

**Regulatory Circular RG96-95
(Revised RG94-61)**

Date: November 6, 1996

To: Members and Member Organizations

From: Regulatory Services Division

Re: Index Option and American-Style FLEX Option Exercise Procedures

This memorandum is being issued to remind members and member organizations of the exercise procedures and requirements of Exchange Rule 11.1 as it pertains to the exercise of Standard & Poor's 100 Stock Index and American-Style FLEX Index option contracts:

1. Members who prepare their own exercise instruction memoranda must prepare and time stamp such memoranda upon making the decision to exercise.
2. Clearing firms must prepare and time stamp an exercise instruction memorandum upon receipt of instructions to exercise from a customer or market-maker or upon making the decision to exercise on behalf of a proprietary account.
3. An "exercise advice" must be submitted to the Exchange no later than 3:20 p.m. (CT) for all Index option contracts exercised.
4. An "exercise advice" must be clearly and accurately completed prior to submission. Staff will not remove an "exercise advice" for any alteration once it has been deposited in the drop box.
5. Clearing firms may enter exercises for any market-maker, customer or proprietary account on OCC's Clearing Management and Control System (C/MACS) in lieu of physically delivering an "exercise advice" to the Exchange trading floor. Such entries must be made no later than 3:20 p.m. (CT).
6. Members acting on their own behalf or on behalf of a customer may only submit an exercise advice and exercise instruction for the "net long position" open in any series of American-style index options for the account at the time the advice or instruction is submitted. For a complete explanation of this requirement, members should refer to Exchange Rule 24.18 and to Regulatory Circular RG 96-94.
7. If a member decides not to exercise all or part of the amount indicated on an "exercise advice" previously submitted to the Exchange, he or she must submit another "exercise advice" to the Exchange, with the cancel box checked, no later than 3:20 p.m. (CT). ("Exercise advice cancellations" do not cancel exercise instruction memoranda already submitted to the clearing firm).
8. The "exercise advice" drop-off box is removed at 3:20:59 p.m. (CT). The submission of an "exercise advice" or "exercise advice cancellation" after this time will constitute a violation of Exchange Rule 11.1. However, such will be accepted and noted with the late submission time.

9. The joint account participant who makes the decision to exercise on behalf of the joint account must indicate both the joint account acronym and his or her individual acronym on the exercise instruction memorandum and the "exercise advice".
10. The submission of an "exercise advice" to the Exchange does not initiate an exercise at OCC; members must also submit an exercise instruction memorandum to their clearing firm.
11. In the event that any of the following market conditions are declared, the below provisions will apply (including C/MACS entries):
 - . **Delayed Opening/Trading Halt:**
The "exercise advice" drop-off boxes will not be placed in the designated areas until trading commences or during a trading halt. Exercises may not be effected, nor will "exercise advices" be accepted at such times.
 - . **Modified Trading Hours:**
The "exercise advice" drop-off boxes will be removed five minutes after the designated closing time in the event that trading hours are modified. Exercises may not be effected, nor will "exercise advices" be accepted after such time.
 - . **Closing Rotation:**
The "exercise advice" drop-off boxes will remain at the designated areas and "exercise advices" will be accepted until five minutes after the completion of the closing rotation.

Any questions pertaining to Index option exercises can be addressed to Karen Charleston at (312) 786-7724 or Pat Cerny (312) 786-7722.

(RG89-13; RG92-02, RG94-61 Revised)