

OPTIONS ALLOCATION ASSIGNMENT

The random selection method utilized by Pershing is automated in so far as a random four-digit number (derived from the prior business day's NYSE volume) is manually entered into a system, which uses the algorithm detailed below to derive the allocation of the assignment. A report is then generated listing the accounts to be assigned and the number of contracts assigned per affected account. This report is used by Pershing to notify firms of any options that have been assigned.

Random Selection Method

The following describes how Pershing derives the random allocation number for the day, and how this number is used to designate which short option positions are to be assigned.

- Each day, Pershing receives delivery advice notifications from the Options Clearing Corporation (OCC) listing the total number of contracts that have been assigned for a particular option series. This total represents the number of contracts that have been assigned which Pershing must allocate.

Steps:

- The total number of contracts assigned per series is derived from a delivery advice notification received from the OCC.

Example: Pershing receives notice from the OCC that 46 XYZ January 20 options have been assigned. **A total of 46 contracts must be allocated.**

- All customer and correspondent firm accounts having open short positions in the options series for which exercise notices have been received are listed and are assigned sequence numbers. The number of short contracts is totaled.

Steps:

- All customer and correspondent firm accounts with open positions in the series are listed in account number order and the number of short contracts is totaled.

- Each account in the sequence is assigned a sequential number based on the number of contracts short in the account.

Example:

Account Number	XYZ January 20's # Contract Short	Assigned Sequence Numbers
012-345678	5	1 – 5
123-456789	3	6 – 8
234-567890	9	9 - 17
345-678901	7	18 – 24
456-789012	1	25
567-890123	35	26 – 60
678-901234	10	61 - 70
789-012345	30	71 – 100
789-123456	5	101 – 105
789-234567	2	106 – 107
Total Short Contracts	107	

- A four-digit random number is determined in the following manner:

Steps:

- The prior business day's NYSE volume is obtained.

- (b) The 100 thousandth, 10 thousandth, 1 thousandth and hundredth digits of the volume figure are determined and a decimal is placed in front of the first number and .0001 is add.
- (c) If NYSE volume is unobtainable or appears incorrect, we will use existing figure from prior day.

Example:

NYSE volume is 927,637,500	6 – 100 thousandth digit	The four digit number is therefore .6376
	3 - 10 thousandth digit	
	7 – 1 thousandth digit	
	5 – hundredth digit	

- 4. To determine the assignment starting point, the four-digit, random number is multiplied by the total number of short option contracts and 0.5 is added. The total is rounded to the next whole number, which is always rounded up.

Steps

- (a) The four digit random number is multiplied by the total number of short contracts for the series.
- (b) The resulting number is rounded up to the next whole number.

Example:

$.6376 \times 107 = 68.22$ hence, 69 = assignment starting point

- 3. Assignment begins with the account assigned the sequence number that is equal to the assignment starting point and continues downward from the starting point. If additional notices need to be allocated after reaching the bottom of the list, assignment continues at the top of the list.

Steps

- (a) Identify the account which has the same assigned sequence number as the assignment starting point.
- (b) The number of contracts applicable to that account are assigned (applicability is based upon the sequence number, beginning at the assignment starting point).
- (c) The assignment allocation continues downward from the starting account number, until the remaining contract assignments have been allocated.

Example:

Account Number	XYZ January 20's # Contract Short	Assigned Sequence Numbers
012-345678	5	
123-456789	3	
234-567890	9	
345-678901	7	
456-789012	1	
567-890123	35	
678-901234 (starting point)	10	2
789-012345	30	30
789-123456	5	5
789-234567	2	2
		39

Account 678-901234 is the starting point as it has been assigned sequence number 69. **2 Contracts are assigned for account 678-901234, representing sequence numbers 69 and 70.** As a total of 46 contracts have been assigned, 44 more contract assignments must be allocated. **39 out of 46 assigned contracts have been allocated. 7 contract assignments still need to be allocated.**

(d) If, after reaching the bottom of the list, there are additional contracts that have been assigned, but not yet allocated, allocation will begin again at the top of the list until all assignments have been allocated.

Account Number	XYZ January 20's # Contract Short	Assigned Sequence Numbers
012-345678	5	5
123-456789	3	2
234-567890	9	
345-678901	7	
456-789012	1	
567-890123	35	
678-901234 (starting point)	10	2
789-012345	30	30
789-123456	5	5
789-234567	2	2
		46

46 out of 46 assigned contracts have been allocated.