OCC's Standard Assignment Procedure[1]

OCC's standard assignment process operates as follows. An assignment "wheel" is created for each option series for which there is an exercise and all short positions of that series are placed on the wheel. Positions are placed on the wheel in sequential order based on a unique data base identification code given to a position account (i.e., an account or sub-account[2] that can hold positions). A position account of a clearing member that has been added after the initial allocation of data base identification codes may not be clustered on the wheel adjacent to the other position accounts of that clearing member.

The number of contracts exercised for that series is totaled. If the number of exercised contracts is less than the number of contracts held in open short positions, exercises are assigned in standard assignment increments of 25 contracts.[3] The system calculates a random starting point on the wheel for the first assignment increment. The first 25 contracts are assigned starting at the first position randomly chosen. Based on the number of contracts in the open interest for the series and the number of exercise increments to be assigned, an initial skip interval is calculated as follows:

S	=	the total number of contracts being exercised for a particular series
T	=	the total number of contracts on the wheel
I	=	the assignment increment

[1] OCC's standard methodology applies to all classes of options other than those classes which are subject to the pro rata assignment methodology.

[2] Each sub-account is treated as a separate "position account". Therefore, OCC will assign exercise notices directly to short positions held in a sub-account established by a clearing member for a single beneficial owner (including for individual market makers in a combined market-makers' account).

[3] If the number of contracts being exercised is equal to the number of open short positions, the entire open interest for that series will be assigned automatically.

1. T1 = S/I (with decimals carried to six places; T1 is rounded up so that it is an integer)
2. Initial Skip Interval = (T/T1) – I (with decimals carried to six places and reserved for further use; decimals are truncated so that the initial skip interval is an integer)
3. If the initial skip interval is < 0, then the initial skip increment is = 0

The decimals from the resulting total are truncated to determine the first skip interval and stored to calculate the second skip interval. After skipping the first skip interval, the next 25 contracts are assigned and the second skip interval is calculated by adding the initial skip interval (including decimals) to the remaining decimal number from the truncated first skip interval. The decimals from the resulting total are truncated and stored to calculate the third skip interval. This process continues until all exercises have been assigned.

The following example illustrates this process:

- Assignment Interval = 25
- Random Start Position calculated to = 1
- Total exercises for series = 175
- Total open interest for series = 355
- Initial skip interval calculates to:

(Total shorts / (Total exercises / Assignment interval)) - Assignment Interval = (355 / (175/25)) – 25 = 25.714286

⇒ The first 25 positions to be assigned start at position 1, the random start position. Positions 1 through 25 are assigned.

⇒ Calculate the 1st skip interval as reflected in the initial skip interval calculation above, which is truncated to 25 with the excess of .714286 reserved for further use.

⇒ The second 25 positions to be assigned start at position 26 + 25. Positions 51 through 75 are assigned.

⇒ Calculate the 2nd skip interval which is equal to the initial skip interval + excess from the previous truncation: (25.714286 + .714286) = 26.428572, which is truncated to 26 with the excess of .428572 reserved for further use.

⇒ The third 25 positions to be assigned start at position 76 + 26. Positions 102 through 126 are assigned.

⇒ Calculate the 3rd skip interval which is equal to the initial skip interval + excess from the previous truncation: (25.714286 + .428572) = 26.142858, which is truncated to 26 with the excess of .142858 reserved for further use.

⇒ The fourth 25 positions to be assigned start at position 127 + 26. Positions 153 through 177 are assigned.

⇒ Calculate the 4th skip interval which is equal to the initial skip interval + excess from previous truncation: (25.714286 + .142858) = 25.857144, which is truncated to 25 with the excess of .857144 reserved for further use.

⇒ The fifth 25 positions to be assigned start at position 178 + 25. Positions 203 through 227 are assigned.

⇒ Calculate the 5th skip interval which is equal to the initial skip interval + excess from the previous truncation: (25.714286 + .857144) = 26.57143, which is truncated to 26 with the excess of .571430 reserved for further use.

⇒ The sixth 25 positions to be assigned start at position 228 + 26. Positions 254 through 278 are assigned.

⇒ Calculate the 6th skip interval which is equal to the initial skip interval + excess from the previous truncation: (25.714286 + .571430) = 26.285716, which is truncated to 26 with the excess of .285716 reserved for further use.

⇒ The seventh 25 positions to be assigned start at position 279 + 26. Positions 305 through 329 are assigned.

⇒ All exercises have been assigned.