

Readers who intend to trade index options should familiarize themselves with the basic features of the underlying indexes, including the general methods of calculation. Readers who are attempting to follow a precise and sophisticated strategy involving index options may wish to inform themselves about the exact method for calculating each index involved. Information regarding the method of calculation of any index on which options are traded, including information concerning the standards used in adjusting the index, adding or deleting securities, and making similar changes, is generally available from the options market where the options are traded.

The value level of every index underlying an option—including the exercise settlement value—is the value of the index as reported by the reporting authority designated by the options market where the option is traded as the official source for determining that index's value. Unless OCC directs otherwise, every value as initially reported by the reporting authority is conclusively presumed to be accurate and deemed to be final for the purpose of calculating the cash settlement amount, even if the value is subsequently revised or determined to have been inaccurate.

Most indexes on which options are traded are updated during the trading day, and updated index levels are disseminated at frequent intervals. Investors may determine current index levels from their brokerage firms; in addition, the closing levels of many underlying stock indexes are published in daily newspapers such as "The Wall Street Journal." However, an index option may be traded in the options markets at a time when some, or even a substantial portion, of the constituent securities of the underlying index are not trading or when there is a lag in the reporting of prices in some or all of the constituent securities. In those circumstances, the current reported index level will be based on non-current information, since its calculation will be based on the last reported prices for all constituent securities even though trading or price reporting in some of those securities is not current.

FEATURES OF INDEX OPTIONS

All index options that are traded at the date of this booklet are cash-settled. Cash-settled index options do not relate to a particular number of shares. Rather, the "size" of a cash-settled index option contract is determined by the multiplier of the option. If the option