

## **Disclosure Regarding Interactive Brokers' Procedures for Allocating Equity Option Assignment Notices from OCC**

As described in the Options Clearing Corporation ("OCC") Publication "Characteristics and Risks of Standardized Options", the OCC assigns exercise notices to clearing firms such as Interactive Brokers LLC ("IB LLC"), [the US-located affiliate of Interactive Brokers (U.K.) Limited ("IB UK") and Interactive Brokers Canada, Inc. ("IBC") that arranges for the execution and clearing of IB UK and IBC customer trades] using a specified assignment procedure. IB LLC, in turn, is required to maintain a procedure to allocate such exercise notices to those customer accounts carried by IB LLC that hold short positions in the relevant options. Upon assignment, customers whose accounts are carried by IB LLC shall be required: (1) in the case of an equity option, to deliver or accept the required number of shares of the underlying security, or (2) in the case of an equity index option, to pay or receive the settlement price, in cash. Customer understands that it may not receive notice of an assignment until one or more days following the date of the initial assignment by OCC to IB LLC and that the lack of such notice creates a special risk for uncovered writers of physical delivery call stock options.

Described below are IB LLC's procedures for allocation of exercise notices, which are based on a random selection process:

### Steps

1. Each night, IB LLC receives from the OCC the "OCC E&A" (exercise and assignment activity) file in machine-readable format setting forth, on a per contract basis, the aggregate exercise and assignment quantities to IB LLC.
2. For each contract assignment record, the IB LLC System compiles a list, in ascending account number order, of all customer accounts held at IB LLC with short positions in the relevant contract.
3. If only one customer holds a short position in the contract assigned, that customer is automatically allocated the assignment and no lottery is needed.
4. If more than one customer holds a short position in the contract assigned, the IB LLC System runs an automated random lottery to determine the allocation of quantities that are to be assigned to each customer. The IB LLC System shall:
  - a. Assign two sequence ranges to each customer's holdings (see Exhibit A).
  - b. Generate a random number to find a "Starting Point". The Starting Point is the customer contract sequence number from which the allocation of the assignment quantity begins. To generate a Random Number, the IB System will:

- Initialize the Oracle random number generator with the system time (HH24MISS)
- Find the Random Number by taking the MOD (random number, total position) + 1 to ensure that the Random Number is between one and the total number of short contracts.

(Note: the IB System will generate a new Random Number for each lottery to be run.)

5. The IB LLC System will then (a) find the account that has the assigned sequence range into which the Random Number falls; and (b) select contracts to be assigned in increments of one, beginning with the contract that correlates with the Random Number until the total number of contracts assigned has been satisfied.
6. The IB LLC System will then process the assigned positions by (a) removing the options positions from customers' accounts and (b) if the option delivers underlying stock, entering the corresponding stock trades at the strike price or (c) if the option assignment settles in cash, entering the corresponding cash debit.

**EXHIBIT "A"**

Assume there are 1186 options contracts held at OCC for 10 customers and that 50 contracts are assigned to IB LLC by OCC.

1. Assign sequence numbers to each security:

<u>Customer Accounts</u>	<u>No. of Contracts held at OCC</u>		<u>Assigned Sequence Numbers</u>	
			<u>1st Range</u>	<u>2nd Range</u>
A	1		0001	1187
B	5	0	0002-0051	1188-1237
C	10	0	0052-0151	1238-1337
D	2		0152-0153	1338-1339
E	1		0154	1340
F	1		0155	1341
G	100	0	0156-1155	1342-2341
H	1		1156	2342
I	1	0	1157-1166	2343-2352
J	<u>2</u>	<u>0</u>	1167-1186	2353-2372
Total in OCC	1186			

2. FIND A STARTING RANDOM NUMBER BETWEEN 0001 AND 1186 using the Oracle random number generator.
3. ASSUMING THE RANDOM NUMBER GENERATED WAS 0396, ALLOCATE THE 50 CONTRACTS TO CUSTOMERS STARTING AT CONTRACT NUMBER 0396.

SUMMARY OF ALLOCATION

<u>Customer Accounts</u>	<u>No of Contracts Held at OCC</u>	<u>Allocation of Assigned Options Contracts</u>
A	1	0
B	50	0
C	100	0
D	2	0
E	1	0
F	1	0
G	1000	50
H	1	0
I	10	0
J	<u>20</u>	<u>0</u>

Total at OCC

1186

50