Title: The Anatomy of an Options Trade: Parts 1 & 2 Beginning a trade and the CBOE
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[The results of closing an option trade](https://preview.redd.it/syw3zyjqsq481.png?width=1280&format;=png&auto;=webp&s;=40d4c3e39ba6e566e45c0d69a9b2a0368ce2abdc)

TA;CR; Above is a result of all categories of buying and selling or exercising a call contract. This image is the result of all the rules listed and explained below. There is no speculation. This is 100% the rules of an option trade and only the rules of an option trade that result in the above image. Remember, every located share that the SHF can show the SEC is an FTD that doesn't need to be cleared.

+1 CNS = -1 FTD

* They are not contractually obligated to buy you a share when you exercise an option.
* The CBOE deems the trade complete when they pass it off and it's accepted by the OCC.
* The OCC deems the trade complete when they pass it off to the NSCC and it's accepted.
* The NSCC nets longs together and then shorts together. They make the shorts disappear through CNS and use the longs to clear FTD's

Please check out all of the Anatomy

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Prologue

So I was told that I don't know options. I was pretty sure I do, but I wanted to make sure. What do I do? I go to the CBOE rulebook that also required me to go to the OCC rulebook, which passes the buck to the NSCC. That's right apes, two rulebooks for the price of one! Really though, the game plan here is to walk through an options trade to show who gets the money, who gets the shares, and who pays the shares. We are going to do this by breaking down all the rules and requirements that go into option delivery, selling an option, or exercising an option straight from the rulebooks. I provide the verbiage of the rules exactly, plus ape speak interpretations that has been liked on my previous posts.

Here's the link for the CBOE rulebook

[C1_Exchange_Rule_Book.pdf (cboe.com)](https://cdn.cboe.com/resources/regulation/rule_book/C1_Exchange_Rule_Book.pdf)

Here’s the link for the OCC rule book

[sr_occ_2021_010 (theocc.com)](https://www.theocc.com/getmedia/9d3854cd-b782-450f-bcf7-33169b0576ce/occ_rules.pdf;)

Part 1: The start of an options trade

So let’s start off with the beginnings of an options contract. For that we have to look at the rules of the CBOE, the place where you exchange your premium $$ for an options contract. For this discussion, our options writer is a SHF, Market Maker, or Broker Dealer. I call "the bad guys", or groups working against MOASS. You are also the buyer in the examples described below.

An options strike is opened by the CBOE and a SHF/MM/BD decides to sell one, and you decide to buy one. Here's what the first step of the trade looks like.

[Step 1. Everyone has resources](https://preview.redd.it/zlnvlsxvsq481.jpg?width=1280&format;=pjpg&auto;=webp&s;=3edce41ab708c9a24ef1d3290abb82d54c323608)

Step 1: Everybody has their resources in line to sell and buy am options contract. The CBOE is waiting in the wings to exchange the contract with your premium.

YOU: Have the premium to purchase a call contract

SHF: Has the margin deposit to create a call contract

The CBOE: Can exchange options contracts for money

[Step 2: Buying a call contract](https://preview.redd.it/jhgpa4b1tq481.jpg?width=1280&format;=pjpg&auto;=webp&s;=f01011786c48c136ee0f8ec56ee729293ae91cac)

Step 2. You buy the contract on the CBOE and the SHF/MM/BD gets the Premium. Presumably, the CBOE can make money on arbitrage, but that is not guaranteed.

YOU: Bought a call contract, and paid the premium.

SHF: Paid the margin deposit, and collected your premium.

The CBOE: Can exchange options contracts for money.

[Step 3: Waiting](https://preview.redd.it/4f416jn2tq481.jpg?width=1280&format;=pjpg&auto;=webp&s;=5b2fe533e6f2d08cab46071829d2180068f33838)

Step 3: Waiting. Will it go ITM? Will it stay OTM? Am I ape enough to exercise it even if it's out of the money (yes. I know there can be a case made for this by some). Long story short is, you're all waiting.

YOU: Have a call contract, and paid a premium.

SHF: Paid the margin deposit, and collected your premium.

The CBOE: Can exchange options contracts for money.

