

Regulatory Circular RG98-18

To: Member Firms
From: Regulatory Services Division
Date: February 4, 1998
RE: Supplement to the Options Disclosure Document

On December 5, 1997, the Securities and Exchange Commission ("SEC") approved the Options Clearing Corporation's Supplement to the Options Disclosure Document ("ODD") regarding Mutual Fund Index Options. Member Firms should be aware that Exchange Rule 9.15 requires that each customer who was previously furnished an options disclosure document be furnished with a copy of an amendment to the current options disclosure document regarding the product. Member Firms are required to deliver the amendment no later than at the time the first confirmation of a transaction in a Mutual Fund Index Option is delivered to a customer. Member Firms may comply with this requirement in various ways, including but not limited to one of the following:

- (1) The firm may choose to conduct a mass mailing of the amendment to all of their approved customers who have already received the options disclosure document.
- (2) The firm may deliver the amendment to a customer, who has already received the options disclosure document, with the first confirmation of a Mutual Fund Index Option transaction.

In any event, the amendment must also be delivered to any new options customers when the customer is provided with a copy of the current Options Disclosure Document. Attached is a copy of the supplemental language which may be used by your firm pending the availability of printed copies from the Options Clearing Corporation.

Copies of the ODD or the supplement may be obtained by contacting Diane Svoboda at the Options Clearing Corporation at (312) 322-6212. Questions about this memorandum may be directed to Lawrence J. Bresnahan at (312) 786-7713 or Barry J. Szurgot at (312) 786-7756.

Attachment

December 1997 Supplement to Characteristics and Risks of Standardized Options

Options on Mutual Funds

To accommodate the introduction of trading in cash-settled options on indexes of mutual funds, the February 1994 edition of the booklet entitled *Characteristics and Risks of Standardized Options* is amended by adding the following disclosure to **Chapter IV, Index Options**, following the third full paragraph on page 26:

Index options may be traded on underlying indexes designated to reflect the net asset values of selected mutual funds in specified categories. For example, an underlying index may be designed to reflect the net asset value of a selected group of growth funds, or a selected group of growth and income funds. These indexes are calculated and disseminated based on the reported net asset values of the mutual funds included in the index. Mutual funds typically report their net asset values only once per day following the close of trading in the primary markets for the securities held in the funds' investment portfolios. Mutual fund indexes are based upon these closing values and are not updated during the trading day. Mutual fund indexes as reported during the trading day will thus be based on non-current information, not only because the funds' portfolios may have changed since the previous day's close, but also because the values of the funds' portfolio securities during the trading day may vary from their values at the previous day's close. Therefore, reported fund index values should not be relied upon as indicative of the current values of the mutual funds included in the indexes. In this respect, mutual fund indexes are comparable to other indexes that are not updated during the trading day, including certain foreign stock indexes. These other indexes are not updated because their component stocks may not be traded in their primary home country markets during all or part of the options trading day.