

Information Notice

March 2011 Supplement to the Options Disclosure Document

The SEC approved a [supplement](#) to the Options Disclosure Document (ODD) on March 31, 2011. The ODD contains general disclosures on the characteristics and risks of trading standardized options. The March 2011 supplement amends the discussion of variability index options to provide disclosure regarding the characteristics of options on equity-based volatility indexes¹ and their special risks. The supplement also adds new disclosures regarding the characteristics of options on relative performance indexes² and their special risks. Finally, the supplement amends the ODD to update the inside front cover so that it contains a current list of the U.S. exchanges that trade options issued by The Options Clearing Corporation. As with other supplements to the ODD, this should be read in conjunction with the current ODD, [Characteristics and Risks of Standardized Options](#).

Rule 9b-1 under the Securities Exchange Act requires broker-dealers to deliver the ODD and supplements to customers.³ FINRA has similar requirements in FINRA Rule 2360(b)(11)(A)(1), which requires firms to deliver the current ODD to each customer at or before the time the customer is approved to trade options. In addition, FINRA Rule 2360(b)(11)(A)(1) requires firms to distribute a copy of each ODD supplement to customers who previously received the ODD. Firms must deliver the ODD supplements no later than the time a customer receives a confirmation of a transaction in the category of options to which the supplement pertains. Rule 2360(b)(11)(A)(3) also requires FINRA to advise firms when revisions to the ODD are made.

To comply with the requirements of FINRA Rule 2360(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.

April 20, 2011

Suggested Routing

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

Key Topics

- Options
- Options Disclosure Document
- Relative Performance Index Options
- Variability Index Options

Referenced Rules & Notices

- FINRA Rule 2360
- NTM 98-003
- SEA Rule 9b-1

FINRA reminds firms 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 Releases,⁴ and as discussed in [Notice to Members 98-03](#). Firms may also transmit the ODD and supplements to customers who have consented to electronic delivery through the use of a hyperlink.⁵

Questions regarding this *Notice* may be directed to Kathryn M. Moore, Assistant General Counsel, Office of General Counsel, at (202) 974-2974.

Endnotes

- 1 For purposes of the ODD, the disclosure will make clear that an equity-based volatility index measures the implied volatility, or the realized variance or volatility of a specified reference security.
- 2 For purposes of the ODD, relative performance indexes are a special type of strategy-based index that measures the relative performance—generally the relative total return—of two index components (the target component and the benchmark component). The index is calculated by measuring the total return of the target component relative to the total return of the benchmark component. The index will rise as, and to the extent that, the target component outperforms the benchmark component, and will fall as, and to the extent that, the opposite occurs. As stated in the March 2011 supplement, as of the date of the supplement, the only relative performance options approved for trading are options on indexes of which both index components are equity securities, and one of which could be a fund share.
- 3 17 CFR 240.9b-1.
- 4 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).
- 5 See Securities Act Release No. 58738 (October 6, 2008) 73 FR 60371 (October 10, 2008).