

Title: Anatomy of an Options Trade: Part 5: Extra parts

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+1 CNS = -1 FTD

TA;CR: This section breaks down the rules. The pictures start again in Part 4.

- * 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****

[The Anatomy of an Options Trade: Parts 1 & 2 Beginning a trade and the CBOE : DDintoGME (reddit.com)](https://www.reddit.com/r/DDintoGME/comments/rdc2c/the_anatomy_of_an_options_trade_parts_1_2/)

[Anatomy of an Options Trade: Part 3: OCC Rule 901 : DDintoGME (reddit.com)](https://www.reddit.com/r/DDintoGME/comments/rdczwa/anatomy_of_an_options_trade_part_3_occ_rule_901/)

[Anatomy of an Options Trade: Part 4: What trades really look that. : DDintoGME (reddit.com)](https://www.reddit.com/r/DDintoGME/comments/rddbyf/anatomy_of_an_options_trade_part_4_what_trades/)

Here are the rules for Broker to Broker transactions. This does not apply to GME because GME is CCC-Eligible. But I wanted to be complete, so here you go.

****Part 5.1 Rule 902 Delivery Advices****

[OCC Rule 902](<https://preview.redd.it/r6xbjgf40r481.png?width=552&format=png&auto=webp&s=af48c3704dffbdb2382b52edbffc42ac97132b9e>)

Ape speak: the OCC will tell the clearing members which rules to use in a notice, and if multiple securities are due, the OCC will tell you the breakdown of what's due.

****Part 5.2 Rules 903-909 Broker to Broker Transactions for non CCC-eligible securities****

[OCC Rule 903](<https://preview.redd.it/yms347j50r481.png?width=552&format=png&auto=webp&s=7c6bfe652c0420e2ca7e3c9e8d7ff93450449c92>)

[OCC Rule 903](<https://preview.redd.it/zeqoamr60r481.png?width=552&format=png&auto=webp&s=b3b37a1048fc070ab15f5e01417588300e9f36c3>)

Again, this is only for non rule 901 securities. They call the Rule 901 procedure the “regular” system.

Ape speak: T+2 but the OCC could make it whatever day they want.

[OCC Rule 904](<https://preview.redd.it/qg7mekw70r481.png?width=552&format;=png&auto;=webp&s;=5c767e9d8502c2c0c2d1403de93e67c79f442170>)

Ape speak: Even for broker to broker settlement, the brokers are supposed to use the DTC, and therefore NSCC, to settle. If that doesn't work, the two brokers have to agree on settlement and the OCC is cleared of any liability.

[OCC Rule 905](<https://preview.redd.it/k7jpr2v80r481.png?width=552&format;=png&auto;=webp&s;=eae198f2b77f37ab3ddf2909d6fd2ef527126400>)

Ape speak: Securities are delivered via book entry, and if physical certs are required, they need to be delivered too. Also, follow Rule 904.

[OCC Rule 906](<https://preview.redd.it/s51oavlc0r481.png?width=552&format;=png&auto;=webp&s;=b1afc57d1bc8d797163d644b484efb91914792fa>)

Ape speak: I think this is saying the settlement will be in either round lots or odd lots but not both.

[OCC Rule 907](<https://preview.redd.it/xjry96fd0r481.png?width=552&format;=png&auto;=webp&s;=64fbe579ff3f8fc6d23814d9c59b16d988f0e6fa>)

Ape speak: Um....if the broker wants to deliver early and the receiving party is good with that, it can get paid early. Otherwise it's on delivery date.

[OCC Rule 908](<https://preview.redd.it/dgowlble0r481.png?width=552&format;=png&auto;=webp&s;=6b4b773f6e4beae11a1f9c7bcd02d4a48ab24b4e>)

Ape speak: When a non eligible CCC-eligible security is cleared through Rule 904, I think this is saying the receiver could ask for cash instead.

[OCC Rule 909](<https://preview.redd.it/imqjmhrf0r481.png?width=552&format;=png&auto;=webp&s;=4ec67e482f02803caf5512fe7cfe4bdffd6e7cef>)

[OCC Rule 909](<https://preview.redd.it/y24t13ig0r481.png?width=552&format;=png&auto;=webp&s;=baddc01caa8cfc424b4f7dd169c13f9ca1bfda16>)

Ape speak: ok. This is a lot of words that they use to describe fully and partially covering obligations. It breaks down like this

- Everyone has to report on delivered and received shares and cash

- If the delivered shares and cash match up, the trade is closed
- If the delivered shares or cash don't match up, both reports are trashed.

****Part 5.3 Rule 9.10 Failure to Deliver****

I broke this out into its own sub section because I think there may be the most discussion about this part. So let's get into the details.

[OCC Rule 910(a)](<https://preview.redd.it/6w2ajc2i0r481.png?width=552&format=png&auto=webp&s=bfc1ef36d85ea359866a3824c014b5b36d9db4a5>)

Ape speak: This only applies to broker to broker only trades cleared through Rules 903-912. This does not apply to any security cleared the Rule 901, the one they call the "regular" way. And failure to deliver resulting of Rule 901 is dealt with under the rules of the clearing corporation, the NSCC for GME.

