.

EXAMPLE: Because of an all cash merger involving XYZ Corporation, the stock held by XYZ's owners is extinguished in return for a payment of \$50 in cash per XYZ share. In response to the corporate action on the underlying security, XYZ options generally will be adjusted to require the delivery of \$50 per share upon exercise. As a result, an XYZ call option with an exercise price of \$40 will lose all of its time value and the option's value will only reflect the intrinsic value of \$10 (\$50 - \$40 = \$10). Additionally, an XYZ call option with an exercise price of \$60 will become worthless because the exercise price exceeds the \$50 cash settlement delivery amount.

EXAMPLE: An investor bought a \$50 put option representing the obligation to deliver 100 shares of Company A stock upon exercise. Company A subsequently effected a 1-for-3 reverse stock split and the terms of the reverse split provided for payment of cash in lieu of fractional shares, using a value of \$60 per share for this purpose. As a general rule, any adjustment in the number of underlying shares is rounded to eliminate fractional shares, so the number of shares to be delivered could be adjusted to 33 shares ($100 \times \frac{1}{3} = 33\frac{1}{3}$, with the $\frac{1}{3}$ fractional share rounded down as part of the adjustment to eliminate fractional shares) plus \$20 cash in lieu of the $\frac{1}{3}$ fractional share ($\$60 \times \frac{1}{3}$) if cash is paid in lieu of such fractional share. Because this cash delivery obligation is generally fixed at the time of adjustment, the investor would lose the time value of the fractional share. This option may continue to trade until expiration, with the deliverable at exercise or expiration being 33 shares plus \$20 cash.

The obligation to make a fixed cash payment in lieu of a fractional share could result, depending on the relative size of the fixed cash obligation, in an immediate reduction in the value of the option and at exercise could result in the option being less valuable or worthless in comparison to the value it would have had in the absence of the adjustment. If a stock underlying the option undergoes multiple reverse splits prior to expiration, it will become increasingly likely that one of those reverse stock splits eventually will create a fractional share.

As a general rule, no adjustment is made for ordinary stock dividends or distributions. A stock dividend or distribution will generally be considered "ordinary" if (i) the number of shares distributed does not exceed 10% of the number of shares outstanding on the declaration date and (ii) it is declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis.

Distributions of property other than the underlying security may result in the adjustment of outstanding options to include the distributed property.

EXAMPLE: If XYZ “spins off” its subsidiary ABC by distributing to its stockholders 2.5 shares of ABC stock for each share of XYZ stock, outstanding XYZ options might be adjusted to require delivery of 100 shares of XYZ stock plus 250 shares of ABC stock.

Alternatively, the exercise prices of outstanding options might be reduced by the value, on a per-share basis, of the distributed property, as determined by OCC.

Events other than distributions may also result in adjustments. If all of the outstanding shares of an underlying security are acquired in a merger or consolidation, outstanding options will as a general rule be adjusted to require delivery of the cash, securities, or other property payable to holders of the underlying security as a result of the acquisition.

EXAMPLE: If XYZ is acquired by PQR in a merger where each holder of XYZ stock receives \$50 plus 1/2 share of PQR stock for each share of XYZ stock held, XYZ options might be adjusted to call for the delivery of \$5,000 in cash and 50 shares of PQR stock instead of 100 shares of XYZ stock.

When an underlying security is wholly or partially converted into a debt security or a preferred stock, options that have been adjusted to call for delivery of the debt security or preferred stock may, as a general rule, be further adjusted to call for any securities distributed as interest or dividends on such debt security or preferred stock.

When an underlying security is converted into a right to receive a fixed amount of cash, options on that security will generally be adjusted to require the delivery upon exercise of a fixed amount of cash, and trading in the options will ordinarily cease when the conversion becomes effective. As a result, after such an adjustment is made all options on that security that are not in the money will become worthless and all that are in the money will have no time value, and the expiration date of the option will ordinarily be accelerated to fall on or shortly after the date on which the underlying security is converted to a right to receive cash occurs. Holders of an in-the-money option whose expiration date is accelerated must be prepared to exercise that option prior to the accelerated exercise cut off time in order to prevent the option from expiring unexercised. See the discussion in Chapter VIII under “How to Exercise.” Writers of options whose expiration date is subject to being accelerated bear the risk that, in the event of such an acceleration, they may be assigned an exercise notice and be required to perform their obligations as writers prior to the original expiration date. When the expiration date of an option is accelerated, no adjustment will be made to compensate for the accelerated expiration date. There is no assurance that the exercise settlement date for an accelerated option will coincide with the date on which the cash payment to the holders of the underlying security becomes available from the issuer. Covered writers of an accelerated option may therefore be required to pay the cash amount in respect of the option before they receive the cash payment on the underlying security.

As a general rule, adjustments are not made for tender offers or exchange offers, whether by the issuer or a third party, and whether for cash, securities (including issuer securities), or other property. This presents a risk for writers of put options, because a successful tender offer or exchange offer (whether by the issuer or by a third party) may have a significant effect on the market value of the security that the put writers would be obligated to purchase if the put options are exercised after the expiration of the offer.

As a general rule, adjustments will not be made to reflect changes in the capital structure of the issuer where all of the underlying securities outstanding in the hands of the public (other than dissenters’ shares) are not changed into another security, cash or other property.

As a general rule, an adjustment that is made in an option will become effective on the ex-date established by the primary market for trading in the underlying security.

The following is a description of certain special features of binary stock options:

As in the case of other stock options, the exercise price of a binary stock option is ordinarily stated as a price per share of the underlying security. Premium values may be stated in an amount that must be multiplied by a multiplier to obtain the premium price per option contract.

The listing exchange specifies the method for determining the exercise settlement value of the underlying stock for a binary stock option. This method may be based on a volume weighted average price for a specified time period preceding expiration, such as the last trading day before expiration. The exercise settlement value for a stock underlying a binary option is the value of the stock as reported by the reporting authority designated by the listing options market for that purpose. Unless OCC directs otherwise, the value as initially reported by the reporting authority is conclusively presumed to be accurate and deemed to be final for the purpose of determining whether the option is automatically exercised and returns a cash settlement amount. This is true even if the value is subsequently revised or determined to have been inaccurate.

Adjustments in the terms of binary stock options will be made to reflect some, but not all, of the same events that result in adjustments to other stock options, and any adjustment that is made will not necessarily be the same as the adjustment made to other options on the same underlying security. As in the case of other stock options, adjustments will not normally be made to the terms of binary stock options to account for ordinary dividends or distributions. The guidelines set forth above under the caption “Features of Stock Options” for determining when a distribution is considered “ordinary” will generally be applied to distributions with respect to securities underlying binary stock options.

Adjustments in the terms of binary stock options will ordinarily be made for stock dividends, stock distributions and stock splits, subject to the exception stated above where OCC determines to treat a stock distribution as ordinary.

If OCC determines to make an adjustment to binary stock options to reflect a stock dividend, stock distribution, or stock split, the exercise price of the option will ordinarily be proportionately reduced—regardless of whether a whole number of shares, or other than a whole number of shares, of the underlying security is issued. OCC has discretion to make exceptions to the general rules described above.

EXAMPLE: Before a 2-for-1 stock split, an investor holds one ABC binary stock option with an exercise price of \$50 that pays a cash settlement amount of \$100 if the exercise settlement value of ABC at expiration is above the exercise price. After adjustment for the split, the investor will still hold one ABC binary stock option that pays a cash settlement amount if the exercise settlement value of ABC at expiration is above the exercise price, but the exercise price will be \$25 (i.e., \$50 divided by two). Thus, if the exercise settlement value of ABC stock at expiration, on a post-split basis, is above \$25, the investor will receive \$100.

An investor holds an XYZ binary stock option with an exercise price of \$50 that pays a cash settlement amount of \$100 if the exercise settlement value of XYZ stock is below the exercise price. XYZ announces a 2.5-for-1 stock split. The exercise price will be adjusted to equal \$20 (\$50 divided by 2.5). If the exercise settlement value of XYZ stock at expiration is below \$20, the investor will receive \$100. Exercise prices of binary stock options will generally be rounded to the nearest adjustment increment (or up in the event the adjusted price is equidistant between two adjustment increments).

Conversely, in the event of a reverse stock split or combination of shares, the exercise price will be proportionately increased.

Distributions of property other than the underlying security may result in adjustments to the terms of binary stock options. For example, the exercise settlement value might be adjusted to include the value of the distributed property.

EXAMPLE: XYZ “spins off” its subsidiary ABC by distributing to its stockholders two shares in ABC for each share of XYZ. The exercise settlement value of XYZ binary stock options may be adjusted to include the value of two shares of ABC as well as one share of XYZ.

Alternatively, the option might be adjusted by reducing its exercise price by an amount equal to the value of the property distributed with respect to a single share of the underlying security (in the example above, the two shares of ABC).

As in the case of other stock options, adjustments to the terms of binary stock options may result from events other than dividends, distributions, and splits. If all outstanding shares of an underlying security are acquired in a merger or consolidation, binary stock options may be adjusted so that the cash, securities or other property received by stockholders with respect to a single share of that underlying security becomes the underlying interest. Alternatively, OCC may determine to fix a value for some or all of the non-cash property received. Where holders of an underlying security receive only cash or OCC determines to fix a cash value for all non-cash property received, the aggregate per share value received, as determined by OCC, will become the exercise settlement value, trading in the options will ordinarily cease, options that are out of the money will become worthless, the expiration date will ordinarily be accelerated, and options that are in the money will be automatically exercised. No adjustment in the fixed settlement amount will be made to reflect the accelerated expiration date.

As in the case of other stock options, any adjustment decision with respect to binary stock options will be made by OCC as described above. OCC has discretion to make exceptions to the general rules described above.

Index Options

About Indexes

As referred to in this document, an index is a measure of the prices or other attributes of a group of securities* or other interests. Indexes have been developed to cover a variety of interests, such as stocks and other equity securities, debt securities and foreign currencies, and even to measure the cost of living. The following discussion relates to (i) indexes on equity securities (which are called **stock indexes** in this document), (ii) indexes intended to measure the implied volatility, or the realized variance or volatility, of specified stock indexes or specified securities (which are collectively called **variability indexes** in this document), (iii) **strategy-based indexes**, such as indexes measuring the return of a particular strategy involving the component securities of a stock index and options on that index, (iv) indexes intended to measure the stock price changes of the component securities of underlying indexes that result solely from the distribution of ordinary cash dividends, as calculated on their respective ex-dividend dates (which are called **dividend indexes** in this document), (v) **relative performance indexes**, which are a special type of strategy-based indexes that measure the relative performance over a given time period of one index component to another index component, (vi) indexes on foreign currencies (which are called **foreign currency indexes** in this document), and (vii) options on the above indexes (including binary index options and range options).

Stock indexes are compiled and published by various sources, including securities markets. A stock index may be designed to be representative of the stock market of a particular nation as a whole, of securities traded in a particular market, of a broad market sector (e.g., industrials), or of a particular industry (e.g., electronics). A stock index may be based on securities traded primarily in U.S. markets, securities traded primarily in a foreign market, or a combination of securities whose primary markets are in various countries. A stock index may be based on the prices of all, or only a sample, of the securities whose prices it is intended to represent. Like stock indexes, variability indexes, strategy-based indexes, dividend indexes and relative performance indexes are securities indexes. However, variability indexes may measure the implied volatility of an index, using the premiums for series of options on that index, or may measure the historical variance or volatility of the returns of an index using daily returns over a certain period assuming a mean daily return of zero. Strategy-based indexes measure the return of a particular strategy involving the component securities of an index and options on that index. Dividend indexes measure the stock price changes of the component securities of underlying indexes that result solely from the distribution of ordinary cash dividends, as calculated on their respective ex-dividend dates. Relative performance indexes measure the performance of two **index components** relative to one another over a period of time. While a foreign currency index is not an index of securities, options on foreign currency indexes trade on securities exchanges like options on securities indexes. The foreign currency indexes discussed in this document are designed to reflect the value of a single currency, often the U.S. dollar, against a basket of foreign currencies. In this document options on variability indexes are referred to generically as **variability options**, options on strategy-based indexes are referred to as **strategy-based index options**, options on dividend indexes are referred to as **dividend index options**, options on relative performance indexes are referred to as **relative performance options**, and options on foreign currency indexes are referred to as **foreign currency index options**.

Information relating specifically to the various types of indexes appears below under the captions “Stock Indexes,” “Variability Indexes,” “Strategy-based Indexes,” “Dividend Indexes,” “Relative Performance Indexes” and “Foreign Currency Indexes.”

Stock Indexes

A stock index, like a cost of living index, is ordinarily expressed in relation to a “base” established when the index was originated.

* Some indexes reflect values of companies, rather than securities, by taking into account both the prices of component securities and the number of those securities outstanding.

EXAMPLE: On the starting or “base” date for a new value-weighted index, the total market values of the component securities (market price times number of shares outstanding) is \$50 billion. The publisher of the index will assign an arbitrary index level—say 100—to that base value. If the total market value of the component stocks increases by 2% the next day (i.e., to \$51 billion), the index level would rise to 102 (102% of the base level of 100).

The base may be adjusted from time to time to reflect such events as capitalization changes affecting the constituent securities of the index (e.g., issuance of new shares) or to maintain continuity when securities are added to or dropped from the index. These adjustments are generally designed so that the index level will change only as a result of price changes of constituent securities during trading.

Securities may be dropped from an index because of events such as mergers and liquidations or because a particular security is no longer thought to be representative of the types of stocks constituting the index. Securities may also be added to an index from time to time. Adjustments in the base level of an index, additions and deletions of constituent securities, and similar changes are within the discretion of the publisher of the index and will not ordinarily cause any adjustment in the terms of outstanding index options. However, OCC has authority to make adjustments if the publisher of the underlying index makes a change in the index’s composition or method of calculation that in OCC’s determination, may cause significant discontinuity in the index level.

Different stock indexes are calculated in different ways. Accordingly, even where indexes are based on identical securities, they may measure the relevant market differently because of differences in methods of calculation. Often the market prices of the securities in the index group are “capitalization weighted.” That is, in calculating the index value, the market price of each constituent security is multiplied by the number of shares outstanding. Because of this method of calculation, changes in the prices of the securities of larger corporations will generally have a greater influence on the level of a capitalization weighted index than price changes affecting smaller corporations.

Other methods may be used to calculate stock indexes. For example, in one method known as “equal-dollar weighting,” the index is established by establishing an aggregate market value for every constituent security of the index and then determining the number of shares of each security by dividing such aggregate market value by the then current market price of the security. The base level of the index is established by dividing the total market value of all constituent securities by a fixed index divisor. Thereafter, the number of shares of the constituent securities and the index divisor are adjusted at periodic intervals in order to have each constituent security continue to represent an approximately equal dollar value in the index without distorting the level of the index.

Another method of calculation is simply to add up the prices of the securities in the index and divide by the number of securities in the index, disregarding numbers of shares outstanding. Another method measures daily percentage movements of prices by averaging the percentage price changes of all securities included in the index.

Investors should keep in mind that a stock index can respond only to reported price movements in its component securities. An index will therefore reflect the stock market as a whole, or particular market segments, only to the extent that the securities in the index are being traded, the prices of those trades are being promptly reported, and the market prices of those securities, as measured by the index, reflect price movements in the relevant markets. The index level will be affected by all of the factors that may at the time affect prices in the relevant markets for the constituent securities of the index, including, among other things, applicable laws, regulations and trading rules, the market-making and order processing systems of those markets, the liquidity and efficiency of those markets, and the prices and price behavior of futures contracts on that index or a related index.

Index options may be traded on underlying indexes designed to reflect the net asset values of selected mutual funds in specified categories. For example, an underlying index may be designed to reflect the net asset value of a selected group of growth funds, or a selected group of growth and income funds. These indexes are calculated and disseminated based on the reported net asset values of the mutual funds included in the index. Mutual funds typically report their net asset values only once per day following the close of trading in the primary markets for the securities held in the funds' investment portfolios. Mutual fund indexes are based on these closing values and are not updated during the trading day. Mutual fund indexes as reported during the trading day will thus be based on non-current information, not only because the funds' portfolios may have changed since the previous day's close, but also because the values of the funds' portfolio securities during the trading day may vary from their values at the previous day's close. Therefore, reported fund index values should not be relied upon as indicative of the current values of the mutual funds included in the indexes. In this respect, mutual fund indexes are comparable to other indexes that are not updated during the trading day, including certain foreign stock indexes. These other indexes are not updated because their component stocks may not be traded in their primary home country markets during all or part of the options trading day.

Dividend Indexes

Dividend indexes measure the stock price changes of the component securities of underlying indexes that result solely from the distribution of ordinary cash dividends, as calculated on their respective ex-dividend dates. As of the date of this document, dividend indexes on which options are approved to be traded are based on the accumulated "ex-dividend amounts" reflecting ordinary cash dividends for the component securities over a specified accrual period. Investors should note that determinations by the reporting authority for a dividend index as to whether a cash dividend is "ordinary" and therefore reflected in the index may be made using rules other than those relating to adjustments of stock options and described in Chapter III under "Features of Stock Options." At the end of each accrual period, the value of a dividend index is reset to zero. The values of dividend indexes are typically published once per trading day, and these values could be affected by an issuer's determination to pay stock dividends in lieu of cash dividends or to forego payment of cash dividends. An "ex-dividend amount" is the amount by which the market price of a stock decreases on the ex-dividend date to reflect the dividend that will be received by holders of the stock immediately prior to the ex-dividend date. The "ex-dividend amount" is calculated by the reporting authority for the index, and information as to the method of calculation is available from the listing options market. Investors must understand the method used to calculate dividend indexes in order to understand the relationship between current dividend index values and the prices of dividend index options.

Variability Indexes

Variability indexes, and investment strategies involving the use of variability options, are inherently complex. You should be certain that you understand the method of calculation and significance of any variability index and the uses for which variability options based on that index are suited before buying or selling the options.

Economic, political, social and other events affecting the *level* of the reference index or the *price* of the reference security may also affect the *variability* of the reference index or reference security. Variability indexes based on equity securities have historically tended to move inversely to their reference indexes, since variability, whether in the form of variance or volatility, tends to be associated with turmoil in the stock markets and turmoil tends to be associated with downward moves in the stock market. But this relationship does not always hold true and, indeed, a variability index may be rising at a time when its reference index or the price of its reference security is also rising.

As with other index options, a call variability option will be in the money at exercise if the exercise settlement value of the underlying index is above the exercise price of the option, and a put variability option will be in the money at exercise if the exercise settlement value of the underlying index is below the exercise price of the option. Whether the variability option is in the money is determined in relation only to the value of the underlying variability index, and not in relation to the reference index or reference security.

The information set forth below under the caption “Features of Index Options” is generally applicable to variability options. However, **the method of determining the exercise settlement value for certain variability options may differ from those for other index options**, and you should read the information below relating to the particular types of variability options you wish to trade. **Note also that variability options may have expiration dates that are different from those of other index options.** You should be sure that you know the expiration date for each variability option you wish to buy or write.

As of the date of this document, options are approved for trading on three different types of variability indexes representing three different ways of measuring variability. A **realized variance index** represents the variability of returns of a specified **reference index** or reference security (in either case, a “**reference interest**”) over a specified period of time relative to an average (mean) daily return of zero. The **realized volatility** of the same index over the same time period, also referred to as the standard deviation, is equal to the square root of the realized variance. Both of these measures are calculated from historical index values over the relevant period of time. An **implied volatility index** is a measure of the predicted future variability of the reference interest over a specified future time period. It measures the predicted standard deviation of the daily returns of the reference interest measured over the specified future time period. An implied volatility index reflects predictions about the future volatility of the reference interest as those predictions are implied by reported current premium values for options on the reference interest. The realized volatility of the reference interest may not conform to those predictions.

There are various methods of estimating implied volatility, and different methods may provide different estimates. Under the method that is used for volatility options that are traded at the date of this document, implied volatility index values are calculated using premium values of certain series of options on the reference interest in expiration months or weeks that are selected and weighted to yield a measure of the volatility of the reference interest over a specified future time period. For some volatility options, the premium values used in the calculation are for out-of-the-money options series; for other volatility options, they are for hypothetical at-the-money options series. For example, an implied volatility index that is calculated using one of these methods and that is designed to provide a prediction of volatility over 30 calendar days is based on premium values of at-the-money options series on the reference interest expiring in the two nearest months with at least 7 calendar days left to expiration. Implied volatility index values will be affected by any factor that affects the component options series of the index, including, among other things, applicable laws, regulations and trading rules, the market-making and order processing systems of the markets on which the options are traded, and the liquidity and efficiency of those markets.

Implied volatility options that are described in this document are European-style and “A.M.-settled,” which means that the exercise settlement values are derived from opening values of the component put and call options or from the values of put and call options calculated during one or more periods of time at or near the opening of trading. For one type of implied volatility option, the exercise settlement value is calculated from actual opening premium prices of the relevant series of options on the reference interest or, if the option has no opening trades, the mid-point between the bid and offer premium quotations. For another type of implied volatility option, the exercise settlement value is calculated from the mid-point of the bid and offer premium quotations for the relevant series of options on the reference interest as determined at the opening of trading. For a third type of implied volatility option, the exercise settlement value is calculated from actual premium prices of the relevant series of options on the reference

interest during a specified period or periods of time commencing at or near the opening of trading or, if the option has no trades during the specified observation period or periods, from the mid-point of the bid and offer premium quotation during the particular observation period for that series. For all these types of implied volatility options, all other index values for each of these implied volatility indexes are calculated using the mid-points of the bid and offer premium quotations of and/or actual trade prices of the options series that comprise the index. (Where these index values are based on quotations and/or actual trade prices they are sometimes referred to as “indicative values.”)

Because different values may be used in calculating the indicative values and exercise settlement values for implied volatility options, **there is a risk that there may be a divergence between the exercise settlement value for implied volatility options and an indicative value calculated at the opening on the date on which the exercise settlement value is being determined.** This risk is described further in Chapter X of this document, under the heading “Special Risks of Index Options.” Additional information regarding the method used to calculate the values of a particular implied volatility index is available from the market on which options on that index are traded.

Investors should keep in mind that indicative values of an implied volatility index can reflect changes in the implied volatility of the reference interest only to the extent that quotations of the component options of the index are current. Indicative values for an implied volatility index may be disseminated, and implied volatility options may be traded, during times when the reference security or one or more component securities in the reference index are not trading, or when the quotations for the reference security or one or more of the options series comprising the implied volatility index are not current. Similarly, an exercise settlement value for an implied volatility index may be calculated even if one or more component securities in the reference index are not trading. In any of these cases, an indicative value or exercise settlement value will be based on non-current information. The quality of the information reflected in the values of an implied volatility index should be evaluated in light of the depth and liquidity of the markets for the securities in the reference index and the options that are the components of the index.

The realized variability indexes underlying variability options approved for trading as of the date of this document measure the actual volatility or variance, as the case may be, of the reference index for a fixed period ending on the last trading day before the expiration date for the variability option. As of December 2009, indicative values for a realized variability index are published once per trading day during the fixed period, but values published early in the period, which are based on a small number of observations, may vary substantially from the exercise settlement value. The exercise settlement amount for a realized variability option is equal to the difference between the exercise settlement value and the exercise price of the option, times a multiplier.

Realized variability options that are described in this document are European-style and “A.M.-settled.” The initial and final values of a reference index for purposes of calculating the exercise settlement value for realized variability options described in this document are ordinarily calculated from the *actual opening prices* of the component securities of the reference index in their primary market. If a component security does not open for trading, the last reported price in the primary market may be used. OCC’s rules provide for other methods of determining the exercise settlement value of a reference index in extraordinary circumstances. All other values for realized variability indexes are calculated from the published closing value of the reference index.

Strategy-Based Indexes

Strategy-based indexes are complex, and their calculations may involve the use of multiple variables, including the values of equity securities and options on those securities. Strategies based on options on these indexes, referred to as “strategy-based index options,” are also complex. Investors should be certain that they understand the method of calculation and

significance of any strategy-based index and the uses for which strategy-based index options are suited before buying or selling the options.

Strategy-based indexes measure the returns from investment strategies involving the purchase and sale of various securities. All of the securities purchased and sold pursuant to the strategy are deemed to be the component securities of the strategy-based index. As of December 2009, the only strategy-based index on which options are approved to be traded is a buy-write index measuring the return on a hypothetical “buy-write” strategy involving the simultaneous writing of call options on a stock index and purchase of the component securities of that index. Under the hypothetical strategy, a succession of at the money index call options with one month to expiration are assumed to be written, and the proceeds (i.e., the premiums received) from writing the options are assumed to be invested in a weighted basket of the component securities that mirrors the index. Dividends received from ownership of the component securities of the index are similarly assumed to be reinvested in the basket of securities. The options are deemed held until expiration, and new call options are assumed to be written on the business day immediately after the settlement value is determined. All options written under the buy-write strategy are deemed to have been assigned an exercise notice on the expiration date if in the money on that date, and to have expired without value if out of the money on the expiration date. The buy-write index measures the cumulative gross rate of return of the strategy since the inception of the index. The index will therefore rise during periods when the strategy is profitable and decline when it is unprofitable. The following example illustrates the calculation of the buy-write index.

EXAMPLE: Assume that the buy-write index has a value of 800 on January 1. The return from the buy-write strategy, taking into account the returns of the component securities of the stock index and of the options assumed to be written on the index, is 0.5% and 1% on January 2 and 3, respectively. The index value at the end of a given trading day is equal to the previous closing value of the index multiplied by one plus the rate of return for that trading day. In this example, the value of the buy-write index at the close of trading on January 3 would be 812.04 ($800 \times 1.005 \times 1.01$). Assume that the return of the buy-write strategy on January 4, again taking into account the returns of the component securities of the stock index and of the options assumed written on that index, is a negative 0.7%. The value of the buy-write index at the close of trading on January 4 would be 806.36 ($812.04 \times .993$).

The calculation of the buy-write index, as in the case of any strategy-based index, requires the making of assumptions about, for example, the timing of transactions involved with a particular strategy and the prices received or paid for the securities traded (which are determined using market data for specified time periods). The index is calculated throughout the trading day using reported values for the reference index and reported premium values for the options as well as the value of any ordinary dividends payable on the component securities. The calculation of the index assumes that transactions can be continuously executed, i.e., that there will be no market disruptions, and may use assumed prices equal to volume-weighted average prices, which may not be the same as the prices an investor employing the strategy would pay or receive. Detailed information regarding calculation of the buy-write index is available from the exchange on which the options are traded. A special opening value for the reference index is used in calculating the index on the date that a new option is written to replace an expiring option, which is known as a **roll date**, and special procedures are used on roll dates to reflect the hypothetical transactions that are assumed to take place on those dates.

Relative Performance Indexes

A relative performance index measures the relative performance—generally the relative total return—of two index components. As of January 2012, the only relative performance options approved for trading are options on indexes of which both index components are equity securities

(one or both of which could be non-leveraged fund shares). One of the components in each pair is referred to as the **target component** and the second is referred to as the **benchmark component**. The index is calculated by measuring the total return of the target component relative to the total return of the benchmark component. The index will rise as and to the extent that the target component outperforms the benchmark component, and will fall as and to the extent that the opposite occurs. The value of the relative performance index will be set to a base value, such as 100, initially. The following example illustrates the calculation of a relative performance index.

EXAMPLE: Assume that a relative performance index has an initial base value of 100. If the total return of the target component in one day is 10% and the total return of the benchmark component in the one day period is 9%, the index value of the relative performance index at the end of the one day period would equal $100 \times (1 + 10\%) / (1 + 9\%) = 100.92$. If the total return of the target component in the one day period is 9% and the total return of the benchmark component in the one day period is 10%, the index value of the relative performance index at the end of the one day period would equal $100 \times (1 + 9\%) / (1 + 10\%) = 99.09$.

