

Information Notice

September 2008 Supplement to the Options Disclosure Document

On September 19, 2008, the SEC approved a supplement to the Options Disclosure Document (ODD) (www.optionsclearing.com/publications/risks/riskstoc_sep08_sup.pdf). The ODD contains general disclosures on the characteristics and risks of trading standardized options. The recently approved supplement reflects changes to disclosure regarding certain options on variability indexes¹ and strategy-based indexes. In addition, the supplement also contains disclosures regarding the adjustment of stock option contracts to reflect cash dividends or distributions on the underlying securities. As with other supplements to the ODD, this should be read in conjunction with the current ODD entitled *Characteristics and Risks of Standardized Options* (www.optionsclearing.com/publications/risks/riskstoc.pdf).

Rule 9b-1 under the Securities Exchange Act requires broker-dealers to deliver the ODD and supplements to customers.² FINRA has similar requirements in NASD Rule 2860(b)(11)(A)(1), which requires that member firms deliver the current ODD to each customer at or prior to the time the customer is approved to trade options. In addition, NASD Rule 2860(b)(11)(A)(1) requires firms to distribute a copy of each ODD supplement to customers who previously received the ODD. ODD supplements must be delivered no later than the time a customer receives a confirmation of a transaction in the category of options to which the amendment pertains. NASD Rule 2860(b)(11)(A)(3) requires that FINRA advise member firms when revisions to the ODD are made.

November 12, 2008

Suggested Routing

- Compliance
- Institutional
- Legal
- Options
- Senior Management
- Trading

Key Topics

- Adjustment Methodology
- Options
- Options Disclosure Document
- Strategy-based Index Options
- Variability Index Options

Referenced Rules & Notices

- NASD Rule 2860
- NTM 98-3
- SEA Rule 9b-1

To comply with the requirements of NASD Rule 2860(b)(11)(A)(1), firms may distribute the ODD supplement in various ways, including, but not limited to, one of the following:

1. conducting a mass mailing of the supplement to all of its customers approved to trade options who have already received the ODD; or
2. distributing the supplement to a customer, who has already received the ODD, not later than the time a customer receives a confirmation of a transaction in the category of options to which the amendment pertains.

Firms are reminded that they may electronically transmit documents that they are required to furnish to customers under FINRA rules, including the ODD and supplements thereto, provided the firm adheres to the standards contained in the May 1996 and October 1995 Securities Exchange Commission Releases³ and as discussed in *Notice to Members 98-3* (<http://www.finra.org/ntm/98-3/>). As recently noted, firms may transmit the ODD and supplements to customers who have consented to electronic delivery through the use of a hyperlink.⁴

Questions regarding this *Notice* may be directed to Gary L. Goldsholle, Vice President and Associate General Counsel, Office of General Counsel (OGC), at (202) 728-8104; or Kathryn M. Moore, Assistant General Counsel, OGC, at (202) 974-2974.

Endnotes

- 1 The term “variability indexes” refers to implied volatility, realized variance, and realized volatility indexes.
- 2 17 CFR 240.9b-1.
- 3 See Securities Act Release No. 7288 (May 9, 1996) 61 FR 24644 (May 15, 1996) and Securities Act Release No. 7233 (October 6, 1995) 60 FR 53458 (October 13, 1995).
- 4 See Securities Act Release No. 58738 (October 6, 2008) 73 FR 60371 (October 10, 2008).