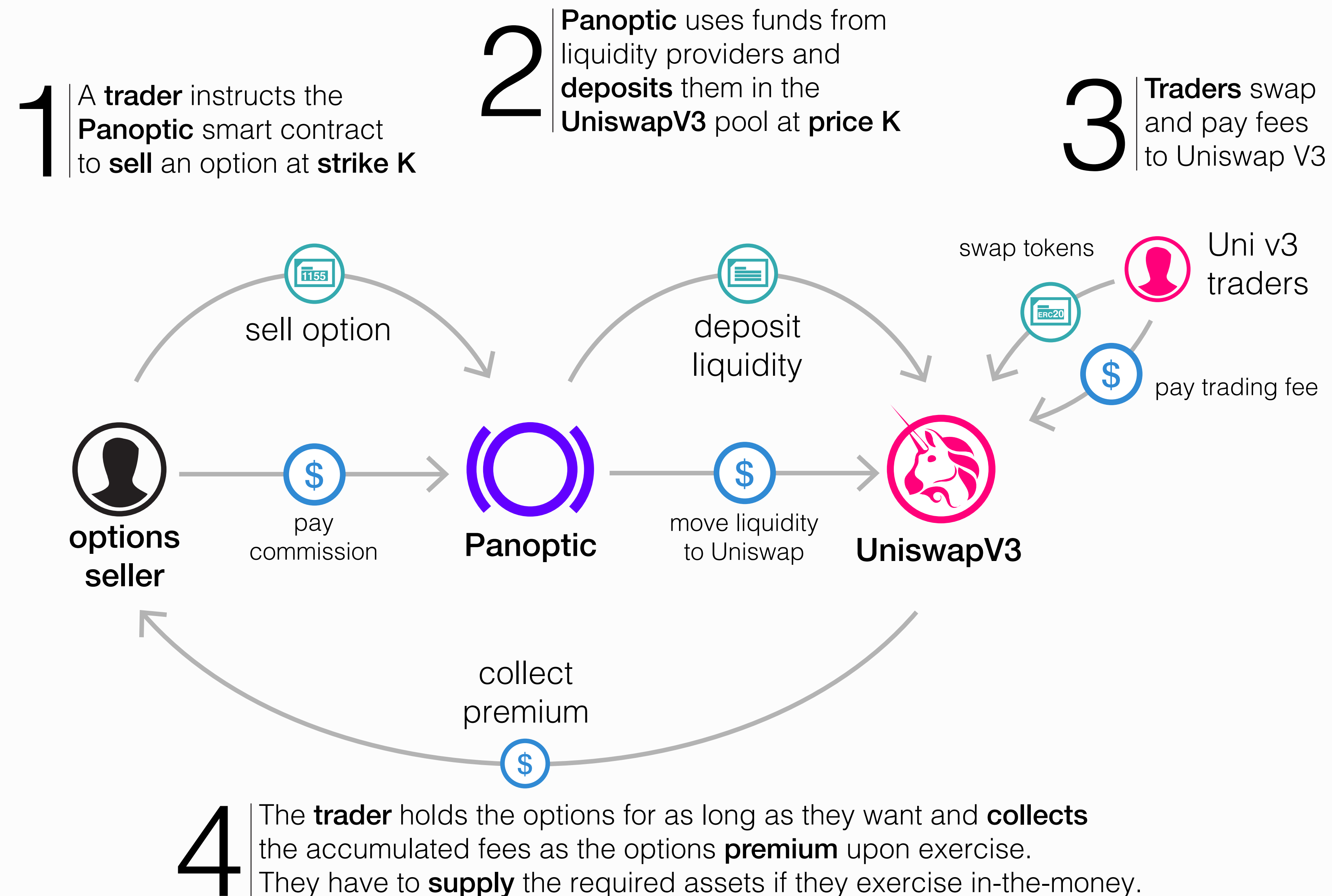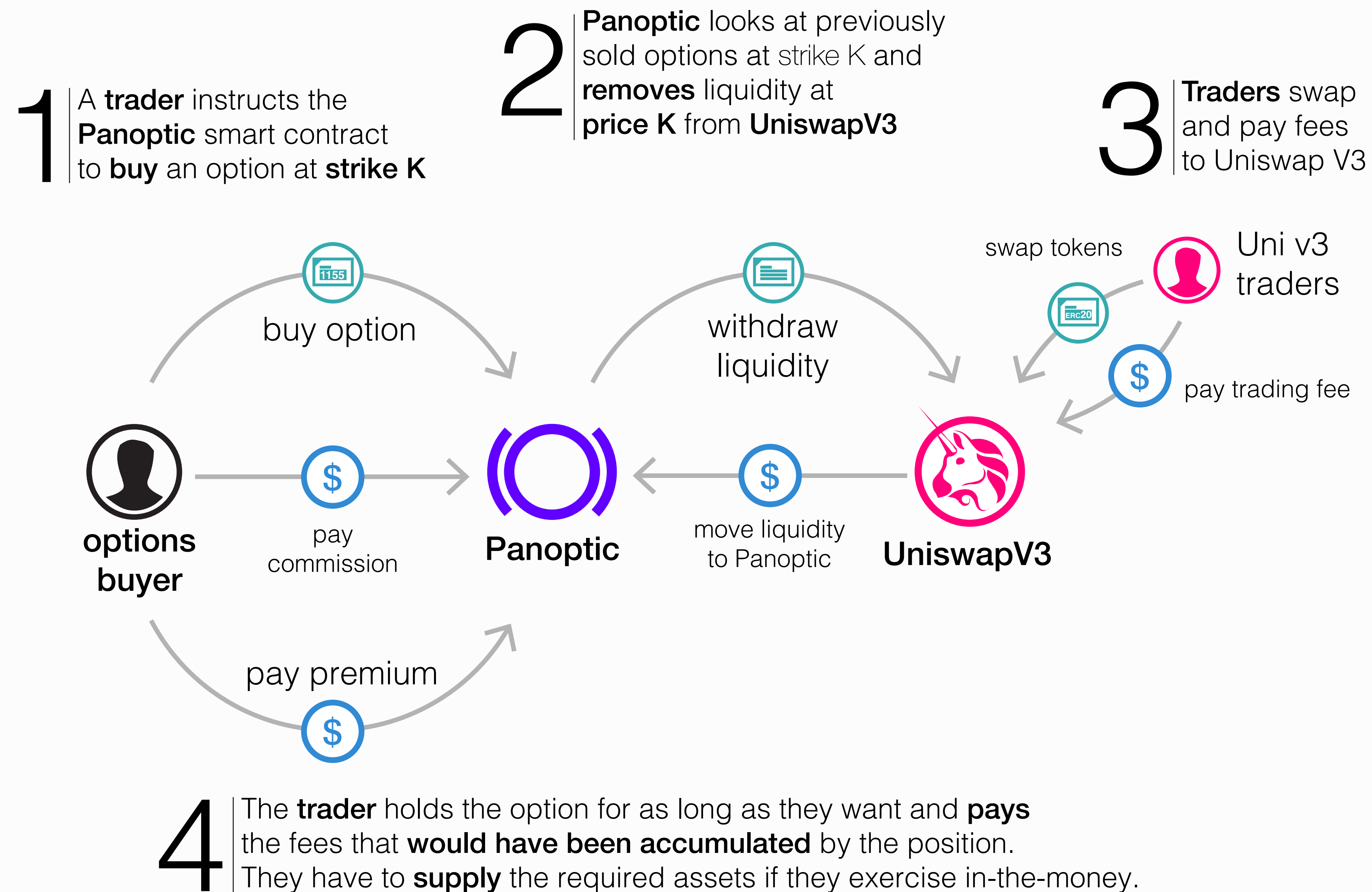# How <u>selling options</u> works

