

# Information Notice

## Exercise Cut-Off Time for Expiring Options

FINRA reminds members that option holders who hold expiring options have until 5:30 p.m. Eastern Time (ET) on the day of expiration to make a final exercise decision to exercise or not exercise the option.<sup>1</sup> Members may establish an earlier time to accept exercise instructions for customer or non-customer accounts but may not accept instructions after 5:30 p.m. ET.<sup>2</sup> Members should ensure customers are aware of the cut-off time to exercise expiring options.

FINRA reminds members that special procedures apply to the exercise of expiring standardized equity options. Generally, expiring standardized equity options that are in-the-money will be automatically exercised.<sup>3</sup> For call option positions, the cost associated with any exercise will be due at that time. Option holders who want to exercise or not exercise expiring standardized equity options must either: (1) take no action and allow exercise determinations to be applied; or (2) submit a “Contrary Exercise Advice.” A “Contrary Exercise Advice” allows an option holder to (1) not exercise an option position that would automatically be exercised; or (2) exercise a standardized equity option position that would not automatically be exercised. A Contrary Exercise Advice may be canceled by filing an “Advice Cancel.”

Questions regarding this *Notice* may be directed to:

- ▶ Gene DeMaio, Executive Vice President, Options Regulation and Trading & Execution, at 212-457-5313 or [Gene.Demaio@finra.org](mailto:Gene.Demaio@finra.org); or
- ▶ Danny Mileto, Vice President, Options Regulation, at 212-457-5323 or [Danny.Mileto@finra.org](mailto:Danny.Mileto@finra.org).

### Endnotes

1. See FINRA Rule 2360(b)(23)(A) regarding the procedure for the exercise of option contracts. In particular, Rule 2360(b)(23)(A)(iii) provides that option holders have until 5:30 p.m. ET on the business day of expiration, or, in the case of a standardized equity option expiring on a day that is not a business day, on the business day immediately prior to the expiration date to make a final exercise decision to exercise or not exercise an expiring option.
2. See FINRA Rule 2360(b)(23)(A)(vi).
3. The Options Clearing Corporation Rule 805 provides that expiring standardized equity options are subject to the Exercise-by-Exception (“Ex-by-Ex”). This rule provides that, unless contrary instructions are given, standardized equity option contracts that are in-the-money shall be automatically exercised.

February 3, 2021

### Suggested Routing

- ▶ Compliance
- ▶ Institutional
- ▶ Legal
- ▶ Operations
- ▶ Options
- ▶ Senior Management
- ▶ Systems
- ▶ Trading

### Key Topics

- ▶ Exercise Cut-off Time
- ▶ Expiration
- ▶ Standardized Equity Options

### Referenced Rules & Notices

- ▶ FINRA Rule 2360

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