Part 2: Dealing with the CBOE

[Step 4: Exercising a call contract](https://preview.redd.it/agjkal54tq481.jpg?width=1280&format;=pjpg&auto;=webp&s;=2bc2a5f98855aa9f6557072496132d08f1457881)

Step 4: You decide to exercise or sell your contract. Either way, you're sending your contract back to the CBOE to exchange it for either shares or money. If you pay the cash to exercise, then the SHF/MM/BD gets that money, and you get shares. If you sell, you take money from the SHF/MM/BD, right? ... Right?! Wrong.

Let's break down the 3 ways you can close an options trade, other than letting it wither and die. You can exercise the entire contract, exercise a portion of a contract, or sell a contract.

Part 2.1 CBOE Delivery rules

CBOE rule 6.22 Delivery and Payment is shown below. Let’s break it down. This is the rule where they talk about how you they guarantee your share is delivered to you and your cash is delivered to the options seller.

[CBOE 6.22](https://preview.redd.it/i2ms0xwdtq481.png?width=552&format;=png&auto;=webp&s;=870adf08a62fe3c5b5fb8d74e487060dc9f1c35f)

The first sentence is why we have to look at both the CBOE and the OCC

>“(a) General. Delivery of the underlying security upon the exercise of an option contract, and payment of the aggregate exercise price in respect thereof, shall be in accordance with the Rules of the Clearing Corporation.”

Ape speak: Delivery of stonk inside of options and payment of options cash will follow the rules of the Options Clearing Corporation, The OCC. The CBOE is just an exchange. It does not do any clearing.

>“As promptly as possible after the exercise of an option contract by a customer, the TPH organization shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract, or to deposit the underlying security in the case of a put option contract, or to **make the required margin deposit in respect thereof if the transaction is effected in a margin account**, in accordance with the Rules of the Exchange and the applicable regulations of the Federal Reserve Board.”

Ape speak: Ok. This is a really long sentence. But, what it’s saying is that when an ape exercises an options contract, your broker (the TPH) will require you to pay up the cash if it’s a call or give up your shares if it was a put. Seems simple enough. You 100% exercise and get shares, or you sell your shares for a set price with a put. That’s what everyone has been talking about. But wait! There’s more! If it’s a margin account (absolutely what the SHF are using) all they have to do is pony up money if it’s a call or a put. No shares involved.

The remainder of section 6.22, sections (b) and (c) deal with Government Securities Options and CDS options. Neither of which are material to what we are are reviewing today.

But wait! There’s more!

So even if they do have “shares” in the options, they allow naked shares to be bundled into options contracts. Section 7 deals with reporting, and section 7.2 deals specifically with naked shares in options contracts.

https://preview.redd.it/3665pd2htq481.png?width=803&format;=png&auto;=webp&s;=4cfc02f50cb24796d9d8f14e9f18babf6ec84592

CBOE Rule 7.2

Ape speak: From time to time, the CBOE may think the underwriter is full of shit, so they’ll ask for a report of just how full of shit they are. There is no information on how the CBOE checks in the validity of this self reported information.

[Step 4a: How the CBOE says exercising a whole contract goes](https://preview.redd.it/9v3sqjcitq481.jpg?width=1280&format;=pjpg&auto;=webp&s;=b4d33fb6b6ce6aba14158d5e6ba04507dd843a56)

Step 4a: The above image is how the CBOE rules describe a trade where the contract is exercised for 100 shares. You gave your contract to the CBOE. They blessed it an passed it on the OCC to clear. So your contract and cash end up at the OCC. The OCC gave your cash to the SHF/MM/BD and you get shares. You got shares, the SHF/MM/BD paid their margin deposit for 100 shares, and the OCC is neutral and accepts the trade blessed by the CBOE. The CBOE, per rule 6.22 is satisfied.

YOU: You paid a premium, sent over money to exercise, and 1 contract, and got 100 shares

SHF: Paid the margin deposit, collected your premium, and got your money to exercise

The CBOE: Can exchange options contracts for money. They sent the contract to the OCC to clear

But wait, the OCC doesn't keep shares on stock and can't print shares, and the SHF/MM/BD didn't pay any shares, just money. Where did the shares come from? The CBOE passed the buck to the OCC, and the OCC accepted it. Now we have to go into the rulebook for the OCC to see what really happens.

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