

disposing of foreign currencies. If OCC determines that such restrictions or taxes would prevent the orderly settlement of delivery foreign currency option exercises or would impose undue burdens on parties to exercise settlements, it has authority to impose special exercise settlement procedures, which could adversely affect some investors.

7. The interbank market in foreign currencies is a global, around-the-clock market. Therefore, the hours of trading for foreign currency options do not conform to the hours during which the underlying currencies are traded. To the extent that the options markets are closed while the market for the underlying currencies remains open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets. The possibility of such movements should be taken into account in relating closing prices in the options markets to those in the underlying markets. In addition, this creates a risk that foreign currency options may be exercised on the basis of price movements in the underlying currency after the close of trading in the options markets, when writers are no longer able to close out their short positions.

8. Since exercise settlement of physical delivery foreign currency options—whether they are dollar-denominated or cross-rate options—occurs within the country issuing the underlying foreign currency, investors must accept or make delivery of the trading and underlying foreign currencies through their brokerage firms in conformity with any U.S. or foreign restrictions or regulations regarding the maintenance of foreign banking arrangements by U.S. residents, and may be required to pay any fees, taxes or charges associated with such deliveries.

9. Exercise settlement of physical delivery foreign currency options—whether they are dollar-denominated or cross-rate options—is made through OCC's correspondent banks in the country of origin. Investors may be exposed to losses in the event that a correspondent bank should fail during the settlement process.

10. As in the case of other cash-settled options, writers of cash-settled foreign currency call options cannot fully provide in advance for their potential settlement obligations by acquiring and holding the underlying interest. Although a call writer may hold the quantity of