

Regulatory Circular RG98-90

TO: **Members and Member Organizations**

FROM: **Regulatory Services Division**

DATE: **August 24, 1998**

RE: **S&P 100 Index and American-Style FLEX Index
Option Exercise Procedures**

This memorandum is being issued to remind members and member organizations of the exercise procedures and requirements of Exchange Rules 11.1 and 24.18 as they pertain to the exercise of Standard & Poor's 100 Stock Index option contracts, American-Style FLEX Index option contracts, and any other American-style cash-settled 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 American-style cash-settled index option contracts exercised. However, "exercise advices" are not required to be submitted to the Exchange (i) on the business day prior to expiration with respect to expiring non-FLEX American-style cash-settled index option contracts, (ii) on the day of expiration with respect to expiring FLEX American-style cash-settled index option contracts that expire on a business day, or (iii) on the business day prior to expiration with respect to expiring FLEX American-style cash-settled index option contracts that expire on a day other than a business day.
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 a drop-off 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) and serve as both an exercise instruction to OCC and an "exercise advice" to the Exchange.
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 Exchange Regulatory Circular RG96-94.

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 boxes are located on the Exchange's trading floor adjacent to the OEX trading crowd. The drop-off boxes are removed at 3:20:59 p.m. (CT). Submitting an "exercise advice" or "exercise advice cancellation" after this time is a violation of Exchange Rule 11.1, and doing so on the basis of material information released after this time, in addition to violating Rule 11.1, may constitute activity inconsistent with just and equitable principles of trade. If a member inadvertently fails to submit an "exercise advice" or "exercise advice cancellation" before the applicable deadline, the member should still consider submitting the advice or cancellation to the Exchange's Department of Market Regulation as soon as possible after the deadline (even though a violation of Rule 11.1 will still exist) in order to help to establish the time at which the exercise decision was made.
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 both 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 other than on the Last Business Day Prior to Expiration:

The "exercise advice" drop-off boxes will not be placed in the designated areas until trading commences. Exercises may not be effected, nor will "exercise advices" be accepted until trading commences.

Trading Halt other than on the Last Business Day Prior to Expiration:

The "exercise advice" drop-off boxes will be immediately removed from the designated areas upon the declaration of a trading halt and will be returned to the designated areas upon the resumption of trading. Exercises may not be effected, nor will "exercise advices" be accepted during a trading halt. These restrictions shall remain in place until trading resumes.

Notwithstanding both of the above, an exercise may be processed and given effect in accordance with and subject to OCC rules if it can be documented that the decision to exercise was made during allowable time frames prior to the delayed opening or trading halt. Acceptable documentation shall ordinarily be limited to an "exercise advice" previously transmitted via C/MACS, an internal exercise memorandum previously prepared and time-stamped by a member, or a member's copy of an

"exercise advice" previously submitted to the Exchange.

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 at (312) 786-7722.

(Regulatory Circulars RG89-13, RG92-02, RG94-61, and RG96-95 Revised)

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