

Regulatory Circular RG00-70

DATE: April 20, 2000

TO: Members and Member Organizations

FROM: Regulatory Services Division

RE: S&P 100 Index and American-Style FLEX Index
Option Exercise Procedures

This memorandum describes exercise procedures and requirements of Exchange Rules 11.1 and 24.18 as they pertain to the exercise of Standard & Poor's 100 Stock Index option contracts, American-Style FLEX Index Option contracts, and any other American-style cash-settled index option contracts.

1. Members who prepare their own exercise instruction memoranda must prepare and time stamp such memoranda upon making the decision to exercise.
2. Clearing firms must prepare and time stamp an exercise instruction memorandum upon receipt of instructions to exercise from a customer or market-maker or upon making the decision to exercise on behalf of a proprietary account.
3. An "exercise advice" must be submitted to the Exchange no later than 3:20 p.m. (CT) for all American-style, cash-settled index option contracts exercised. However, "exercise advices" are not required to be submitted to the Exchange (i) on the business day prior to expiration with respect to expiring non-FLEX American-style, cash-settled index option contracts, (ii) on the day of expiration with respect to expiring FLEX American-style cash-settled index option contracts that expire on a business day, or (iii) on the business day prior to expiration with respect to expiring FLEX American-style, cash-settled index option contracts that expire on a day other than a business day.
4. An "exercise advice" must be clearly and accurately completed prior to submission. Staff will not remove an "exercise advice" for any alteration once it has been deposited in a drop-off box.
5. Clearing firms may enter exercises for any market-maker, customer, or proprietary account on OCC's Clearing Management and Control System (C/MACS) in lieu of physically delivering an "exercise advice" to the Exchange trading floor. Such entries must be made no later than 3:20 p.m. (CT) and serve as both an exercise instruction to OCC and an "exercise advice" to the Exchange.
6. Members acting on their own behalf or on behalf of a customer may only submit an "exercise advice" and exercise instruction for the "net long position" open in any series of

American-style index options for the account at the time the advice or instruction is submitted. For a complete explanation of this requirement, members should refer to Exchange Rule 24.18 and to Exchange Regulatory Circular RG99-84.

7. If a member decides not to exercise all or part of the amount indicated on an "exercise advice" previously submitted to the Exchange, he or she must submit another "exercise advice" to the Exchange, with the cancel box checked, no later than 3:20 p.m. (CT). ("Exercise advice cancellations" do not cancel exercise instruction memoranda already submitted to the clearing firm).

8. The "exercise advice" drop-off boxes are located on the Exchange's trading floor adjacent to the OEX trading crowd. The drop-off boxes are removed at 3:20:59 p.m. (CT). Submitting an "exercise advice" or "exercise advice cancellation" after this time is a violation of Exchange Rule 11.1, and doing so on the basis of material information released after this time, in addition to violating Rule 11.1, may constitute activity inconsistent with just and equitable principles of trade. If a member inadvertently fails to submit an "exercise advice" or "exercise advice cancellation" before the applicable deadline, the member should still consider submitting the advice or cancellation to the Exchange's Department of Market Regulation as soon as possible after the deadline (even though a violation of Rule 11.1 will still exist) in order to help to establish the time at which the exercise decision was made.

9. The joint account participant who makes the decision to exercise on behalf of the joint account must indicate both the joint account acronym and his or her individual acronym on both the exercise instruction memorandum and the "exercise advice".

10. The submission of an "exercise advice" to the Exchange does not initiate an exercise at OCC; members must also submit an exercise instruction memorandum to their clearing firm.

11. In the event that any of the following market conditions are declared, the below provisions will apply (including C/MACS entries):

Delayed Opening or Trading Halt: Exercises of American-style, cash-settled index options (and the submission of corresponding "exercise advice" and "advice cancel" forms) shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

(i) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by the Exchange, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension. Acceptable documentation shall ordinarily be limited to an "exercise advice" previously transmitted via C/MACS or a member's copy of an "exercise advice" previously submitted to the Exchange.

(ii) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the last business day prior to their expiration.

(iii) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 3:00 p.m. (CT). In the event of such a trading halt, exercises may occur through 3:20 p.m. (CT). In addition, if trading resumes following a trading

halt (such as by closing rotation), exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to Rule 4.16(a).

(iv) The President or his designee may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended. In general, such a determination would be based on extraordinary circumstances.

To the extent that exercises of American-style, cash settled index options are not permitted due to a delayed opening, the "exercise advice" drop-off boxes will not be placed in the designated areas until trading commences. Exercises may not be effected, nor will "exercise advices" be accepted until trading commences.

To the extent that exercises of American-style, cash-settled index options are not permitted due to a trading halt, the "exercise advice" drop-off boxes will be immediately removed from the designated areas upon the declaration of the trading halt and will be returned to the designated areas upon the resumption of trading. These restrictions shall remain in place until trading resumes.

Closing Rotation: The "exercise advice" drop-off boxes will remain at the designated areas and "exercise advices" will be accepted until five minutes after the completion of the closing rotation.

Modified Trading Hours: If trading hours are extended or modified, the exercise deadline will be five minutes after the close of trading on that day instead of 3:20 p.m. (CT). The "exercise advice" drop-off boxes will be removed after the modified exercise deadline, and exercises may not be effected, nor will "exercise advices" be accepted, after such time.

FLEX Index Options: In the case of an American-style, cash-settled FLEX Index Option, the references in this Paragraph 11 to a trading delay, halt, suspension, resumption, closing rotation, or modified trading hours shall mean the occurrence of the applicable condition in the standardized option on the index underlying the FLEX Index Option (rather than the occurrence of the applicable condition in the FLEX Index Option itself).

12. The President or his designee may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications if unusual circumstances are present.

Any questions pertaining to index option exercises can be addressed to Pat Cerny at (312) 786-7722.

(Regulatory Circulars RG89-13, RG92-02, RG94-61, RG96-95, and RG 98-90 Revised)