

Regulatory Circular RG00-71

To: Member Firms
From: Regulatory Services Division
Date: April 20, 2000
RE: Equity FLEX Supplement to the Options Disclosure Document

On March 10, 2000, the Securities and Exchange Commission ("SEC") approved the Options Clearing Corporation's Supplement to the Options Disclosure Document ("ODD") regarding FLEX equity options. Member Firms should be aware that Exchange Rule 9.15 requires that each customer who was previously furnished an options disclosure document be furnished with a copy of an amendment to the current options disclosure document regarding the product. Member Firms are required to deliver the amendment no later than at the time the first confirmation of a transaction in an equity FLEX option is delivered to a customer. Member Firms may comply with this requirement in various ways, including but not limited to one of the following:

- (1) The firm may choose to conduct a mass mailing of the amendment to all of their approved customers who have already received the options disclosure document.
- (2) The firm may deliver the amendment to a customer, who has already received the options disclosure document, with the first confirmation of an equity FLEX option transaction.

In any event, the amendment must also be delivered to any new options customers when the customer is provided with a copy of the current Options Disclosure Document. Attached is a copy of the supplemental language which may be used by your firm pending the availability of printed copies from the Options Clearing Corporation.

Copies of the ODD or the supplement may be obtained by contacting Diane Svoboda at the Options Clearing Corporation at (312) 322-6212. Questions about this memorandum may be directed to Lawrence J. Bresnahan at (312) 786-7713 or David E. Carlson at (312) 786-7052.

Attachment

March 2000 Supplement to Characteristics and Risks of Standardized Options

Equity FLEX Options

The February 1994 edition of the booklet entitled **Characteristics and Risks of Standardized Options** (the “options booklet”) is amended as follows:

1. The second full paragraph after the example on page 21 of the options booklet is amended to read:

When an underlying security is converted into a right to receive a fixed amount of cash, options on that security will generally be adjusted to require the delivery upon exercise of a fixed amount of cash, and trading in the options will ordinarily cease when the conversion becomes effective. As a result, after such an adjust is made, all on that security that are not in the money will become worthless and all that are in the money will have no time value. If the option is European-style (as may be the case for a flexibly structured stock option designated as a European-style option), the expiration date of the option will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the underlying security to a right to receive cash occurs. Holders of an in the money option whose expiration date is accelerated must be prepared to exercise that option prior to the accelerated exercise cut off time in order to prevent the option from expiring unexercised. Writers of European-style options whose expiration date is subject to being accelerated bear the risk that, in the event of such an acceleration, they may be assigned an exercise notice and be required to perform their obligations as writers prior to the original expiration date. When the expiration date of a European-style option is accelerated, no adjustment will be made to reflect the accelerated expiration date. There is no assurance that the exercise settlement date for an accelerated option will coincide with the date that the cash payment to the holders of the underlying security becomes available from the issuer of the underlying security. Covered writers of an accelerated option may therefore be required to pay the cash amount in respect of the option before they receive the cash payment on the underlying security.

2. The third and fourth sentence of the paragraph under “Exercises and Settlements” on page 47 of the options booklet are amended to read:

However, unlike most other options, flexibly structured index options that are in the money on the expiration date may be exercised automatically. In the future, it may be provided that flexibly structured index options will be exercised automatically only if they are in the money by a specified amount.

This supplement supercedes the October 1996 supplement to the options booklet.