[OCC Rule 910(b)](<https://preview.redd.it/p9wqzy0j0r481.png?width=552&format=png&auto=webp&s=7909a55cae51d196e7f61fede2e26bfa116ef644>)

Ape speak: If the shares aren't delivered, then the receiving member must put in a buy in notice at a SRO within C+20 from the delivery date. The buy in must be in accordance with the clearing company facilitating the actual buy in. But ultimately, this is the step where the buy in occurs. We see that by the verbiage "the buy-in shall be effected". I find it odd that they use the wording of "a SRO" instead of directing it to the responsible clearing corporation. Maybe this is another way to wiggle out, maybe it's nothing. But what I do see is that if the NSCC is the clearing corp, then the buy in procedure must follow their rules. The interesting part of this rule is they are saying that only the OCC can make a call for delaying buy in.

[OCC Rule 910(c)](<https://preview.redd.it/ebve6zyj0r481.png?width=552&format=png&auto=webp&s=7c9385a74fb4727b28a81a1c286dc69c913ec110>)

Ape speak: if a member is going to perform a buy in, then notify the OCC and the delivering member in failure. The delivering member has to pay up the cash due by 11am eastern the next day. If the cash is paid, then the deal is done.

[OCC Rule 910(d)](<https://preview.redd.it/2fwngl6m0r481.png?width=552&format=png&auto=webp&s=6dda97ea82ad4407eb5c04306680a81852378139>)

Ape speak: The OCC gets named the defaulting party when a buy in notice is sent. The OCC doesn't trust the defaulting party to pay up to the receiving member, so the OCC takes on that responsibility, and withdraws the payment from the defaulting member. The delivering clearing member is named the defaulting party when the buy-in deals with a put. The party that originally owes the shares must pay the OCC after the buy in was effected. Once again, the OCC takes over control of payment.

[OCC Rule 910(e)](<https://preview.redd.it/7b2oiwcn0r481.png?width=552&format=png&auto=webp&s=43eb5b56d6673e5285c706fe39f75efa0872015b>)

Ape speak: If the receiving party notices and the delivering party notices don't match, they are both thrown out.

That's it. That's all of rule 910 for broker to broker settlement transactions of non CCC-eligible securities. There are a couple rules clarifying who is responsible for dividend payouts also. The first step is to go through another clearing corporation system, for GME that is the NSCC. If they can't close a deal through the NSCC, then they really do have to go buy your shares in the open market. They really will normally do that in T+2, but have up to 20. The only problem is this doesn't usually pertain to GME, because GME usually gets settled through rule 901, and can absolutely get settled through the NSCC, in fun and inventive ways as we say in Part 4.

****Part 5.4 Rules 911-916****

Just like there is a failure to deliver, there is also a failure to receive that initiates the process. A receiving member must file a failure to receive notice to notify the OCC that the delivering party is in breach.

[OCC Rule 911\ (a)](<https://preview.redd.it/696ww1po0r481.png?width=552&format=png&auto=webp&s=1a171a31e1cc481929af997d8d7bc0dd227b8ce7>)

Ape speak: This only applies to broker to broker only trades cleared through Rules 903-912. This does not apply to any security cleared the Rule 901, the one they call the "regular" way. And failure to deliver resulting of Rule 901 is dealt with under the rules of the clearing corporation, the NSCC for GME.

[OCC Rule 911\ (b)](<https://preview.redd.it/7z7cnfzp0r481.png?width=552&format=png&auto=webp&s=1eb51502dd6a40daad829c1a4e3bea44fb0cde6b>)

[OCC Rule 911\ (b)](<https://preview.redd.it/drqf3nwq0r481.png?width=552&format=png&auto=webp&s=89703b5681da7375770359415a4b6168aa10a979>)

Ape speak: If the receiving party leant accept the shares, the delivering party goes out, sells what the receiver won't accept and deposits the money with the OCC to complete trade. The receiving party has to cover any difference between the sold price and the options strike price by 10 am the next day.

[OCC Rule 911\ (c)](<https://preview.redd.it/ralqnr0s0r481.png?width=552&format=png&auto=webp&s=4e299f1f2126c6d139f079a1c60de199607c0223>)

Ape speak: if the receiver doesn't pony up any owed cash, or the OCC will withdraw it from the receiving party's account.

[OCC Rule 912](<https://preview.redd.it/pgx2gf9t0r481.png?width=552&format=png&auto=webp&s=a3f4bef29ac1078114fd28b6de36ea13064d0e8f>)

Ape speak: If an options contract is exercised prior to an ex date, the delivering member owes the receiving member the dividend or whatever. If the options contract is exercised on the date, and the receiving party doesn't have time to register shares in their name, then the delivering member will owe the receiving member the amount of the dividend, due on distribution day.

Rules 913-916 are deleted from the rulebook.

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