THE OPTIONS CLEARING CORPORATION

#26853

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DATE: **JANUARY 8, 2010**

SUBJECT: **CONTRACT ADJUSTMENTS AND THE OPTIONS SYMBOLOGY INITIATIVE (OSI)**

The purpose of this Information Memo is to describe changes to option contract adjustment methodology and symbol conventions which will be effective with the implementation of the Options Symbology Initiative (OSI) on February 12, 2010. (See www.optionsclearing.com/symbology/.)

The OSI Adjusted Symbol Convention

Under OSI, the option symbol in most cases will be the same as the stock symbol. For example, "MSFT" will be the option symbol for the underlying security "MSFT". If an option symbol change is necessary in a contract adjustment (e.g., 3 for 2 split), option symbol MSFT will change to MSFT1, **with the numeric suffix identifying this option as an adjusted, "non-standard" contract.** If the standard 100 share contract ("MSFT") is re-introduced after the adjustment (as is customary) and another adjustment is subsequently necessary to this contract, then the adjusted symbol would use the next numeric suffix not already in use. For example, if MSFT and MSFT1 are active contracts, MSFT could change to MSFT2 if another adjustment is necessary.

Option symbol changes are necessary if the adjusted contract becomes "non-standard", i.e., containing a deliverable different from the "standard" option contract originally listed by an exchange. However, in some contract adjustments, the adjusted contracts remain identical to standard contracts (e.g., in a 2 for 1 split where the resulting contracts remain 100 share options). In these cases, the option symbol would not change. **Under the OSI conventions, the use of a numeric suffix to designate an adjusted contract simply identifies the contract as "non-standard" in *some* way.** The suffix does not indicate how the contract was originally adjusted **or provide *any* specific information about the terms of the option.**

Under OSI conventions, once an option symbol is adjusted to contain a numeric suffix, that numeric identifier will not change. Thus, in the example just noted, if it becomes necessary to again adjust option MSFT1, MSFT1 will **not** change to MSFT2. (MSFT1 would be adjusted by adjusting strikes, deliverable, etc., *without* changing the option symbol.) Thus, the numeric suffix will simply identify an adjusted, non-standard contract. Also, the numeric suffix will not necessarily indicate the most recently effected adjustment.

Under OSI, numbers 1 through 9 are available to designate adjusted contracts.

It should be noted that under OSI, an option symbol with a numeric suffix will designate a "non-standard" option and an option symbol *without* a numeric suffix will almost always designate a "standard" option. However, in rare instances, it may be necessary to use an option symbol – *without* a numeric suffix – that nevertheless represents a non-standard option.

Contract Adjustments and the OSI Symbol Consolidation Process

When OSI is implemented on February 12, 2010, options will continue to trade under their existing symbols and will not immediately convert to the OSI symbol convention. (For example, Microsoft options may continue to trade under option symbol "MSQ".) Instead, series traded under various option symbols ("root" option symbol, LEAPS symbols, wrap symbols, etc.) will be consolidated under the appropriate OSI "root" option symbol in a phased approach over several months.

Prior to all series being consolidated under the appropriate OSI root symbol, any option symbol change **for an option that has not been consolidated** will be addressed as it is today – i.e., by **designating a unique three-character option symbol for each adjusted option. After** the consolidation is effected for a family of option symbols, then **symbol changes for corporate actions will utilize the OSI convention described above (i.e., adding the numeric suffix). Thus, for a period of several months until the consolidation process is completed, some option contract adjustments will be made using the OSI convention and some will not.**

OSI Convention for Adjusted Flex Options

Under OSI, Flex options will utilize a leading numeric prefix ("1" or "2") to identify the option as an American or European style option, followed by the symbol of the underlying security. For example, 2MSFT. **If it is necessary to adjust a Flex option, then the OSI convention for adjusted symbols will also apply.** For example, 2MSFT would become 2MSFT1.

Changes to Contract Adjustment Methodology: Stock Splits/Distributions

On September 4, 2007, OCC implemented a new contract adjustment methodology to eliminate the rounding of strike prices in contract adjustments for certain stock splits and stock distributions (see Information Memo 23484 and earlier Memos). **This method is intended to be temporary, to be used only until such time as equity options are denominated with decimal strike prices**. In general, the "new method" for adjustment involving splits and stock distributions applies to *all* splits/stock distributions *other than* 2 for 1 and 4 for 1 split. In the "new method", in order to prevent the rounding of strike prices and associated inequities, strike prices, multipliers, and number of contracts are not changed. Instead, the additional shares are simply added to the contract deliverable.

