

5. Just as holders and writers of stock options bear the risk that transactions in the underlying security may be erroneously reported, holders and writers of index options bear the risk that the reported current index level may be in error. A person who buys or sells an index option at a premium based on an erroneously reported index level is bound by the trade and has no remedy under the rules of the options markets. Similarly, persons who exercise cash-settled index options or are assigned exercises based on erroneously reported index levels will ordinarily be required to make settlement based on the exercise settlement value as initially reported by the official source of the index, even if a corrected value is subsequently announced. References herein to index values "as initially reported" refer to the values initially reported by the source of the index as definitive, and not to any tentative or preliminary values that may be announced at an earlier time subject to adjustment. In extraordinary circumstances (e.g., where an exercise settlement value as initially reported is obviously wrong and inconsistent with values previously reported, and a corrected value is promptly announced), OCC has discretion to direct that exercise settlements be based on a corrected exercise settlement value. Ordinarily, however, the exercise settlement value as initially reported by the official source of the index will be conclusive for exercise settlement purposes.

6. A holder of a cash-settled index option who exercises it before the exercise settlement value of the index for that day is available runs the risk that the level of the underlying index may subsequently change. If such a change causes the exercised option to fall out of the money, the exercising holder will be required to pay the difference between the exercise settlement value and the exercise price of the option (times the applicable multiplier) to the assigned writer.

EXAMPLE: A holder of an index put option that settles based on the closing prices of the constituent securities and that has an exercise price of 30 directs his broker to exercise at 10:00 A.M., when the level of the underlying index is 28. If the underlying index stays at that level until the close of trading that day, the holder will be entitled to receive \$200 in settlement (assuming a multiplier of 100). If, however, the index level rises to 32 based on the closing prices of the constituent securities, the holder will be required to pay \$200 to the assigned writer, thereby sustaining a \$200 loss on the exercise.