The example above illustrates only a scenario where the total return assumed is for a one day period. Other periods would yield different results. Market participants should contact the exchange on which these options are traded for a more complete description of the index calculation methodology.

Investors should be certain that they understand the method of calculation of any relative performance index and the uses for which relative performance options are suited before buying or selling such options. Different relative performance indexes may measure relative performance in different ways. Investors should contact the listing options market for information on the method of calculation of a particular relative performance index.

In the event that one of the index components in an underlying relative performance index is eliminated as the result of a cash-out merger or other event, the reporting authority may cease to publish the value of the index. In that case, the exercise settlement value of the options would become fixed based upon the last published value for the index, and the market on which the options are traded may determine to accelerate the expiration date for the options (and, in the case of European-style options, their exercisability). The expiration date will ordinarily be accelerated to fall on the next standard expiration date for options as specified in OCC's rules or on such other date as OCC establishes in consultation with the market on which the options are traded. All options that are not in the money will become worthless and all that are in the money will have no time value. Holders of an in-the-money option whose expiration date is accelerated must be prepared to exercise that option prior to the accelerated exercise cut-off time in order to prevent the option from expiring unexercised. Writers of European-style options whose expiration date is subject to being accelerated bear the risk that, in the event of such an acceleration, they may be assigned an exercise notice and be required to perform their obligations as writers prior to the original expiration date. As with any other option for which the expiration date is accelerated, no adjustment would be made to compensate for the accelerated expiration date of a relative performance option.

Foreign Currency Indexes

Foreign currency indexes are designed to reflect the value of one currency, often the U.S. dollar, against a basket of foreign currencies. Foreign currency indexes are calculated using **exchange rates**, i.e., the prices of currencies in terms of other currencies. An exchange rate is often expressed as a **currency pair** (e.g., the price of euros in terms of U.S. dollars is expressed as EUR/USD). In a currency pair, the first currency is called the **base currency** and the second currency is called the **quote currency**. The exchange rate for a **currency pair** is how much of the **quote currency** is needed to purchase one unit of the base currency. Different foreign currency indexes are calculated in different

ways. Accordingly, there may be situations in which foreign currency indexes are based on the same component currency pairs but rely on different sources of exchange rate data or measure the relevant exchange rates differently because of differences in methods of calculation or weighting. A foreign currency index may be designed so that each component currency pair is weighted equally or weighted to conform to another static or dynamic benchmark as determined by the index provider. A foreign currency index, like a stock index, is ordinarily expressed in relation to a “base” established when the index was originated.

EXAMPLE: *On the starting or “base” date of a new foreign currency index representing a basket of four currency pairs measured against the U.S. dollar—e.g., the price of euros in terms of U.S. dollars is expressed as EUR/USD, the price of British Pounds in terms of U.S. dollars is expressed as GBP/USD, the price of U.S. dollars in terms of Japanese yen is expressed as USD/JPY and the price of Australian dollars in terms of U.S. dollars is expressed as AUD/USD—the index may be set to be equally weighted so that each component currency pair has equal influence on the overall index value. This may be accomplished by assuming a \$10,000 position in each component currency pair. The index value would be calculated by multiplying (or dividing, in the case of a USD/JPY currency pair) each currency pair position by the spot exchange rate for the currency pair. The value, in dollars, of each foreign currency would be deducted from \$20,000. This method is used in order to effectively invert the value of the currency pair, so that the index value will increase when the value of the U.S. dollar increases and decrease when the value of the U.S. dollar decreases. The sum of the resulting differences would be divided by the “divisor.” The divisor is a number that is fixed on the base date—in this example, four—selected so that the index value on the base date equals 10,000. Accordingly, if the value of the U.S. dollar against the Euro increases by 2% the next day (i.e., the value of the EUR/USD position decreases to \$9,800 from \$10,000, which subtracted from \$20,000 equals \$10,200), while the GBP/USD, USD/JPY and AUD/USD exchange rates remained the same, the index level would rise to 10,050 $((10,200 + 10,000 + 10,000 + 10,000)/4)$.*

The base of the foreign currency index may be adjusted from time to time if certain “rebalancing events” occur, as determined by the index provider. An index might be structured so that it is not rebalanced unless the exchange rate for one of the component currency pairs drops by more than 90% from its original base or upon the occurrence of extraordinary events in the global currency markets. Adjustments in the base level of an index or other similar changes are within the discretion of the publisher of the index and will not ordinarily cause any adjustment in the terms of outstanding index options. However, OCC has authority to make adjustments if the publisher of the underlying index makes a change in the index’s composition or method of calculation that, in OCC’s determination, may cause significant discontinuity in the index level.

Information Concerning Underlying Indexes

Certain trading strategies involving purchases and sales of index options, index futures, options on index futures or portfolios of certain of the securities in an index can affect the value of the index, the prices of the index futures, and, therefore, the prices of index options. These transactions and the resulting impact may occur at any time—and may accompany significant changes in the prices or volatilities of the stock and derivative markets—including at or shortly before an expiration. For example, traders holding positions in expiring index options or futures contracts hedged by positions in securities included in the index may attempt to liquidate their securities positions at or near the time for determining the final exercise settlement value of the options or futures contracts. The resulting orders to liquidate these securities might result in significant changes in the level of the index. Index options investors should be aware of the potential impact that these trading strategies can have on index levels at or near expiration, and the possibility that the values of index option positions will be affected accordingly.

Readers who intend to trade index options should familiarize themselves with the basic features of the underlying indexes, including the general methods of calculation. Readers who are attempting to follow a precise and sophisticated strategy involving index options may wish to inform themselves about the exact method for calculating each index involved. Information regarding the method of calculation of any index on which options are traded, including information concerning the standards used in adjusting the index, adding or deleting securities, and making similar changes, is generally available from the options market where the options are traded.

The value level of every index underlying an option—including the exercise settlement value—is the value of the index as reported by the reporting authority designated by the options market where the option is traded as the official source for determining that index’s value. Unless OCC directs otherwise, every value as initially reported by the reporting authority is conclusively presumed to be accurate and deemed to be final for the purpose of calculating the cash settlement amount, or, in the case of a binary index option, whether the option is automatically exercised and returns a cash settlement amount. This is true even if the value is subsequently revised or determined to have been inaccurate.

With some exceptions, such as those noted above with regard to mutual fund indexes, certain foreign stock indexes, realized variance and realized volatility indexes, and dividend indexes, the values of indexes are ordinarily updated throughout the trading day. Investors may determine current index levels from their brokerage firms. However, an index option may be traded in the options markets at a time when some, or even a substantial portion, of the components of the underlying index are not trading or when there is a lag in the reporting of prices in some or all of the components. Information regarding the method of calculation of any index on which options are traded, including information concerning the standards used in adjusting the index, adding or deleting components of the index, and making similar changes, and on any modification of the index in determining the underlying value for the options, is generally available from the options market where the options are traded.

Features of Index Options

All index options that are traded on the date of this document are **cash-settled**. Cash-settled index options do not relate to a particular number of shares. Rather, the “size” of a cash-settled index option is determined by the **multiplier** of the option. The “size” of a range option is determined by its multiplier and maximum range exercise value, and is equal to the maximum cash settlement amount (*i.e.*, the maximum range exercise value times the multiplier). In the case of a binary index option, the “size” of the contract is simply its fixed cash settlement amount, which for certain binary index options is defined as the product of a fixed settlement value times a multiplier.

The underlying interest for an index option may be a fraction or multiple of a particular index. An option on a fraction or multiple of a particular index is equivalent to an option on the full value of the index, but with a different contract size. Investors in index options should be aware that the underlying interest for an index option may not be the full value of a published index with which they are familiar.

The **exercise prices** and **premiums** of the index options that are traded at the date of this document are expressed in U.S. dollars. Subject to regulatory approval, trading in index options whose exercise prices or premiums are expressed in a foreign currency may be introduced in the future. The total premium and total exercise price for a single index option (other than a binary index option or a range option) are, respectively, the stated premium and exercise price multiplied by the multiplier.

EXAMPLE: An investor purchases a December 100 index call at \$2.15. The multiplier for that option is 100. The aggregate dollar amount of the premium is \$215.00 (\$2.15 times 100 = \$215.00). Had the options market used a multiplier of 200, a premium of \$2.15 would have meant an aggregate premium of \$430.00. Had the options market used a multiplier of 1, a premium of \$2.15 would have meant an aggregate premium of \$2.15.

The **exercise settlement values** of options on securities indexes are determined by their reporting authorities in a variety of ways. The exercise settlement values of some index options are based on the reported level of the underlying index derived from the last reported prices of the component securities of the index at the closing on the day of exercise. The exercise settlement values of other options are based on the reported level of the index derived from the opening prices of the component securities on the day of exercise. Other means for determining the exercise settlement values of some index options series have been, and may continue to be, established. For example, the exercise settlement values for options on an index of foreign securities may be fixed in relation to a value fixed by a foreign exchange. Additionally, some implied volatility options calculate the exercise settlement value by utilizing the mid-point of the bid and offering premium quotations at the opening of trading of the relevant series of the put and call options on the reference interest. If an option is exercised on a day that is not scheduled as a trading day for the component securities of the index, the exercise settlement value is based on the reported level of the index derived from the opening or closing prices (depending on the options series) of the component securities on the last prior day that is scheduled as a trading day. If a particular component security does not open for trading on the day the exercise settlement value is determined, a substitute value, such as the last reported price of that component security, is used.

Adjustment of Index Options

No adjustments will ordinarily be made in the terms of index option contracts in the event that index components are added to or deleted from the underlying index or reference index or when the relative weight of one or more such index components has changed. However, if OCC determines that any such addition, deletion, or change causes significant discontinuity in the level of the underlying index or reference index, OCC may adjust the terms of the affected index option contracts by adjusting the index multiplier and/or exercise price with respect to such contracts or by taking such other action as OCC deems fair to both the holders and writers of such contracts.

If the option market on which an option series is traded should increase or decrease the index multiplier for any index option contract, or the reporting authority should change the method of calculation of an underlying index or reference index so as to create a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the index components, or a successor index (as defined in the paragraph below) should be substituted for an underlying index or reference index, OCC may make such adjustments in the number of outstanding affected options or the exercise prices of such options or such other adjustments, if any, as OCC deems fair to both the holders and the writers of such options.

OCC may substitute another index (a successor index) for an underlying index or reference index in the event OCC determines that: (i) publication of the underlying index or reference index has been discontinued; (ii) the underlying index or reference index has been replaced by another index; or (iii) the composition or method of calculation of an underlying index or reference index is so materially changed since its selection as an underlying index or reference index that it is deemed to be a different index. A successor index will be reasonably comparable to the original underlying index or reference index for which it substitutes. An index may be created specifically for the purpose of becoming a successor index.

OCC's determinations shall be conclusive, binding on all investors, and not subject to review.

Investors should be aware that the exercise settlement value of an option on a security index that is derived from the opening prices of the component securities of the index may not be reported for several hours following the opening of trading in those securities. A number of updated index levels may be reported at and after the opening before the exercise settlement value is reported, and there could be a substantial divergence between those reported index levels and the reported exercise settlement value.

The principal risks of holders and writers of index options are discussed in Chapter X. Readers interested in buying or writing index options should carefully read that chapter, particularly the discussions under the headings "Risks of Option Holders," "Risks of Option Writers," "Other Risks," and "Special Risks of Index Options." Readers interested in buying or writing options on foreign currency indexes should additionally read the discussion under the heading "Special Risks of Foreign Currency Options," which discusses the risks of foreign currency options, many of which are applicable to foreign currency index options.

Debt Options and Credit Default Options

Three kinds of debt options have been approved for trading as of May 2010. Two of these kinds are sometimes referred to as **price-based options**. Price-based options are options which give their holders the right either to purchase or sell a specified underlying debt security or to receive a cash settlement payment based on the value of an underlying debt security (depending on whether the options are physical delivery or cash-settled options). Options on securities issued by the U.S. Treasury are one kind of price-based debt options. Options on **index-linked securities** are a second kind of price-based debt options. An “index-linked security” is a debt security that trades on one or more exchanges similarly to an equity security, and that provides a cash return to its owner based on the performance of a “reference asset” which may, for example, consist of a securities or commodities index, a futures index, a physical commodity, a foreign currency, another debt security, or some combination of the above. The term “index” in the context of an index-linked security has a broader meaning than that set forth in Chapter IV since, in the context of an index-linked security, the term is a synonym for the term “reference asset” and is not limited to securities indexes.

A third kind of debt options, called **yield-based options**, are options that are cash-settled based on the difference between the exercise price and the value of an underlying yield. As of May 2010, all yield-based options that have been approved for trading are based on the yields of U.S. Treasury securities. The distinctions between price-based and yield-based options are fundamental and should be understood by readers interested in investing in debt options.

A fourth kind of options, called **credit default options**, are also described in this Chapter. Credit default options are cash-settled options that are related to the creditworthiness of issuers or guarantors of debt securities, and are exercised upon confirmation of a credit event affecting an underlying debt security or securities.

The principal risks of holders and writers of debt options and credit default options are discussed in Chapter X. Readers interested in buying or writing debt options or credit default options should not only read this chapter but should also carefully read Chapter X, particularly the discussions under the headings “Risks of Option Holders,” “Risks of Option Writers,” “Other Risks,” “Special Risks of Debt Options,” and “Special Risks of Credit Default Options.”

Rates, Yields and Prices of Debt Securities

To understand debt options, an investor should understand the relationship between the **rates** or **yields**, which are different ways of expressing return on debt securities, and prices of debt securities. (Coupon interest **rates** of a debt security express return as a percentage of the principal amount (par value) of the security. **Yields** express return (or projected return) as a percentage of the amount invested.) This relationship, simply stated, is that prices of debt securities move **inversely** to changes in rates. Declining rates, whether on long-term bonds or money market instruments, will generally cause prices of outstanding debt securities to increase. Conversely, rising rates across a particular maturity spectrum will generally cause the prices of outstanding debt securities of that maturity to decline.

EXAMPLE: A 30-year Treasury bond pays interest at a 12% coupon rate. The only time prior to maturity that investors will pay a price of 100 (that is, 100% of par value) for the bond is when the prevailing yield on such long-term Treasury bonds is exactly 12%. Should rates move higher to, say, 14% for such Treasury bonds, the price of an outstanding 12% bond would have to decline to about 86 in order for the bond to yield 14%. If rates on such bonds subsequently decline to 10%, the price of the 12% bond could be expected to rise substantially above par, since it would yield 10% at a price of 120.

Price-based call options become more valuable as the prices of the underlying debt securities increase, and price-based puts become more valuable as the prices of the underlying debt securities decline. The relationship between interest rate changes, prices, and the value of price-based debt options can be expressed as follows:

Interest Rates (Yields) ↓	=	Prices ↑	=	Call ↑
				Put ↓
Interest Rates (Yields) ↑	=	Prices ↓	=	Call ↓
				Put ↑

In contrast, the exercise settlement value of a yield-based option is based on the difference between the value of an **underlying yield** and the exercise price of the option. Since the **underlying yields** of yield-based options will increase as interest rates increase, and vice-versa, it follows that **yield-based calls become more valuable as yields rise (i.e., as the prices of the debt securities from which the underlying yield is derived decline), and puts become more valuable as yields decline (and prices of such securities increase)**. These relationships can be expressed as follows:

Interest Rates (Yields) ↓	=	Prices ↑	=	Call ↓
				Put ↑
Interest Rates (Yields) ↑	=	Prices ↓	=	Call ↑
				Put ↓

Treasury Securities

The underlying debt securities of one kind of price-based options that have been approved for trading as of May 2010, and the debt securities from which the underlying yields of yield-based options are derived, are Treasury securities—e.g., 30-year Treasury bonds, 10-year Treasury notes, 5-year Treasury notes and Treasury bills.

Treasury bonds and notes are direct obligations of the United States that pay a fixed rate of interest semi-annually. Bonds are issued for maturities of more than ten years (although many issues are callable prior to maturity). Notes are issued for maturities of one to ten years, and are non-callable. New issues of bonds and notes are sold periodically by the Treasury, usually on an auction basis. The auction price is established by bidding and may be above or below par value. Occasionally the Treasury will “reopen” an outstanding issue by auctioning additional principal amounts. Government

securities dealers make secondary markets in virtually all outstanding issues, but market activity and liquidity tend to center on the most recently auctioned issues.

Unlike Treasury bonds and notes, Treasury bills do not pay interest. Instead, the Treasury sells bills at a discount from their principal amount (par value). The investment return consists of the difference between the discounted purchase price and the principal amount payable at maturity. Treasury bills are issued in maturities of 13, 26 or 52 weeks.

Return on Treasury bills is commonly expressed in terms of a discount rate which represents an annualization (based on a 360-day year) of the percentage discount at which the bills are sold.

EXAMPLE: *If a 13-week (91-day) Treasury bill with a principal amount of \$1,000,000 is sold for \$970,000, the actual discount would be \$30,000 or 3% and the discount rate would be approximately 11.9% (360/91 times 3%).*

Bills are auctioned by the Treasury on a regular basis, typically at weekly intervals for 13-week and 26-week bills and every four weeks for 52-week bills. While dealers maintain secondary markets in all outstanding Treasury bills, activity tends to center in the most recently auctioned issues. These are commonly referred to as the “current” 13-week, 26-week, and “year” bills, respectively.

Yield-Based Options

The **underlying yield** of yield-based options is the annualized yield to maturity of the most recently issued Treasury security of a designated maturity—e.g., 30-year, 10-year, 5-year—based upon quotations or prices determined in accordance with a method specified by the options market on which the option is traded. If such security is a Treasury bill, the underlying yield is the annualized discount of the Treasury bill. (A discount represents a percentage of principal amount, rather than a return on investment, and is therefore not a true yield.) Underlying yield is stated in terms of a **yield indicator**, which is the percentage yield multiplied by ten. For example, if the yield is based on a Treasury bill having an annualized discount of 8.715%, the **yield indicator** would be 87.15.

The designated maturity of the Treasury security from which the underlying yield may be determined is a standardized term of a yield-based option. The specific Treasury security having that maturity is not fixed; rather, the underlying yield is derived from the outstanding security of the designated maturity that has the longest remaining life. Newly-auctioned securities having the longest remaining life will replace old issues on the first trading day following their auction. Thus, the specific Treasury security from which the underlying yield is derived may change during the life of the option. Because yield-based options are European-style options, investors ordinarily will know prior to the time an option is exercisable the specific Treasury security from which its exercise settlement value will be determined. However, an option may often be traded for weeks or months before that specific security is auctioned by the Treasury. During that time, trading in the option will be based upon the yield for the Treasury security of the designated maturity that then has the longest remaining life.

EXAMPLE: *Yield-based options whose yield is based on 5-year Treasury notes expiring in December are opened for trading on the business day following the September auction of 5-year notes. Trading in the options will be based upon current yields for the September issue until the October auction of 5-year notes. Beginning on the trading day following the October auction, trading will be based upon current yields for the new 5-year notes. The same process will occur in November. If the options expire on or after the auction date for 5-year notes in December, their exercise settlement value will be based upon the then current yield for the December issue.*

Current bid and asked quotations for recently issued Treasury securities of particular maturities are available from normal market sources. Current yield indicator values based upon a sampling of bid and asked quotations from primary dealers are disseminated at frequent intervals during the trading day by an options reporting source. **Exercise settlement values** for yield-based options whose underlying yields are derived from Treasury securities are based upon the spot yield for the security at a designated time on the last trading day of the option, as announced by the Federal Reserve Bank of New York.

The aggregate **cash settlement amount** that the assigned writer of a yield-based option is obligated to pay the exercising option holder is the difference between the exercise price of the option and the **exercise settlement value** of the underlying yield on the last trading day before expiration, as reported by a designated reporting authority, multiplied by the multiplier for the option. Different yield-based options may have different multipliers.

The **exercise prices** of yield-based options are expressed in terms of the yield indicator. For example, an exercise price of 82.50 would represent a yield of 8.25%.

Each point of **premium** will correspond to .1% in yield. The dollar value of the premium for a single yield-based option will equal the quoted premium multiplied by the dollar value of the option multiplier. Thus, a premium of 2½ would equal a premium of \$250 for an option having a multiplier of 100, or \$5000 for an option having a multiplier of 2000.

The premiums of yield-based options are affected by the factors discussed under “Premium” in Chapter II. Because yield-based options are European-style options and the underlying yield is determined from the most recently auctioned Treasury security with the longest remaining life, a major factor affecting the pricing of such options is likely to be the estimates of market participants of the anticipated yield at expiration, and current yield may be a less significant pricing factor.

Settlement of exercises of yield-based options takes place on the business day immediately following the day of exercise. Investors may determine from their brokerage firms when and how settlement amounts will be credited or debited to their brokerage accounts.

If the U.S. Department of the Treasury ceases to issue, or changes the terms or the schedule of issuance of, Treasury securities on which underlying yields are based, OCC has discretion to adjust the terms of the series by substituting other Treasury securities or to make such other adjustment as OCC may determine. If the options market on which a particular yield-based option is traded should increase or decrease the multiplier for the option, OCC has discretion to adjust outstanding options affected by the change by proportionately consolidating or subdividing them or by taking other action.

Rules of the options market on which yield-based options are traded may permit or require suspension of trading in the options if current quotations for the last-auctioned Treasury securities of the designated maturity become unavailable or unreliable. For a discussion of the risks involved in trading halts, see the discussion in Chapter X under “Other Risks.”

Options on Conventional Index-Linked Securities

Index-linked securities are debt securities that trade on exchanges similarly to equity securities. Index-linked securities are issued by financial institutions such as banks and may take the form of trust certificates, units or some other interest. An index-linked security provides owners with a cash return based on the performance of a “reference asset” which may, for example, consist of a securities or commodities index, a futures index, a physical commodity, a foreign currency, another debt security, or some combination of the above. References in this document to “units” of underlying index-linked securities include these various forms of interests. The term “index” in the

context of an index-linked security has a broader meaning than that set forth in Chapter IV because, in the context of an index-linked security, the term is a synonym for the term “reference asset” and is not limited to securities indexes. As of May 2010, options are approved to be traded on conventional index-linked securities, but not on leveraged or inverse index-linked securities.

As a general rule, a single index-linked security option covers 100 units of the underlying security. However, it is possible that the number of underlying units covered by an index-linked security option would be adjusted after the option is issued if OCC determines, as described below, that it is appropriate to make such an adjustment.

The exercise prices of options on index-linked securities that are approved for trading as of May 2010 are stated in U.S. dollars per unit. As with a stock option, the exercise price of an index-linked security option must be multiplied by the number of units underlying the option in order to determine the aggregate exercise price and aggregate premium of the option.

Index-linked securities may be redeemable at certain intervals at the option of the holder through the issuer at a price related to the applicable underlying reference asset, subject to a minimum redemption increment and other conditions. Redemption of index-linked securities may affect the market for the securities by reducing the quantity of securities available for trading. Index-linked securities may return less than the principal originally invested, regardless of the solvency of the issuer of the securities.

An adjustment may be made to certain of the standardized terms of outstanding options on index-linked securities if a particular event occurs that is determined by OCC to warrant the adjustment. As is the case of other stock options, any adjustment decision with respect to options on index-linked securities will be made by OCC.

As a general rule, if the issuer of a particular index-linked security calls the entire issue of the security, the event will be treated like an event in which an underlying equity security is converted into the right to receive a fixed amount of cash. If an event is treated in this manner, when the issue of index-linked securities is called, outstanding options on that issue will be adjusted to require the delivery upon exercise of a fixed amount of cash, and trading in the options will ordinarily cease. As a result, after such an adjustment is made all options on that security that are not in the money will become worthless and all that are in the money will have no time value. The expiration date of the options will ordinarily be accelerated to fall on or shortly after the date on which the underlying security is called. Holders of an in-the-money option whose expiration date is accelerated must be prepared to exercise that option prior to the accelerated exercise cut-off time in order to prevent the option from expiring unexercised. See the discussion in Chapter VIII under “How to Exercise.” Writers of options whose expiration date is subject to being accelerated bear the risk that, in the event of such an acceleration, they may be assigned an exercise notice and be required to perform their obligations as writers prior to the original expiration date. When the expiration date of an option is accelerated, no adjustment will be made to compensate for the accelerated expiration date. As with a stock option whose underlying security is converted into a right to receive a fixed amount of cash, there is no assurance that the exercise settlement date for an accelerated index-linked security option will coincide with the date on which the cash payment to the holders of the underlying security becomes available from the issuer. Covered writers of an accelerated option may therefore be required to pay the cash amount in respect of the option before they receive the cash payment on the underlying security.

In contrast to a situation in which the issuer calls an entire issue of index-linked securities, as a general rule no adjustment will be made to the terms of options on index-linked securities in the event of a call of less than an entire issue of the securities. In addition, as a general rule, no adjustment will be made to the terms of options on index-linked securities for any interest payment on the securities.

As is the case with equity options, OCC has discretion to make exceptions to the general rules described above with respect to options on index-linked securities.

Credit Default Options and Credit Default Basket Options

Credit default options are based on debt securities of one or more issuers or guarantors other than the U.S. Treasury. A significant difference between such debt securities and Treasury securities is the non-negligible risk that an issuer or guarantor of debt securities other than Treasury securities may default on its obligations. For example, the issuer might not pay the full interest and face amount of the securities when due or might file for bankruptcy, thereby making it nearly certain that it will not make timely payment of the full interest and face amount. Financial market participants call this **credit risk**. Credit risk is an important component of the value of most debt securities.

Credit default options relate to the credit risk presented by one or more specified debt securities, called **reference obligation(s)**, of one or more specified issuers or guarantors, each of which is called a **reference entity**. The reference obligation(s) and each reference entity for a class of credit default options are selected by the listing options market. When a credit default option is based on reference obligation(s) of more than one issuer or guarantor, it is referred to as a **credit default basket option**. There are further variations on credit default basket options as described below.

A credit default option is automatically exercised and pays a fixed **cash settlement amount** if a **credit event** is confirmed for one or more reference obligations of a reference entity prior to expiration of the option. The reference obligations of a reference entity may include all of the outstanding debt securities constituting general obligations of the reference entity or direct claims on the reference entities (excluding any non-recourse debt). A credit event may include a failure to make a payment on a reference obligation and/or any other event(s) that the listing options market may specify at the time a class of credit default options is listed. The specified credit event(s) will be defined in accordance with the terms of the reference obligation(s). However, not every event that might constitute an event of default by the reference entity under the terms of the reference obligations will necessarily be specified by the listing options market as a credit event. Investors should be certain that they understand the various possible events that will or will not constitute credit events. The determination of whether a particular event meets the criteria of a credit event, however defined, for a specific credit default option is within the sole discretion of the listing options market.

In order to result in automatic exercise of the option, a credit event must be confirmed to have occurred during the **covered period** (i.e., the period between the initial listing of the series of options and the time specified by the options market as the last day of trading of the option series prior to the expiration date). An event that would otherwise be deemed a credit event will not result in an exercise of the option if it occurs either before or after this period. A series of credit default options ordinarily does not expire until a specified number of business days following the end of the covered period in order to provide the listing options market an opportunity to confirm whether or not a credit event occurred within the covered period. If an event otherwise meeting the definition of a credit event occurs after the end of the covered period but before the option expires, the option will not be exercised and will expire worthless.

If the listing options market determines that a credit event has occurred within the covered period for a class of credit default options, it will provide a **credit event confirmation** to OCC, and the options will be automatically exercised. Holders of the exercised options will receive, and writers will be obligated to pay, the fixed cash settlement amount. If OCC does not receive a credit event confirmation from the listing options market before expiration of a series of credit default options, the options will expire worthless.