The "new method" to eliminate the rounding of strike prices will be **discontinued**, and contract adjustment methods will revert back to the "standard" method of adjustment (whereby strike prices, share amounts, contract multipliers, and number of contracts are proportionately adjusted) effective for corporate events that are "ex distribution" **February 12, 2010** and thereafter. This date is the implementation date of OSI. On this date, **all** equity options will be converted from fractional to decimal strike price format, and will accordingly use the "standard" adjustment method for subsequent contract adjustments.

Note: Use of the "standard" method will apply for contract adjustments effected on or after February 12, 2010 regardless of whether an option symbol has been "consolidated" or not.

The following tables illustrate the changes. Note: When the "standard" method is re-employed on February 12, 2010, strike prices will be expressed in decimals and adjustments to the strikes will be rounded to the nearest penny.

3 for 2 Split		**Current Method**	**"Standard" Method**
	Before Ex Date	Ex Date	Ex Date
Option Symbol	ABC	XXX	ABC1
Stock Price	42	28	28
Strike	40	**40**	**26.67**
Premium/Strike Multiplier	100	**100**	**150**
Deliverable	100 ABC	**150 ABC**	**150 ABC**
Price Formula for Underlying	1.0 (42)	**1.5 (28) = 42**	**1.0 (28) = 28**
# Contracts	1	**1**	**1**

3 for 1 Split		**Current Method**	**"Standard" Method**
	Before Ex Date	Ex Date	Ex Date
Option Symbol	ABC	XXX	**ABC**
Stock Price	42	14	14
Strike	40	**40**	**13.33**
Premium/Strike Multiplier	100	100	100
Deliverable	100 ABC	**300 ABC**	**100 ABC**
Price Formula for Underlying	1.0 (42)	**3.0 (14) = 42**	**1.0 (14) = 14**
# Contracts	1	**1**	**3**

Previously Adjusted Contracts on February 12, 2010

As noted above, the use of the "standard method" for adjustments will be effective February 12, 2010 and thereafter. However, adjusted option contracts that exist on February 12, 2010 will ***not*** be "re-adjusted" to reduce their strike prices or adjust other contract terms to conform to the "standard method". Nevertheless, when adjusted options are consolidated (see above), these options will make use of a numeric suffix (e.g., XYX2). Under the OSI conventions, the use of a numeric suffix to designate an adjusted contract simply identifies the contract as "non-standard" in *some* way. The suffix does not indicate how the contract was originally adjusted **or provide *any* specific information about the terms of the option.**

Procedure for Changes in the Trading Symbol of the Underlying Security

OSI allows and encourages the option symbol to be the same as the trading symbol of the underlying security. Occasionally, the trading symbol of the underlying security changes. In these cases, OCC and the exchanges will attempt to change the option symbol(s) as well. For example, if the stock symbol ABCD changes to ABXX, then the option symbol may also change to ABXX.

OCC and the exchanges will attempt to make these changes as soon as practicable (but these changes may not be immediately effective with the stock symbol change).

If adjusted contracts also exist, then generally these option symbols will change as well. Thus, continuing the example above, if ABCD1 and ABCD2 exist, then these symbols would become ABXX1 and ABXX2 respectively.

In a similar fashion, suppose adjusted contract WXYZ1 called for the delivery of WXYZ shares. Subsequently, WXYZ merged with ABXX and WXYZ changed its name and trading symbol to ABXX. In this case, WXYZ1 may be changed to ABXX1.

In general, OCC and the exchanges will attempt to keep the option symbol parallel with the trading symbol of the primary deliverable of the option. However, the extent to which this will be possible will be determined on a case by case basis after weighing all operational considerations.

Stocks traded on NASDAQ occasionally utilize *temporary* alpha suffixes to designate conditions pertinent to the stock. For example, ACBD*V* or ABCD*Z.* In these cases, no option symbol change would occur.

Procedure for 100% Cash Mergers

Under OSI, there will be **no change** to the procedure for handling 100% cash mergers. Currently, if a cash merger/takeover is consummated, the option deliverable is adjusted to call for cash delivery but the **option symbol does not change.** This procedure will continue under OSI. (The option is an adjusted, non-standard contract but is no longer eligible for trading on the exchanges.)

Procedural Change for Adjusting Previously Adjusted Contracts

OSI will provide an opportunity for greater efficiency in adjusting previously adjusted options: Occasionally it is necessary to adjust a previously adjusted option (e.g., a 3 for 2 split adjustment followed by a 5% stock dividend). Currently, the second adjustment is effected by adding the additional shares to the deliverable without changing strike prices and multipliers (in order to prevent inequities due to rounding strikes to the nearest eighth). This results in non-standard contract terms that are confusing to investors. With decimal strikes provided by OSI, however, many options can be adjusted successively by simply re-adjusting strikes and multipliers, keeping the relationship of the underlying stock price to the strike price straightforward.

