

underlying index is below the exercise price of the option. Whether the variability option is in the money is determined in relation only to the value of the underlying variability index, and not in relation to the reference index.

The information set forth on pages 26 through 28 of the Booklet under the caption "Features of Index Options" is generally applicable to variability options. However, the method of determining the exercise settlement value for certain variability options may differ from those for other index options, and you should read the information below relating to the particular types of variability options you wish to trade. Note also that variability options may have expiration dates that are different from those of other index options. You should be sure that you know the expiration date for each variability option you wish to buy or write.

As of the date of this Supplement, options are approved for trading on three different types of variability indexes representing three different ways of measuring variability. A realized variance index represents the variability of returns of a specified reference index over a specified time period relative to an average (mean) daily return of zero. The realized volatility of the same index over the same time period, also referred to as the standard deviation, is equal to the square root of the realized variance. Both of these measures are calculated from actual historical index values over the relevant period of time. An implied volatility index is a measure of the predicted future variability of the reference index over a specified future time period. It measures the predicted standard deviation of the daily returns of the reference index measured over the specified future time period. An implied volatility index reflects *predictions* about the future volatility of the reference index as those predictions are *implied* by reported current premium values for options on the reference index. The realized volatility of the reference index may not conform to those predictions.

There are various methods of estimating implied volatility, and different methods may provide different estimates. Under the method that is used for volatility options that are traded at the date of this Supplement, implied volatility index values are calculated using premium values of out-of-the-money series of options on the reference index in expiration months that are selected and weighted to yield a measure of the volatility of the reference index over a specified future time period. For example, an implied volatility index that is calculated using this method and that is designed to provide a prediction of volatility over 30 calendar days is based on premium values of out-of-the-money options series on