

**EXAMPLE:** If a yen-denominated option covering 500,000 British pounds is purchased at a premium of 2.63, the cost of the option will be JY1,315,000 (JY2.63 times the unit of trading of 500,000).

Premium settlements of cross-rate options are effected in a trading currency other than U.S. dollars. Similarly, in the event of exercise, the exercise price is paid in the trading currency. OCC has established banking arrangements permitting it to receive and pay foreign currencies in the country of origin for purposes of both premium and exercise settlement of cross-rate options between OCC and its Clearing Members. Customers ordinarily settle with their brokerage firms, although OCC may establish procedures whereby Clearing Members may permit customers to make exercise settlement directly with an OCC correspondent bank. Each customer should consult his brokerage firm to determine the procedures and time requirements for payment of foreign currencies on settlement of transactions in, and exercises of, cross-rate options.

If OCC should determine that foreign governmental restrictions or taxes or other events beyond the control of OCC would prevent the orderly settlement of exercises of, or premium payments with respect to transactions in, cross-rate options or would result in undue burdens on OCC or its Clearing Members, OCC has the authority to impose special settlement procedures. These could range from technical changes in payment procedures for the trading currency or underlying foreign currency to the fixing of U.S. dollar settlement prices payable in lieu of either currency. OCC also has the authority to prohibit exercises of cross-rate options by holders who would be unable to meet the settlement obligations resulting from the exercise. The potential effects of such a prohibition are discussed in paragraph 5 under "Risks of Option Holders" in Chapter X. If special exercise settlement procedures are imposed, investors may determine the nature of such procedures from their brokerage firms.

### **CASH-SETTLED FOREIGN CURRENCY OPTIONS**

At the date of this booklet, cash-settled foreign currency options are also traded. These options are dollar-denominated, European-style options. Each cash-settled foreign currency option has an expiration date not more than approximately two weeks following the initiation of trading in the option. Cash-settled foreign currency options having longer expirations may be traded in the future.