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Regulatory Circular RG97-32

March 7, 1997

To: All Members
All Clearing Firms

From: Clearing Procedure Committee

RE: Expiring Unmatched Trade Resolution

The Committee would like to inform members and firms of its policy regarding the processing of an unmatched transaction in an expiring option series that remains after the final Exchange matching cycle on Expiration Saturday. This is particularly a problem when the out-trade is marginally in the money (less than OCC automatic exercise thresholds). After discussion with clearing members, it was agreed that a firm can transfer the position to the contra firm using OCC's Clearing Member Trade Assignment (CMTA) transfer process, thereby resolving these types of out-trades and correspondingly reduce the risk associated with them. If the two firms do not have a CMTA agreement, OCC can issue a temporary agreement on Expiration Saturday.

The Committee has reviewed the circumstances involved in unmatched transactions in expiring option series that remain after the final Exchange matching cycle on Expiration Saturday and has approved the following:

Where an unmatched trade remains, in which the executing members and/or clearing firms can agree on the terms of the trade, it is recommended that the firms involved use the OCC CMTA transfer process to resolve the trade. Please be advised that the firm initiating the transfer must confirm the details of such a transfer, including but not limited to open or close, origin codes, market maker accounts and premiums.

In accordance with Rule 6.61, regardless of whether any action is required, all clearing firms must ensure that all unmatched trades are resolved and ultimately clear properly.

Where an unmatched trade remains, in which the executing members and/or clearing firms do not agree on the terms of the trade, any market loss associated with the resulting possible exercise and/or assignment should be established and resolved according to Exchange Rule 10.1.

Questions regarding this notice may be directed to Patrick Fay at 786-7520, Charlie Hulihan at 786-7176 or Hugh O'Neill at 786-7952.