

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-58604; File No. SR-ODD-2008-04)

September 19, 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 Variability Index Options, Strategy-Based Index Options, and Adjustments of Stock Option Contracts

On August 21, 2008, 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 options on variability indexes² and strategy-based indexes and adjustments of stock option contracts, among other changes.³ On September 19, 2008, the OCC submitted to the Commission five definitive copies of the supplement.⁴

The ODD currently contains general disclosures on the characteristics and risks of trading standardized options. Recently, the Chicago Board Options Exchange, Incorporated (“CBOE”) amended its rules to permit the listing and trading of realized variance and realized volatility index options.⁵ The CBOE also recently amended its rules to permit the listing and trading of

¹ 17 CFR 240.9b-1.

² In the proposed September 2008 supplement to the ODD and this Order, the term “variability indexes” refers to implied volatility, realized variance, and realized volatility indexes. See infra notes 5 and 7.

³ 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 August 13, 2008.

⁴ See letter from Jean M. Cawley, Senior Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division, Commission, dated September 19, 2008.

⁵ See Securities Exchange Act Release No. 58171 (July 16, 2008), 73 FR 42841 (July 23, 2008) (SR-CBOE-2008-31).

certain strategy-based index options, specifically options that overlie an index that is equal to 1/10th of the value of the CBOE S&P 500 BuyWrite Index (“BXM options”).⁶ The proposed supplement amends the ODD to accommodate these changes by providing disclosure regarding realized variance index options, realized volatility index options, and strategy-based index options.⁷

Specifically, the proposed supplement to the ODD adds new disclosure regarding the characteristics of realized variance and realized volatility index options as well as the special risks of these options. The proposed supplement to the ODD also adds new disclosure regarding the characteristics and special risks of strategy-based index options. 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

⁶ See Securities Exchange Act Release No. 58207 (July 22, 2008), 73 FR 43963 (July 29, 2008) (SR-CBOE-2008-26).

⁷ The proposed September supplement is divided into two parts. Part I supersedes and replaces the March 2005 supplement to the ODD to accommodate the approval of trading of certain realized variance index options, realized volatility index options, and BXM options. See notes 4 and 5, *supra*. The March 2005 supplement contained disclosure on implied volatility options previously approved for trading by the Commission, and the September 2008 supplement includes disclosure on these products. See note 2 *supra* and Securities Exchange Act Release No. 49563 (April 14, 2004) 69 FR 21589 (April 21, 2004) (order approving SR-CBOE-2003-40 to list and trade implied volatility options on the CBOE Volatility Index (VIX); the CBOE Nasdaq 100 Volatility Index (VXN); and CBOE Dow Jones Industrial Average Volatility Index, (VXD)). See also Securities Exchange Act Release No. 55425 (March 8, 2007), 72 FR 12238 (March 15, 2007) (order approving SR-CBOE-2006-73 to list and trade implied volatility options on the CBOE Russell 2000 Volatility Index (RVX)).

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 variability index options and/or strategy-based index options are made. Any future changes to the rules of the options markets concerning variability index options and/or strategy-based index options would need to be submitted to the Commission under Section 19(b) of the Act. 15 U.S.C. 78s(b).

The proposed supplement also is revised to: (1) accommodate a change in the application of the new methodology for adjusting equity options for cash dividends;⁹ (2) add new language to describe reduced-value index options;¹⁰ and (3) delete a paragraph regarding the NASDAQ Stock Market LLC's ("Nasdaq") opening and closing procedure, which has become outdated and inaccurate.¹¹

Rule 9b-1(b)(2)(i) under the Act¹² 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.¹³ 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.

⁹ This proposed change amends the May 2007 supplement to the ODD. See OCC-2008-16.

¹⁰ This proposed new language amends the June 2008 supplement to the ODD.

¹¹ The language being deleted relates to the opening and closing price for securities trading on Nasdaq, but is no longer accurate because Nasdaq has since changed its opening and closing procedures.

¹² 17 CFR 240.9b-1(b)(2)(i).

¹³ 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,¹⁴ that definitive copies of the proposed supplement to the ODD (SR-ODD-2008-04), reflecting changes to disclosure regarding certain options on variability indexes and strategy-based indexes, as well as the other changes noted above, 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.¹⁵

Florence E. Harmon
Acting Secretary

¹⁴ 17 CFR 240.9b-1.

¹⁵ 17 CFR 200.30-3(a)(39).