Credit default options are **binary options** in that they have a specified, all-or-nothing cash settlement amount. Credit default options, however, have additional unique characteristics. For example,

credit default options have no **exercise price** and cannot be **in the money** and have no **intrinsic value**. The discussion of these terms in Chapter I and/or Chapter II of the document is therefore inapplicable to credit default options. In addition, a credit default option is automatically exercised whenever a credit event occurs within the covered period. Credit default options are thus a unique **style of options** and are neither American-style nor European-style.

A **credit default basket option** is similar to an aggregation of individual credit default options, each based on one or more reference obligations of a different **reference entity**. All of the outstanding debt securities constituting general obligations of each reference entity or direct claims on reference entities (excluding non-recourse debt) in the basket may be included in the **reference obligations**.

There are two different kinds of credit default basket options. A **single payout credit default basket option** is automatically exercised and pays a specified cash settlement amount upon the confirmation of the first credit event to occur with respect to a reference obligation of any one of the basket's reference entities. It is exercised only once. Once exercised, the expiration of the option will be accelerated to correspond to the exercise date. A **multiple payout credit default basket option** automatically pays a specified cash settlement amount each time a credit event is confirmed with respect to a reference obligation of any one of the reference entities during the covered period. In the case of either single payout or multiple payout credit default basket options, the listing options market may specify a different cash settlement amount for different reference entities or may specify the same cash settlement amount for each reference entity in the basket. The percentage of the total cash settlement amount that is attributable to any individual reference entity is referred to as its **weight** in the basket. Investors should note that the options markets on which credit default basket options trade may determine "weight" according to their own specified rules, and investors should contact the listing options market for information about how it determines weight. In the case of a multiple payout credit default basket option, a cash settlement amount will be paid only once with respect to any particular reference entity, after which time the affected reference entity will be removed from the credit default basket.

Premiums for both credit default options and credit default basket options are expressed in points and decimals. In order to obtain the aggregate premium for a single option, the quoted premium is multiplied by a premium multiplier specified by the listing options market.

Adjustment of Credit Default Options

Adjustments may be made to the standardized terms of outstanding credit default options when certain events occur, such as a **succession event** or a **redemption event**, both of which will be defined by the listing options market in accordance with the terms of the reference obligations. Adjustments of credit default options will be within the sole discretion of the listing options market. Investors should familiarize themselves with the listing options market's rules and procedures governing credit default option adjustments. The listing option market's rules governing adjustments of outstanding options may be changed with regulatory approval, and the listing options market may have authority to make such exceptions as it deems appropriate to its general adjustment rules.

Redemption Event Adjustments. A **redemption event** occurs when reference obligations of a reference entity are redeemed (or paid in full) by, or on behalf of, the issuer. In the case of all types of credit default options, if only some of the reference obligations are redeemed, the option is ordinarily adjusted such that the remaining reference obligations are the reference obligations for the option and no other adjustment will ordinarily be made. If all of the reference obligations of a reference entity are redeemed and there are other debt obligations of the reference entity that the listing options market deems appropriate to specify as successor reference obligations, then they will be substituted as the reference obligations. If, however, all of the reference obligations of a

reference entity are redeemed and there are no other debt obligations of the reference entity that the listing options market deems appropriate to specify as successor reference obligations for the reference entity (**a complete redemption**), then the adjustment will depend upon whether or not there are other reference entities for the options.

Adjustment of credit default options for a complete redemption. If there is a complete redemption affecting a credit default option, the option will cease trading on the date that the redemption event is confirmed by the listing options market. Expiration of the option will be accelerated to a specified number of days following the confirmation date of the redemption, and the option will expire unexercised if, prior to such expiration, no credit event is confirmed to have occurred prior to the effective date of the redemption event.

EXAMPLE: *Company XYZ is the reference entity for a credit default option contract and its 8% May 15, 2022 bond issue is the only reference obligation. During the life of the option, Company XYZ redeems the 8% May 15, 2022 bond issue and there are no other obligations of Company XYZ that the listing options market deems to be suitable for specifying as successor reference obligations. The option will cease trading on the confirmation date, and its expiration date will be accelerated. If no credit event is confirmed to have occurred within the covered period, the option will expire worthless.*

Adjustment of credit default basket options for a complete redemption. In the case of a single or multiple payout credit default basket option, if a complete redemption event occurs with respect to one of the reference entities in the basket and no credit event is confirmed, pursuant to the rules of the listing options market, to have occurred prior to the effective date of such redemption event, the options will be adjusted by removing the affected reference entity from the basket of reference entities. **When a reference entity is deleted from the basket of reference entities because of a redemption event, the cash settlement amount of the option will be reduced by an amount reflecting the weight of the deleted reference entity in the basket.** The relative weights of the other components in the basket will remain unchanged, although each will represent a proportionally larger percentage of the adjusted cash settlement amount.

EXAMPLE: *Company XYZ is one of ten reference entities for a class of multiple payout credit default option contracts and its 8% May 15, 2022 bond issue is specified as its only reference obligation. Company XYZ was assigned a weight of 15% when the credit default option was opened for trading. During the life of the option, Company XYZ redeems the 8% May 15, 2022 bond issue. No reference obligations remain and the listing options market determines that there are no other outstanding debt obligations of the issuer suitable for specification as reference obligations. The basket component will be removed from the credit default basket, and the cash settlement amount will be reduced by 15%.*

Succession Event Adjustments. A **succession event** occurs when one or more new entities assume one or more reference obligations of a reference entity or become the obligor with respect to any obligation that is substituted for the original reference obligations. This may occur, for example, when a reference entity is merged into a new entity or spins off a part of its business into a new entity. If, as the result of a succession event, more than one entity is the obligor of the original reference obligations, or obligations that were substituted for the original reference obligations, all of those obligors, including, as the case may be, the original reference entity, are referred to as **successor reference entities**.

Adjustment of credit default options after a succession event. Where a succession event results in assumption of all reference obligations by a single entity, the listing options market will ordinarily adjust the option by substituting the entity that assumes the reference obligation(s) as the

new reference entity. Where a succession event results in more than one successor reference entity, the credit default option may be adjusted by dividing it into two or more options.

EXAMPLE: *Company XYZ is the reference entity for a credit default option contract, and its 8% May 15, 2022 bond issue is the only reference obligation. During the life of the option, Company XYZ spins off Company LMN. Company XYZ remains the obligor with respect to 70% of the principal amount of the original reference obligation. Company LMN becomes the obligor of a new reference obligation that is issued to holders of the remaining 30% of the original reference obligation. Company XYZ and LMN are identified by the listing options market as the successor entities. Following the succession event, the credit default option based on Company XYZ is adjusted into two separate credit default option contracts that specify Company XYZ and Company LMN as reference entities. The cash settlement amount of the original credit default option and the premium multiplier are allocated between the new credit default options in accordance with the 70/30 division of the reference obligation as specified by the listing options market.*

Adjustment of credit default basket options after a succession event. When a succession event occurs with respect to a reference entity that is included in a single payout or multiple payout credit default basket option, the listing options market will ordinarily adjust the option by replacing the affected reference entity with the successor entity or entities, and, if one or more new obligations are issued to replace some or all of the existing reference obligations, the new obligations will be substituted as the reference obligations. The listing options market will specify the weight of each new reference entity, and the sum of the weights will equal the weight of the original reference entity.

EXAMPLE: *Company XYZ is one of ten equally weighted reference entities for a multiple payout default basket option and its 8% May 15, 2022 bond issue and its 8.5% September 1, 2030 bond issue are specified as its only reference obligations. During the life of the option, Company XYZ spins off Company LMN. Company XYZ remains the obligor for the 2022 bond issue and LMN becomes the obligor of a debt security issued to holder of the 2030 bond issue. The listing options market adjusts the option by specifying XYZ and LMN as the successor reference entities. The reference obligations are the original 2022 bond issue and the replacement for the 2030 bond issue. The listing options market determines the appropriate basket weight for the successor reference entities is 7.5% and 2.5%. The sum of the newly specified weights equals the 10% weight of the predecessor basket reference entity (Company XYZ) replaced by the successor reference entities (Company XYZ and Company LMN).*

Foreign Currency Options

Foreign currency options—sometimes referred to simply as currency options—are options to purchase or sell one currency at a price denominated in another currency. The price of one currency in terms of another currency is known as an **exchange rate**. The exercise price of a currency option thus represents an exchange rate. The currency in which the premium and exercise price are denominated is referred to as the **trading currency**. The currency to be purchased or sold at the exercise price is the **underlying currency**.

Certain of the foreign currency options discussed in this chapter, which are referred to as **dollar-denominated foreign currency options**, are options to purchase or sell underlying foreign currencies for U.S. dollars, and their exercise prices represent the exchange rates of the underlying foreign currencies with respect to the U.S. dollar. Other options (which are referred to as cross-rate foreign currency options or cross-rate options) that are discussed below under “Cross-Rate Foreign Currency Options” are options to purchase or sell an underlying foreign currency at an exercise price that is denominated in another foreign currency. The exercise price of a cross-rate option therefore represents an exchange rate between two foreign currencies.

Although foreign currency options can be physical delivery options, they may also be cash-settled foreign currency options. These options are discussed below under “Cash-Settled Foreign Currency Options.”

The principal risks of holders and writers of foreign currency options are discussed in Chapter X. Readers interested in buying or writing foreign currency options should not only read this chapter but should also carefully read Chapter X, particularly the discussions under the headings “Risks of Option Holders,” “Risks of Option Writers,” “Other Risks,” and “Special Risks of Foreign Currency Options.”

Market for Foreign Currencies

Understanding the risks inherent in foreign currency options requires familiarity with the characteristics of the markets for the underlying currencies. Readers will find extensive literature on the subject, and this chapter can do no more than briefly summarize the most fundamental characteristics of those markets as they pertain to foreign currency options.

Foreign exchange rates can be free floating or may be subject to a variety of formal or informal governmental exchange rate control mechanisms. Exchange rates of most Western nations are permitted to fluctuate in value relative to the U.S. dollar and to each other. It must be kept in mind, however, that sovereign governments rarely voluntarily allow their currencies to float freely in response to economic forces. To the contrary, sovereign governments use a variety of techniques, such as intervention by a country’s central bank or imposition of regulatory controls, to affect the exchange rates of their currencies. Thus, a special risk in trading options on foreign currencies is that governmental actions might be instituted which could interfere with freely determined currency valuation or even with movement of currencies across borders. These risks are specifically addressed under “Special Risks of Foreign Currency Options” in Chapter X.

The market in foreign currencies exists in every large financial center in the world, and primarily consists of trading by the world’s international banks. In contrast to the stock market, the market for foreign currencies is decentralized, essentially free from government regulation designed to protect investors (although, as noted above, governments may take various actions that affect their own currencies and the markets on which they are traded), and extremely large. Trading is generally conducted in units equivalent to \$1 million to \$5 million, and the market is not structured for trading or delivery of small amounts of currency. While a “retail market” for foreign currencies is available for tourists and others engaged in smaller transactions, the prices available in that market are only

generally related to prices in the “wholesale” interbank market, and it is unlikely that the prices in the retail market will be as favorable as the prices for transactions in large amounts of foreign currency.

Special Characteristics of Foreign Currency Options

Foreign currency options, like other options, provide opportunities for investment and pose risks to investors as a result of fluctuations in the value of the underlying interest. Just as certain options on equity securities are priced in relation to the price of the underlying security, dollar-denominated foreign currency option prices will generally depend in significant part on the U.S. dollar value of the underlying foreign currency. Similarly, the prices of cross-rate options will tend to depend on the relative values of the underlying currency and the trading currency.

The relationship between the value of an underlying foreign currency relative to the trading currency and the prices of options on that underlying foreign currency can be summarized as follows:

1. If the value of an underlying foreign currency rises in relation to the trading currency, call premiums will normally increase and put premiums decrease.
2. If the value of an underlying foreign currency decreases in relation to the trading currency, call premiums will normally decrease and put premiums increase.

EXAMPLE: Assume a dollar-denominated call option gives its holder the right to purchase British pounds at \$1.35 each. At expiration, that option will have intrinsic value if the price of the British pound is above \$1.35. At the same time, it will have no intrinsic value if the price of the pound is equal to or below \$1.35. The change in the price of British pounds may result from a change in the value of the U.S. dollar relative to all other currencies (“strong” dollar, “weak” dollar), from a change peculiar to the British pound (“strong” pound, “weak” pound), or from a combination of the two. In any case, the final measure of the intrinsic value of the option will be the value of the British pound relative to the U.S. dollar.

EXAMPLE: Assume a cross-rate call option gives its holder the right to purchase British pounds at 2.50 euros each. At expiration, that option will have intrinsic value if the price of the British pound in euros is above euros 2.50. It will have no intrinsic value if the price is equal to or below euros 2.50 at that time. Changes in the exchange rate between euros and British pounds may result from changes in the value of euros relative to other currencies generally, from changes in the value of the British pound, or from a combination of the two. In any case, the intrinsic value of the option will be determined by the value of the British pound relative to the euros, and not to the U.S. dollar or any other currency. However, as is noted in the following section, fluctuations in the value of the trading currency relative to other currencies may significantly affect investors who intend to convert their gains or losses into one of those other currencies.

Readers should note that the various **expiration dates** for foreign currency options are different from the expiration dates for options on other underlying interests. Readers should determine the expiration date of each foreign currency option they wish to buy or write.

Special Features of Dollar-Denominated Foreign Currency Options

The amount of the foreign currency underlying each foreign currency option (i.e., the **unit of trading**) is specified by the options market on which the option is traded.

Non-Rate-Modified Cash-Settled Foreign Currency Options

Exercise prices for currently available dollar-denominated options on foreign currencies (other than the rate-modified currency options, as described below) are stated in units of U.S. currency (e.g., cents or hundredths of a cent) per unit of foreign currency. In order to determine the total exercise price per contract, it is necessary to know the unit of U.S. currency used for options on the particular foreign currency, and to multiply the stated exercise price by the unit of trading for such options. For example, dollar-denominated British pound options may be expressed in U.S. cents per unit, and dollar-denominated Japanese yen options may be expressed in hundredths of U.S. cents per unit.

EXAMPLE: A dollar-denominated put covering 31,250 British pounds with an exercise price of 130 would entitle the holder to sell the underlying pounds for an aggregate exercise price of \$40,625 (\$1.30 multiplied by 31,250).

EXAMPLE: A dollar-denominated call covering 6,250,000 Japanese yen with an exercise price of 94 would entitle the holder to buy the underlying yen for an aggregate exercise price of \$58,750 (\$.0094 multiplied by 6,250,000).

Readers should note, however, that certain exchanges may express exercise prices in other unconventional ways. For example, an exercise price stated as \$100.50 may in reality mean \$1.0050. Readers need to be sure they fully understand the various conventions used by the exchanges on which they trade in quoting exercise prices.

Because the issuer of a particular foreign currency may unilaterally issue a new currency to replace its existing currency or alter the exchange rate or exchange characteristics of its existing currency with respect to other currencies, OCC has the discretion to adjust the terms of the options on such foreign currency. Ordinarily, the terms of foreign currency options will not be adjusted to reflect a devaluation or revaluation of a currency.

Premiums for currently available dollar-denominated options on foreign currencies (other than rate-modified currency options, as described below) are expressed in units of U.S. currency per unit of foreign currency. In order to calculate the cost of the option, it is necessary to know the unit of U.S. currency used for options on the particular foreign currency.

EXAMPLE: If a dollar-denominated option covering 62,500 Swiss francs is purchased at a premium of 0.81, the cost of the option will be \$506.25 (0.81 cents, or \$0.0081, times the unit of trading of 62,500).

EXAMPLE: If a dollar-denominated option covering 6,250,000 Japanese yen is purchased at a premium of 0.42, the cost of the option will be \$262.50 (0.0042 cents, or \$0.000042, times the unit of trading of 6,250,000).

Readers should note, however, that certain exchanges may express premiums in other unconventional ways. Readers need to be sure they fully understand the various conventions used by the exchanges on which they trade in quoting premiums.

Settlement of exercises of physical delivery dollar-denominated and cross-rate options is significantly different from settlement of exercises of other types of options. The following is a description of the settlement procedures pertaining to such options.

Exercises are settled through the facilities of OCC. For this purpose, OCC may establish banking arrangements permitting it to receive and deliver each underlying foreign currency in the country of origin in satisfaction of option exercises. Clearing Members ordinarily deliver or receive foreign currency on the fourth business day after exercise that is also a banking day for OCC's correspondent bank in the country of origin. In the case of dollar-denominated options, cash settlement between OCC and Clearing Members (*i.e.*, payment or receipt of the net exercise price for each day's exercises) takes place in the United States or other locations approved by OCC.

For purposes of settlement between an investor and his brokerage firm, applicable rules require a holder exercising a physical delivery put option and an assigned writer of a physical delivery call option to arrange for the deposit of the requisite units of the underlying foreign currency into a designated bank account in the country issuing that currency no later than the time by which OCC requires delivery to it of foreign currency by its Clearing Members. Through this procedure, investors ordinarily rely upon their brokerage firms to make settlement with them. However, OCC has established procedures whereby Clearing Members may permit customers to make settlement directly with an OCC correspondent bank. (At the date of this document, such procedures are not yet available in the case of cross-rate options.) Investors should consult their brokerage firms with respect to these procedures.

OCC has exercise settlement procedures under which OCC's obligation to deliver or pay for underlying foreign currencies in satisfaction of option exercises may be discharged by transferring the foreign currency to be delivered, or the net exercise price for foreign currency to be received, to an OCC correspondent bank that is obligated to complete the settlement. Brokerage firms and their customers would then be relying on the correspondent bank to deliver or pay for the underlying foreign currency.

If OCC should determine that foreign governmental restrictions or taxes would prevent the orderly settlement of delivery foreign currency option exercises or would result in undue burdens on OCC or its Clearing Members, OCC has the authority to impose special exercise settlement procedures. These could range from technical changes in delivery procedures to the fixing of U.S. dollar settlement prices. If special exercise settlement procedures are imposed, investors may determine the nature of such procedures from their brokers.

Cross-Rate Foreign Currency Options

As noted at the beginning of this chapter, a cross-rate foreign currency option is an option to purchase or sell a foreign currency at an exercise price that is denominated in another foreign currency. An example of a cross-rate option is an option to purchase British pounds at an exercise price denominated in Japanese yen—that is, the trading currency would be the Japanese yen and the underlying currency would be the British pound. The exercise price would be expressed as a certain number of yen per pound. Premiums for cross-rate options are denominated in the trading currency. Thus, in the above example, premiums would be in yen.

The cross-rate options that have been approved for trading are physical delivery European-style options. It is possible that other kinds of cross-rate options will be traded in the future.

Investors in cross-rate options should bear in mind that the magnitude and direction of any change in the value of the underlying currency in relation to the trading currency may be quite different from the magnitude and direction of any contemporaneous change in the value of either of those currencies in relation to a third currency, such as the U.S. dollar. Thus, for example, the British pound

may appreciate in relation to the Japanese yen at the same time that the pound depreciates in relation to the U.S. dollar. As discussed in Chapter X under “Special Risks of Foreign Currency Options,” this is of particular significance to investors who intend to convert their profits or losses on cross-rate options into U.S. dollars.

All of the previous discussion in this chapter relating to foreign currency options in general applies equally to cross-rate options except to the extent that it is specifically limited to dollar-denominated options. Certain special features of cross-rate options are discussed below.

Special Features of Cross-Rate Options

The amount of the foreign currency underlying each cross-rate option (i.e., the **unit of trading**) is specified by the options market on which the option is traded.

The **exercise price** of a physical delivery cross-rate option is the price (denominated in the trading currency) at which the underlying currency may be purchased or sold upon exercise of the option. Exercise prices for cross-rate options are generally expressed in terms of units (or fractions of units) of the trading currency per unit of the underlying currency. Therefore, in order to determine the total exercise price per contract, it is necessary to multiply the stated exercise price by the unit of trading of the particular option.

EXAMPLE: *The exercise prices of yen-denominated options covering underlying euros are expressed in yen per euros. Therefore, a put covering 1,000,000 euros with an exercise price of 93 Japanese yen (JY) would entitle the holder to sell the underlying euros for an aggregate exercise price of JY93,000,000 (JY93 multiplied by 1,000,000).*

The discussion in this chapter of **adjustments** under the caption “Special Features of Dollar Denominated Foreign Currency Options” is applicable also to cross-rate options, except that adjustments in the terms of cross-rate options might be made to reflect events affecting the trading currency as well as events affecting the underlying currency.

Premiums for currently available cross-rate options are expressed in units and decimals of the trading currency per unit of the underlying currency.

EXAMPLE: *If a yen-denominated option covering 500,000 British pounds is purchased at a premium of 2.63, the cost of the option will be JY1,315,000 (JY2.63 times the unit of trading of 500,000).*

Premium settlements of cross-rate options are effected in a trading currency other than U.S. dollars. Similarly, in the event of exercise, the exercise price is paid in the trading currency. OCC has established banking arrangements permitting it to receive and pay foreign currencies in the country of origin for purposes of both premium and exercise settlement of cross-rate options between OCC and its Clearing Members. Customers ordinarily settle with their brokerage firms, although OCC may establish procedures whereby Clearing Members may permit customers to make exercise settlement directly with an OCC correspondent bank. Each customer should consult his brokerage firm to determine the procedures and time requirements for payment of foreign currencies on settlement of transactions in, and exercises of, cross-rate options.

If OCC should determine that foreign governmental restrictions or taxes or other events beyond the control of OCC would prevent the orderly settlement of exercises of, or premium payments with respect to transactions in, cross-rate options or would result in undue burdens on OCC or its

Clearing Members, OCC has the authority to impose special settlement procedures. These could range from technical changes in payment procedures for the trading currency or underlying foreign currency to the fixing of U.S. dollar settlement prices payable in lieu of either currency. OCC also has the authority to prohibit exercises of cross-rate options by holders who would be unable to meet the settlement obligations resulting from the exercise. The potential effects of such a prohibition are discussed in numbered section 5 under “Risks of Option Holders” in Chapter X. If special exercise settlement procedures are imposed, investors may determine the nature of such procedures from their brokerage firms.

Cash-Settled Foreign Currency Options

Some foreign currency options are dollar-denominated and cash-settled. The discussion above in this chapter relating to dollar-denominated foreign currency options generally applies to cash-settled foreign currency options except to the extent that such discussion specifically applies to physical delivery options.

The **contract size** of a cash-settled foreign currency option, like the size of other foreign currency options, is expressed in terms of the amount of the underlying currency covered by the option.

EXAMPLE: *If the exercise price of a cash-settled, dollar-denominated call option on euros is \$1.2500 per euro, the exercise settlement value of the euro is determined to be \$1.2607 and the option covers 10,000 euros, then the cash settlement amount for the option will be $(\$1.2607 - \$1.2500) \times 10,000 = \107.00 .*

Cash-settled foreign currency options may be **automatically exercised** on the expiration date if in the money or if in the money by a certain amount. See the discussion in Chapter VIII under “How to Exercise.”

The exercise settlement value for cash-settled foreign currency options will be based on an exchange rate for the underlying foreign currency from a source selected by the market on which the options trade as set forth in exchange rules. In the case of rate-modified foreign currency options, the options market on which the options are traded would calculate and disseminate the underlying rate. In either case this rate may be based on a rate announced by the Federal Reserve Bank of New York, bid and offer quotations from a sampling of participants in the interbank spot market for the underlying foreign currency, the rate reported by a recognized pricing service, or some other widely-available rate. The time as of which the exercise settlement value is calculated and the method of calculation are determined by the options market on which the options are traded and may be changed by it at any time. Any such change may be made applicable to options outstanding at the time of the change.

If OCC determines that the exercise settlement value of the underlying foreign currency for any series of cash-settled foreign currency options is unreported, inaccurate, unreliable, unavailable, or inappropriate for purposes of calculating the cash settlement amount of such series, OCC has the authority to suspend the settlement obligations of the exercising and assigned Clearing Members of options of such series or to fix the cash settlement amount for exercised options of such series or to do both. In the event of such a suspension, OCC will fix a new settlement date after OCC determines that the exercise settlement value is available or after OCC fixes the cash settlement amount.

If OCC determines to fix the cash settlement amount, it will act through a panel, comprised of representatives from each exchange on which the series without an exercise settlement value trades, that will use its judgment as to what is appropriate for the protection of investors and the public interest. The panel may fix the cash settlement amount using the reported price or value of the underlying foreign currency at such time, or representing a combination or average of prices or values at such time or times, and reported in such manner, as the panel deems appropriate.

If a panel delays fixing a cash settlement amount for a series of cash-settled foreign currency options past the last trading day before expiration of that series, normal expiration exercise procedures will not apply to the affected series. Instead, exercise settlement will be postponed until the next business day following the day when the panel fixes the cash settlement amount, and each long position in the affected series will be treated as having been exercised if the cash settlement amount per contract for that series is \$1.00 or more. If the cash settlement amount per contract is less than \$1.00, the option will be treated as having expired unexercised. As a result of these procedures, holders of expiring cash-settled foreign currency options may not know whether their options have been exercised, and writers of such options may not know whether they have been assigned an exercise, until after the expiration date. A panel's determinations shall be conclusive, binding on all investors, and not subject to review.

Rate-Modified Cash-Settled Foreign Currency Options

A rate-modified currency option is a type of foreign currency option that may be thought of as an option on an underlying exchange rate between two currencies. The holder of a rate-modified currency option receives in U.S. dollars the difference between the modified rate and the exercise price multiplied by a multiplier (e.g., USD \$100). In this respect, rate-modified currency options resemble cash-settled index options where the index is an exchange rate between two currencies. Exchange rates in the spot market are expressed as the number of units of one currency (currency 1) required to purchase a single unit of a second currency (currency 2), and for each pairing of the world's major currencies, there is a convention as to which currency is currency 1 and which is currency 2. You should be aware that the exchange rates underlying rate-modified currency options may or may not be stated in the same way that they are conventionally quoted in the spot market. For example, exchange rates between the U.S. dollar and the euro are generally quoted as the number of dollars required to purchase a single euro; but the rate underlying a rate-modified currency option could be stated as the number of euros required to purchase a single dollar. You should therefore be certain that you understand the meaning of an underlying exchange rate.

In the case of rate-modified currency options, the underlying exchange rate may be multiplied by a "rate-modifier," such as 1, 10 or 100, to create an underlying value that more closely resembles a conventional index value. Exercise prices would, of course, also be expressed in terms of the rate-modified values.

EXAMPLE: A rate-modifier of 100 may be applied to the exchange rate between U.S. dollars (USD) and Swiss francs (CHF) in order to obtain the underlying exchange rate for USD/CHF rate-modified currency options. If the current exchange rate in the USD/CHF spot market is 1.24 Swiss francs per dollar, the current rate-modified exchange rate would be stated as $(1.24 \times 100) = 124$. For example, an exercise price of 1.25 Swiss francs per dollar would be expressed as 125.

As in the case of an index option, the premiums and exercise settlement values of rate-modified currency options are determined using a multiplier, e.g., USD \$100.

EXAMPLE: A rate-modified USD/CHF call option has an exercise price of 125. The USD/CHF exchange rate in the spot market at the time the exercise settlement value is fixed is 1.27 Swiss francs per dollar, meaning that the underlying rate-modified value is $(1.27 \times 100) = 127$. The option is in the money. The exercise settlement value of the option is $(127 - 125) \times \$100 = \200 .

Do not confuse the rate-modifier with the multiplier. They serve different purposes and may or may not have the same numeric value.

