

CBOE[®] GLOSSARY OF OPTIONS TERMS

American-style Option: An option contract that may be exercised at any time after purchase and prior to the expiration date. Most exchange-traded options are American-style.

Assignment: The receipt of an exercise notice by an option writer (seller) that obligates him to sell (in the case of a call) or purchase (in the case of a put) the underlying security at the specified strike price.

At-the-money: An option is at-the-money if the strike price of the option is equal to the market price of the underlying security.

Call: An option that gives the holder the right to **buy** an underlying instrument, such as a stock or an index value, at a specified price for a certain, fixed period of time.

Capped-style option: A capped option is an option with an established profit cap or cap price. The cap price is equal to the option's strike price plus a cap interval for a call option or the strike price minus a cap interval for a put option. A capped option is automatically exercised when the underlying security closes *at or above* the option's cap price (for a call) or *at or below* the option's cap price (for a put).

Class of options: Option contracts of the same type (call or put) and style (American, European or Capped) that cover the same underlying security.

Clearing Corporation (or Clearing House): The business entity through which transactions executed on the floor of an exchange are settled using a process of matching purchases and sales.

Clearing Member: A member firm of the Clearing Corporation.

Closing purchase: A transaction in which the purchaser's intention is to reduce or eliminate a short position in a given series of options.

Closing sale: A transaction in which the seller's intention is to reduce or eliminate a long position in a given series of options.

Collar: A contract providing for both a cap (ceiling) and floor (minimum).

Covered call option writing: A strategy in which one sells call options while simultaneously owning an equivalent position in the underlying security.

Derivative security: A financial security whose value is determined in part from the value and characteristics of another security, the underlying security.

Equity options: Options on shares of an individual common stock.

European-style options: An option contract that may be exercised only during a specified period of time just prior to its expiration.

Exercise: To invoke the right under which the holder of an option is entitled to buy (in the case of a call) or sell (in the case of a put) the underlying security.

Exercise price (See *Strike price*): Exercise settlement amount. The difference between the exercise price of the option and the exercise settlement value of the index on the day an exercise notice is tendered, multiplied by the index multiplier.

Expiration date: Date on which an option and the right to exercise it, cease to exist.

Hedge: A conservative strategy used to limit investment loss by effecting a transaction which offsets an existing position.

Holder: The purchaser of an option.

In-the-money: A call option is in-the-money if the strike price is less than the market price of the underlying security. A put option is in-the-money if the strike price is greater than the market price of the underlying security.

Intrinsic value: The amount by which an option is in-the-money (see above definition).

LEAPS[®]: Long-term Equity Anticipation Securities, or LEAPS[®], are long-term stock or index options. LEAPS[®], like all options, are available in two types, calls and puts, with expiration dates up to three years in the future.

Long position: A position wherein an investor's interest in a particular series of options is as a net holder (i.e., the number of contracts bought exceeds the number of contracts sold).

Margin requirement (for options): The amount an uncovered (naked) option writer is required to deposit and maintain to cover a position. The margin requirement is calculated daily.

Opening purchase: A transaction in which the purchaser's intention is to create or increase a long position in a given series of options.

Opening sale: A transaction in which the seller's intention is to create or increase a short position in a given series of options.

Open interest: The number of outstanding options or futures contracts in the exchange market or in a particular class or series. Refers to unliquidated purchases or sales.

Option: The right, but not the obligation, to buy or sell an underlying instrument, such as a stock, a futures contract or an index value, at a specified price for a certain, fixed period of time.

Out-of-the-money: A call option is out-of-the-money if the strike price is greater than the market price of the underlying security. A put option is out-of-the-money if the strike price is less than the market price of the underlying security.

Premium: The price of an option contract, determined in the competitive marketplace, which the buyer of the option pays to the option writer for the rights conveyed by the option contract.

Put: An option contract that gives the holder the right to **sell** an underlying instrument, such as a stock or an index value, at a specified price for a certain, fixed period of time.

Series: All option contracts of the same class that also have the same unit of trade, expiration date and strike price.

Short position: A position wherein a person's interest in a particular series of options is as a net writer (i.e., the number of contracts sold exceeds the number of contracts bought).

Strike price: The stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Swap: A contractual agreement to exchange a stream of payments with a counterparty. The traditional **interest rate swap** is an exchange of fixed interest payments for floating rate payments. A generic **currency swap** is an agreement to exchange one currency for another at a forward exchange rate. The most common form of **equity swaps** involve a swap between the return on a stock index and a benchmark rate of interest; equity swap also can involve the exchange of returns on two different equity indices.

Time value: The portion of the option premium that is attributable to the amount of time remaining until the expiration of the option contract. Time value is whatever value the option has in addition to its intrinsic value.

Type: The classification of an option contract as either a put or a call.

Uncovered call writing: A short call option position in which the writer does not own an equivalent position in the underlying security represented by his option contracts.

Uncovered put writing: A short put option position in which the writer does not have a corresponding short position in the underlying security or has not deposited, in a cash account, cash or cash equivalents equal to the exercise value of the put.

Underlying security: The security subject to being purchased or sold upon exercise of the option contract.

Volatility: A measure of the fluctuation in the market price of the underlying security. Mathematically, volatility is the annualized standard deviation of daily price movements.

Writer: The seller of an option contract.

Options involve risk and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of [Characteristics and Risks of Standardized Options](#) (ODD). Copies of the ODD are available from your broker, by calling 1-888-OPTIONS, or from The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, Illinois 60606. The information in this paper is provided solely for general education and information purposes and therefore should not be considered complete, precise, or current. Copyright © 2004 Chicago Board Options Exchange, Incorporated. All rights reserved.

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