

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57744; File No. SR-ODD-2008-01)

April 30, 2008

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of Accelerated Delivery of Supplement to the Options Disclosure Document Reflecting Changes to Disclosure Regarding Certain Binary Options and Delayed Start Option Series; and Amendment to the Options Disclosure Document Front Cover Page to Update the Markets in which Options Are Traded

On December 21, 2007, The Options Clearing Corporation (“OCC”) submitted to the Securities and Exchange Commission (“Commission”), pursuant to Rule 9b-1 under the Securities Exchange Act of 1934 (“Act”),¹ five preliminary copies of a supplement to its options disclosure document (“ODD”) reflecting changes to disclosure regarding certain binary options and delayed start option series (“DSOs”).² The ODD would also be amended to update its front inside cover page so that it contains a current list of the U.S. exchanges that trade options issued by the OCC. On April 25, 2008, the OCC submitted to the Commission five definitive copies of the supplement.³

The ODD currently contains general disclosures on the characteristics and risks of trading standardized options. Recently, the American Stock Exchange, LLC amended its rules to permit the listing and trading of binary options on individual stocks and exchange-traded funds, also known as fixed return options.⁴ The Chicago Board Options Exchange, Incorporated amended its

¹ 17 CFR 240.9b-1.

² See letter from Jean M. Cawley, Senior Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division of Trading and Markets (“Division”), Commission, dated December 20, 2007.

³ See letter from Jean M. Cawley, Senior Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division, Commission, dated April 25, 2008.

⁴ See Securities Exchange Act Release No. 56251 (August 14, 2007), 72 FR 46523 (August 20, 2007) (SR-Amex-2004-27).

rules to permit the listing and trading of certain DSOs.⁵ The NASDAQ Stock Market LLC (“Nasdaq”) began trading options March 31, 2008.⁶ The proposed supplement amends the ODD to accommodate these changes by providing disclosure regarding certain binary options and DSOs, and to update the front cover page of the ODD.

Specifically, the proposed supplement to the ODD adds new disclosure regarding the characteristics of binary options on individual equity securities, which includes fund shares, as well as the special risks of these binary options other than credit default options.⁷ The proposed supplement to the ODD also adds new disclosure regarding the characteristics of DSOs and the risks associated with their purchase and sale. Finally, the ODD would be amended to add Nasdaq, which currently trades options issued by OCC, and its corporate address to the front cover page of the ODD. This change will ensure that the ODD accurately identifies the markets on which options currently trade. The proposed supplement is intended to be read in conjunction with the more general ODD, which, as described above, discusses the characteristics and risks of options generally.⁸

⁵ See Securities Exchange Act Release No. 56855 (November 28, 2007), 72 FR 68610 (December 5, 2007) (SR-CBOE-2006-90). CBOE Rule 24.9(d)(1) permits it to trade DSOs on any security index approved for options trading on the CBOE.

⁶ See Securities Exchange Act Release No. 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (order approving File Nos. SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080).

⁷ As noted above, the proposed supplement provides disclosure that addresses binary options on individual stock options and exchange-traded fund shares. The Commission also notes that disclosure on credit default options, which are also binary options, is currently addressed in the ODD through the previously issued June 2007 supplement. See Securities Exchange Act Release No. 55921 (June 18, 2007), 72 FR 34495 (June 22, 2007) (SR-ODD-2007-03).

⁸ The Commission notes that the options markets must continue to ensure that the ODD is in compliance with the requirements of Rule 9b-1(b)(2)(i) under the Act, 17 CFR 240.9b-1(b)(2)(i), including when future changes regarding binary options and/or DSOs are made. Any future changes to the rules of the options markets concerning binary options

Rule 9b-1(b)(2)(i) under the Act⁹ provides that an options market must file five copies of an amendment or supplement to the ODD with the Commission at least 30 days prior to the date definitive copies are furnished to customers, unless the Commission determines otherwise, having due regard to the adequacy of information disclosed and the public interest and protection of investors.¹⁰ In addition, five copies of the definitive ODD, as amended or supplemented, must be filed with the Commission not later than the date the amendment or supplement, or the amended options disclosure document, is furnished to customers. The Commission has reviewed the proposed supplement and finds, having due regard to the adequacy of information disclosed and the public interest and protection of investors, that the proposed supplement may be furnished to customers as of the date of this order.

and/or DSOs would need to be submitted to the Commission under Section 19(b) of the Act. 15 U.S.C. 78s(b).

⁹ 17 CFR 240.9b-1(b)(2)(i).

¹⁰ This provision permits the Commission to shorten or lengthen the period of time which must elapse before definitive copies may be furnished to customers.

IT IS THEREFORE ORDERED, pursuant to Rule 9b-1 under the Act,¹¹ that definitive copies of the proposed supplement to the ODD (SR-ODD-2008-01), reflecting changes to disclosure regarding binary options, DSOs and the front cover page, may be furnished to customers as of the date of this order.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Florence E. Harmon
Deputy Secretary

¹¹ 17 CFR 240.9b-1.

¹² 17 CFR 200.30-3(a)(39).