

to receive is determined by the difference between the exercise price and the exercise settlement value, which is based on the prices of the constituent securities at a particular time on or in relation to the date on which the option is exercised. As with most other kinds of options, the writer will not learn that he has been assigned until the next business day, at the earliest. The time lag between exercise and notice of assignment poses no risk for the writer of a covered physical delivery call, because that writer's obligation is to deliver the underlying interest and not to pay its value as of a fixed time in the past. So long as the writer of a physical delivery call already owns the underlying interest, he can satisfy his settlement obligations simply by delivering it, and the risk that its value may decline after the exercise date is borne by the exercising holder. In contrast, even if the writer of a cash-settled index call holds securities that exactly match the composition of the underlying index, he will not be able to satisfy his assignment obligations by delivering those securities against payment of the exercise price. Instead, he will be required to pay cash in an amount based on the exercise settlement value on the exercise date, and by the time he learns that he has been assigned, the index may have declined, with a corresponding decline in the value of the securities portfolio. This "timing risk" is an inherent limitation on the ability of writers of cash settled calls to cover their risk exposure by holding positions in the underlying interest. This risk applies only to American-style options. The writer of a European-style or capped call that is exercisable only on the expiration date runs the risk of assignment only with respect to exercises filed on that day. If the call is more than marginally in the money on the preceding trading day, the writer can ordinarily assume that it will be exercised and take market action to protect himself against a subsequent decline in the value of his position in the underlying interest.

*The paragraph numbered 5 on page 76 of the Booklet is replaced with the following paragraph:*

5. Holders and writers of index options generally bear the risk that the reported current index level may be in error. Persons who exercise cash-settled index options or are assigned exercises based on erroneously reported index levels will ordinarily be required to make settlement based on the exercise settlement value as initially reported by the official source of the index, even if a corrected value is subsequently announced. In the case of binary index options, while the exercise settlement amount is fixed, the exercise settlement value of the underlying index will determine whether the option is automatically exercised and returns a cash settlement