

## CHAPTER II

# OPTIONS NOMENCLATURE

This chapter contains a description of the standardized terms, and of some of the special vocabulary, applicable to options. Most of the nomenclature is the same for options on the various types of underlying interests. Differences that are applicable to options on a particular underlying interest will be described in the chapter devoted to that underlying interest.

Certain terms—options, options markets, call options, put options, physical delivery options, cash-settled options, options series, multiply-traded options and internationally-traded options—have been defined in Chapter I. Readers interested in those definitions should consult that chapter.

**OPTION HOLDER; OPTION WRITER**—The option holder is the person who buys the right conveyed by the option.

**EXAMPLE:** The holder of a physical delivery XYZ call option has the right to purchase shares of XYZ Corporation stock at the specified exercise price upon exercise prior to the expiration of the option. The holder of a physical delivery XYZ put option has the right to sell shares of XYZ Corporation at the specified exercise price upon exercise prior to the expiration of the option. The holder of a cash-settled option has the right to receive an amount of cash equal to the cash settlement amount (described below) upon exercise prior to the expiration of the option.

The option writer is obligated—if and when assigned an exercise—to perform according to the terms of the option. The option writer is sometimes referred to as the option seller. An option writer who has been assigned an exercise is known as an assigned writer.

**EXAMPLE:** If a physical delivery XYZ call option is exercised by the holder of the option, the assigned writer must deliver the required number of shares of XYZ common stock. He will be paid for the shares at the specified exercise price regardless of their current market price.