underlying rate-modfied value is (1.27 × 100) = 127. The option is in the money. The exercise settlement value of the option is (127 − 125) × $100 = $200.

Do not confuse the rate-modifier with the multiplier. They serve different purposes and may or may not have the same numeric value.

EXAMPLE: Assume that the exchange rate underlying a rate-modified call option on the exchange rate between the U.S. dollar and the Mexican peso is stated as Mexican pesos per U.S. dollar (USD/MXN). The rate-modifier could be 10 and the multiplier could be $100. If the exercise price of the option is 11 Mexican pesos per U.S. dollar, it is stated as 11 × 10 = 110. If the underlying exchange rate is 11.2 at the time the option is exercised, the exercise settlement value is (112 − 110) × $100 = $200.

Note that, as in the case of index options, the multiplier determines the cash value of an option that is in the money by a specified amount. Like index options, and unlike other cash-settled currency options, a rate-modified currency option has no unit of trading—it does not relate to a specified quantity of an underlying currency.

The multiplier is also used in determining the total premium for a rate-modified currency option. For example, if a premium is quoted as .50 and the multiplier is $100, the total premium for a single option is $50.

The paragraph numbered 12 on page 87 is deleted.

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