OPTIONS AI

Option Spread (Multi-Leg Order) Risk Disclosure

Options AI offers defined risk option spreads ("Spread(s)" or "Multi-Leg Orders") that are generally accepted to help lower the outright cost of purchasing a standardized option contract and therefore, may reduce the overall risk of loss. However, potential benefits must be balanced with an understanding of certain other risks that are introduced with the use of option spreads.

Early Exercise/Assignment Risk

Each individual leg of a Spread can be subject to early exercise/assignment risk which may change the risk profile of the original position. Partial or full assignment on a leg may originate a margin call or may result in a position where potential losses are greater than were originally anticipated. Options AI reserves the right, in its sole discretion, to close any option position (including related legs of a Spread) that may be subject to assignment, based upon various factors including, account buying power, risk profile and market conditions.

Execution Risk

A Spread is not a standardized option trade, but rather the combination of standardized put and call option contracts. Spreads are entered as a 'package' on a single options exchange and are executed at the discretion of specialists or market makers who cannot be "held" to a net price on a Multi-Leg Order.

There is no NBBO (National Best Bid or Offer) for Spreads and therefore, unlike "legged" orders (where put or call option contracts are entered separately and may be executed across multiple exchanges), you may not receive the NBBO on each individual leg of a Spread order. This also means that a Spread order may not necessarily be filled despite the NBBO of each individual leg of the order indicating that it should.

When a multi-leg order is cancelled or filled, additional reporting may be required by the specialist or market maker. Reporting fills and cancels may cause delays and create risks, especially in fast moving markets.

Spreads have a wider Bid/Ask than individual options. The greater the number of legs in a Spread, the wider the Bid/Ask. This poses a specific execution risk, which may only partially be mitigated by the use of Limit Orders.

Other risks might be associated with multi-leg option trading. You are expected to have read and understood Characteristics and Risks of Standardized Options, in particular the chapter entitled "Risk of Buying and Writing Options".