EXPIRY: EXERCISE, ASSIGNMENT, AND THE PIN

Vajgrt Labs - Education - Lesson 38 of 72 - 7 min read - Updated Oct 21, 2026

TL;DR

- An option ends three ways: sold before expiry, exercised, or expired. At the deadline the OCC exercises by exception (Rule 805): any contract $0.01 or more in-the-money at the close is exercised automatically, unless its holder filed a contrary instruction through their broker in time.

- Exercise is physical on SPY: an exercised 773 call delivers 100 shares bought at $773 - a $77,300 settlement due the next business day. Holders may also exercise on any earlier day (American-style) and usually shouldn't: exercising keeps only the intrinsic value and throws the extrinsic away, so selling the contract normally captures more.

- For sellers, exercise arrives as ASSIGNMENT - the obligation collected, with exercise notices allocated among a broker's short customers by its disclosed method. Around the strike sits the pin: a close within cents of it leaves both sides unsure overnight whether shares are coming. This course's answer is structural: close before expiry day.

THE TAKEAWAYS

- The three endings, and who decides each. SOLD: you close the position any day the market is open - the ordinary ending, and the only one fully in your control. EXERCISED: you instruct your broker on any day up to expiry (American-style), or the system does it for you at the deadline under exercise-by-exception. EXPIRED: the default for anything out-of-the-money - the contract simply ceases to exist, and an unexercised in-the-money contract left without instructions is handled by the same exception rule, not by your intentions. Add the broker's hand: brokers set their own exercise-instruction cutoffs ahead of the OCC's processing, and a broker may close an expiring in-the-money position itself if your account plainly couldn't settle the shares - policies differ by broker, and expiry afternoon is the wrong time to learn yours.

- Exercise-by-exception, precisely (OCC Rule 805). After the close on expiration day, every contract of a series that finished $0.01 or more in-the-money - measured against the underlying's closing price - is deemed exercised, automatically, no phone call, no tap in the app. The escape hatches run both ways and both are called contrary instructions (Rule 805(b)): a holder may decline an automatic exercise, or exercise a contract that finished out-of-the-money - filed through the broker, ahead of the broker's cutoff, which sits ahead of the OCC's deadline. A one-cent threshold is not a rounding error; it is a cliff edge with a settlement on one side, and Lesson 5's split tells you why the system is built this way: at expiry only intrinsic value remains, and a cent of it is still money that belongs to the holder.

- The settlement is real, in shares and in dollars. SPY options are physically settled: exercise the 773 call and you BUY 100 shares of SPY at $773 - $77,300, settling the next business day under Stage 2's T+1. Get assigned on a short call and you must DELIVER 100 shares at 773. Get assigned on a short put and you must BUY 100 shares at the strike. There is no cash-equivalent shrug available - the shares move, the bill lands, and an account that cannot fund it meets its broker's risk desk on the broker's terms. Stage 8 teaches the morning-after procedure in full; Stage 5's point is smaller and colder: the deadline is a settlement event with a date and a dollar figure, and it executes whether or not it was in your plan.

- Pin risk - the knife-edge, priced on this stage's own contract. It is expiry day and SPY closes at 773.01: the long 773 call is one cent in-the-money, auto-exercise fires, and the holder wakes to 100 shares and a $77,300 settlement. SPY instead closes at 772.99: no exercise, no shares, no bill - the contract is simply gone. One cent of closing price separates 'owner of 100 shares' from 'nothing happened' - and because after-hours news can move SPY after the close print, a holder near the strike cannot even be certain which side of the cent they landed on until the notices settle. Sellers sit on the same edge, unsure whether the shares are leaving. The professional answer is not vigilance; it is absence. This course closes its positions before expiry day (Stage 7's exits, Stage 8's expiry week) precisely so that no trade it teaches ever sits on that cent.

RULE: The deadline is a settlement, not a suggestion: know your contract's expiry-day mechanics cold - and be out before the day they can bill you.

COMMON MISTAKES

- Holding a long contract into expiry day 'to see what happens'. What happens is a settlement you didn't schedule - shares and a five-figure bill, or nothing, decided by a cent of closing price.

- Exercising early to 'lock in' value. Exercise pays intrinsic only; the extrinsic (15.48 on this stage's example) is burned. Sell the contract and keep both parts.

- Assuming out-of-the-money means safe for a seller near the pin. A close a cent either side of your strike flips assignment on or off - after you have lost the ability to trade out of it.

- Not knowing your broker's expiry-day rules - its instruction cutoff, and what it does with an expiring position your account can't settle. Read them in October calm, not on expiry afternoon.

DO IT - REHEARSE A DEADLINE ON PAPER

Take the 773 call from your journal work and write its expiry page: the deadline date (Nov 30, 2026), then the three closes - 772.99, 773.01, and 800.14 - and exactly what happens to the buyer and the seller at each: shares, dollars, and the settlement day. Then find, in your own broker's published options pages, its expiry-day instruction cutoff and its policy for an expiring position your account couldn't settle - write both down verbatim (guessing doesn't count). File the page where Stage 8 will expect to find it.

Education only - not financial advice. Contract, exercise and assignment mechanics: the OCC's (standardised terms; exercise-by-exception, Rule 805) - checked Oct 15, 2026. Call figures are arithmetic on the real SPY chain data of Oct 9, 2026 (773 call bid 20.53 / ask 20.68; SPY 778.12; Nov 30 expiry); the put lesson's premium is the lesson's labeled example number, the published chain set being the call side. SPY options are American-style and physically settled. Vajgrt Labs - Education.