EXAMPLE: Assume that the exchange rate underlying a rate-modified call option on the exchange rate between the U.S. dollar and the Mexican peso is stated as Mexican pesos per U.S. dollar (USD/MXN). The rate-modifier could be 10 and the multiplier could be \$100. If the exercise price of the option is 11 Mexican pesos per U.S. dollar, it is stated as $11 \times 10 = 110$. If the underlying exchange rate is 11.2 at the time the option is exercised, the exercise settlement value is $(112 - 110) \times \$100 = \200 .

Note that, as in the case of index options, the multiplier determines the cash value of an option that is in the money by a specified amount. Like index options, and unlike other cash-settled currency options, a rate-modified currency option has no unit of trading—it does not relate to a specified quantity of an underlying currency.

The multiplier is also used in determining the total premium for a rate-modified currency option. For example, if a premium is quoted as 0.50 and the multiplier is \$100, the total premium for a single option is \$50.

Flexibly Structured Options

Flexibly structured options, like the other options discussed in this document, are traded on the U.S. options markets and are issued by OCC. However, unlike other options, the terms of flexibly structured options are not all standardized. When a flexibly structured option is purchased and sold in an opening transaction, the parties to the transaction have the flexibility, within limitations set forth in the rules of the options market on which the transaction occurs, to fix certain of the option's terms. The terms of a flexibly structured option which may be fixed by the parties are called **variable terms**. The flexibility to fix these variable terms is what makes flexibly structured options different from other options.

The principal risks of holders and writers of flexibly structured options are discussed in Chapter X. Readers who are interested in buying or writing flexibly structured options should read not only this chapter but also all of Chapter X.

Because many of the terms of flexibly structured options are not standardized, it is less likely that there will be an active secondary market in which holders and writers of such options will be able to close out their positions by offsetting sales and purchases. See numbered section 1 under "Special Risks of Flexibly Structured Options" in Chapter X.

The trading procedures established by the options markets for transactions in flexibly structured options differ from the procedures for transactions in other options. Readers desiring information about the trading procedures of an options market for flexibly structured options may obtain that information from that market.

The options markets may fix minimum size or minimum monetary values for transactions in flexibly structured options. Flexibly structured options may be useful to sophisticated investors seeking to manage particular portfolio and trading risks. However, as a result of these minimums, as well as the special trading procedures and reduced likelihood of there being a secondary market, flexibly structured options transactions are not suitable for investors who are not financially able to bear the risks of maintaining such minimum positions in flexibly structured options.

Special Features of Flexibly Structured Options

DESIGNATION OF TERMS—The parties to an opening transaction in flexibly structured options may designate the option's variable terms in accordance with the rules of the options market where the transaction occurs. Included among the terms that an options market may identify as variable terms are the specification and amount of the underlying interest, whether the transaction involves a put, call or spread, the style of the option, the exercise price, the cap interval of a capped option, the expiration date, the method for determining the exercise settlement value of a cash-settled option that is exercised on the expiration date, the settlement currency of a cash-settled option, the premium currency, and the trading currency of a foreign currency option. Flexibly structured options are permitted in options that do not have the same exercise price, the same expiration date, the same exercise style (e.g., American or European), and, with respect to index options only, the same settlement style (e.g., A.M.-settled) as standardized options already trading on the same underlying interest. Although flexibly structured equity options generally physically settle, an options market may list for trading cash-settled flexibly structured options on certain fund shares that meet specified criteria as defined in the rules of the options market. If trading is available in flexibly structured options on certain fund shares that settle on a cash basis in accordance with exchange rules, it is likely that trading will also be available in options on the same underlying fund shares that settle physically. In such a situation, the option that settles in cash will be separate and distinct from the option that physically settles on the same underlying fund shares. The settlement method for flexibly structured options is established prior to an option trade and does not change except that the settlement method for physically-settled flexibly structured options may change in the event of a

contract adjustment whereby the underlying fund shares of an option are converted entirely to cash. Such contract adjustments are discussed in Chapter III.

Only those terms identified as variable terms by the options market where the opening transaction occurs may be designated by the parties. All other terms are standardized in accordance with the rules of OCC and the options market. The rules of an options market may impose limitations on the variable terms which the parties may designate. For example, an options market may require that the expiration date of a flexibly structured option not fall within a specified period of time or that the life of the option not exceed a maximum permissible term. As another example, if the exercise settlement value of an index option is based on a specified average, an options market may require that the average conform with the averaging parameters established by the market. In addition, the underlying interest, the settlement currency, the premium currency and the trading currency, may be designated only from those available for flexibly structured options on the options market, and an options market may require that the premium currency be the same as the settlement currency.

MINIMUM SIZE REQUIREMENTS—Every transaction in flexibly structured options must satisfy the minimum size or monetary value requirements of the options market where the transaction occurs. The minimum requirements may be larger for an opening transaction in a series in which there is no open interest than for other transactions (whether opening or closing) in that series. An options market may also impose minimum size or monetary value requirements on exercises of flexibly structured options. Information as to such minimums may be obtained from the options market where the options are traded.

POSITION and EXERCISE LIMITS—The options markets may establish special position and exercise limits for flexibly structured options. Such limits may differ from the limits applicable to other options, although an options market may require that positions in certain flexibly structured options be aggregated with positions in certain other options. Positions in cash-settled flexibly structured options on certain fund shares that meet specified criteria as defined in options market rules will be aggregated with all positions in physically-settled options, including standardized options on the same underlying fund shares in accordance with options market rules. Information concerning position and exercise limits of particular flexibly structured options may be obtained from the options market where the options are traded or from brokerage firms.

TRADING PROCEDURES—The trading hours and trading procedures for flexibly structured options may differ from the trading hours and procedures for other options. These special procedures may mean that the market-making systems that are applicable to other options may not be applicable to flexibly structured options, that there may not be continuous quotations for flexibly structured options, and that quotations may be provided only in response to a specific request as the basis for trading with the party making the request.

EXERCISES and SETTLEMENTS—In general, the exercise, assignment and settlement of flexibly structured options occurs in the same manner as, and are subject to the same time frames and procedures that are applicable to, other options of the same style and having the same underlying interest. See Chapter VIII. However, unlike most other options, flexibly structured index options that are in the money on the expiration date may be exercised automatically. In the future it may be provided that flexibly structured index options will be exercised automatically only if they are in the money by a specified amount.

FUNGIBILITY—In the event that a standardized option is listed for trading with the same exercise price, the same expiration date, the same exercise style (e.g., American or European), and, with respect to index options only, the same settlement style (e.g., A.M.-settled) as a flexibly structured option already trading on the same underlying interest, all existing positions on the flexibly structured option may be consolidated into the identical standardized option in accordance with options market rules, thereby eliminating trading in the flexibly structured option. Investors should be aware that when such a position consolidation occurs, existing positions under the flexibly structured option will

move to the identical standardized option. For example, if a physically-settled standardized option is listed for trading with the same exercise price, the same expiration date, and the same exercise style as an already trading physically-settled flexibly structured option, a consolidation will be processed as permitted under options market rules whereby all existing positions on the physically-settled flexibly structured option will be moved so that the option positions are established in the identical standardized option and trade only in the standardized option market.

As stated previously, an options market may list for trading flexibly structured options on certain fund shares that meet specified criteria as defined in the rules of the options market and that settle in cash. Physically-settled flexibly structured options and cash-settled flexibly structured options on the same underlying fund shares are not fungible with each other, and likewise, standardized options on fund shares are not fungible with cash-settled flexibly structured options on the same underlying fund shares. Consequently, investors should be certain they know and understand the settlement method for the specific flexibly structured options that they intend to trade.

EXERCISE SETTLEMENT VALUE—The method of determining the exercise settlement value on the expiration date of a flexibly structured index option is a variable term that is fixed by the parties in their opening transaction. For example, the parties may specify that such exercise settlement value will be determined with reference to opening prices of the constituent securities of the index, their closing prices, an average of their high and low prices, an average of opening and closing prices, an average over a stated period of time, or another average that conforms with the parameters established by the options market. However, under the OCC rules in effect at the date of this document, the method of determining the exercise settlement value for an exercise that occurs on a day other than the expiration date is not a variable term. The exercise settlement value for such exercises of flexibly structured index options will be the value derived from the closing prices of the constituent securities on the day of exercise (as reported by the reporting authority), and the exercise settlement value of other flexibly structured options will be determined in the same manner as it is determined for other options on the same underlying interest that are traded on the options market where the opening transaction in the flexibly structured option occurred.

SETTLEMENT CURRENCY—The settlement currency may be a variable term to be fixed by the parties out of those currencies specified by the options market on which the transaction occurs as being available for flexibly structured options. The settlement currency may be the currency in which the premium is payable. In addition, brokerage firms may require their customers to make margin payments in the settlement currency.

If the settlement currency and premium currency are not U.S. dollars, settlement of premiums and exercises is generally made through the procedures and arrangements established by OCC for cross-rate foreign currency options. See “Special Features of Cross-Rate Options” in Chapter VI.

Exercise and Settlement

Although most option holders and writers close out their options positions by an offsetting closing transaction, investors should nonetheless be familiar with the rules and procedures applicable to exercise. Such an understanding can help an option holder determine whether exercise might be more advantageous than an offsetting sale of the option. An option writer needs to understand exercise procedures because of the possibility of being assigned an exercise. Once an exercise of an option has been assigned to an option writer—even though she may not yet have been notified of the assignment—the writer can no longer effect a closing transaction in that option but must instead purchase or sell the underlying interest for the exercise price (or, in the case of a cash-settled option, pay the cash settlement amount).

How to Exercise

The period during which an option is exercisable depends on the **style** of the option. This is discussed under “Style of Option” in Chapter II.

In order to exercise most options traded at the date of this document, action must be taken by the option holder prior to the expiration of the option. However, some options may be subject to automatic exercise. For example, capped options are subject to automatic exercise if the automatic exercise value of the underlying interest hits the cap price of the option, and certain other options (including binary options and flexibly structured index options) are subject to automatic exercise as well. Binary options are subject to automatic exercise if the exercise settlement value of the underlying interest at expiration meets the criteria for exercise specified by the listing options market. Credit default options are subject to automatic exercise whenever a credit event occurs in accordance with the description in Chapter V.

To exercise an option that is not subject to automatic exercise, the holder must direct his brokerage firm to give exercise instructions to OCC. In order to ensure that an option is exercised on a particular day, the holder must direct his brokerage firm to exercise before the firm’s cut-off time for accepting exercise instructions for that day. Different firms may have different cut-off times for accepting exercise instructions from customers, and those cut-off times may be different for different options.

A brokerage firm’s cut-off time for accepting exercise instructions becomes critical on the last trading day before an option expires. An option that expires unexercised becomes worthless. **An option holder who intends to exercise an option before expiration must give exercise instructions to his brokerage firm before the firm’s cut-off time for accepting exercise instructions on the last trading day before expiration.** If the expiration date of an option falls on a day on which an options market is open for trading in that option, a brokerage firm’s last cut-off time for accepting exercise instructions prior to the option’s expiration may be on the expiration date. Investors should be aware of their brokerage firm’s policies in this regard. Many brokerage firms accept standing instructions to exercise, or have procedures for the exercise of, every option which is in the money by a specified amount at expiration. These procedures often incorporate by reference OCC’s administrative procedures that provide for the exercise of every option that is in the money by a specified amount at expiration unless the Clearing Firm carrying the option in its accounts instructs OCC not to exercise the option. Investors should determine from their brokerage firm the applicable cut-off times, the firm’s procedures for submitting exercise instructions, and whether any of their options are subject to automatic exercise. Investors should also determine whether the exercise of their options is subject to standing instructions of their brokerage firm, and, if so, they should discuss with the firm the potential consequences of such instructions.

In highly unusual circumstances (e.g., where a brokerage firm is unable to receive instructions from its customers), a firm may be authorized under applicable rules to make an exception to its regular cut-off time. However, in order for an option to be exercised, the brokerage firm must in any event pass on its customer's exercise instructions to OCC before expiration. OCC may allow exercises for a limited time after expiration in the unlikely event that OCC is unable to follow its normal procedures for receiving exercise instructions from Clearing Members on the expiration date. Subject to that very limited exception, OCC has no authority to extend the expiration of any option.

Once an exercise instruction is given by a Clearing Member to OCC, it cannot ordinarily be revoked except to correct a bona fide error that is specified in a request filed by the Clearing Member prior to a deadline specified in OCC's rules.

Assignment

OCC follows established procedures for assigning exercises to Clearing Member accounts that contain short option positions identical to the exercised options. These procedures may be different for different classes of options. A description of OCC's assignment procedures and the options classes to which they apply is available on request from OCC at 125 S. Franklin, Ste 1200, Chicago, Illinois 60606.

Assignments are ordinarily made prior to the commencement of trading on the business day following receipt by OCC of the exercise instruction. In the case of options traded in evening sessions, exercise instructions received by OCC on a business day are ordinarily assigned prior to the opening of trading in that day's evening session.

Exercises may be assigned by OCC to a Clearing Member's customers' account. In that event, the Clearing Member must, in turn, assign those exercises to its customers maintaining positions as writers of the exercised options series. The rules of the options markets require their member firms to establish fixed procedures for allocating assignments to customers (e.g., random selection or "first-in, first-out") and to inform their customers of the method used and how it works.

Regardless of the method used, an option writer is subject to the risk each day the option is exercisable that some or all of his short position may be assigned. (See the discussion in Chapter X under "Risks of Option Writers.") However, if less than all of the open interest in an options series is exercised, OCC's procedures for assigning exercises to Clearing Members and brokers' procedures for allocating assignments to customers may affect the likelihood that a customer's position will be assigned and the potential size of the assignment.

It is possible that an option writer will not receive notification from its brokerage firm that an exercise has been assigned to him until one or more days following the date of the initial assignment to the Clearing Member by OCC. This creates a special risk for uncovered writers of physical delivery call stock options. This is discussed in numbered section 8 under "Risks of Options Writers" in Chapter X and under "Settlement" in this chapter.

Settlement

Settlements between brokerage firms or their agents on virtually all exercised physical delivery stock options are routinely handled through a stock clearing corporation in much the same way as ordinary purchases and sales of the underlying equity security. Promptly after the exercise and assignment of a physical delivery stock option, OCC reports it to the designated stock clearing corporation of the Clearing Members representing the exercising holder and the assigned writer. If the stock clearing corporation does not reject the transaction by a time specified in its agreement with OCC, settlement is effected pursuant to the rules of the clearing corporation, and OCC has no further responsibility to either the exercising holder or the assigned writer.

In a few cases—which usually occur because an underlying equity security is no longer eligible for clearance through a stock clearing corporation—settlements calling for the delivery of that security are made directly between Clearing Members. OCC’s rules provide **protect procedures** for exercise settlements made directly between Clearing Members that involve the delivery of securities which either have been called for redemption, are due to expire or with respect to which a call or expiration date is impending, or are subject to an offer which will expire, if the expiration time (as defined in OCC’s rules) is on or after the exercise settlement date for the option. Under these protect procedures, the Clearing Member entitled to receive the securities may give a **liability notice** to the delivering Clearing Member by a specified cut-off time prior to the expiration time. If a liability notice is so given and the securities are not delivered sufficiently in advance of the expiration time to permit the receiving Clearing Member to obtain their benefit, the delivering Clearing Member will be liable for any resulting damages. If the failure to deliver was the fault of the Clearing Member’s customer, the Clearing Member may (depending on its own procedures) pass that liability on to the customer. Investors should be aware that correspondent clearing corporations may have protect procedures in respect of the settlements made through them.

As of May 28, 2024, the regular exercise settlement date for physical delivery stock options is the first business day after exercise. The regular exercise settlement dates for all other types of physical delivery options traded at the date of this document are described in the separate chapters of the document discussing those options.

At the date of this document, settlements of exercises of cash-settled options and foreign currency options are effected by Clearing Members through OCC. Settlement of exercises of cash-settled options—through the payment in cash of the cash settlement amount—ordinarily takes place on the business day immediately following the day of exercise. However, cash-settled capped options that have been automatically exercised on any trading day other than the one immediately prior to expiration are settled on the second business day after the automatic exercise is triggered. The settlement of exercises of cash-settled options that have a settlement currency that is not U.S. dollars is discussed under “Settlement Currency” in Chapter VII.

OCC has authority to postpone settlement of any option on any type of underlying interest when OCC considers such action to be necessary in the public interest or to meet unusual conditions.

Each brokerage firm involved in an exercise or assignment settles with its own customer. Neither OCC nor any options market has any responsibility to customers with respect to funds or securities that have been received by brokerage firms for their customers. Investors may determine from their brokerage firms when and how settlement amounts will be credited or debited to their brokerage accounts.

In certain unusual circumstances, an event may threaten to reduce the available supply of an underlying security to a level insufficient to allow settlement if all of the outstanding option contracts for the affected security were exercised. This could happen, for example, in the event of a successful tender offer for all or substantially all of the outstanding shares of an underlying security or if trading in an underlying security were enjoined or suspended. If OCC in its discretion determines that a situation of that type exists, OCC may impose special exercise settlement procedures. These special procedures, applicable only when an assigned call writer or an exercising put holder is unable to obtain the underlying security, may involve the suspension of the settlement obligations of the holder and writer and/or the fixing of cash settlement prices in lieu of delivery of the underlying security. When special exercise settlement procedures are imposed, OCC will announce to its Clearing Members how settlements are to be handled. Investors may obtain that information from their brokerage firms.

Tax Considerations, Transaction Costs and Margin Requirements

Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect the profit or loss results of buying and writing options. These are only briefly mentioned in this chapter, but should be understood and taken into account by everyone considering transactions in options.

Notwithstanding the importance of tax considerations, transaction costs and margin requirements, for the sake of simplicity, the examples in this document do not take these matters into account. Nevertheless, it should be remembered that their impact may significantly reduce the opportunity for profit and the rate of return obtainable from particular options trading strategies; indeed, their effect may in some instances turn an apparent profit into a loss.

Tax Considerations

The tax consequences of an options transaction depend, in part, on the tax status of the investor and also may differ depending upon the type of underlying interest involved—since the tax rules are not the same for each type of underlying interest—and upon such factors as whether an option is exercised or is the subject of a closing transaction or is allowed to expire or whether an option that is written is covered or uncovered. Some options markets have publications that deal specifically with the tax treatment of various options transactions. These may be obtained from brokerage firms as well as the markets themselves. **Because of the importance of tax considerations to all options transactions, it cannot be emphasized too strongly that the reader considering options should consult with his tax adviser as to how taxes may affect the outcome of contemplated options transactions.**

Transaction Costs

The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. The impact of transaction costs on profitability is often greater for options transactions than for transactions in the underlying interests because these costs are often greater in relation to options premiums than in relation to the prices of underlying interests. Transaction costs are especially significant in option strategies calling for multiple purchases and sales of options, such as spreads and straddles. Readers should always discuss transaction costs with their brokerage firms before engaging in options transactions.

Margin Requirements

Writers of options, other than certain covered call option writers and certain writers of cash secured puts (discussed below), must comply with applicable margin requirements.

In the stock market, **margin** refers to buying stock or selling stock short on credit. Margin customers are required to keep securities on deposit with their brokerage firms as collateral for their borrowings. In the options market, margin means the cash or securities required to be deposited by an option writer with his brokerage firm as collateral for the writer's obligation to buy or sell the underlying interest, or in the case of cash-settled options to pay the cash settlement amount, if assigned an exercise. Minimum margin requirements are currently imposed by the Board of Governors of the

Federal Reserve System, the options markets and other self-regulatory organizations, and higher margin requirements may be imposed—either generally or in individual cases—by the various brokerage firms.

Uncovered writers may have to meet calls for substantial additional margin in the event of adverse market movements. Even if a writer has enough equity in his account to avoid a margin call, increased margin requirements on his option positions will make that equity unavailable for other purposes.

If a holder of a physical delivery call option exercises and wishes to purchase the underlying interest on credit, the holder may be required to deposit margin with the holder's brokerage firm. Holders of physical delivery options on a foreign currency should be aware that, at the date of this document, foreign currency has no value for margin purposes except to the extent that credit has been extended on the same foreign currency.

Margin requirements are complex and are not the same for writers of options on different types of underlying interests. Margin requirements are subject to change, and may vary from brokerage firm to brokerage firm. Consequently, the examples in this document do not take margin requirements into account. However, margin requirements can have an important effect on an option writer's risks and opportunities.

Persons considering writing options (whether alone or as part of options combinations, such as spreads or straddles) should determine the applicable margin requirements from their brokerage firms and be sure that they have sufficient liquid assets to meet those requirements in the event of adverse market movements.

Principal Risks of Options Positions

This chapter discusses the principal risks of holders and writers of options. The risks discussed are those that are unique to being an option holder or writer. Risks that relate to such matters as the trading of securities generally; the state of the economy; the supply and demand factors in the options markets and in other related markets; the factors affecting the values of the various underlying interests; the factors affecting the volatility, liquidity and efficiency of the options markets or of other markets or other factors that may affect the pricing of particular options; the quality or operations of the various options markets at any particular time; and the procedures of the various options markets and of brokers in transmitting orders and effecting executions are not within the scope of this document and are not discussed. (See the discussion in Chapter XI as to the scope and limitations of this document.)

It should also be noted that new types of options and new options strategies are constantly being developed and that some of the risks of new options products and new options strategies do not become apparent until there has been significant experience in trading and using the new options and strategies. Accordingly, readers should be aware that there is a risk in newness, particularly if the new option or strategy is complicated or complex, that cannot always be identified or described.

Readers should also be aware that not all options strategies will necessarily be suitable for them and that certain strategies may expose them to very significant potential losses. For example, the risks associated with the writing of puts or uncovered calls expose investors to such potential losses, and this type of strategy is therefore not suitable for all investors.

Many of the risks are the same for options on all types of underlying interests, although some special risks may apply only to options on particular types of underlying interests. The first three sections of this chapter describe risks that apply generally to options on all types of underlying interests. They are followed by sections discussing the special risks associated with options on the particular types of underlying interests.

Risks discussed in this chapter are applicable to binary options and range options as well as other options, except as otherwise noted. Certain risks discussed in the section entitled "Special Risks of Index Options" are applicable to binary index options and range options as well. Special risks applicable to holders and writers of binary options are discussed in this chapter in the sections entitled "Special Risks of Binary Options (Other than Credit Default Options)" and "Special Risks of Credit Default Options." Special risks applicable to holders and writers of range options are discussed in this chapter in the section entitled "Special Risks of Range Options."

The value of an option is affected by the value of the underlying interest. It is beyond the scope of this document to discuss the characteristics or risks of underlying interests. If a description or risk factor is mentioned in this document with respect to a particular class of underlying interest, you should not assume that the same statements will be made with respect to all underlying interests discussed herein to which they may be applicable. You should look to disclosures made by issuers of underlying securities or information provided by publishers of underlying indexes and to information available from your broker or other sources to determine the nature and risks of the interests underlying the options that you trade. Some underlying interests may themselves involve a high degree of risk. Where the value of an underlying security is based in whole or in part on the performance of an index, information provided by the publisher of the referenced index, as well as financial and other disclosures made by the issuer of the underlying security regarding the issuer's ability to perform its obligations, may be relevant.

Risks of Option Holders

1. **An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time.** This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells her option in the secondary market nor exercises it prior to its expiration will necessarily lose her entire investment in the option. (As noted in Chapter VIII, many brokerage firms have procedures for the exercise of options at expiration that are then in the money by a specified amount.)

The fact that options become valueless upon expiration means that an option holder must not only be right about the **direction** of an anticipated price change in the underlying interest, but she must also be right about **when** the price change will occur. If the price of the underlying interest does not change in the anticipated direction before the option expires to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of her investment in the option. This contrasts with an investor who purchases the underlying interest directly and may continue to hold her investment, notwithstanding its failure to change in price as anticipated, in the hope of waiting out an adverse price move and eventually realizing a profit.

The significance of this risk to an option holder depends in large part upon the extent to which she utilizes the leverage of options to control a larger quantity of the underlying interest than she could have purchased directly with the same investment amount. This is illustrated in the following example, which compares the consequences of three different approaches to investing the same amount of money in stock or options, with each approach involving a different degree of leverage.

EXAMPLE: Assume that Investors A, B and C each have \$5,000 to invest and that each anticipates an increase in the market price of XYZ stock, which is currently \$50 a share. Investor A invests his \$5,000 in 100 shares of XYZ. Investor B invests \$500 in the purchase of an XYZ 50 call (covering 100 shares of XYZ at a premium of \$5 a share) and invests the remaining \$4,500 in a relatively risk-free investment such as Treasury bills. (For purposes of this example, it is assumed that all of the calls are purchased when they have six months remaining until expiration, and that the risk-free investment bears interest at an annual rate of, say, 3.25%—which means that a \$4,500 investment will earn approximately \$73 in interest over six months.) Investor C invests his entire \$5,000 in 10 XYZ 50 calls.

If each option is held for six months and, if it is profitable, is either sold or exercised immediately before it expires, the following table illustrates the dollar and percentage profit or loss that each investor would realize on his \$5,000 investment, depending upon the price of XYZ stock when the option expires.

Price of XYZ stock at expiration of option	Investor A		Investor B		Investor C	
	Profit or Loss	% Return	Profit or Loss	% Return	Profit or Loss	% Return
62...	+ 1,200	+ 24%	+ 773	+ 15.5%	+ 7,000	+ 140%
58...	+ 800	+ 16%	+ 373	+ 7.5%	+ 3,000	+ 60%
54...	+ 400	+ 8%	-27	- 0.5%	- 1,000	- 20%
50...	0	0	-427	- 8.5%	- 5,000	- 100%
46...	- 400	-8%	-427	- 8.5%	- 5,000	- 100%
42...	- 800	- 16%	-427	- 8.5%	- 5,000	- 100%
38...	- 1,200	- 24%	-427	- 8.5%	- 5,000	- 100%

The table demonstrates how increased leverage results in greater profit potential on the upside and greater risk of loss on the downside. Investor C, as the most leveraged investor, would realize the highest percentage return if the price of XYZ increased to 62, but would incur a 20% loss even if the price of XYZ increased to 54 (assuming he did not sell his options while they had significant remaining time value), and would lose all of his investment if the price of XYZ stayed at or below 50.

Only the first two paragraphs of this numbered section 1 are applicable to binary options and range options. The amount by which a binary option is in the money does not affect the value of the option (and therefore the option holder's profit or loss) upon exercise. In the case of a range option, the value of the option is based on where the level of the underlying index falls within the range length at expiration, and not on the difference between the level of the underlying index and a discrete exercise price. Furthermore, as discussed below under the caption "Special Risks of Range Options," the value of a range option does not always move in the same direction as the underlying interest.

- 2. The more an option is out of the money and the shorter the remaining time to expiration, the greater the risk that an option holder will lose all or part of his investment in the option.** The greater the price movement of the underlying interest necessary for the option to become profitable (that is, the more the option is out of the money when purchased and the greater the cost of the option) and the shorter the time within which this price movement must occur, the greater the likelihood that the option holder will realize a loss. This does not necessarily mean that an option must be worthwhile to exercise in order for a holder to realize a profit. Instead, it may be possible for the holder to realize a profit by selling an option prior to its expiration for more than its original cost even though the option never becomes worthwhile to exercise. (The shorter the time remaining until expiration the less likely it is that this will be possible.)
- 3. Prior to the period when a European-style option (including a European-style delayed start option), a capped option, or an American-style delayed start option is exercisable, the only means through which the holder can realize value from the option (unless the capped option is automatically exercised) is to sell it at its then market price in an available secondary market.** If a secondary market for such an option is not available during the time the option is not exercisable, it will not be possible for its holder to realize any value from the option at that time.
- 4. The exercise provisions of an option may create certain risks for the option holders.** If the option does not have an automatic feature, a holder who wishes to exercise must assure that action is taken in a timely manner. See the discussion of "How to Exercise" in Chapter VIII.

