**Regulatory Information Circular**

<table>
<thead>
<tr>
<th>Circular Number:</th>
<th>2007-09</th>
<th>Contact:</th>
<th>Michael J. Simon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date:</td>
<td>April 12, 2007</td>
<td>Telephone:</td>
<td>212-897-0230</td>
</tr>
</tbody>
</table>

**Subject: Supplement to the Options Disclosure Agreement**

On April 4, 2007, the Securities and Exchange Commission approved a Supplement to the Options Disclosure Document ("ODD") regarding non-rate modified cash-settled foreign currency options and rate-modified cash-settled foreign currency options. (Release No. 34-55582; File No. SR-ODD-2007-01) This supplement supersedes and replaces the January 2007 supplement. A current copy of the ODD as amended to include this supplement must be delivered to all new options customers.

Additionally, Exchange Rule 616(a)(2) requires that each customer who was previously furnished an ODD be furnished with a copy of an amendment to the current ODD. A copy of the supplement is attached for reference.
April 2007 Supplement to
Characteristics and Risks of Standardized Options

The February 1994 edition of the booklet entitled Characteristics and Risks of Standardized Options (the “booklet”) is amended as provided below. The changes pertain to non-rate modified cash-settled foreign currency options and rate-modified cash-settled foreign currency options. This supplement supersedes and replaces the January 2007 supplement.

On page 38, the second paragraph under the heading “Special Features of Dollar-Denominated Foreign Currency Options” is deleted and replaced with the following:

NON-RATE-MODIFIED CASH-SETTLED FOREIGN CURRENCY OPTIONS

Exercise prices for currently available dollar-denominated options on foreign currencies (other than rate-modified currency options, as described below) are stated in units of U.S. currency (e.g., cents or hundredths of a cent) per unit of foreign currency. In order to determine the total exercise price per contract, it is necessary to know the unit of U.S. currency used for options on the particular foreign currency, and to multiply the stated exercise price by the unit of trading for such options. For example, at the date of this booklet, dollar-denominated British pound options are expressed in U.S. cents per unit, and dollar-denominated Japanese yen options are expressed in hundredths of U.S. cents per unit.

On page 38, the following is inserted immediately following the second “EXAMPLE” at the end of the page:

Readers should note, however, that certain exchanges may express exercise prices in other unconventional ways. For example, an exercise price stated as $100.50 may in reality mean $1.0050. Readers need to be sure they fully understand the various conventions used by the exchanges on which they trade in quoting exercise prices.

On page 39, the second paragraph is deleted and replaced with the following:

Premiums for currently available dollar-denominated options on foreign currencies (other than rate-modified currency options, as described below) are expressed in units of U.S. currency per unit of foreign currency. In order to calculate the cost of the option, it is necessary to know the unit of U.S. currency used for options on the particular foreign currency. For example, at the date of this booklet, premiums for currently available dollar-denominated Swiss franc options are expressed in U.S. cents, and premiums for currently available dollar-denominated Japanese yen options are expressed in hundredths of U.S. cents.

On page 39, the following are deleted: (a) the sentence immediately following the first "EXAMPLE," (b) the second “EXAMPLE,” and (c) the sentence immediately following the second “EXAMPLE.”

On page 39, the following is inserted immediately before the last paragraph:
Readers should note, however, that certain exchanges may express premiums in other unconventional ways. Readers need to be sure they fully understand the various conventions used by the exchanges on which they trade in quoting premiums.

The first paragraph under the heading “Cash-Settled Foreign Currency Options,” which is the last paragraph on page 43, is deleted and the following sentence is added at the beginning of the first paragraph on page 44:

At the date of this booklet, dollar-denominated cash-settled foreign currency options have also been approved for trading.

The last four paragraphs on page 44 are deleted and replaced with the following:

EXAMPLE: If the exercise price of a cash-settled, dollar-denominated call option on euros is $1.2500 per euro, the exercise settlement value of the euro is determined to be $1.2607 and the option covers 10,000 euros, then the cash settlement amount for the option will be $(1.2607 - 1.2500) x 10,000 = $107.00.

Cash-settled foreign currency options may be automatically exercised on the expiration date if in the money or if in the money by a certain amount. See the discussion in Chapter VIII under “How to Exercise.”

The exercise settlement value for cash-settled foreign currency options will be based on an exchange rate for the underlying foreign currency from a source selected by the market on which the options trade as set forth in exchange rules. In the case of rate-modified foreign currency options, the options market on which the options are traded would calculate and disseminate the underlying rate. In either case this rate may be based on a rate announced by the Federal Reserve Bank of New York, bid and offer quotations from a sampling of participants in the interbank spot market for the underlying foreign currency, the rate reported by a recognized pricing service, or some other widely-available rate. The time as of which the exercise settlement value is calculated and the method of calculation are determined by the options market on which the options are traded and may be changed by it at any time. Any such change may be made applicable to options outstanding at the time of the change.

