

dates. As of the date of this Supplement, dividend indexes on which options are approved to be traded are based on the accumulated "ex-dividend amounts" reflecting ordinary cash dividends for the component securities over a specified accrual period. Investors should note that determinations by the reporting authority for a dividend index as to whether a cash dividend is "ordinary" and therefore reflected in the index may be made using rules other than those relating to adjustments of stock options and described in Chapter III under "Features of Stock Options." At the end of each accrual period, the value of a dividend index is reset to zero. The values of dividend indexes are typically published once per trading day, and these values could be affected by an issuer's determination to pay stock dividends in lieu of cash dividends or to forego payment of cash dividends. An "ex-dividend amount" is the amount by which the market price of a stock decreases on the ex-dividend date to reflect the dividend that will be received by holders of the stock immediately prior to the ex-dividend date. The "ex-dividend amount" is calculated by the reporting authority for the index, and information as to the method of calculation is available from the listing options market. Investors must understand the method used to calculate dividend indexes in order to understand the relationship between current dividend index values and the prices of dividend index options.

#### VARIABILITY INDEXES

Variability indexes, and investment strategies involving the use of variability options, are inherently complex. You should be certain that you understand the method of calculation and significance of any variability index and the uses for which variability options based on that index are suited before buying or selling the options.

Economic, political, social and other events affecting the *level* of the reference index may also affect the *variability* of the reference index. Variability indexes based on equity securities have historically tended to move inversely to their reference indexes, since variability, whether in the form of variance or volatility, tends to be associated with turmoil in the stock markets and turmoil tends to be associated with downward moves in the stock market. But this relationship does not always hold true and, indeed, a variability index may be rising at a time when its reference index is also rising.

As with other index options, a call variability option will be in the money at exercise if the exercise settlement value of the underlying index is above the exercise price of the option, and a put variability option will be in the money at exercise if the exercise settlement value of the