On the other hand, if the option has an automatic exercise feature—such as one that will cause the option to be automatically exercised at the expiration if it is in the money by a specified amount—the option may be exercised at a price at which the holder would not voluntarily choose to exercise in view of the transactions costs of exercise or other factors. The transaction costs associated with the exercise could even exceed the cash settlement amount of the option, with the result that the holder would realize a net loss from the exercise. Conversely, an option that has a cash settlement amount that is less than the threshold amount cannot be exercised even though the option holder's transaction costs may be low enough to permit the option to be exercised profitably. In such a case, the option may expire unexercised.

The automatic exercise feature of capped options imposes a maximum value that a holder of these options can receive. Even if the option holder expects the value of the underlying interest to continue to move in a favorable direction prior to its expiration, the automatic exercise feature will prevent the holder from realizing any gain from the option in excess of the cap interval times the multiplier for the option.

- 5. The courts, the SEC, another regulatory agency, OCC or the options markets may impose exercise restrictions. OCC and the options markets have authority to restrict the exercise of options at certain times in specified circumstances.** The options markets often exercise such

authority with respect to an option in which trading has been halted. If a restriction on exercise is imposed at a time when trading in the option has also been halted, holders of that option will be locked into their positions until either the exercise restriction or the trading halt has been lifted.

Exercise restrictions imposed by OCC and the options markets affecting cash-settled options generally cannot be continued in effect beyond the opening of business on the last trading day before their expiration. Such exercise restrictions affecting physical delivery options generally cannot be continued beyond the opening of business on the tenth business day before their expiration.

It is also possible that a court, the SEC or another regulatory agency having jurisdiction would impose a restriction which would have the effect of restricting the exercise of an option. In such a case the option would not be exercisable until the restriction was terminated. In the remote possibility that the restriction were to remain in effect until the expiration of the option, the option would expire worthless, and the holder would lose the entire amount that he paid for the option.

Risks of Option Writers

The risks discussed in numbered sections 3, 4, 5 and 10 below apply to writers of non-binary and binary options, but the risks discussed in numbered sections 1, 2, 6, 7, 8, 9 and 11 are inapplicable to writers of binary options. Special risks of binary options are discussed below under the caption "Special Risks of Binary Options (Other Than Credit Default Options)."

The risks discussed in numbered sections 5, 9 and 10 below apply to writers of range options, but the risks discussed in numbered sections 1, 2, 6, 7, 8 and 11 do not. Although some of the risks discussed in numbered sections 3 and 4 apply to writers of range options, these risks are separately discussed below under the caption "Special Risks of Range Options" because range options are of a single type (rather than consisting of a put class and a call class) and have a unique payout structure.

- 1. An option writer may be assigned an exercise at any time during the period the option is exercisable.** Starting with the day it is purchased (provided, in the case of a delayed start option, that its exercise price has been set), an American-style option is subject to being exercised by the option holder at any time until the option expires. This means that the option writer is subject to being assigned an exercise at any time after she has written the option until the option expires or until she has closed out her position in a closing transaction. By contrast, the writer of a European-style option (including a European-style delayed start option), a capped option, or an American-style delayed start option before its exercise price is set is subject to assignment only when the option becomes exercisable or, in the case of a capped option, when the automatic exercise value of the underlying interest hits the cap price.

An assigned writer may not receive notice of the assignment until one or more days after the assignment has been made by OCC. Once an exercise has been assigned to a writer, the writer may no longer close out the assigned position in a closing purchase transaction, **whether or not she has received notice of the assignment.** In that circumstance, an attempted closing purchase would be treated as an opening purchase transaction.

If an option that is exercisable is in the money, the option writer can anticipate that the option **will be exercised**, especially as expiration approaches. Once she is assigned an exercise, the assigned writer must deliver (in the case of a call) or purchase (in the case of a put) the underlying interest (or pay the cash settlement amount in the case of an in the money cash-settled option). The consequences of being assigned an exercise depend upon whether the writer of a call is covered or uncovered, as discussed below.

- 2. The writer of a covered call forgoes the opportunity to benefit from an increase in the value of the underlying interest above the option price, but continues to bear the risk of a decline in the value of the underlying interest.** Unlike a holder of the underlying interest who has not written a call against it, the covered call writer has (in exchange for the premium) given up the opportunity to profit from an increase in the value of the underlying interest above the exercise price. If he is assigned an exercise, the net proceeds that he realizes from the sale of the underlying interest pursuant to the exercise could be substantially below its prevailing market price.

EXAMPLE: When XYZ stock was \$50, the investor collected a \$4 a share premium by writing an XYZ 50 delivery call. As expiration approaches, the stock has risen to \$58 and he is assigned an exercise. His total return, in addition to any dividends received, will be the \$50 exercise price he is paid for the stock plus the \$4 premium collected when the option was written—\$4 a share less than the \$58 he could have sold the stock for if he had **not** written the option.

On the other hand, if the value of the underlying interest declines substantially below the exercise price, the call is not likely to be exercised and, depending upon the price paid for the underlying interest, the covered call writer could have an unrealized loss on the underlying interest. However, that loss will be wholly or partially offset by the premium he received when he wrote the option.

- 3. The writer of an uncovered call (other than a binary call) is in an extremely risky position and may incur large losses if the value of the underlying interest increases above the exercise price.** For the writer of an uncovered call (other than a binary call), the potential loss is unlimited. When a physical delivery call is assigned an exercise, the writer will have to purchase the underlying interest in order to satisfy his obligation on the call, and his loss will be the excess of the purchase price over the exercise price of the call reduced by the premium received for writing the call. In the case of a cash-settled call other than a binary call, the loss will be the cash settlement amount reduced by the premium. Anything that may cause the price of the underlying interest to rise dramatically, such as a strong market rally or the announcement of a tender offer for an underlying stock at a price that is substantially above the prevailing market price, can cause large losses for an uncovered call writer. For the writer of a binary call, the potential loss will be limited to the fixed cash settlement amount of the option minus the premium received for writing the call. The writer of a binary call will be obligated to pay the entire fixed cash settlement amount if the exercise settlement value is only slightly in the money or, for certain binary calls, even if the exercise settlement value is at the money.

EXAMPLE: An investor receives a premium of \$4 a share for writing an uncovered XYZ 50 call option and the stock price jumps to \$69 as the option approaches expiration. If the investor liquidates his option position at, say, \$19, in an offsetting closing purchase transaction, he will incur a loss of \$1,500 (the \$1,900 paid in the offsetting purchase transaction less the \$400 option premium received when the option was written).

EXAMPLE: An investor receives a premium of \$4 for writing a binary call option on XYZ security that has an exercise price of \$80 and a fixed cash settlement amount of \$100. If the exercise settlement value of XYZ is \$81 at expiration, the investor will incur a loss of \$96 (the \$100 paid to the holder of the call option less the \$4 premium received when the option was written).

The writer of an uncovered call (other than a binary call) is in an extremely risky position and may incur large losses. Moreover, as discussed in Chapter IX, a writer of uncovered calls must meet applicable margin requirements (which, except in the case of binary calls, can rise substantially if the market moves adversely to the writer's position). Uncovered call writing is thus suitable only for the

knowledgeable investor who understands the risks, has sufficient liquid assets to meet applicable margin requirements, and, except in the case of binary options, where the potential loss is limited as described above, has the financial capacity and willingness to incur potentially **substantial** losses. A binary call writer may be required under exchange rules to deposit the full cash settlement amount at the time the option is written.

- 4. As with writing uncovered calls, the risk of writing put options is substantial. The writer of a put option bears a risk of loss if the value of the underlying interest declines below the exercise price, and such loss could be substantial if the decline is significant.** The writer of a put bears the risk of a decline in the price of the underlying interest—potentially to zero in the case of a put other than a binary put. A writer of a physical delivery put who is assigned an exercise must purchase the underlying interest at the exercise price—which could be substantially greater than the current market price of the underlying interest—and a writer of a cash-settled put other than a binary put must pay a cash settlement amount which reflects the decline in the value of the underlying interest below the exercise price. For the writer of a binary put, the potential loss will be the fixed cash settlement amount of the option minus the premium received for writing the put. The writer of a binary put will be obligated to pay the entire fixed cash settlement amount even if the exercise settlement value of the option is only slightly in the money. Unless a put is a cash-secured put (discussed below), its writer is required to maintain margin with his brokerage firm. Moreover, the writer's purchase of the underlying interest upon being assigned an exercise of a physical delivery put may result in an additional margin call.

Put writers must have an understanding of the risks, the financial capacity and willingness to incur potentially substantial losses, and the liquidity to meet margin requirements and to buy the underlying interest, or to pay the cash settlement amount, in the event the option is exercised. A writer of an American-style put other than a delayed-start option can be assigned an exercise at any time during the life of the option until such time as she enters into a closing transaction with respect to the option. A writer of an American-style delayed-start option can be assigned an exercise at any time after the option's exercise price is set until such time as she enters into a closing transaction with respect to the option. Since exercise will ordinarily occur only if the market price of the underlying interest is below the exercise price of the option, the writer of a physical delivery put option can expect to pay more for the underlying interest upon exercise than its then market value.

EXAMPLE: At a time when XYZ stock is \$50, an investor receives a \$300 premium (\$3 a share) by writing an XYZ 50 put. Subsequently the stock price declines to \$40 and she is assigned an exercise. The investor must purchase the stock at \$50. Even though the \$3 a share premium reduces her effective cost to \$47, that is still substantially higher than the \$40 market price of the stock.

EXAMPLE: An investor receives a premium of \$4 for writing a binary put option on XYZ security that has an exercise price of \$80 and a fixed cash settlement amount of \$100. If the exercise settlement value of XYZ is \$79 at expiration, the investor will incur a loss of \$96 (the \$100 paid to the holder of the put option less the \$4 premium received when the option was written).

In the case of a put other than a binary put, the put writer's exposure to margin requirements can be eliminated if the put writer deposits cash equal to the option's exercise price with his brokerage firm. Under this strategy, known as cash-secured put writing, the put writer is not subject to any additional margin requirements regardless of what happens to the market value of the underlying interest. In the meantime, the put writer might earn interest by having the cash invested in a short-term debt instrument—for example, in a Treasury bill. However, a cash-secured put writer is still subject to a risk of loss if the value of the underlying interest declines. The risk of writers of binary puts is limited to the cash settlement amount of the option, and a binary put writer may be

required under exchange rules to deposit the full cash settlement amount at the time the option is written.

EXAMPLE: *An investor receives a \$500 premium for writing an XYZ 50 put option with six months remaining until expiration and deposits with her broker \$5,000 invested in Treasury bills which, over the six month option life, will earn interest of \$250. If she has not been assigned an exercise by expiration, the investor will have a total return of \$750 (option premium of \$500 and interest of \$250). On the other hand, if the price of XYZ stock were to fall below \$42-1/2 and the investor is then assigned an exercise, she would have a net loss—that is, the market price of the XYZ stock she would be required to purchase would be below the exercise price by more than the combined premium income and interest earned.*

5. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest—and thereby assuming a **spread** position—or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. See numbered section 1 under “Other Risks.” The risk profile of a spread where the long and short legs are options of different types is not the same as where both legs are options of the same type. For example, where the short leg is a conventional option, the risk-reducing characteristics of a long leg consisting of binary or range options are different than where the long leg is a conventional option because of the fixed cash settlement amount of binary options and the unique payout structure of range options.
6. **The obligation of a writer of an uncovered call or of a put that is not cash-secured to meet applicable margin requirements creates additional risks.** If the value of the underlying interest moves against the writer’s position, or if there is a significant change in the volatility or liquidity of the underlying interest, related interests, or the option, or if the writer’s brokerage firm otherwise requires, the firm may request significant additional margin payments. If those payments are not made, the firm may have the right to liquidate the options positions and other securities positions in the writer’s account with little or no prior notice.
7. **Since the leverage inherent in an option can cause the impact of price changes in the underlying interest to be magnified in the price of the option, a writer of an option that is uncovered and unhedged may have a significantly greater risk than a short seller of the underlying interest.** This is illustrated by the table set forth in numbered section 1 under “Risks of Option Holders” above. If an investor had sold short 100 shares of XYZ to Investor A in that table in order to receive \$5,000 in proceeds, the investor would have lost \$1,200 if the market price of XYZ had increased to 62. On the other hand, if, in order to receive \$5,000 in proceeds, the investor had written 10 XYZ 50 uncovered calls, she would have lost \$7,000 if the market price of XYZ had increased to 62.
8. **The fact that an option writer may not receive immediate notification of an assignment creates a special risk for uncovered writers of physical delivery call stock options that are exercisable when the underlying security is the subject of a tender offer, exchange offer, or similar event.** A writer who fails to purchase the underlying security on or before the expiration date for the offer may learn after the expiration date that he has been assigned an exercise filed with OCC on or before that date. At that point, neither the purchase of the underlying security for regular settlement nor the exercise of another option (e.g., the long leg of a spread) will enable the assigned writer to deliver the security on the settlement date for the option exercise (see “Settlement” in Chapter VIII). If the assigned writer fails to make timely settlement, he may be liable for, among other things, the value of the offer (because his non-delivery may have prevented the exercising holder from making timely delivery of the security to the offerer). This risk can be avoided only by purchasing the underlying security on or before the expiration date for the offer. Occasionally, an offer will require that tendered securities be delivered in less than the normal settlement time for exchange transactions after

the offer's expiration date. In those cases, call writers will need to purchase the underlying equity security at an earlier point—i.e., at least the number of days equal to the normal settlement time before the offerer's delivery deadline—in order to protect themselves.

9. Although the rules of the options markets establish exercise cut-off times by which exercise instructions of expiring options must be received by brokerage firms from their customers, OCC must accept all exercises which it receives before expiration—even if those exercises are filed with OCC in violation of an options market's rules. **Accordingly, there is a risk that an option writer will be assigned an exercise that is made based on news that is published after the established exercise cut-off time and that the writer may not have an effective remedy to compensate for the violation of the options market's rules.**
10. **If a trading market in an option should become unavailable, or if the writers of the option are otherwise unable to engage in closing transactions, the writers of that option would remain obligated until expiration or assignment.** See the discussions in numbered sections 2 and 3 under "Other Risks" below.
11. **A sudden development may cause a sharp upward or downward spike in the value of the interest underlying a capped option.** Such a spike could cause the capped option to be automatically exercised, and writers of the option to become obligated to pay the cash settlement amount, even if the effect of the development on the value of the underlying interest completely disappears on the day after the automatic exercise is triggered.

Other Risks

1. **Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors.** Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, **a complexity not well understood is, in itself, a risk factor.** While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

The investor considering strategies involving combination transactions should recognize several other risk-related considerations in addition to those already mentioned: the fact that it may at times be impossible simultaneously to execute transactions in all of the options involved in the combination, the difficulty that may be involved in attempting to execute simultaneously two or more buy or sell orders at the desired prices, the possibility that a loss could be incurred on both sides of a combination transaction, and the increased risk exposure that would result from the exercise or closing out of one side of the trade while the other side of the trade remains outstanding. Also, the transaction costs of combination transactions can be especially significant, since separate costs are incurred on each component of the combination. This can have the effect of requiring a substantial favorable price movement in the underlying interest before a profit can be realized.

Where a combination transaction involves the writing of an in the money American-style option, an investor must keep in mind the possibility of being assigned an exercise, which would eliminate that component of the transaction and could materially change the investor's risk position.

In the case of straddle writing, where the investor writes both a put and a call on the same underlying interest at the same exercise price in exchange for a combined premium on the two writing transactions, the potential risk is unlimited (except in the case of capped options or binary options). Except where a straddle consists of binary options, to the extent that the price of the underlying interest is either below the exercise price by more than the combined premium, or

above the exercise price by more than the combined premium, the writer of a straddle will incur a loss when one of the options is exercised. Indeed, if the writer is assigned an exercise on one option position in the straddle and fails to close out the other position, subsequent fluctuations in the price of the underlying interest could cause the other option to be exercised as well, causing a loss on both writing positions. An investor who writes a straddle using binary options will incur a loss when the combined premium is less than the fixed cash settlement amount of the option that is exercised.

Combinations involving different styles of options present added complexities. For example, the assigned writer of an American-style option would be unable to cover by exercising a European-style or capped-style option that he holds unless the assignment happened to occur during the exercise period of that option.

Combination transactions involving all cash-settled options also pose the same risks that are discussed for index options under “Special Risks of Index Options” below.

2. If a trading market in particular options were to become unavailable, investors in those options could no longer engage in closing transactions. Moreover, even if the market were to remain available, there may be times when options prices will not maintain their customary or anticipated relationships to the prices of the underlying interests and related interests.

The options markets attempt to provide secondary markets in which holders and writers of options can close out their positions at any time prior to expiration—by making offsetting sales or purchases—but there is no guarantee that such a market will at all times exist for every option. Lack of investor interest, changes in volatility, or other factors or conditions might adversely affect the liquidity, efficiency, continuity or even the orderliness of the market for particular options. Or an options market might permanently discontinue trading of a particular option or of options generally (although it has ordinarily been the practice, when an options market decides to discontinue trading of options on a particular underlying interest, to do so only after all outstanding series of those options have expired if the options are not traded on another options market). A market could become temporarily unavailable if unusual events—such as volume in excess of trading or clearing capability, computer malfunction, fire or natural disaster—were to interrupt normal market operations. As discussed in numbered section 3, an options market may also become unavailable in the event trading in the underlying interest is formally suspended or halted. It is also possible that an options market will not open, or will delay opening, trading in certain options even though trading is taking place in the underlying security (or in the constituent securities of an underlying index).

In addition, an options market may at times determine to impose restrictions on particular types of options transactions, such as opening transactions or uncovered writing transactions. For example, if an underlying interest ceases to meet qualifications imposed by the options market or OCC, new series of options on that interest may no longer be opened to replace expiring series, and opening transactions in existing series may be prohibited.

The accounts of options market makers and specialists are carried and guaranteed by a relatively few firms. If one of these firms were to fail, be suspended by OCC, be restricted in its operations, determine or be required to discontinue or reduce its operations, or have a significant reduction in its capital, the markets for particular options, or even for all options, could be disrupted or possibly forced to discontinue trading. Similarly, in the event an options specialist or a significant group of options market makers should fail or have a significant reduction in capital, the markets in the particular options in which the specialist or market makers traded could be adversely affected. The suspension by OCC of any Clearing Member that maintains significant positions in a particular options series in its accounts could also disrupt the market for that options series.

An options market could also become unavailable because of its own financial problems. For example, if an options market were to be declared bankrupt or if creditors were to take possession of its principal trading systems, it might be unable to continue to operate as an options market.

If a secondary market in a particular option were to become unavailable, a holder of that option would be able to realize his profits or limit his losses only by exercising at a time when the option is exercisable, and a writer of that option would remain subject to assignment until expiration. However, as noted in numbered section 5 under “Risks of Options Holders,” an options market may also restrict exercises of that option.

3. Disruptions in the markets for underlying interests could result in losses for options

investors. Each of the options markets has discretion to halt trading in an option in certain circumstances—such as when the market determines that the halt would be advisable in maintaining a fair and orderly market in the option. If trading is halted or suspended in one or more of the markets for an underlying interest, the trading of options on that interest may also be halted. Similarly, if dissemination of the current level of an underlying index is interrupted, or if trading is interrupted in stocks accounting for a substantial portion of the value of an index, the trading of options on that index may be halted. In addition, the rules of the options markets may require them to halt trading in particular types of options in certain circumstances. U.S. options markets are required to halt trading in all stock options and stock index options when trading in all stocks on the underlying exchange has been halted by the activation of “market-wide circuit breakers” by the underlying exchange. This requirement may be changed from time to time.

When trading in an option is halted or suspended, holders and writers of that option will be unable to close out their positions until trading resumes, and they may be faced with substantial losses if the value of the underlying interest moves adversely during that time. For example, if a trading halt in an underlying stock is followed by the announcement of a tender offer at a substantial premium, and the stock reopens at a price reflecting the offer, uncovered call writers may sustain large losses.

Even if options trading is halted, holders of American-style options, other than delayed start options for which an exercise price has not yet been set, would still be able to exercise unless exercises were restricted. (However, OCC or an options market may restrict the exercise of an option while trading in the option has been halted, and the restriction may remain in effect until shortly before expiration. See numbered section 5 under “Risks of Option Holders” above.) If the option is exercisable while trading has been halted in the underlying interest, option holders may have to decide whether to exercise without knowing the current market value of the underlying interest. This risk can become especially important if an option is close to expiration, and failure to exercise will mean that the option will expire worthless. If exercises do occur when trading of the underlying interest is halted, the party required to deliver the underlying interest may be unable to obtain it, which may necessitate a postponed settlement and/or the fixing of cash settlement prices (see Chapter VIII).

In the event that the underlying security of an option is not trading or a price cannot be obtained or is otherwise unavailable on the expiration date for an option contract, OCC may, in its discretion, fix a closing price on such basis as it deems appropriate for the circumstances, including, without limitation, using the last sale price during regular trading hours on the most recent trading day for which a last sale price is available. Although this situation may occur infrequently, if the last available trading price or other value as deemed appropriate is used for expiration processing, option holders and writers with expiring positions on flexibly structured options on certain fund shares that settle in cash bear the risk that the cash settlement amount may be based on the last price available or other value as deemed appropriate and such price or value may not reflect the current value of the underlying security at the time of expiration.

4. All cash-settled options have certain special risks. The special risks applicable to cash-settled index options are discussed under “Special Risks of Index Options” below. Special risks applicable to range options are discussed under “Special Risks of Range Options” and the special risks applicable to binary options are discussed under “Special Risks of Binary Options (Other than Credit Default Options)” and “Special Risks of Credit Default Options” below.

If a cash-settled option has a settlement currency other than U.S. dollars, holders and writers will be subject to the same kinds of risks with respect to the foreign currency and the settlement of an exercise as are discussed in numbered sections 1 through 9 under “Special Risks of Foreign Currency Options” below.

- 5. Holders and writers of a capped option bear the risk that an automatic exercise value will be reported erroneously by the official reporting source.** As a consequence of the error, the options market on which the option is traded may not determine on a timely basis that the automatic exercise feature has been triggered. In that event, the option will not be automatically exercised unless the options market determines on a subsequent trading day that the automatic exercise value for the option has hit the cap price. Alternatively, the options market may determine on the basis of an erroneous report that the automatic exercise feature has been triggered. If the options market makes such a determination and does not correct it on a timely basis, the option will be automatically exercised and the short positions of all writers will be assigned based on the erroneous report.
- 6. The insolvency of a brokerage firm could present risks for that firm’s customers, whether they are investors in options or in other securities.** If a brokerage firm or the OCC Clearing Member that carries the firm’s accounts at OCC were to become insolvent, the firm’s customers could have some or all of their options positions closed out without their consent. Customers whose options positions were not closed out under these circumstances might experience delays or other difficulties in attempting to close out or exercise affected options positions. Similarly, the insolvency of an associate clearing house could present risks for the customers of brokerage firms whose accounts are carried through that associate clearing house.
- 7. Although OCC’s rules and procedures have been designed for the purpose, among others, of facilitating the prompt settlement of options transactions and exercises, there is a risk that OCC and its backup system will fail.** For example, if Clearing Member insolvencies are substantial or widespread, OCC’s ability to honor all exercises could be impaired.

Special Risks of Index Options

The risks described in numbered sections 1 through 10 below relate primarily to options on stock indexes. The risks described in numbered sections 1, 2, 5, 8 and 10 also relate to options on foreign currency indexes, although in the case of options on foreign currency indexes the components of the index are foreign currencies rather than securities. The risks described in numbered section 11 relate to options on implied volatility indexes. The risks described in numbered sections 12 through 14 relate to options on variability indexes, strategy-based indexes or relative performance indexes. The risks described in numbered section 15 relate to delayed start options. The risk described in numbered section 16 relates to dividend index options, and the risks described in numbered section 17 relate to relative performance options.

The risks discussed in numbered sections 4, 5, 7, 8 and 10 below are generally applicable to writers of non-binary and binary index options, but the risks discussed in numbered sections 1 through 3, 6 and 9 are inapplicable to writers of binary index options. The risks discussed in numbered sections 4, 5, 7, 8 and 10 below apply to writers of range options on securities indexes, but the risks discussed in numbered sections 1 through 3, 6 and 9 do not. Special risks of range options are discussed below under the caption “Special Risks of Range Options.” Additionally, certain risks factors applicable to options on foreign currency indexes are discussed below under the caption “Special Risks of Foreign Currency Options,” which discusses the risks of foreign currency options, many of which are applicable to foreign currency index options.

1. **Writers of cash-settled index call options cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying interest.** A call writer can offset some of the risk of his writing position by holding a diversified portfolio of securities similar to those on which the underlying index is based. However, except where the underlying index is a specialized one based on relatively few securities, most investors cannot, as a practical matter, acquire and hold a portfolio containing exactly the same securities in the same proportions as the underlying index. **Most writers of cash-settled index calls who also hold positions in securities will therefore bear the risk that the market prices of those securities will not increase as much as the index.**
2. **Even if the writer of a cash-settled index call option could assemble a securities portfolio that exactly reproduced the composition of the underlying index, the writer still would not be fully covered from a risk standpoint because of the “timing risk” inherent in writing cash-settled options.** When a cash-settled index option is exercised, the amount of cash that the holder is entitled to receive is determined by the difference between the exercise price and the exercise settlement value, which is based on the prices of the constituent securities at a particular time on or in relation to the date on which the option is exercised. As with most other kinds of options, the writer may not learn that he has been assigned until the next business day, at the earliest. The time lag between exercise and notice of assignment poses no risk for the writer of a covered physical delivery call, because that writer’s obligation is to deliver the underlying interest and not to pay its value as of a fixed time in the past. So long as the writer of a physical delivery call already owns the underlying interest, he can satisfy his settlement obligations simply by delivering it, and the risk that its value may decline after the exercise date is borne by the exercising holder. In contrast, even if the writer of a cash-settled index call holds securities that exactly match the composition of the underlying index, he will not be able to satisfy his assignment obligations by delivering those securities against payment of the exercise price. Instead, he will be required to pay cash in an amount based on the exercise settlement value on the exercise date, and by the time he learns that he has been assigned, the index may have declined, with a corresponding decline in the value of the securities portfolio. This “timing risk” is an inherent limitation on the ability of writers of cash settled calls to cover their risk exposure by holding positions in the underlying interest. This risk applies only to American-style options. The writer of a European-style capped call that is exercisable only on the expiration date runs the risk of assignment only with respect to exercises filed on that day. If the call is more than marginally in the money on the preceding trading day, the writer can ordinarily assume that it will be exercised and take market action to protect himself against a subsequent decline in the value of his position in the underlying interest.
3. **The timing risk discussed in the preceding paragraph makes spread positions and certain other multiple option strategies involving cash-settled American-style index options substantially riskier than similar strategies involving physical delivery options.** With physical delivery options, a person in a spread position can ordinarily satisfy his settlement obligations on the short leg of the spread merely by exercising the long leg if it is in the money. That is, the cash or underlying interest that she obtains by exercising the long leg will ordinarily be sufficient to enable her to meet her settlement obligations on the short leg. With cash-settled index options, however, an investor in a spread position runs the risk that by the time she receives notice of an exercise assignment on the option she has written, the index value will have changed such that exercising the long leg of the spread will not yield sufficient cash to satisfy her obligation on the exercise assignment. **Thus, an investor who holds a spread position in cash-settled index options and is assigned an exercise is at risk for any adverse movement in the prices of the constituent securities of the index after the time the exercise settlement value of the assigned short is determined unless the investor is able to exercise the long leg of the spread in time to receive that same exercise settlement value. Other multiple options strategies involving cash-settled options can present similar risks.**
4. **Readers intending to use index options to hedge against the market risk entailed in investing in individual securities should recognize the complexities of utilizing index options in this manner.** Market risk is the risk that factors affecting the stock market as a whole may have a similar effect on the price of a particular equity security. Historically, some securities have tended to be highly

sensitive to factors influencing the market generally; others less so. As a result, different securities may be viewed as involving different levels of market risk. In addition, a security's sensitivity to broad market influences may change over time, so that the same security may involve different levels of market risk at different times.

