



Risk Disclosure for Uncovered Option Writers

There are special risks associated with uncovered option writing, which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.

1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position and may incur large losses if the value of the underlying instrument increases above the exercise price.
2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.
3. Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account, with little or no prior notice in accordance with the investor's margin agreement. Additionally, uncovered option 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 to deposit additional funds or face liquidation of positions on shorter notice than traditional end-of-day margin calls.
4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.
5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an option writer would remain obligated until expiration or assignment.
6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period. 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. As a result, assignment may occur with less advance notice than writers might otherwise expect.

7. Settlement risk under T+1. Under the current T+1 settlement cycle, the standard settlement period for equity transactions is one business day after the trade date. When an uncovered writer is assigned, the writer must fulfill delivery or payment obligations within this compressed timeframe. For uncovered call writers, this means delivering shares of the underlying instrument by the next business day; for uncovered put writers, this means accepting and paying for shares of the underlying instrument by the next business day. Investors should ensure they maintain sufficient funds and borrowing capacity to meet settlement obligations promptly upon assignment.
8. Short-dated and zero-days-to-expiration (ODTE) options pose heightened risk for uncovered writers. Options approaching expiration, and in particular ODTE options, are subject to rapid and significant price movements due to increased sensitivity to changes in the underlying instrument's price (gamma risk). Uncovered writers of such options may experience sudden, large losses with very limited time to react or adjust positions. The compressed timeframe of short-dated options also reduces the opportunity to manage risk through closing transactions or rolling positions.

IMPORTANT NOTICE: Options trading involves significant risk and is not appropriate for all investors. Uncovered option writing exposes the investor to potentially unlimited loss. 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. In particular, your attention is directed to the chapter entitled "Risks of Buying and Writing Options." 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>.

This statement is not intended to enumerate all of the risks entailed in writing uncovered options. By using Firsttrade's options trading platform for uncovered option writing, you acknowledge that you have received, read, and understand the risks described in this Risk Disclosure for Uncovered Option Writers and the [Characteristics and Risks of Standardized Options](#).