If OCC determines that the exercise settlement value of the underlying foreign currency for any series of cash-settled foreign currency options is unreported, inaccurate, unreliable, unavailable, or inappropriate for purposes of calculating the cash settlement amount of such series, OCC has the authority to suspend the settlement obligations of the exercising and assigned Clearing Members of options of such series or to fix the cash settlement amount for exercised options of such series or to do both. In the event of such a suspension, OCC will fix a new settlement date after OCC determines that the exercise settlement value is available or after OCC fixes the cash settlement amount.

If OCC determines to fix the cash settlement amount, it will act through an adjustment panel that will use its judgment as to what is appropriate for the protection of investors and the public interest. For a description of adjustment panels, see “Adjustment and Adjustment Panels” in Chapter II. The panel may fix the cash settlement amount using the reported price or value of
the underlying foreign currency at such time, or representing a combination or average of prices or values at such time or times, and reported in such manner, as the panel deems appropriate.

If an adjustment panel delays fixing a cash settlement amount for a series of cash-settled foreign currency options past the last trading day before expiration of that series, normal expiration exercise procedures will not apply to the affected series. Instead, exercise settlement will be postponed until the next business day following the day when the adjustment panel fixes the cash settlement amount, and each long position in the affected series will be treated as having been exercised if the cash settlement amount per contract for that series is $1.00 or more. If the cash settlement amount per contract is less than $1.00, the option will be treated as having expired unexercised. As a result of these procedures, holders of expiring cash-settled foreign currency options may not know whether their options have been exercised, and writers of such options may not know whether they have been assigned an exercise, until after the expiration date. An adjustment panel’s determinations shall be conclusive, binding on all investors, and not subject to review.

**RATE-MODIFIED CASH-SETTLED FOREIGN CURRENCY OPTIONS**

A rate-modified currency option is a type of foreign currency option that may be thought of as an option on an underlying exchange rate between two currencies. The holder of a rate-modified currency option receives in U.S. dollars the difference between the modified rate and the exercise price multiplied by a multiplier (e.g., USD $100). In this respect, rate-modified currency options resemble cash-settled index options where the index is an exchange rate between two currencies. Exchange rates in the spot market are expressed as the number of units of one currency ("currency 1") required to purchase a single unit of a second currency ("currency 2"), and for each pairing of the world’s major currencies, there is a convention as to which currency is currency 1 and which is currency 2. You should be aware that the exchange rates underlying rate-modified currency options may or may not be stated in the same way that they are conventionally quoted in the spot market. For example, exchange rates between the U.S. dollar and the euro are generally quoted as the number of dollars required to purchase a single euro; but the rate underlying a rate-modified currency option could be stated as the number of euros required to purchase a single dollar. You should therefore be certain that you understand the meaning of an underlying exchange rate.

In the case of rate-modified currency options, the underlying exchange rate may be multiplied by a “rate-modifier,” such as 1, 10 or 100, to create an underlying value that more closely resembles a conventional index value. Exercise prices would, of course, also be expressed in terms of the rate-modified values.

**EXAMPLE:** A rate-modifier of 100 may be applied to the exchange rate between U.S. dollars ("USD") and Swiss francs ("CHF") in order to obtain the underlying exchange rate for USD/CHF rate-modified currency options. If the current exchange rate in the USD/CHF spot market is 1.24 Swiss francs per dollar, the current rate-modified exchange rate would be stated as (1.24 x 100) = 124. For example, an exercise price of 1.25 Swiss francs per dollar would be expressed as 125.
As in the case of an index option, the premiums and exercise settlement values of rate-modified currency options are determined using a multiplier, e.g., USD $100.

EXAMPLE: A rate-modified USD/CHF call option has an exercise price of 125. The USD/CHF exchange rate in the spot market at the time the exercise settlement value is fixed is 1.27 Swiss francs per dollar, meaning that the underlying rate-modified value is \((1.27 \times 100) = 127\). The option is in the money. The exercise settlement value of the option is \((127 - 125) \times $100 = $200\).

Do not confuse the rate-modifier with the multiplier. They serve different purposes and may or may not have the same numeric value.

EXAMPLE: Assume that the exchange rate underlying a rate-modified call option on the exchange rate between the U.S. dollar and the Mexican peso is stated as Mexican pesos per U.S. dollar (USD/MXN). The rate-modifier could be 10 and the multiplier could be $100. If the exercise price of the option is 11 Mexican pesos per U.S. dollar, it is stated as \(11 \times 10 = 110\). If the underlying exchange rate is 11.2 at the time the option is exercised, the exercise settlement value is \((112-110) \times $100 = $200\).

Note that, as in the case of index options, the multiplier determines the cash value of an option that is in the money by a specified amount. Like index options, and unlike other cash-settled currency options, a rate-modified currency option has no unit of trading—it does not relate to a specified quantity of an underlying currency.

The multiplier is also used in determining the total premium for a rate-modified currency option. For example, if a premium is quoted as .50 and the multiplier is $100, the total premium for a single option is $50.

*The paragraph numbered 12 on page 87 is deleted.*