Investors using index options in this manner should also understand that they remain subject to company risk—that is, the risk that factors affecting a particular company, such as its market position or the quality of its management, may cause its securities to perform differently than the market as a whole.

In addition, readers intending to utilize index options to hedge a diversified securities portfolio against market risk should understand that unless the securities in the portfolio exactly mirror the securities in an underlying index, the portfolio and the index may respond differently to a given market influence. For this reason, the use of index options for hedging purposes involves special risks that are not present with “true” hedges—*i.e.*, hedges composed of options on the specific securities in the hedged position. These risks are greatest when options on broad-based indexes are used to hedge a non-diversified securities position. Except where the composition of the position to be hedged is very similar to that of an underlying index, index options may best be understood as a means of reducing some but not all of the risks of a securities portfolio position.

Readers should also be aware that it may not be possible to purchase or liquidate a portfolio of securities at prices that exactly converge with the prices used in determining the exercise settlement values of some index options. For example, if the underlying index is comprised in whole or part of securities whose primary market is the Nasdaq stock market, an investor cannot be certain that he will be able to effect transactions in those securities at the opening or closing prices (as the case may be) used in determining the exercise settlement value.

5. Holders and writers of index options generally bear the risk that the reported current index level may be in error. Persons who exercise cash-settled index options or are assigned exercises based on erroneously reported index levels will ordinarily be required to make settlement based on the exercise settlement value as initially reported by the official source of the index, even if a corrected value is subsequently announced. In the case of binary index options, while the exercise settlement amount is fixed, the exercise settlement value of the underlying index will determine whether the option is automatically exercised and returns a cash settlement amount or expires worthless. References herein to index values “as initially reported” refer to the values initially reported by the source of the index as definitive, and not to any tentative or preliminary values that may be announced at an earlier time subject to adjustment. In extraordinary circumstances (*e.g.*, where an exercise settlement value as initially reported is obviously wrong and inconsistent with values previously reported, and a corrected value is promptly announced), OCC has discretion to direct that exercise settlements be based on a corrected exercise settlement value. Ordinarily, however, the exercise settlement value as initially reported by the official source of the index will be conclusive for exercise settlement purposes.

6. A holder of a cash-settled index option who exercises it before the exercise settlement value of the index for that day is available runs the risk that the level of the underlying index may subsequently change. If such a change causes the exercised option to fall out of the money, the exercising holder will be required **to pay** the difference between the exercise settlement value and the exercise price of the option (times the applicable multiplier) to the assigned writer.

EXAMPLE: A holder of an index put option that settles based on the closing prices of the constituent securities and that has an exercise price of 30 directs his broker to exercise at 10:00 A.M., when the level of the underlying index is 28. If the underlying index stays at that level until the close of trading that day, the holder will be entitled to receive \$200 in settlement (assuming a multiplier of 100). If, however, the index level rises to 32 based on the closing prices of the constituent securities, the holder will be required to **pay** \$200 to the assigned writer, thereby sustaining a \$200 loss on the exercise.

EXAMPLE: A holder of an index put option that settles based on the closing prices of the constituent securities and that has an exercise price of 30 directs his broker to exercise at 10:00 A.M., when the level of the underlying index is 28. If the underlying index stays at that level until the close of trading that day, the holder will be entitled to receive \$2 in settlement (assuming a multiplier of 1). If, however, the index level rises to 32 based on the closing prices of the constituent securities, the holder will be required to pay \$2 to the assigned writer, thereby sustaining a \$2 loss on the exercise.

A holder who plans to exercise a cash-settled index option that settles based on closing prices can minimize this risk by withholding exercise instructions until just before the daily exercise cut-off time fixed by his brokerage firm. However, he may not be able to eliminate it entirely. Daily exercise cut-off times for index options may be earlier than those fixed for other types of options and may occur before definitive exercise settlement values have been determined. In the case of the exercise of a cash-settled index option that settles based on opening prices of the constituent securities, this risk applies if the holder submits exercise instructions before the definitive exercise settlement index value has been announced, which may be different from index levels that are initially disseminated at the time of the opening and which may not be available in some cases until several hours after the opening.

- 7. Cash-settled index options whose exercise settlement values are based on the opening prices of the constituent securities are not traded on the option expiration date, regardless of whether trading occurs on the expiration date for the constituent securities of the index.** If the option expiration date falls on a day when the markets are scheduled to be closed (e.g., a holiday), cash-settled index options whose settlement values are based on the opening prices of the constituent securities may not trade on the day prior to the expiration date. If the option expiration date falls on a day when the markets are closed due to an unscheduled event (e.g., a natural disaster), cash-settled index options whose settlement values are based on the opening prices of the constituent securities may not trade on the day prior to the expiration date depending on the circumstances and timing of the event leading to the market closure. In the uncommon event of an unscheduled market closure or a scheduled market closure that is also an expiration date for cash settled index options, OCC will publish an information memo on its website to identify the settlement prices to be used for cash settled products, and investors should reference this information to determine when trading in a cash-settled index option will not be available on the day prior to the expiration of such options.

Since A.M. cash-settled index options are not traded on the expiration date and, if applicable in the case of a scheduled or unscheduled market closure, are not traded on the day prior to the option expiration date, an option holder will be able to realize value from his option on such expiration day or day prior to the expiration date, as the case may be, only if the option is in the money and is exercised. A writer of this type of option who has not previously closed out his position will be unable to do so on that last trading day for the constituent securities and will be at risk of being assigned an exercise.

- 8. Current index levels will ordinarily continue to be reported even when trading is delayed or interrupted in some or all of the constituent securities of the index or when the reporting of transactions in those securities has been delayed.** In that event, the reported index levels will be based on the most recent reported prices of the constituent securities—whether or not those securities are being currently traded. As a result, reported index levels may at times be based on non-current price information with respect to some or even all of the constituent securities of an index. If this condition existed at the time of determining the exercise settlement value of an exercised option, that exercise would be settled on the basis of an index level that might not reflect current price information with respect to constituent securities accounting for a significant portion of the value of the index. (Indeed, as noted in Chapter IV, an exercise settlement value that is based on the opening prices of the constituent securities may not coincide with, and may diverge substantially from, the index values that are reported at the time of the opening.) Moreover, if the index underlay

a capped index option or a binary index option, that option would or would not be automatically exercised based on an index level that might not reflect the true state of the market at the time.

If OCC determines that the primary market(s) for one or more component securities of an underlying index did not open or remain open for trading, or that the component security or securities did not open or remain open for trading on the primary market(s), on a trading day at or before the time when the exercised settlement value for that trading day would ordinarily be determined, or that a current index value or other price or value needed to calculate the exercise settlement value for an index option is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the cash settlement amount, then OCC may suspend settlement obligations for exercised and assigned contracts of the affected series. In the event of such a suspension, OCC will fix a new settlement date after OCC determines that the exercise settlement value is available or after OCC fixes the exercise settlement value.

If OCC determines to fix the exercise settlement value, it will act through a panel comprised of representatives from each exchange on which the series without an exercise settlement values trades, that will use its judgment as to what is appropriate for the protection of investors and the public interest. The panel may fix the exercise settlement value using the reported price or value of the relevant security or securities or index (i) at the close of regular trading hours (as determined by OCC) on the last preceding trading day for which a price or value was reported by the reporting authority, or (ii) at the opening of regular trading hours (as determined by OCC) on the next trading day for which a price or value was reported by the reporting authority. Alternatively, the panel may fix the exercise settlement value using a price or value for the relevant security or securities or index, or using a combination or average of such prices or values, at or during such time or times that the panel sees fit.

If a panel delays fixing an exercise settlement value for a series of index options past the last trading day before expiration of that series, normal expiration exercise procedures will not apply to the affected series. Instead, exercise settlement will be postponed until the next business day following the day when the panel fixes the exercise settlement value, and each long position in the affected series will be treated as having been exercised if the exercise settlement amount per contract is equal to or greater than the exercise threshold amount used in normal expiration exercise procedures. For example, for an index option with a multiplier of 100, each long position in the affected series will be treated as having been exercised if the exercise settlement amount per contract for that series is \$1.00 or more, and if the exercise settlement amount per contract is less than \$1.00, the option will be treated as having expired unexercised. Similarly, for an index option with a multiplier of 1, each long position in the affected series will be treated as having been exercised if the exercise settlement amount per contract is \$0.01 or more, and if the cash settlement amount per contract is less than \$0.01, the option will be treated as having expired unexercised. As a result of these procedures, holders of expiring index options may not know whether their options have been exercised, and writers of such options may not know whether they have been assigned an exercise notice, until after the expiration date. Investors should contact the listings options market to obtain the exercise threshold amount of the options they trade. A panel's determinations shall be conclusive, binding on all investors, and not subject to review.

9. OCC has no authority, and the options markets on which capped index options are traded do not intend as of the date of this document, to restrict the automatic exercise of capped index options. It is therefore possible that automatic exercise of a capped index option could occur on a day when OCC or an options market has imposed restrictions on the exercise of other styles of options on the same underlying index. It is also possible that automatic exercise of a capped index option could occur on a day when the options market has suspended trading in the option. Either of these possibilities could limit the ability of a writer to take action to limit the cost of being assigned an automatic exercise.

10. The purchase and sale of index options in foreign markets at times when U.S. markets are closed may present special risks. Although an underlying index may be based on securities primarily traded in U.S. markets, the index levels reported in foreign options markets at such times may be based on the trading of some or all of the constituent securities in foreign markets, and, in any case, option premiums in the foreign market will not reflect current prices of the constituent securities in U.S. markets. In addition, if a cash-settled index option (other than a binary index option) is exercised through the foreign office of a brokerage firm on a day when U.S. markets are closed, the exercise settlement value of the option will not be known until the time fixed for determining exercise settlement values on the next day on which U.S. markets are open. The corresponding risks would apply to the trading in U.S. markets of options based on indexes of securities primarily traded in foreign markets.
11. Because different values may be used in calculating indicative values and exercise settlement values of the volatility indexes underlying implied volatility options, **there is a risk that there may be a divergence between the exercise settlement value and an indicative value calculated at the opening on the date on which the exercise settlement value is being determined.** (Please refer to the discussion in Chapter IV under the heading “Variability Indexes” for the definition of the term **indicative value** and a description of the method that is used to calculate an exercise settlement value for implied volatility options.) For those implied volatility options that calculate the exercise settlement value by utilizing the actual opening prices of the relevant series of the index’s component put and call options on the reference index (rather than using the mid-point between opening bid and ask quotations), it is to be expected that there may will be at least some divergence between the exercise settlement value for such expiring implied volatility options and the indicative value calculated at the opening on the same date. Such divergence may occur if the indicative value is based on either the actual bid quotation or the actual ask quotation, depending on the forces of supply and demand, rather than the actual opening price for each of the options series that is used to calculate the exercise settlement value. This divergence may represent a significant percentage of the indicative value for the implied volatility index if the forces of supply and demand cause all or most of the series to open on the same side of the market. There may also be variability in the exercise settlement value for those implied volatility indexes that calculate the exercise settlement value by utilizing the mid-point of the bid and offering premium quotations at the opening of trading of the relevant series of the put options on the reference interest. Readers should recognize and understand the risks associated with the different methods of determining the exercise settlement values of the implied volatility options they intend to trade.
12. **Strategies involving the purchase and sale of options on a variability index, strategy-based index or relative performance index are inherently complex and require a thorough understanding of the concepts that are measured by these indexes. Investors must understand the method used to calculate the index in order to understand how conditions in the market for the component securities used to calculate its value may affect the value of the index.** Investors may fail to realize their investment objective even if they have correctly predicted certain events if they do not understand how those events may or may not affect the level of the index. The component securities of an implied volatility index are put and call options (not stocks, which are the component securities of stock indexes). A realized variability index, on the other hand, measures the actual volatility of an index and is calculated directly from the values of the reference index. There is no assurance that predicted volatility as measured by a particular implied volatility index will correspond to the actual volatility of the reference interest or to measures of predicted volatility calculated using other methods. A strategy-based index may be calculated from the prices of multiple component securities of different types, such as in the case of a buy-write index measuring the return of a strategy that involves transactions in stocks and options. The return from a particular strategy as measured by a strategy-based index may differ from the actual returns that an investor following that strategy achieves, because of assumptions regarding transactions and the failure to take into account significant factors such as taxes and transaction costs. Different relative performance indexes may measure relative performance in different ways. Investors should contact the listing options market for information on the method of calculation of a particular variability index, strategy-based index or relative performance index.

- 13. Persons who exercise variability options, strategy-based index options or relative performance options or are assigned exercises based on an erroneous index level will ordinarily be required to make settlement based on the exercise settlement value as initially reported by the designated reporting authority for the index, even if a corrected value is subsequently announced.** In extraordinary circumstances (e.g., where an exercise settlement value as initially reported is obviously wrong, and a corrected value is promptly announced), OCC has discretion to direct that exercise settlements be based on a corrected exercise settlement value. Ordinarily, however, the exercise settlement value as initially reported by the designated reporting authority for the underlying variability index will be conclusive for exercise settlement purposes. As described in numbered section 8 with respect to other indexes, reported levels of a variability index, strategy-based index or relative performance index may be based on non-current information. This may occur as a result of delays or interruptions in the market for the reference security or the component securities of the underlying index or the reference index (which are the same in the case of realized variability indexes).
- 14. As in the case of writers of other index options, writers of variability options, strategy-based index options or relative performance options cannot provide in advance for their potential settlement obligations by acquiring the underlying interest.** Offsetting the risk of writing a variability option, strategy-based index option or relative performance option may be even more difficult than offsetting the risk of writing other index options. Even where some offsetting of risk is possible, there are timing risks and other risks analogous to those discussed in numbered sections 3 and 4 above whenever an investor attempts to employ strategies involving transactions in variability options, strategy-based index options or relative performance options and transactions in stocks or in options, futures contracts or other investments related to stocks.
- 15. Holders and writers of delayed start options bear the risk that the index level used to calculate the exercise price on the exercise price setting date may be unavailable or incorrect or that the options market may incorrectly calculate the exercise price.** Numbered section 5 of this section discusses some of the risks of an erroneously reported index level to a person buying, selling, or exercising an option, or who is assigned an option exercise, based on the erroneous index level. Similarly, persons who are holders or writers of delayed start options on the exercise price setting date bear the risk that an erroneously reported index level will be used to set the exercise price. There is the additional risk that a correct index level will be used, but the options market will calculate the exercise price incorrectly. Once a series of delayed start options is opened for trading on the day after the exercise price setting date, even if a corrected index level is later reported, or if it is later discovered that an exercise price was set incorrectly, the exercise price will not be corrected to account for such errors.
- 16.** The reported values of dividend indexes may be affected by factors other than the financial ability of the issuers of the component securities of a dividend index to pay cash dividends. For example, an issuer's determination to pay stock dividends in lieu of cash dividends or to forego payment of cash dividends notwithstanding its ability to do so may affect the level of a dividend index.
- 17. In the event that one of the index components of a relative performance index is eliminated as a result of a cash-out merger or other event, the reporting authority may cease to publish the value of the relative performance index and the market on which options on that relative performance index are traded may determine to accelerate the expiration date of the options (and, in the case of European-style options, their exercisability).** In that case, the exercise settlement value of the options would become fixed based upon the last published value for the underlying relative performance index. As a result, all such options that are not in the money will become worthless and all that are in the money will have no time value. Holders of an in-the-money option whose expiration date is accelerated must be prepared to exercise that option prior to the accelerated exercise cut-off time in order to prevent the option from expiring unexercised. Writers of a European-style option whose expiration date is

subject to being accelerated bear the risk that, in the event of such an acceleration, they may be assigned an exercise notice and be required to perform their obligations as writers prior to the original expiration date. As with any other option for which the expiration date is accelerated, no adjustment would be made to compensate for the accelerated expiration date of a relative performance option.

Special Risks of Debt Options

The risks described in numbered sections 1 through 9 of this section relate to debt options other than options on index-linked securities. The risks described in numbered sections 10 and 11 relate exclusively to options on index-linked securities.

1. Many of the special risks associated with debt options result from the character of the markets in which the underlying debt securities are issued and traded and the distinctive characteristics of debt securities. The vast majority of the trading activity in bonds and money market instruments takes place in a dealer market. Dealers typically maintain markets in all outstanding issues of Treasury securities, but most of the activity tends to center on recently issued securities. Liquidity is generally greater and quotations are generally tighter on recent issues than on older issues.

There are numerous dealers in all of the Treasury securities from which the yield on the options now traded is determined, but at the date of this document there is no comprehensive consolidation of bids and offers or public reporting of transaction prices in those securities such as exists in the markets for stocks. While there is some dissemination of representative bids and offers, at the date of this document anyone interested in buying or selling a Treasury security usually must have his brokerage firm or bank contact one or more dealers individually to learn their current quotations.

The absence of last sale information and the limited availability of quotations for debt instruments can make it difficult for many investors to obtain timely, accurate data about the state of the market for the underlying debt securities. At the same time, dealers in the underlying securities have access to private quotation networks that give actual current bids and offers of other dealers. This information may not be available to investors. As a result, these dealers may have a significant advantage over other participants in the debt options markets.

2. Another important difference between the stock market and the market for Treasury securities is that stock quotations are generally keyed to a 100-share round lot while the basic unit of trading in the debt securities market typically involves much larger dollar amounts. A round lot for most dealers in Treasury securities is, at a minimum, \$1,000,000 of principal amount; and on Treasury bills it can be larger. Most dealers are oriented toward doing business with large institutional customers or other dealers. As a result, investors buying or selling debt securities in amounts smaller than round lots can expect to pay more and receive less than dealer quotations for round lot transactions.

The unit of trading for price-based debt options is likely to involve larger dollar amounts of the underlying debt security than is the case with stock options. In general, this means that: (a) premiums for such an option will tend to be higher than for a stock option, and (b) the increase or decrease in the price of an option that is associated with any given change in the price of the underlying security will tend to be larger for many such debt options.

If the unit of trading for a physical delivery price-based debt option is smaller than \$1,000,000, investors who buy or write options covering principal amounts other than a multiple of \$1,000,000 may be disadvantaged by having to deal in an odd-lot market for the underlying debt security at prices that are less favorable than for round lots.

- 3. In the event of a shortage of the underlying debt security deliverable on exercise of a physical delivery price-based debt option, OCC has the authority to permit other generally comparable securities to be delivered in fulfillment of the delivery obligation.** If OCC exercises its authority to allow such other securities to be delivered, it may also adjust the exercise prices of the affected options by setting different prices at which otherwise non-eligible securities may be delivered. As an alternative to permitting such substitute deliveries, OCC may impose special exercise settlement procedures similar to those applicable to stock options, including the fixing of a cash settlement price payable by writers who would otherwise be unable to meet their delivery obligations (see “Settlement” in Chapter VIII), and/or prohibit the exercise of puts by holders who would be unable to meet the resulting settlement obligations (see numbered section 5 under “Risks of Option Holders” above).
- 4. The hours of trading for debt options may not conform to the hours during which the debt securities are traded. To the extent that the options markets close before the markets for the underlying or other related instruments, significant price and rate movements can take place in the underlying markets that may not be reflected in the options markets.** The possibility of such movements should be taken into account in relating closing prices in the options markets to those in the underlying markets. In addition, there is a risk that debt options may be exercised on the basis of price movements in the underlying security after the close of trading in the options markets when writers are no longer able to close out their short positions.
- 5. Because exercises of yield-based options are settled in cash, option writers cannot fully provide in advance for their potential settlement obligations by acquiring and holding the Treasury security from which the underlying yield is determined.** A writer of a yield-based option can theoretically offset most of the risk of his writing position by acquiring Treasury securities of the designated maturity period on which the underlying yield is based. Offsetting risk in this way may be difficult to do in practice, however. While it is possible at any given time to calculate the principal amount of Treasury securities needed to assure that the risk of the option position is offset, such calculations are based upon complex mathematical relationships. Moreover, the principal amount of Treasury securities needed to assure that the risk of an options position is fully offset will generally not remain constant throughout the life of the option, but instead will fluctuate as a result of changes in yields and remaining time to maturity. For a given percentage change in yield, this fluctuation will be greater for securities of longer maturity periods than for securities of shorter maturity periods. Furthermore, there can be no assurance that an option writer will be able to sell the Treasury securities that she holds at the option’s expiration at the same average yield that is used in calculating the exercise settlement value of the option. Prices, and therefore yields, could differ from dealer to dealer. Moreover, when dealer quotations are averaged in obtaining a yield, they may result in a value which varies from the value that would be obtained by averaging yields representing actual transactions for the same securities during the same time period.
- 6. Investors in yield-based debt options run the risk that reported yields may be in error.** The values disseminated by the designated reporting authority of the options markets during trading and for exercise settlement purposes will ordinarily be averages or medians of dealer quotations or prices, and it is possible that errors could be made in the gathering or averaging of these values. A person who buys or sells an option at a premium based on an erroneous reported yield value is bound by the trade and has no remedy under the rules of the options markets. Similarly, persons who exercise options or are assigned exercises based on erroneous reported yields will ordinarily be required to make settlement based on the value as initially reported by the reporting authority, even if a corrected value is subsequently announced. In extraordinary circumstances (*e.g.*, where a value as initially reported is obviously wrong and inconsistent with values previously reported, and a corrected value is promptly announced), OCC may direct that exercise settlements be based on a corrected value. Ordinarily, however, the value as initially reported by the official source will be conclusive for exercise settlement purposes.

- 7. A holder of a yield-based option who exercises it before the exercise settlement value of the underlying yield is available runs the risk that the level of the underlying yield may subsequently change.** If such a change causes the exercised option to fall out of the money, the exercising holder will be required to pay the difference between the exercise settlement value and the exercise price of the option (times the applicable multiplier) to the assigned writer. A holder who plans to exercise an option may be able to minimize this risk by withholding exercise instructions until just before the exercise cut-off time fixed by his brokerage firm. However, he may not be able to eliminate the risk entirely. Exercise cut-off times for yield-based options may occur before definitive exercise settlement values are announced. Because exercise cut-off times may vary from brokerage firm to brokerage firm, and there may be different exercise cut-off times for different yield-based options, option holders who anticipate exercising should determine the applicable cut-off times from their brokers.
- 8.** If for any reason there are no quotations available for the Treasury security from which underlying yields of a yield-based option are determined, trading in the option may be halted. If trading is not halted, reported yields may be based on non-current price information for the Treasury security.
- 9.** If OCC determines that the exercise settlement value of the underlying yield for any series of yield-based options is unreported, inaccurate, unreliable, unavailable, or inappropriate for purposes of calculating the cash-settlement amount of such series, OCC has the authority to suspend the settlement obligations of the exercising and assigned Clearing Members of options of such series or to fix the cash settlement amount for exercised options of such series or to do both. In the event of such a suspension, OCC will fix a new settlement date after OCC determines that the exercise settlement value is available or after OCC fixes the cash settlement amount.

If OCC determines to fix the cash settlement amount, it will act through a panel, comprised of representatives from each exchange on which the series without an exercise settlement value trades, that will use its judgment as to what is appropriate for the protection of investors and the public interest. The panel may fix the cash settlement amount using the reported value of the underlying yield (i) at the close of regular trading hours (as determined by OCC) on the last preceding trading day for which such a value was reported by the reporting authority or (ii) at the opening of regular trading hours (as determined by OCC) on the next trading day for which such a value was reported by the reporting authority. Alternatively, the panel may fix the cash settlement amount using the value for the underlying yield, or using a combination or average of such values, at or during such time or times that the panel sees fit.

If a panel delays fixing a cash settlement amount for a series of yield-based options past the last trading day before expiration of that series, normal expiration exercise procedures will not apply to the affected series. Instead, exercise settlement will be postponed until the next business day following the day when the panel fixes the cash settlement amount, and each long position in the affected series will be treated as having been exercised if the cash settlement amount per contract for that series is \$1.00 or more. If the cash settlement amount per contract is less than \$1.00, the option will be treated as having expired unexercised. As a result of these procedures, holders of expiring yield based options may not know whether their options have been exercised, and writers of such options may not know whether they have been assigned an exercise notice, until after the expiration date. A panel's determinations shall be conclusive, binding on all investors, and not subject to review.

- 10.** In the event of a shortage of index-linked securities that are deliverable on exercise of a physical delivery option, OCC may impose special exercise settlement procedures similar to those applicable to stock options, including the fixing of a cash settlement price payable by writers who would otherwise be unable to meet their delivery obligations (see the discussion in Chapter VIII under "Settlement"), and/or prohibit the exercise of puts by holders who would be unable to meet the resulting settlement obligations (see numbered section 5 under "Risks of Option Holders").

11. In the event that an issuer of an index-linked security calls the entire issue of the security, outstanding options on that issue will be adjusted to require delivery upon exercise of a fixed amount of cash. After such an adjustment, all options on that security that are not in the money will become worthless, and all that are in the money will have no time value. Holders must be prepared to exercise the option to prevent the option from expiring unexercised, and writers must be prepared to perform their obligations prior to the accelerated exercise cut-off date. There is no assurance that the exercise settlement date for an index-linked security option will coincide with the date on which the cash payment to the holders of the underlying security becomes available from the issuer, and covered writers of an accelerated option therefore may be required to pay the cash amount in respect of the option before they receive cash payment on the underlying security.

Special Risks of Foreign Currency Options

1. The value of any currency, including U.S. dollars as well as foreign currencies, may be affected by complex political and economic factors applicable to the country issuing that currency. The price of a foreign currency option is dependent upon the value of the underlying foreign currency relative to the trading currency as well as the value of both currencies relative to other currencies generally. Fluctuations in the value of the trading currency—whether it is the U.S. dollar (in the case of a dollar-denominated option) or a foreign currency (in the case of a cross-rate option)—will affect exchange rates and the prices of foreign currency options, even in the case of an otherwise stable underlying foreign currency. Conversely, fluctuations in the value of an underlying foreign currency will affect exchange rates and the prices of foreign currency options even if the value of the trading currency remains relatively constant. Investors should consider factors affecting the economies and currency values of both the country of origin for the trading currency and the country of origin for the underlying currency. Although these same considerations apply to dollar-denominated options and cross-rate options, cross-rate options involve factors affecting the economies of at least two foreign countries and may involve consideration by U.S. investors of factors affecting the U.S. economy as well. Accordingly, a U.S. investor in cross-rate options may need to consider a broader range of economic developments than a U.S. investor in dollar-denominated foreign currency options.
2. Even though the intrinsic value of an option is determined by the value of the underlying currency relative to the trading currency, investors who intend to convert gains or losses into U.S. dollars or other currencies may be particularly affected by changes in the exchange rates between their “home” currency and either the trading or the underlying currency.

