Assignment as a risk event

> **ASSIGNMENT RISK**
>
> For an option seller, assignment is a risk event to plan for, not just a mechanic: it converts the option into an underlying position suddenly, can arrive early on American-style options (especially around dividends), and can hand the seller a large or leveraged underlying exposure at the worst moment. Managing assignment - anticipating it, holding the capital or underlying to meet it, closing before it - is part of the seller's risk discipline.

Module 1 taught assignment as a mechanic; the risk module treats it as an event to manage, because for a seller it can convert a controlled option position into an unwanted underlying one at a moment not of their choosing.

Why assignment is a risk, not just a mechanic

It arrives involuntarily: the seller does not choose when they are assigned - the buyer's exercise decides it - so the seller can be handed an underlying position suddenly, at a price and time set by someone else.It can come early: American-style options can be assigned before expiry (module 1), particularly around dividend dates when early exercise becomes rational - so the seller carries the risk of assignment arriving before they expected to manage the position.It creates real exposure: a short call assigned means delivering (and often first buying) the underlying - the unbounded exposure of module 1, realised as an actual underlying position with its own risk and capital demand.

Managing the assignment risk

The seller's assignment discipline: know the option's style and settlement (module 1), so early assignment's possibility is known; watch the dividend calendar, where early assignment of in-the-money calls clusters; hold the capital or underlying to meet a possible assignment, so being assigned is a managed event not a margin crisis; and close positions before expiry to avoid pin risk and assignment ambiguity where the exposure would be unwelcome. Assignment is a scheduled possibility for anyone short an option, and managing it is part of the risk of selling - not an afterthought at expiry.

The risk-plan line

Assignment risk earns its own line in an options risk plan: for any short position, what happens if assigned - the underlying exposure created, the capital required, the timing - planned before the position is entered, not discovered when the assignment notice arrives. The seller who has not planned for assignment has not planned for the position, because assignment is how a short option most often turns from a controlled premium collection into an uncontrolled underlying exposure. It is the seller's risk mechanic that the risk module elevates to a risk event - managed deliberately, or met by surprise.

Check your understanding

1. Why is assignment a risk event for a seller, not just a mechanic?

a. It is always expected

b. It arrives involuntarily at a time the buyer chooses, can come early on American-style options around dividends, and creates real underlying exposure with its own risk and capital demand

c. It only happens at expiry

Answer: b. The seller does not choose when. Assignment converts a controlled option position into an unwanted underlying one suddenly - a risk to plan for, not an afterthought.

2. What belongs in the risk plan for any short option?

a. The expected profit only

b. What happens if assigned - the underlying exposure created, the capital required, the timing - planned before entry, not discovered when the assignment notice arrives

c. The commission

Answer: b. The seller who has not planned for assignment has not planned for the position. It is how a short option most often turns from controlled premium collection into uncontrolled exposure.