Commissions, per contract

> **OPTIONS COMMISSIONS**
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> Options usually carry a per-contract commission, charged on each contract on entry and exit - and because option premiums can be small, the commission is often a large fraction of a cheap option's cost. Per-contract pricing means a multi-contract or multi-leg position multiplies the charge, and the cheap far-out-of-the-money options that attract retail carry the highest commission relative to their premium. Commissions are the first, most visible options cost.

Options costs begin with the commission, and the options commission behaves unlike a share's: it is charged per contract, on both legs, and measured against premiums that can be small - so it looms largest exactly on the cheapest options.

Per-contract pricing

Charged per contract: most brokers charge a fee per option contract, so a position's commission scales with the number of contracts - and both entry and exit are charged, per the platform's both-legs discipline.Large against cheap premiums: a per-contract fee is a large fraction of a cheap option's premium and a small fraction of an expensive one - so the far-out-of-the-money lottery tickets carry the highest commission relative to what they cost.Multiplied by legs: a multi-leg position (module 5) is charged per contract per leg, so its commission is the sum across all legs - and complex positions accumulate commission the reader must count.

Why it matters more here

A share commission is measured against the share's whole price; an option commission is measured against a premium that may be a fraction of it - so the same fee is proportionally far larger. The reader buying cheap out-of-the-money options is paying commission that can be a meaningful slice of an already-low-probability bet, on both legs, and every contract. This is the free-that-isn't lesson sharpened: options commissions are visible and per-contract, and on the cheap options retail favours, they are a real drag that the low premium makes proportionally severe.

The costing habit

Count commission per contract, per leg, on both entry and exit, and measure it against the premium - not the underlying's price - to see its true proportional weight. A position in many cheap contracts can pay more in commission than the position's edge justifies, and the all-in cost (lesson 9) assembles it with the spread and the other frictions. Commission is the most visible options cost and the easiest to underestimate, because per-contract pricing on small premiums produces a proportional drag that a glance at the fee alone hides. Read it against the premium, and its real size appears.

Check your understanding

1. Why does a per-contract commission loom largest on cheap options?

a. Cheap options are charged more

b. A fixed per-contract fee is a large fraction of a cheap option's premium and a small fraction of an expensive one - so the far-out-of-the-money lottery tickets carry the highest proportional commission

c. Brokers penalise small trades

Answer: b. The fee is measured against the premium, not the underlying. On the cheap options retail favours, the same commission is proportionally far larger - the free-that-isn't sharpened.

2. How should options commission be read?

a. Against the underlying's price

b. Against the premium, per contract, per leg, on both legs - to see its true proportional weight, which per-contract pricing on small premiums hides

c. As a one-off entry fee

Answer: b. Measured against the premium, not the underlying, the commission's real proportional size appears. A position in many cheap contracts can pay more commission than its edge justifies.