EXAMPLE: Assume that an investor purchases a yen-denominated, at-the-money call option on British pounds by converting U.S. dollars to Japanese yen. The British pound then appreciates relative to the yen, and at expiration the exercise price is more favorable than the then current exchange rate between yen and pounds. The investor could realize a gain in yen by converting dollars to yen in order to purchase pounds at the exercise price and then reselling the pounds for yen at the current exchange rate. If the amount of that gain exceeds the premium that the investor paid for the option, the investor will realize a gain in yen on his investment in the option. However, if the yen has depreciated relative to the dollar since the investor purchased the option, the gain may be reduced or even converted to a loss when the yen are converted back to dollars. This is so because, although the yen received upon the sale of the pounds may exceed the exercise price plus the premium paid in yen, there is no guarantee that, when the yen are converted back to dollars at the current rate, the dollars received will exceed the exercise price plus the premium paid in dollars. If the investor converts the pounds directly into dollars rather than to yen and then to dollars, the result would be the same since the amount of the dollars received would be expected to be approximately the same, ignoring any difference in transaction costs and any timing differences in the two-step process.

Similar considerations will apply if the investor liquidates his investment in a cross-rate option by selling it rather than by exercising it.

EXAMPLE: Assume in the previous example that the premium value of the call option has increased permitting the investor to liquidate his investment in the option by selling it for more yen than he paid for it. If the exchange rate between the U.S. dollar and the Japanese yen has not changed, the investor should be able to convert the yen received on the sale of the option to a U.S. dollar amount greater than his original investment. If, on the other hand, the yen has declined in value relative to the U.S. dollar, the investor's gain in yen may be reduced or converted to a loss when the premium received on the sale of the option is converted to dollars.

3. The exchange rates of foreign currencies (and therefore the prices of foreign currency options) could be significantly affected, fixed or supported directly or indirectly by government actions. Government actions could increase risks to investors in both dollar-denominated and cross-rate options if exchange rates were not free to fluctuate in response to other market forces.
4. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those likely to be involved in the exercise of individual foreign currency option contracts, investors who buy or write foreign currency options may be disadvantaged by having to deal in an odd lot market for the underlying foreign currencies at prices that are less favorable than for round lots. Because this price differential may be considerable, it should be taken into account when assessing the profitability of a foreign currency option transaction that will involve the exchange of one currency for another.
5. There is no systematic reporting of last sale information for foreign currencies. There is reasonably current, representative bid and offer information available on any market where foreign currency options are traded, in certain brokers' offices, in bank foreign currency trading offices, and to others who wish to subscribe for this information. There is, however, no regulatory requirement that those quotations be firm or be revised on a timely basis. The absence of last sale information and the limited availability of quotations to individual investors may make it difficult for many investors to obtain timely, accurate data about the state of the underlying market. In addition, the quotation information that is available is representative of very large round lot transactions in the interbank market and does not reflect exchange rates for smaller odd lot transactions. Since the relatively small amount of currency underlying a single foreign currency option would be treated as an odd lot in the interbank market, available pricing information from that market may not necessarily reflect prices pertinent to a single foreign currency option contract.

The quotation information available to investors may be from sources that are different from those used to calculate the exercise settlement value of cash-settled foreign currency options. An investor who attempts to realize the intrinsic value of such an option through an exercise rather than by selling the option in a closing transaction runs the risk that the exercise settlement value may be less than appears from the information then available to him.

6. Foreign governmental restrictions or taxes could result in adverse changes in the cost of acquiring or disposing of foreign currencies. If OCC determines that such restrictions or taxes would prevent the orderly settlement of delivery foreign currency option exercises or would impose undue burdens on parties to exercise settlements, it has authority to impose special exercise settlement procedures, which could adversely affect some investors.
7. The interbank market in foreign currencies is a global, around-the-clock market. Therefore, the hours of trading for foreign currency options do not conform to the hours during which the underlying currencies are traded. To the extent that the options markets are closed while the market for the underlying currencies remains open, significant price and rate movements may take place in

the underlying markets that cannot be reflected in the options markets. The possibility of such movements should be taken into account in relating closing prices in the options markets to those in the underlying markets. In addition, this creates a risk that foreign currency options may be exercised on the basis of price movements in the underlying currency after the close of trading in the options markets, when writers are no longer able to close out their short positions.

8. Since exercise settlement of physical delivery foreign currency options—whether they are dollar-denominated or cross-rate options—occurs within the country issuing the underlying foreign currency, investors must accept or make delivery of the trading and underlying foreign currencies through their brokerage firms in conformity with any U.S. or foreign restrictions or regulations regarding the maintenance of foreign banking arrangements by U.S. residents, and may be required to pay any fees, taxes or charges associated with such deliveries.
9. Exercise settlement of physical delivery foreign currency options—whether they are dollar-denominated or cross-rate options—is made through OCC’s correspondent banks in the country of origin. Investors may be exposed to losses in the event that a correspondent bank should fail during the settlement process.
10. As in the case of other cash-settled options, writers of cash-settled foreign currency call options cannot fully provide in advance for their potential settlement obligations by acquiring and holding the underlying interest. Although a call writer may hold the quantity of the currency underlying the option, there is no assurance that if she is assigned an exercise she will be able to sell such currency at the exercise settlement value.
11. If a cash-settled foreign currency option is exercised based upon a reported exercise settlement value that is in error, the holder and the writer will ordinarily be obligated to make settlement based on the exercise settlement value as originally reported, even if the value is subsequently revised or determined to have been inaccurate. In extraordinary circumstances (*e.g.*, where the value as initially reported is obviously wrong and inconsistent with other available price information and a corrected value is promptly announced), OCC has discretion to direct that the exercise settlement be based on the corrected value.
12. If OCC determines that the exercise settlement value for any cash-settled foreign currency option is unavailable for purposes of calculating the cash settlement amount, OCC has the authority to suspend the settlement obligations of the exercising holder and assigned writer of such option or to fix the cash settlement amount based on the best information available to OCC, or to do both. Accordingly, there is a risk to both holders and writers that the settlement of exercised cash-settled foreign currency options may be postponed and may be based on a determination by OCC rather than by the procedures specified by the options market on which the options are traded.
13. In addition to foreign currency options, options on foreign currency indexes also may be traded. As discussed above under the heading “Special Risks of Index Options,” many of the special risks applicable to options on stock indexes also apply to options on foreign currency indexes. In addition, the risks applicable to foreign currency options described in numbered sections 1 through 3, 5, 7, and 10 through 12 above generally apply to options on foreign currency indexes.

Special Risks of Flexibly Structured Options

In addition to the risks discussed above, the following special risks are applicable to flexibly structured options.

1. Because flexibly structured options have variable terms that are fixed by the parties, there are no pre-established series of flexibly structured options. Rather, many different series of flexibly structured options may be created and outstanding at any given time as a result of the various designations

of variable terms that are made in different transactions. Secondary trading interest in flexibly structured options may therefore be spread over a larger number of series than the trading interest in other options, the trading interest in any particular series of flexibly structured options may be very limited, the secondary markets in flexibly structured options may be less deep, liquid and continuous than the markets in other options on the same underlying interests, and the premiums for flexibly structured options may not correlate with premiums for such other options.

2. OCC may base its calculations of the margin requirements of OCC's Clearing Members for positions in a series of flexibly structured options on an estimate derived from data and factors OCC deems pertinent in respect of quotations and transactions in that options series and in other options series. Alternatively, OCC may fix such margin requirements at a level it deems necessary to protect the respective interests of OCC, the Clearing Members and the public. As a result, the Clearing Member's margin requirements for positions in flexibly structured options may differ from—and may be significantly greater than—the margin requirements applicable to similar positions in other options on the same underlying interest. Such differences may cause Clearing Members to require customers that maintain positions in flexibly structured options to deposit more margin for flexibly structured options positions than for positions in other options. To the extent OCC's estimate of the current value of a flexibly structured option is used in the determinations of the margin requirements of the Board of Governors of the Federal Reserve System, the options markets and other self-regulatory organizations, it may also cause such margin requirements to be greater than they would be for other options.

Special Risks of Credit Default Options

1. Pricing of credit default options is complex. As stated elsewhere in this document, complexity not well understood is, in itself, a risk factor. In order to price these options, investors must estimate the probability of default from available security or other prices, primarily bond and credit default swap (CDS) prices. Models typically used by market professionals to infer the probability of default from prices may be more complex than the average investor is used to.
2. The sources of price information used to price credit default options are subject to a lack of transparency and, at times, illiquid markets. This is attributable to, among other things: (1) the absence of last sale information and the limited availability of quotations for the reference obligation(s), (2) lack of ready availability of information on related products traded primarily in the over-the-counter market, and (3) the fact that related over-the-counter market credit derivative transactions are privately negotiated and may not be made public in a timely fashion or at all.
3. Dealers in the underlying debt securities and in the over-the-counter credit derivatives markets have access to private quotation networks that give actual current bids and offers of other dealers. This information is not available to most investors. As a result, these dealers may have an advantage over participants with regard to credit default options.
4. If the listing options market determines that a credit default option is subject to a redemption event (i.e., the issuer or guarantor pays off the reference obligation), the option will expire worthless unless a credit event has been confirmed to have occurred prior to the effective date of the redemption event. As a result, purchasers of such options will lose their premium since there is no chance of occurrence of a credit event for the reference entity. On the other hand, if a redemption event occurs but a credit event is confirmed to have occurred prior to the effective date of the redemption event, a seller would be obligated to pay the cash settlement amount even though a holder of the reference obligation may not incur a loss.
5. Since succession events are determined by the listing options market, credit default options may be modified to specify a different reference entity or several different reference entities. As a result, there may be new reference obligations that have higher or lower credit quality than the original

reference obligation. In addition, other factors may exist that could affect the likelihood of the occurrence of a credit event. As a result, the occurrence of a succession event could affect the price of these options. Moreover, since the listing options market determines whether a succession event occurred and the adjustment resulting from such an event, the adjustment made to these options may be at variance with the treatment given to the same succession event with respect to related credit derivative products.

6. The occurrence of a credit event must be confirmed by the listing options market. This means that there will be a lag time between the actual occurrence of a credit event and the listing options market's confirmation of the credit event. Rules of the options market may provide a specified time period (e.g., four business days) between the end of the **covered period** and the expiration date for a series of credit default options to allow the options market to confirm whether a credit event occurred during the covered period. There is a risk, however, that the sources used to monitor a credit event may not identify and report a credit event in a timely fashion. For example, it is possible that a credit event could occur on the last day of trading, but the sources which report the occurrence of a credit event do not make this information publicly available until after the expiration date. In this case, the cash settlement value of a credit default option would be zero. There is also a risk that the listing options market may determine that a credit event has occurred based on information available to it when in fact no credit event has occurred. This could happen, for example, if the sources used to confirm the credit event are erroneous. The rules of OCC and/or the listing options market may provide that a confirmation of a credit event or other contract adjustment may be revoked up to a specified time prior to exercise settlement. Settlements based on a listing options market's confirmation of a credit event are irrevocable even if no credit event has occurred.
7. Every determination by the listing options market of a redemption event, succession event or credit event will be within the listing options market's sole discretion and will be conclusive and binding on all holders and sellers and not subject to review. OCC shall have no authority to make such determinations and shall have no responsibility therefor.
8. Prior to the period when a credit default option has been automatically exercised, the only means through which the holder can realize value from the option is to sell it at its then market price in an available secondary market. If a secondary market for such an option is not available, it will not be possible for its holder to realize any value from the option at that time.
9. There is no underlying interest for credit default options that is quoted in the marketplace. Because of this, there are no underlying interest prices to provide a reference to investors for pricing credit default options.
10. As discussed above under the caption "Other Risks," options markets have discretion to halt trading in an option in certain circumstances—such as when the market determines that the halt would be advisable in maintaining a fair and orderly market in the option. In the case of credit default options, options markets may take into consideration, among other factors, that current quotes for debt securities or other securities of the reference entity are unavailable or have become unreliable.
11. The risk that a trading market for particular options may become unavailable and the potential consequences are also discussed above under the caption "Other Risks." The SEC has approved certain credit default options for listing and trading on a national securities exchange as securities. OCC filed its rules for clearing credit default options with the CFTC, and the CFTC issued an exemption permitting OCC to clear such options when traded on a national securities exchange whether or not they are within the CFTC's jurisdiction. By its terms, the exemption is revocable, and its revocation would be one of the events that could lead to the unavailability of a trading market for credit default options.

Special Risks of Binary Options (Other Than Credit Default Options)

1. **Risks of holders of binary options are similar to the risks described above applicable to holders of other cash-settled, European-style options, but the holder of a binary option will not receive any gain in excess of the fixed settlement amount of the option.** Non-binary options, in contrast, may provide greater return to the holder as the difference between the exercise price and the exercise settlement value of the underlying interest increases. A binary option is like a capped option in the sense that its maximum return is limited. Unlike a capped option, however, the payout on a binary option is all or nothing. Accordingly, with respect to a binary option, the holder may experience a relatively greater gain than the holder of a non-binary option when the option is in the money by a small amount but a relatively smaller gain when the option is in the money by a greater amount.
2. **Binary options may be more difficult to hedge, or to use as hedges, than non-binary options.** Because of the fixed settlement amount to be realized from a binary option, an investor who wishes to hedge the risk of an increase in the price of a specified quantity of a stock, for example, cannot create a perfect hedge by buying a specified quantity of at-the-money binary options that return a cash settlement amount if the exercise settlement value of the underlying security is above the current price of the stock. If the stock price at expiration of the option has risen only slightly above the exercise price, the option payout may exceed the aggregate increase in the value of the stock. If the stock price has risen substantially over the exercise price, the payout from the option may not be sufficient to cover the excess. Similarly, an investor who writes a binary option on an individual stock and wishes to hedge the obligation through ownership of the shares of the underlying stock would not be able to do so precisely through the ownership of any specific number of shares.
3. **Holders and writers of binary options may bear a heightened risk that they will be adversely affected by manipulative behavior in the markets.** Because a binary option that is in the money by even the smallest amount (or, in the case of certain binary options, at the money) will pay the full fixed settlement amount, there may be an incentive for holders or writers of options that are at or near the money at expiration to attempt to influence the exercise settlement value in order to cause a series of options to expire either in or out of the money. Although opportunities for manipulation may be greater when the underlying interest is an individual security than when it is an index, volume weighted average pricing is used to determine the exercise settlement value of binary stock options in order to reduce the likelihood of such manipulation. While market manipulation is unlawful under the federal securities laws and SEC regulations, there can be no assurance that manipulation affecting binary options will not occur. If manipulation does occur, exercise settlement values may be based on the manipulated price and there may be no adequate remedy available to investors.
4. A writer of a binary option has risks similar to those of writers of other cash-settled, European-style options except that the amount that the writer will be required to pay if assigned an exercise notice is limited to the fixed settlement amount. Even though the potential loss is limited, writers of binary options must have sufficient liquid assets to pay the fixed cash settlement amount and the financial capacity to bear that potential loss.
5. **A writer of a binary option will be obligated to pay the entire fixed cash settlement amount, even if the exercise settlement value is only slightly in the money or, in the case of certain binary options, at the money.** Investors should be aware of the criteria for automatic exercise of the binary options that they purchase or write. Binary stock options may be different in this regard from binary index options, and binary options traded on one options market may have different terms from those traded in other options markets.
6. A binary option that has an exercise price at or near the current price or level of the underlying as the expiration date approaches may be more volatile and therefore involve more risk than a non-binary option.

Special Risks of Range Options

1. Range options have a unique payout structure. Whereas other cash-settled options (other than binary options) provide an increasingly greater return to the option holder as the difference between the exercise price and the level of the underlying interest increases, a range option's potential payout increases through the lower range until it reaches the maximum cash settlement amount, remains at the maximum cash settlement amount through the entire middle range, and then decreases to zero as the level of the underlying interest moves through the high range. Therefore, a range option holder must not only be right about the timing of an anticipated change in the level of the underlying index, but she must also be right about the degree of the change because the option will have a reduced payout or drop out of the money altogether if the underlying index moves too far in either direction. In that case, a range option holder may lose all or a significant part of her investment in the option. On the other hand, the direction in which the underlying index moves will not affect the payout for a range option as long as it stays within the middle range.

2. The writer of a range option, like writers of other cash-settled options, runs the risk that the option will expire in the money and he will be required to pay the cash settlement amount. The writer's potential loss is limited to the maximum cash settlement amount of the option minus the premium received. Actual loss will depend on where the level of the underlying index falls within the range length.

EXAMPLE: An investor receives a premium of \$10 for writing a range option on XYZ index that has a maximum cash settlement amount of \$100. Assume that the option has a low range from 90 to 100, middle range from 100 to 110, and a high range from 110 to 120. If the level of the XYZ index at expiration is 100 (i.e., falls in the middle range), the investor will incur a loss of \$90 (the \$100 paid to the holder of the option less the \$10 premium received when the option was written). If the level of the XYZ index at expiration is in the low range or the high range, the profit or loss incurred by the investor will depend on where along the low range or high range the index level falls at expiration.

3. Range options may be more difficult to hedge, or to use as a hedge, than other types of options because of range options' unique payout structure. A range option would be a perfect hedge only for a risk exposure to the underlying interest that varies with the level of the underlying interest in the same unique way as the payout structure of the range option. In addition, as in the case of a binary option, it is not possible to precisely offset the risk of writing a range option through ownership of the underlying interest.

Scope and Limitations of This Document

Readers should be aware of the scope and limitations of this document set forth below:

1. This document has been prepared by the U.S. options markets for distribution pursuant to the requirements of SEC Rule 9b-1 under the Securities Exchange Act of 1934 and the rules of the U.S. options markets. **This document is not intended to meet other requirements which may be in effect in any jurisdiction and should not be relied upon for that purpose.**

The options discussed in this document are exempt from the registration requirements of the Securities Act of 1933, as amended, and this document is not a prospectus. Nothing in this document should be construed as furnishing investment advice or as being a recommendation, solicitation or offer to buy or sell any option or any other security.

2. **Only the U.S. options markets on which an option is authorized to be traded are responsible for the statements in this document concerning that option.**
3. **The options markets do not intend this document to be incorporated by reference into any publication** that may be prepared or distributed by OCC, an options market or any other person (other than a document that has been specifically designated to be a supplement to this document and that has been filed with the SEC pursuant to Rule 9b-1). The fact that another document states that this document is available, or states from whom this document may be obtained, or recommends that this document be read and understood, does not mean that this document has been incorporated by reference into that other document.
4. **No other publication is incorporated by reference into this document.** The fact that this document refers to information that may be available in other publications does not mean that any of those other publications has been incorporated into this document.
5. **This document does not attempt to present a complete description of all of the provisions governing options.** These are set forth in applicable laws, in the rules and regulations of the SEC and other regulatory agencies, and in the rules, interpretations, policies and procedures (collectively called “rules”) of OCC, the options markets and the foreign clearing houses that act as “associate clearing houses” of OCC that may be in force from time to time.

This document also does not attempt to describe either the rules that govern the structure or conduct of options trading or the forms and procedures for trading in the various options markets. These matters differ from one options market to another, and they may change from time to time. As examples, the various options markets may utilize different market-making systems (with some markets using a specialist system, others a competing market-maker system, and others a combination of the two), order routing systems, and automatic order execution systems. Moreover, as advances are made in computer technology, the trading and market-making systems and the other trading procedures of the options markets are likely to evolve and change—or even be radically different from what they now are.

At particular times—such as when unusual conditions or circumstances exist, which for example may occur on and after days on which there have been substantial or volatile price movements in the securities markets generally or in the markets for underlying or related interests—the options markets may have authority under their rules to modify the application of some or all of their trading rules and procedures or to take such actions as they may deem appropriate in the circumstances. Such actions could include, among other things, changing the manner in which trading in particular

options is conducted, extending trading hours for particular options, halting trading in particular options, restricting the types of orders that may be employed, and modifying or eliminating the bid/asked differential at which market-makers or specialists may quote. The taking of such actions by an options market often is promptly disclosed to the trading crowd in that options market, to representatives of brokerage firms that are members of the options market, and/or to price vendors, but the actions may be taken without public notice, and there can be no assurance that disclosure will be made in a manner that will permit investors to learn of the actions in a timely way.

OCC and the options markets have broad discretion under their rules to take a variety of actions in particular circumstances, and readers should not assume that any organization will exercise its discretion in a particular way in any particular circumstance. A statement in this document to the effect that OCC or an options market has authority or discretion to take a particular action does not mean that it will necessarily take that action. To the contrary, it should be understood from such a statement that the organization also has authority not to take that action. Moreover, it should be understood that OCC and the options markets have broad discretion in the manner in which they interpret their own rules.

OCC and the options markets have no duty to enforce, or to oversee the enforcement of, each other's rules. OCC and each U.S. options market has a general statutory obligation to enforce compliance with its own rules by its own members. However, there can be no assurance that all such rules will always be complied with by members, since frequently the only means of enforcing compliance with rules is to impose disciplinary sanctions after the fact on those who have violated them.

Readers desiring information concerning the rules of OCC or any of the options markets as to the terms of options, the manner in which options are traded or in which a market functions, the trading hours of a particular options market, or other related matters, or information concerning any of the other matters referred to herein, may obtain the information from the relevant organization.

6. The U.S. options markets have rules applicable to the handling of customer accounts and the execution of buy and sell orders that impose special requirements with respect to approval of customer accounts for options trading and recommendations of particular option transactions. This document does not attempt to describe those requirements, the laws and rules governing brokerage firms and other securities professionals, or the agreements, procedures and internal rules of brokerage firms that are applicable to the approval and opening of customer accounts, the handling and execution of orders, the transmission to brokerage firms of instructions to exercise or not to exercise options, the manner or time in which writers of options are notified by their brokerage firms that options have been assigned an exercise, the handling of customers' funds, securities and accounts, the safeguarding of customers' positions in options, or other matters relating to the handling of options transactions by brokerage firms. Readers should consult with their own brokerage firms for information concerning such matters.
7. **This document does not attempt to describe the risks to investors that may be associated with the way trading is conducted in any particular options market or in any market for an underlying or related interest.** The reader should not assume that either the options markets or the markets for underlying or related interests will be efficient, liquid, continuous and orderly in all circumstances or that they will be or remain open at all times. Even on relatively normal days, there will be variances in the market-making performance of specialists and market makers in the various markets which derive primarily from differences in individual skills, capital, willingness to accept risk, ability to hedge risk, trading strategies, and market-making obligations, and these variances are likely to be exacerbated during times of greatly increased volume or volatility. Although specialists and market makers in some markets have certain obligations to assist in the maintenance, so far as is practicable, of a fair and orderly market, traditional indicators of orderliness are difficult to apply to the trading of derivative products such as options and there is a risk that the market-making system of a particular market will not operate effectively, efficiently or in an orderly manner at particular times. The nature and scope of that risk are not among the types of risk discussed further in this document.

It is also possible that the systems of an options market, or of a market for an underlying or related interest, may fail or may not work effectively or efficiently at times. Historically, for example, the operations of various U.S. markets have been disrupted by earthquake, flood, fire, electricity outages, and computer failure. Moreover, no system can be expected to work perfectly at all times. The options markets may rely on manual methods to record trade information, and errors or omissions can occur in their reports of price, volume and other information, and these can be expected to be exacerbated on days of significant volume or volatility.

It is also beyond the scope of this document to discuss the risks that may result to investors from the use by market participants of options pricing theories. There are a number of publications that are commercially available which discuss such theories.

8. This document does not attempt to describe risks that may be inherent in an investment in the underlying interest.

It is obvious that the investment potential of an option can be dependent on the performance of the underlying interest and that investors in options are therefore subject to the risks that may affect the value of that interest. For example, one of the risks undertaken by a purchaser of a call option (or a writer of a put option) on XYZ stock is that XYZ may decline in price during the life of the option. The risk of this decline is dependent on the risks that may affect the economy or the stock market generally or XYZ specifically. Similarly, the holder of a dollar-denominated option on a foreign currency is subject to the risk factors affecting the relative values of the U.S. dollar and the foreign currency. A discussion of these types of risks is beyond the scope of this document.

9. This document does not attempt to describe systemic risks that could affect the options markets and the investors in those markets.

The options markets, like all securities markets, are interrelated with, and frequently interdependent upon, other aspects of national and international financial and capital systems and upon the national and world economy. Any disturbance or crisis of one part of these interrelated systems could severely disrupt or even threaten the performance of the options markets or of OCC. Bank failures, payments breakdowns, large and sudden economic shocks, the failure of a large securities firm, market or clearing organization, or other such events could cause other failures on a widespread basis and could affect the liquidity and solvency of the participants in the options markets. The specific causes of systemic failure or disruption are not easy to predict, and a discussion of them is beyond the scope of this document.

10. All examples in this document are based on hypothetical values that are not necessarily indicative of the prices in an actual transaction.

Readers should not assume that options will necessarily be priced in accordance with any example in this document or in accordance with any pricing formula or model. As noted in the discussion of "Premium" in Chapter II, option premiums are not fixed by OCC or any of the options markets.

11. The examples in this document do not include tax consequences, commissions or other transaction costs, nor do they include the impact of applicable margin requirements.

As discussed in Chapter IX, these items can be very significant and should be taken into account by all investors.

Notice of Current Amendment

June 2024

This document may be amended from time to time, resulting in the addition, deletion, or modification of content. Each time this document is amended, changes to the content will be incorporated into the document and provided in this chapter.

This chapter details the changes made to the document with underlined text indicating new text added and ~~striketrough~~ text indicating text deleted. The changes made to the previous version of this document are below and include additional language to update (i) the list of options markets and (ii) settlement information to reflect T+1 settlement.

The inside front cover is amended to insert the following options market alphabetically to the list of options markets:

MEMX LLC (MEMX Options)
525 Washington Blvd., Suite 300
Jersey City, NJ 07310

The first sentence of the second paragraph on page 57 is replaced with the following:

As of May 28, 2024, the regular exercise settlement date for physical delivery stock options is the first business day after exercise.

Archive of ODD Changes

The list below provides a summary of all prior supplements to and new versions of *Characteristics and Risks of Standardized Options* (also known as the “Options Disclosure Document” or “ODD”).

December 1997—Supplement accommodated cash settled options on indexes of mutual funds.

March 2000—Supplement permitted (i) the acceleration of exercise of options when the underlying security has been converted into the right to receive a fixed amount of cash; and (ii) the automatic exercise of in-the-money flexibly structured index options on the expiration date.

January 2004—Supplement (i) permitted greater flexibility in the methods used for assigning options exercises; and (ii) addressed special considerations with respect to deadlines for the exercise of certain options that expire on a day on which an options market is open for trading.

April 2007—Supplement accommodated non-rate modified cash-settled foreign currency options and rate-modified cash-settled foreign currency options.

May 2007—Supplement (i) reflected modifications made to the definition of “ordinary cash dividend or distribution; (ii) reflected changes made to eliminate the need to round adjusted exercise prices in certain circumstances and to provide more precise compensation for fractional shares eliminated by rounding; (iii) accommodated options on interests in investment companies and similar entities; (iv) addressed special exercise settlement procedures or restrictions that may be imposed upon the occurrence of certain extraordinary events; (v) disclosed that a registration statement and prospectus for the options covered by the ODD are no longer available; (vi) explained OCC’s authority to adjust the multiplier for yield-based treasury options and to fix a cash settlement amount for such options in certain circumstances; (vii) addressed the adoption of rules by certain options markets that permit, in very limited circumstances, the cancellation or adjustment of a transaction entered into at a

premium based on an erroneously reported value for the underlying interest; and (viii) addressed acceleration of the expiration date of options on equity securities in certain circumstances.

June 2007—Supplement accommodated credit default options. This supplement was amended and restated in its entirety by the January 2011 Supplement.

June 2008—Supplement accommodated delayed start options, binary stock options, binary index options and range options.

December 2009—Supplement (i) accommodated options on variability indexes, strategy-based indexes and dividend indexes; and (ii) addressed adjustment of stock option contracts to reflect cash dividends or distributions on the underlying securities.

