

opening.) Moreover, if the index underlay a capped index option, that option would or would not be automatically exercised based on an index level that might not reflect the true state of the market at the time.

9. OCC has no authority, and the options markets on which capped index options are traded do not intend as of the date of this booklet, to restrict the automatic exercise of capped index options. It is therefore possible that automatic exercise of a capped index option could occur on a day when OCC or an options market has imposed restrictions on the exercise of other styles of options on the same underlying index. It is also possible that automatic exercise of a capped index option could occur on a day when the options market has suspended trading in the option. Either of these possibilities could limit the ability of a writer to take action to limit the cost of being assigned an automatic exercise.

10. The purchase and sale of index options in foreign markets at times when U.S. markets are closed may present special risks. Although an underlying index may be based on securities primarily traded in U.S. markets, the index levels reported in foreign options markets at such times may be based on the trading of some or all of the constituent securities in foreign markets, and, in any case, option premiums in the foreign market will not reflect current prices of the constituent securities in U.S. markets. In addition, if a cash-settled index option is exercised through the foreign office of a brokerage firm on a day when U.S. markets are closed, the exercise settlement value of the option will not be known until the time fixed for determining exercise settlement values on the next day on which U.S. markets are open. The corresponding risks would apply to the trading in U.S. markets of options based on indexes of securities primarily traded in foreign markets.

## **SPECIAL RISKS OF DEBT OPTIONS**

1. Many of the special risks associated with debt options result from the character of the markets in which the underlying debt securities are issued and traded and the distinctive characteristics of debt securities. The vast majority of the trading activity in bonds and money market instruments takes place in a dealer market. Dealers typically maintain markets in all outstanding issues of Treasury securities, but most of the