Procedure for Reverse Splits

It is the current practice of OCC and the exchanges to adjust options in response to reverse splits by keeping the strike prices, contract multipliers and number of contracts *unchanged* and simply adjusting the number of shares in the contract deliverable. For example, in a 1 for 10 reverse split for a 100 share contract, the contract deliverable would become 10 shares, but all other contract terms would remain the same (the option symbol would change, however). **This procedure will continue after the OSI implementation.** The option symbol would be changed according to the OSI symbol convention, e.g., XYZ1.

Changes to Adjustment Policy for Cash Dividends

OCC Information Memos (most recent: 24624 and 24284) have described changes to the OCC By-Laws for adjusting options in response to cash dividends under what has come to be known as the "10% Rule". In general, these changes define new criteria for determining which cash dividends will prompt a contract adjustment. These changes will become effective for cash dividends announced on or after February 1, 2009, a full year in advance of the OSI implementation date. The OSI implementation will not affect these criteria which determine when adjustments are appropriate.

If a contract adjustment is made to reflect a cash dividend, then options can be adjusted by reducing the strike prices by the amount of the dividend **or** adding the cash amount to the option deliverable without reducing strike prices. **There will be no change to this procedure**. However, OSI will provide an opportunity to enhance operational efficiency: **Since OSI will implement decimal strike prices, in most cases it *will* be possible to simply reduce strikes by the exact amount of the dividend, keeping the contract a "standard" contract and eliminating the need for an adjusted symbol.**

For questions regarding this memo, call 1-888-OPTIONS or email options@theocc.com.

			STOCK SPLIT 2-1	STOCK SPLIT 3-1	STOCK SPLIT 3-2	REVERSE SPLIT 1-5	STOCK DIVIDEND 5%	MERGERS ABC & MSFT	SPIN-OFF	CASH DIVIDEND	SYMBOL CONVERSION	POSITION CONSOLIDATION
PRE OSI CORPORATE ACTION STRATEGY	**Pre Corp Action Data**	Symbol	AVQ	PCU	QYG	XYZ	VGR	ABC	CDO	WON	ABC	LMN
		Delivery Class	AVQ	PCU	QYG	XYZ	VGR	ABC	CDO	WON	ABC	LMN
		Number Of Contracts	1	1	1	1	1	1	1	1	1	1
		Number Of Shares	100	100	100	100	100	100	100	100	100	100
		Multiplier	100	100	100	100	100	100	100	100	100	100
	Post Corp Action Data	Symbol	AVQ	PLU	SXD	XYX	GVX	ABW	CDX	WOW	MNO	STR
		Delivery Class	AVQ	PLU	SXD	XYX	GVX	ABW	CDX	WOW	MNO	STR
		Number Of Contracts	2	1	1	1	1	1	1	1	1	1
		Number Of Shares	100	300	150	20	105	Variable	Variable	100 + Cash	100	100
		Multiplier	100	100	100	100	100	100	100	100	100	100
POST OSI CONSOLIDATION CORPORATE ACTION STRATEGY	**Pre Corp Action Data**	Symbol	ATVI	PCU	SYNA	XYZ	VGR	ABC	CDO	WON	ABC	LMN
		Delivery Class	ATVI	PCU	SYNA	XYZ	VGR	ABC	CDO	WON	ABC	LMN
		Number Of Contracts	1	1	1	1	1	1	1	1	1	1
		Number Of Shares	100	100	100	100	100	100	100	100	100	100
		Multiplier	100	100	100	100	100	100	100	100	100	100
	Post Corp Action Data	Symbol	ATVI	PCU	SYNA1	XYZ1	VGR1	MSFT1	CDO1	WON	MNO	STR
		Delivery Class	ATVI	PCU	SYNA1	XYZ1	VGR1	MFST1	CDO1	WON	MNO	STR
		Number Of Contracts	2	3	1	1	1	1	1	1	1	1
		Number Of Shares	100	100	150	20	105	Variable	Variable	100	100	100
		Multiplier	100	100	150	100	105	100	100	100	100	100
		Strike Impact	Yes	Yes	Yes	No	Yes	No	No	Yes	No	No

Note: In the merger example ABC merges with MSFT and the result is multiple deliverables where MSFT is the primary deliverable.