May 2010—Supplement accommodated options on index-linked securities.

January 2011—Supplement accommodated credit default options.

March 2011—Supplement accommodated options on any single security volatility index and options on relative performance indexes.

January 2012—Supplement accommodated options on relative performance indexes of which the index components are equity securities (including fund shares).

November 2012—Supplement accommodated the introduction of options originally listed to overlie less than 100 shares.

April 2015—Supplement accommodated the introduction of options on foreign currency indexes and the introduction of implied volatility options whose exercise settlement value is calculated differently than that of existing implied volatility options. This supplement was amended and restated in its entirety by the October 2018 Supplement.

Archive of ODD Changes

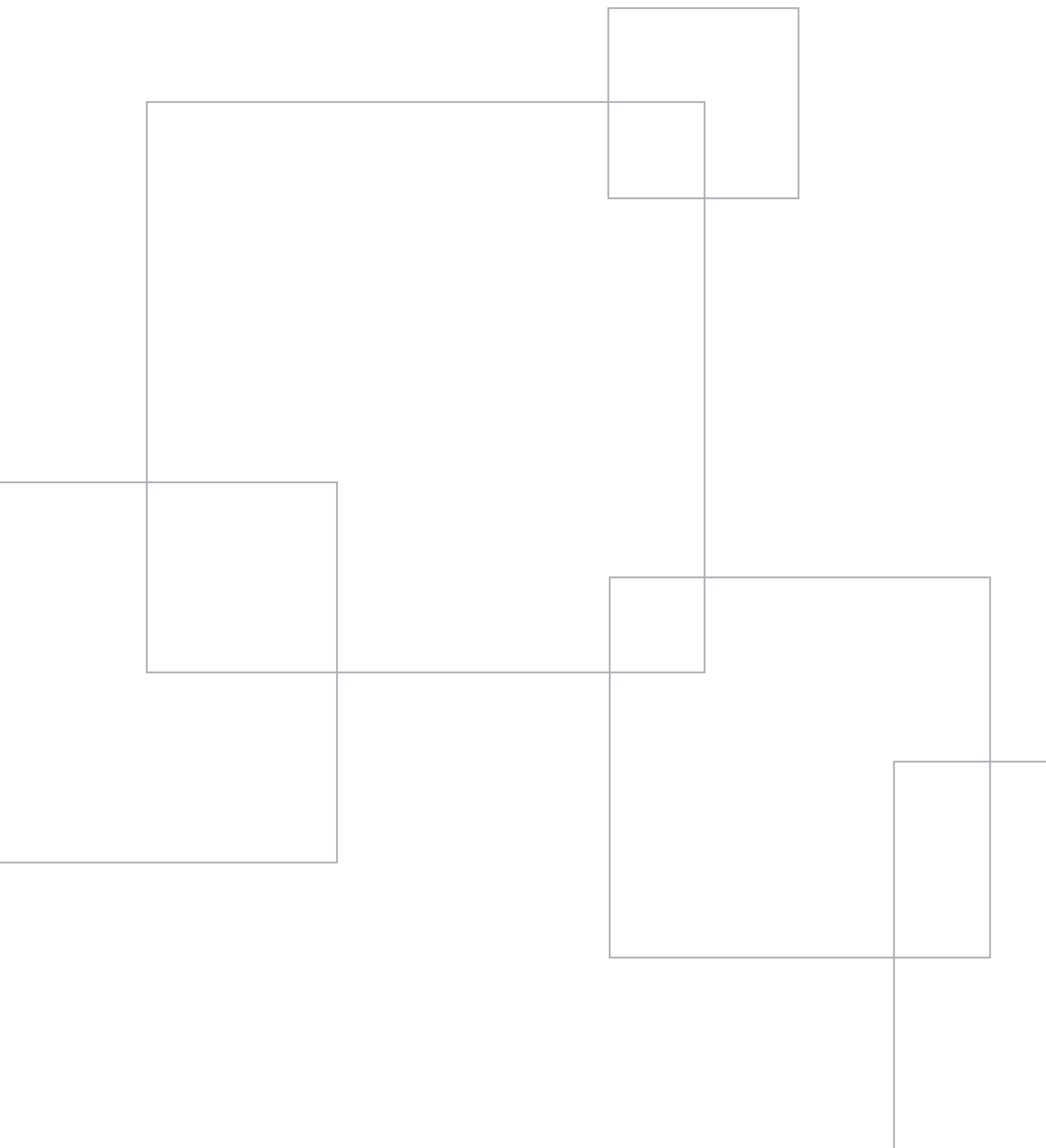
October 2018—Supplement (i) accommodated the introduction of options on foreign currency indexes and the introduction of implied volatility options whose exercise settlement value is calculated differently from other existing implied volatility options, (ii) addressed certain aspects of contract adjustments related to the OCC's authority to determine contract adjustments and how certain adjustments may affect an option's value, and (iii) addressed the change in the regular settlement for option exercises to the second business date following exercise.

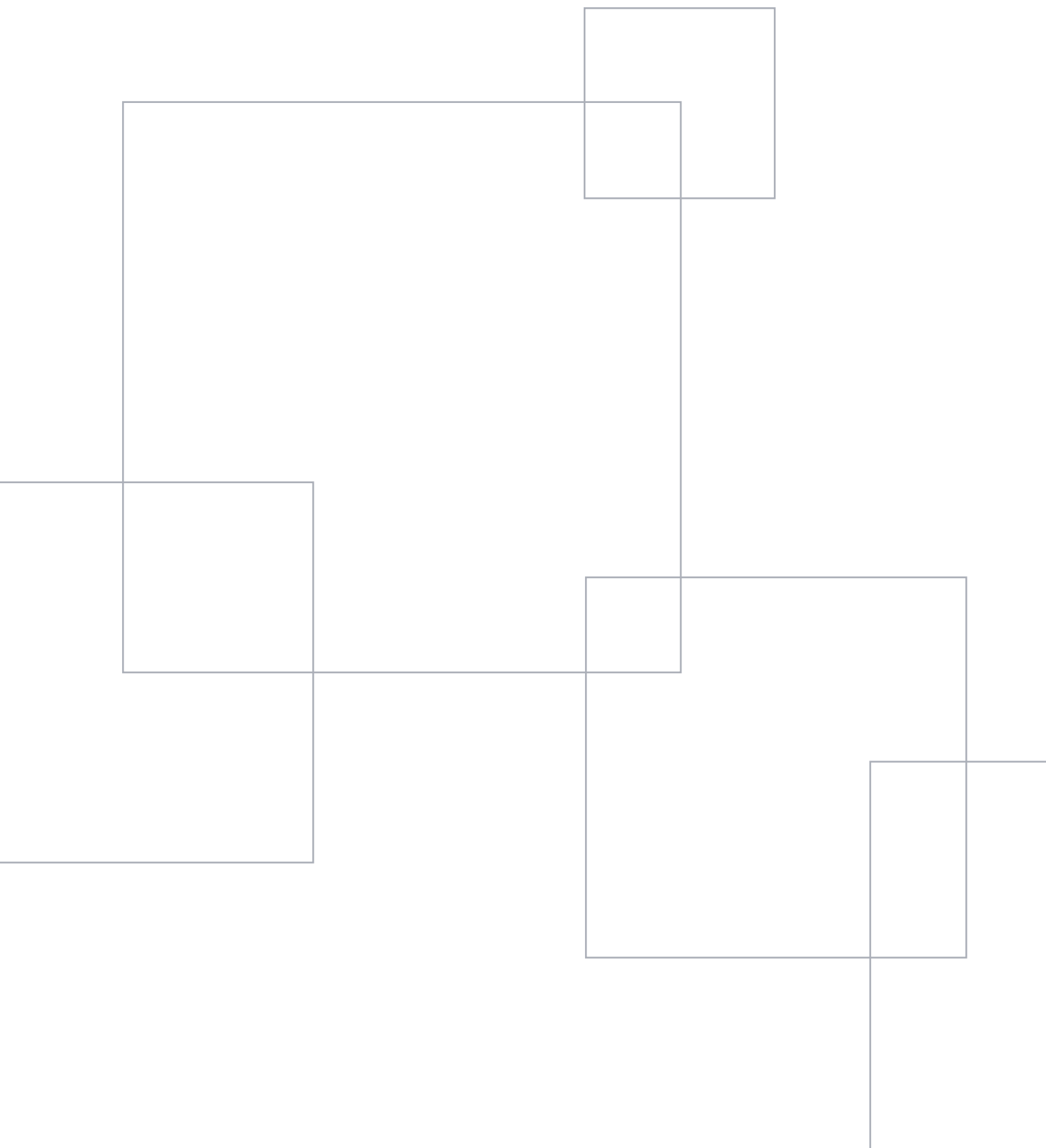
October 2021 (ODD Restatement and Supplement)—The October 2021 version of the ODD incorporated all prior supplements into the 1994 version of the document. It also (i) updated exchange information, (ii) removed references to options trading on foreign markets, (iii) added language indicating not all products described in the ODD may trade at any given time, (iv) modified or removed obsolete language such as references to currencies that no longer exist, methods of obtaining index closing prices and private quotations, market wide trading halts and the prohibition of buying options on credit, (v) removed all references to an OCC Prospectus, (vi) removed the contract methodology was only in effective for special dividends announced before February 1, 2009, and (vii) removed all references to fractional strike prices. This consolidated version of the ODD also included supplemental material to accommodate the introduction of a third type of implied volatility option with an exercise settlement value that is calculated differently from other existing implied volatility options.

March 2022—The March 2022 version (i) added language highlighting that index products may have a multiplier other than 100 as established by the listing exchange by providing examples of index options with a one dollar multiplier and (ii) included 2022 ODD administrative corrections to chapter subtitles found in the original text of the ODD.

March 2023—The March 2023 version (i) accommodated cash-settled flexibly structured options on certain fund shares that meet specified criteria as defined in the rules of the options market, (ii) provided additional details on the fungibility of flexibly structured options with standardized options, (iii) addressed a scenario where an underlying security price may not be available and the resulting implications for cash-settled flexibly structured options on certain fund shares, and (iv) updated language describing when trading in a.m. settled index options may not occur in relation to an option expiration date and, in unusual circumstances due to market closures.

June 2024—The June 2024 version updates (i) exchange information to include a new options market and (ii) settlement information to reflect T+1 settlement.





Appendices

Appendix L: Apex FDIC Sweep Program Terms and Conditions

APEX FDIC-INSURED SWEEP PROGRAM

TERMS AND CONDITIONS

You may elect to have dormant cash in your brokerage account at Apex Clearing Corporation ("Apex") "swept" into and out of an interest-bearing FDIC-insured deposit account opened by Apex at a participating bank ("Program Bank"), at no cost to you, by participating in the Apex FDIC-Insured Sweep Program (the "Program") where, if it is swept, may earn interest paid into your Apex Account. A list of current Program Banks is available on Apex's website. By electing to have your excess cash swept through the Program, you hereby accept and agree to these terms and conditions and appoint Apex as your agent in creating deposit accounts and providing services in accordance with the Program. These terms and conditions are in addition to those contained in your account agreements and any other agreements you may have with Apex or your broker.

When opening a brokerage account carried by Apex (your "Apex Account"), you will have the option to direct your broker to have you and your Apex Account participate in the Program. If you do not affirmatively elect to participate, your excess cash will remain dormant in your Apex Account. Existing participants in the Program may terminate their participation by giving notice to their broker. If you have an Apex Account but are not participating in the Program, you may direct your broker to transfer it into the Program at any time. Participation in the Program does not guarantee any or all of your excess cash balance will be swept to a Program Bank, and all sweeps shall be in Apex's sole discretion. Apex reserves the right to refuse to allow any Apex Account to enter the Program and to remove any Apex Account from participation in the Program at any time in Apex's discretion.

I. DEPOSITS

Once you elect to participate in the Program, you agree that Apex may begin to sweep the excess cash balance in your account into sweep deposit accounts it has established at one or more Program Banks on behalf of you and other Apex customers. These deposit accounts are omnibus accounts titled in such a way to disclose the funds swept into them are those of customers and not of Apex. Your ownership in these accounts will be evidenced by an entry on Apex's records for each Program Bank at which your funds are on deposit and by disclosure on your Apex Account statement. You will not be given any additional evidence of ownership. If there is excess cash in your Apex Account such that a single deposit would put that amount beyond FDIC coverage, then Apex will sweep the excess cash into multiple Program Banks. Apex may transfer balances between Program Banks at any times at its discretion and may utilize one or more intermediary banks to route funds in the Program. While Apex provides the Program as a service to its customers, Apex shall be under no obligation to sweep any excess cash in your account into a Program Bank at any time. You may not deposit funds into the Program directly with any Program Banks; all funds in the Program must be deposited through your Apex Account.

II. WITHDRAWALS

By enrolling in the Program, you consent to have Apex, as your agent, automatically withdraw any and all of your funds in the Program at Program Banks in the event of a debit in your Apex Account, or to pay for securities purchased for or sold to your Apex Account, or otherwise in Apex's discretion. If funds that have been swept to a Program Bank are needed to cover a purchase, withdrawal, or other debit in your Apex

Account, the funds will be automatically swept out of the Program Bank(s) and back into your Apex Account by Apex. You will not need to do anything for this process to occur.

Although Apex may sweep your excess cash balance to an account at a Program Bank, you shall not be able to make withdrawals from that account, even if you contact the Program Bank directly. Your excess cash balance is only available through your Apex Account. Please contact your broker with any questions on accessing your cash balance.

III. ACCESS TO YOUR EXCESS CASH BALANCE

Use of your Apex Account will not be affected when your excess cash is swept to a Program Bank. You will still be able to make purchases and withdrawals using your excess cash balance through your Apex Account at any time. However, any funds withdrawn or used for purchase will no longer be available to sweep to a Program Bank. You can only access your excess cash balance directly through your Apex Account. Being swept to a Program Bank shall not provide protection to your excess cash balance from legal processes such as levies or garnishments served on Apex.

IV. INTEREST

You may earn interest on excess cash balances that Apex sweeps to Program Banks. The interest rate will be based on numerous factors, including the current interest rate environment, and is subject to change without notice. Over any given period, the interest rates on your swept excess cash balances may be lower than the rate of return on similar nonFDIC-insured investments or deposit accounts offered outside of the Program, including deposit

accounts held directly by you with a Program Bank. Interest payments to you and movements of your excess cash balance will be reflected on your Apex Account statement. Interest accrues daily and is paid into the deposit account at each Program Bank. Any interest paid to you will be posted directly to your Apex Account. Interest rates and APY on funds in the Program will vary over time and can change daily without notice to you. Please contact your broker for specific details on current interest rates and payments.

V. FDIC INSURANCE & SIPC COVERAGE

Your excess cash balances that Apex sweeps to a Program Bank, together with any non-Program deposits you may have at the same Program Bank, are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a standard maximum amount in accordance with the FDIC's rules. The applicable FDIC insurance limit depends on a number of factors. Please consult www.fdic.gov for further details. If you have both excess cash and non-Program funds at the same Program Bank held in the same right and legal capacity, you must aggregate all such deposits for purposes of determining your FDIC insurance coverage. If that aggregate exceeds applicable FDIC insurance limit, the FDIC may not insure the funds in excess of the applicable limits. Apex recommends you contact your financial and legal advisors for further details on FDIC limits and advice on participation in the Program. Apex shall have no obligation to consider any non-Program deposits when sweeping your excess cash balances. Please note that there is no specific time period during which the FDIC must make insurance payments available, and the FDIC may require you provide certain documentation before insurance payments are made.

Apex is not responsible for monitoring the amount of your excess cash balance swept to any Program Bank to determine whether it exceeds the limit of available FDIC insurance. You are solely responsible for monitoring the total amount of your assets on deposit with each Program Bank (including non-Program funds and accounts) in order to determine the extent of FDIC insurance coverage available to you on those deposits, including Program deposits. Apex shall not take into account any money you have on deposit at a Program Bank outside of the Program.

Any securities and funds held in your Apex Account (as opposed to funds swept to a Program Bank) are (i) not insured by the FDIC, (ii) have no bank or government guarantees, and (iii) may have associated risks. Securities and funds not swept to a Program Bank are held in your Apex Account and are covered by the Securities Investor Protection Corporation ("SIPC"), of which Apex is a member. Your excess cash balance is only eligible for FDIC coverage once it is in an account at a Program Bank. However, it shall be covered by SIPC while held by Apex and in transit to or from a Program Bank. As a member of SIPC, funds are available to meet customer claims up to a current ceiling of \$500,000, including a maximum of \$250,000 for cash claims. For additional information regarding SIPC coverage, including a brochure, please contact SIPC at (202) 371-8300 or visit www.sipc.org. Apex has purchased an additional insurance policy through a group of London Underwriters to supplement SIPC protection. This additional insurance policy becomes available to customers in the event that SIPC limits are exhausted and provides protection for securities and cash up to certain limits. Similar to SIPC protection, this additional insurance does not protect against a loss in the market value of securities. SIPC coverage does not cover fluctuations or

losses in the market value of your investments.

VI. RELATIONSHIP

Apex receives payment from each Program Bank in connection with its participation in and operation of the Program. Apex's payment from the Program Banks is paid as interest. This payment is typically based on the average aggregate amount of funds at each Program Bank and the current interest rate environment. The payment to Apex by one Program Bank may differ from payment of another Program Bank, even if the deposit amounts are identical. Apex may pay to its authorized agent or third-party an amount for facilitating the operations of the Program, which may be a portion of the payment made to Apex by the Program Banks. Apex may pay to your broker a portion of the payment it receives from the Program Banks. Apex's payment amount to your broker may be different than the payment amount made to another broker. Your broker shall determine the amount of any payments made to you without Apex's knowledge. Please contact your broker for specific details on payments to you.

VII. PROGRAM BANKS

A list of current Program Banks in the Program can be found on Apex's website. You may contact your broker to specify any Program Banks into which you do not wish your excess cash balance to be swept. You may withdraw any such exclusion of Program Banks you have made at any time by contacting your broker. Please note that if there are insufficient Program Banks available in the Program, taking into account any from which you have opted out, such that not all of your excess cash balance can be spread among Program Banks to ensure FDIC coverage, then some or all of your excess cash balance may remain dormant in

your Apex Account or may be deposited at a Program Bank but not covered by FDIC insurance. You can obtain additional information on each Program Bank at www.fdic.gov.

Occasionally, Program Banks may be added or removed from the Program Bank list available on Apex's website. In such instances, you may check your next available account statement which will direct you to the location on our website where we provide information regarding changes to the list of active Program Banks. If a Program Bank is removed from the Program, it will no longer be able to receive sweeps of your excess cash balance. If any of your excess cash balance is at a Program Bank that is removed from the Program, Apex will transfer those funds into another Program Bank still in the Program or into your Apex Account, at Apex's discretion.

By electing to participate in the Program, whether when opening your Apex Account or by instruction to your broker, you attest that you have received and read this Program Statement. You consent to all the provisions herein and for Apex to change the amounts and Program Banks into which your excess cash balance is swept at any time in Apex's discretion. "For the elimination of doubt, you agree that nothing herein shall obligate Apex in any way to sweep any portion of your excess cash balance to any Program Bank at any time. You agree to hold harmless Apex for any results that may occur from participation in the Program, including specifically your receiving smaller payment than you could in a different type of account or had your excess cash balance been swept into a different Program Bank. You direct Apex to return all your swept funds to your Apex Account and to terminate your participation in the Program in the event (i) you instruct

your broker to remove you from the Program or (ii) you utilize the services of an investment advisor who instructs Apex to remove you from or not include you in the Program. You agree Apex may share personal information about you, including name, social security number, tax identification number, address, date of birth, or others with certain entities or individuals that provide services to Apex in connection with the program, including, but not limited to, any Apex agent, your investment advisor, and your broker. For further information regarding the collection, processing, or use of your personal information, please see Apex's Privacy Policy provided to you with your account opening documents and available on Apex's website.

VIII. TAXATION

If you are paid interest in the Program in a given year, you will receive a Form 1099, if applicable, reflecting the interest you have earned in that year. Nothing in these Terms and Conditions should be construed as to constitute legal or tax advice. Please contact your own legal or tax advisor.

Apex may be required to withhold United States federal income tax at the prevailing rate on taxable distributions payable to certain depositors who fail to provide sufficient and correct taxpayer identification information or to make required certifications or who have been notified by the Internal Revenue Service that they are subject to backup withholding. Please consult your tax advisor for further information or visit www.irs.gov.

IX. LIMITATION OF LIABILITY

TO THE MAXIMUM EXTENT PERMITTED BY LAW, IN NO EVENT SHALL APEX, THE PROGRAM BANKS, OR THEIR AGENTS, AFFILIATES, ASSIGNS, SUBSIDIARIES,

OFFICERS, DIRECTORS, OR EMPLOYEES BE LIABLE FOR ANY INDIRECT, CONSEQUENTIAL, EXEMPLARY, SPECIAL, INCIDENTAL, OR PUNITIVE DAMAGES OF ANY NATURE NO MATTER THE CONTEXT IN WHICH IT IS ASSERTED AND INCLUDING WITHOUT LIMITATION LOSS OF PROFITS, GOODWILL, BUSINESS INTERRUPTION OR ANY PENALTIES OR PUNITIVE DAMAGES.

Any failure by Apex, its agent, your broker, or any Program Bank shall not constitute a violation or subject them to any liability if caused in any way by your negligence or willful act, force majeure, suspension of payment by another institution, market irregularity or loss of market access, war, act of terrorism, or any other circumstances beyond the control of them.

X. COMPLIANCE WITH LEGALPROCESS

Apex, its agent(s), and the Program Banks may comply, without notice to you, with any writ of attachment, execution, garnishment, levy, restraining order, subpoena, warrant, regulator or government request, or other legal process that the recipient believes to be valid. You agree to indemnify and hold harmless Apex, its agent(s) and the Program Banks from all actions, claims, liabilities, losses, costs, attorney's fees, and damages that may be associated with their compliance with any legal process in accordance with this section and you agree they may comply with any legal process received, even if such is not served properly on the recipient in accordance with all applicable legal requirements, so long as compliance is not done in bad faith.

XI. NO WARRANTIES

EXCEPT AS SPECIFICALLY SET
FORTH IN THESE TERMS AND

CONDITIONS, NO REPRESENTATIONS OR WARRANTIES (ORAL OR WRITTEN, STATUTORY, EXPRESS, IMPLIED, OR OTHERWISE) ARE MADE TO YOU REGARDING THE PROGRAM, INCLUDING, WITHOUT LIMITATION, AS TO MERCHANTABILITY, FITNESS FOR ANY PURPOSE, CONFORMITY TO ANY DESCRIPTION OR REPRESENTATION, NON-INTERFERENCE, OR NONINFRINGEMENT. NONE OF YOUR BROKER, INVESTMENT ADVISOR, REGISTERED REPRESENTATIVE, OR OTHER PERSON OR ENTITY IS AUTHORIZED TO MAKE, OR MAY THEY MAKE, ANY REPRESENTATIONS OR UNDERTAKINGS ON BEHALF OF APEX OR THE PROGRAM BANKS OR THEIR RESPECTIVE AFFILIATES OR AGENTS WITH RESPECT TO THE PROGRAM.

XII. NO GUARANTEE OF PROGRAM BANKS

Your participation in the program is a direct obligation of the applicable Program Bank(s) to you. Apex is under no such obligation and Apex does not guarantee the financial condition of any Program Bank. Under federal banking regulations, a Program Bank may exercise its right to require prior notice of up to seven days before permitting your excess cash balance to be swept out. In the event of a failure of a Program Bank, there may be a time period during which you may not be able to access your money. Interest in a Program Bank account is not transferrable.

XIII. ADDITIONAL DISCLOSURES

A. Corporate Status. Apex is a registered broker-dealer and is a member of the Financial Industry Regulatory Authority. Apex is not a bank or an investment advisor. Apex and the Program Banks do not

provide advice regarding whether the Program is beneficial or right for you or your Apex Account.

B. Acceptance of Terms and Conditions. By continuing to maintain your Apex Account and participate in the Program, you accept the terms and conditions herein and you accept and will be legally bound by any new terms and conditions.

C. Obligation to Review Statements. In accordance with your account opening documents with Apex, you must carefully examine your Apex Account statement once you receive it. If you feel that there is an error, you must notify Apex promptly. Failure to comply with this notification requirement may bar you from claiming any error involving your Program Bank accounts. Please see your Apex Account opening documents for specific details and timelines.

D. Escheatment. In certain circumstances, Apex and the Program Banks may be required by law to escheat a portion or all of your excess cash balance and Apex Account to a state due to account inactivity for certain time periods, in accordance with state law. If funds are escheated to a state, you must file a claim with that state to reclaim the funds.

E. Assignment. You may not assign these terms and conditions or your participation in the Program, except through an assignment of your entire Apex Account. Apex may assign its rights and obligations under the Program and these terms and conditions without prior notice to you and without obtaining your consent.

F. Set Off. Under the terms of your account agreements with Apex, Apex may charge or set off assets from your Apex Account against any obligations or debt you owe to Apex. This right extends to any

excess cash balances that are swept to a Program Bank and swept funds shall have no additional protection solely because they are with a Program Bank.

G. No Waiver. There shall be no waiver by Apex of any of these terms and conditions unless such waiver is in writing and signed by Apex. No failure or delay by Apex, its agent, or any Program Bank in exercising any right, power, or privilege hereunder shall operate as a waiver thereof nor shall any partial exercise preclude further or full exercise of any right, power, or privilege.

H. Severability. If any term, provision, covenant or restriction of these terms and conditions is held to be invalid, void, or unenforceable, the remainder shall remain in full force and effect and shall in no way, to the maximum extent allowed by law, be affected, impaired, or invalidated.

I. Entire Agreement. These terms and conditions, any additional documents provided to you by Apex, its agent, or any Program Bank concerning the Program, and your account opening agreements with Apex constitute the entire agreement with you regarding the Program and supersede all prior agreements, both oral and written, with respect to the subject matter herein. These terms and conditions are to be read in conjunction with, and not independently of, your Customer Account Agreement with Apex. For all purposes, your participation in the program is through your Apex Account and is subject to all terms of your Customer Account Agreement with Apex and any other account opening agreements you have with Apex.

J. Controlling Document. In the event of any inconsistency between these terms and conditions and a provision of any such other document provided to you in

connection with the Program, these terms and conditions shall prevail.

K. Governing Law and Arbitration. These terms and conditions shall be construed in accordance with and governed by the laws of the State of Texas. In accordance with your account opening agreements with Apex, any disputes regarding the Program or your Apex Account shall be subject to and controlled by the Arbitration Agreement set forth in your Customer Account Agreement with Apex shall fully control.

L. Headings and Construction. The headings herein are included only for convenience and shall not be considered in the construction or interpretation of these terms and conditions. Any singular items herein shall be deemed to include the plural and vice versa. Any use of the term "include" or any derivative or synonym of it shall be deemed to be followed by the words "without limitation". References to any agreement or document provided to you shall include that agreement or document as amended, modified, supplemented, or replaced from time to time. In any construction of these terms and conditions, it shall not be construed against a party on the basis of that party potentially being the drafter of the terms and conditions.

THESE TERMS AND CONDITIONS ARE
SUBJECT TO THE PREDISPUTE
ARBITRATION CLAUSE CONTAINED IN
YOUR CUSTOMER ACCOUNT
AGREEMENT GOVERNING YOUR APEX
ACCOUNT. PLEASE REVIEW THE
PREDISPUTE ARBITRATION CLAUSE IN
YOUR CUSTOMER ACCOUNT
AGREEMENT CAREFULLY.