

Regulatory Circular RG98-142

To: Member Firms
From: Regulatory Services Division
Date: December 16, 1998
RE: Supplement to the Options Disclosure Document

On November 19, 1998, the Securities and Exchange Commission ("SEC") approved the Options Clearing Corporation's Supplement to the Options Disclosure Document ("ODD") regarding Exchange-Traded Fund Share Options (also known as "Stock Fund 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 Exchange-Traded Fund Share 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 Exchange-Traded Fund Share 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 Barry J. Szurgot at (312) 786-7756.

Attachment

November 1998 Supplement to Characteristics and Risks of Standardized Options

Options on Exchange-Traded Fund Shares

To accommodate the introduction of options on interests in unit investment trusts, investment companies and similar entities holding portfolios of equity securities, Chapter III of the February 1994 edition of the booklet entitled *Characteristics and Risks of Standardized Options* (the "options booklet") is amended as follows:

1. The first sentence of the first paragraph of Chapter III of the options booklet, appearing on page 18, is amended to read:

The term "stock options" is used broadly in this booklet to include not only options on common stocks but also options on all other types of equity securities, such as limited partnership interests, "American Depositary Receipts" and "American Depositary Shares" representing interests in foreign entities, preferred stocks, and interests in unit investment trusts, investment companies and similar entities holding portfolios of equity securities.

2. The first paragraph under the caption "FEATURES OF STOCK OPTIONS" in Chapter III of the options booklet, appearing on page 18, is amended to read:

As a general rule, a single stock option covers 100 shares of the underlying security, although in the case of options covering shares of certain unit investment trusts, investment companies and similar entities holding portfolios of equity securities, options covering 100 or 1000 shares may be available. Other stock options departing from the general rule may be introduced in the future. The number of underlying shares covered by any stock option may be adjusted after the option is issued if certain events occur, as described below.

3. The fourth paragraph on page 19 of the options booklet is amended to read:

As a general rule, no adjustment is made for ordinary cash dividends or distributions. A cash dividend or distribution by most issuers will generally be considered "ordinary" unless it exceeds 10% of the aggregate market value of the underlying security outstanding. Determinations whether to adjust for other cash dividends or distributions are made on a case-by-case basis. As an exception to the general rule, options on interests in unit investment trusts, investment companies and similar entities holding portfolios of equity securities will generally be adjusted for distributions of capital gains in respect of such interests, even if the distribution does not exceed 10% of the aggregate market value of those interests.