

The following example is inserted immediately following the example at the bottom of page 63 of the Booklet:

EXAMPLE: An investor receives a premium of \$4 for writing a binary call option on XYZ security that has an exercise price of \$80 and a fixed cash settlement amount of \$100. If the exercise settlement value of XYZ is \$81 at expiration, the investor will incur a loss of \$96 (the \$100 paid to the holder of the call option less the \$4 premium received when the option was written).

The paragraph beginning at the bottom of page 63 of the Booklet is replaced with the following paragraph:

The writer of an uncovered call (other than a binary call) is in an extremely risky position and may incur large losses. Moreover, as discussed in Chapter IX, a writer of uncovered calls must meet applicable margin requirements (which, except in the case of binary calls, can rise substantially if the market moves adversely to the writer's position). Uncovered call writing is thus suitable only for the knowledgeable investor who understands the risks, has sufficient liquid assets to meet applicable margin requirements, and, except in the case of binary options, where the potential loss is limited as described above, has the financial capacity and willingness to incur potentially substantial losses. A binary call writer may be required under exchange rules to deposit the full cash settlement amount at the time the option is written.

The paragraph numbered 4 on page 64 of the Booklet is replaced with the following paragraph:

4. As with writing uncovered calls, the risk of writing put options is substantial. The writer of a put option bears a risk of loss if the value of the underlying interest declines below the exercise price, and such loss could be substantial if the decline is significant. The writer of a put bears the risk of a decline in the price of the underlying interest — potentially to zero in the case of a put other than a binary put. A writer of a physical delivery put who is assigned an exercise must purchase the underlying interest at the exercise price — which could be substantially greater than the current market price of the underlying interest — and a writer of a cash-settled put other than a binary put must pay a cash settlement amount which reflects the decline in the value of the underlying interest below the exercise price. For the writer of a binary put, the potential loss will be the fixed cash settlement amount of the option minus the premium received for writing the put. The writer of a binary put will be obligated to pay the entire fixed cash settlement amount even if the exercise settlement value of the option is only slightly in the money. Unless a put is a cash-secured put