



Option Spread Risk Disclosure

Before using our spread order entry screen, options spread traders must understand the additional risks associated with this type of trading.

While it is generally accepted that spread trading may reduce the risk of loss of trading of the outright purchase of a standardized option contract, an investor/trader **MUST** understand that the risk reduction can lead to other risks.

1. Early exercise and assignment can create risk and loss. Spreads are subject to early exercise or assignment that can remove the very protection that the investor/trader sought. This can lead to margin calls and greater losses than anticipated when the trade was entered. Under the current T+1 settlement cycle, the compressed settlement timeline means that investors/traders have a significantly shorter window to respond to assignment notices, meet margin obligations, and manage resulting positions. Additionally, the elimination of late exercise by The Options Clearing Corporation means that all exercise decisions must be made within the standard cutoff times, with no opportunity for after-the-fact exercise submissions.
2. Intraday margin requirements may amplify risk. In addition to standard margin requirements, spread positions may be subject to intraday margin add-on charges designed to address risks arising from intraday and overnight trading activity. These intraday margin assessments may result in margin calls during the trading day, potentially requiring investors/traders to deposit additional funds or liquidate positions on shorter notice than traditional end-of-day margin calls. Early assignment on one leg of a spread may trigger additional intraday margin obligations that exceed the originally anticipated risk of the position.
3. Execution of spread orders is "not held" and discretionary. Spreads are not standardized contracts as are exchange traded puts and calls. Spreads are the combination of standardized put and call contracts. There is NO spread market in securities that are subject to such benchmarks such as "time and sales" or "NBBO" (National Best Bid/Offer) and therefore the "market" cannot be "held" to a price.
4. Spreads are executed differently than "legged" orders. Spreads are used by strategists as examples of risk protection, profit enhancement and as a basis for results and return on investments. However, these strategies assume that the trade can actually be executed as a spread when market forces may and can make the actual execution impossible. Spreads are bona-fide trades and not "legged" or "paired" of individual separate trades. For example: options prices on cross-markets are misleading for the spread trader. An option may be offered on one exchange and bid on another exchange that can lead the trader to believe that their

spread trade should be filled, when, in fact, the bids and offers must be on the SAME exchange. All bona-fide spreads are routed and executed on "one" exchange.

5. Spreads are entered on a single exchange and are acted upon by a market maker. Spreads are executed at the discretion of a market maker and when cancelled or filled require that the market maker take manual action and require manual reporting at times. Delays for reporting of fills and cancels may create additional risks in fast or changing markets. Spreads entered through Firsttrade's spread order entry screen are ALWAYS entered as spreads and as such are subject to the market risk and conditions as explained above.
6. Settlement risk under T+1. The standard settlement cycle for equity transactions is one business day after the trade date (T+1). In the context of spreads, this accelerated settlement timeline requires that investors/traders be prepared to meet delivery and payment obligations more quickly following exercise or assignment. Investors/traders should ensure they maintain sufficient funds or securities in their accounts to meet potential settlement obligations arising from spread positions within the T+1 timeframe.

IMPORTANT NOTICE: Options trading involves significant risk and is not appropriate for all investors. Options strategies, including spreads, can result in the loss of the entire amount invested and, in some cases, losses may exceed the initial investment. Before trading options, you are expected to read the booklet entitled [*Characteristics and Risks of Standardized Options*](#), which describes the risks associated with options trading, including the specific risks of spread transactions, early exercise, and assignment. This booklet is available at the Firsttrade Form Center — Disclosures section, or directly from The Options Clearing Corporation at: <https://www.theocc.com/company-information/documents-and-archives/options-disclosure-document>.

By using Firsttrade's spread order entry screen, you acknowledge that you have received, read, and understand the risks described in this Option Spread Risk Disclosure and the [*Characteristics and Risks of Standardized Options*](#).