Traders interact with the Panoptic protocol to create a options. The Panoptic protocol deploys liquidity to the UniswapV3 pool to create short options

1 | A **trader** instructs the **Panoptic** smart contract to **sell** an option at **strike K**

2 | **Panoptic** uses funds from liquidity providers and **deposits** them in the **UniswapV3** pool at **price K**

3 | **Traders** swap and pay fees to Uniswap V3

sell option

deposit liquidity

swap tokens

Uni v3 traders

pay trading fee

options seller

pay commission

Panoptic

move liquidity to Uniswap

UniswapV3

collect premium

4 | The **trader** holds the options for as long as they want and **collects** the accumulated fees as the options **premium** upon exercise. They have to **supply** the required assets if they exercise in-the-money.

How buying options works

Traders interact with the Panoptic protocol to create a options. The Panoptic protocol removes liquidity to the UniswapV3 pool to create long options

1 A **trader** instructs the **Panoptic** smart contract to **buy** an option at **strike K**

2 **Panoptic** looks at previously sold options at *strike K* and **removes** liquidity at **price K** from **UniswapV3**

3 **Traders** swap and pay fees to Uniswap V3

buy option

withdraw liquidity

swap tokens

Uni v3 traders

pay trading fee

options buyer

pay commission

Panoptic

move liquidity to Panoptic

UniswapV3

pay premium

4 The **trader** holds the option for as long as they want and **pays** the fees that **would have been accumulated** by the position. They have to **supply** the required assets if they exercise in-the-money.

How <u>providing liquidity</u> works

Liquidity Providers (LPs) deposit funds in Panoptic to be lent to option sellers for a commission fee. LPs also receive a share of the premium paid by buyers.

1 | A **liquidity provider** first has to **deposits** funds in the **Panoptic pool** at any ratio of token0/token1

2 | **Traders** will then **borrow** that liquidity to create long and short options positions

3 | **Traders** swap and pay fees to Uniswap V3

option buyer/seller

mint options

swap tokens

Uni v3 traders

deposit liquidity

pay commission

pay trading fee

liquidity provider

withdraw and receive commission

Panoptic

move liquidity to/from Uniswap

UniswapV3

4 | **Liquidity Providers** benefit by collecting a commission fee the notional value of all options traded. They also receive a **spread** on the premium paid by option buyers. They may incur a **loss** if liquidators **do not liquidate** distressed accounts in time.