

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51454; File No. SR-ODD-2005-01)

March 30, 2005

Self-Regulatory Organizations; the Options Clearing Corporation; Order Granting Approval of Proposed Supplement to the Options Disclosure Document Regarding Volatility Options

On March 29, 2005, the Options Clearing Corporation ("OCC") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Rule 9b-1 under the Securities Exchange Act of 1934 ("Act"),¹ five definitive copies of the supplement to its options disclosure document ("ODD") to accommodate trading of options on any index intended to measure the predicted volatility of the daily returns of a stock index.²

The ODD currently contains general disclosures on the characteristics and risks of trading standardized options. Recently, an options exchange amended its rules to permit trading of volatility options.³ This proposed supplement accommodates this change by amending the ODD to provide disclosure relating to indexes intended to measure the predicted volatility of the daily returns of a stock index ("volatility indexes") and options on such volatility indexes ("volatility options").⁴

Specifically, the proposed supplement amends existing general disclosure regarding the characteristics of indexes to include a description of the characteristics of

¹ 17 CFR 240.9b-1.

² See letter from James R. McDaniel, Sidley Austin Brown & Wood LLP, to Sharon Lawson, Senior Special Counsel, Division of Market Regulation, Commission, dated March 23, 2005 ("OCC letter").

³ See Securities Exchange Act Release Nos. 49563 (April 14, 2004), 69 FR 21589 (April 21, 2004) (approving File No. SR-CBOE-2003-40), and 49698 (May 13, 2004), 69 FR 29152 (May 20, 2004) (approving File No. SR-CBOE-2004-09).

⁴ See OCC Letter, supra note 2.

volatility indexes. In addition, the proposed supplement adds a new section titled "Volatility Indexes." This new section is being added to the ODD to discuss in detail the characteristics of volatility indexes and volatility options.⁵ Finally, the proposed supplement amends the section of the ODD titled "Special Risks of Index Options" to include disclosure relating to the risks associated with the purchase and sale of volatility options.⁶

The Commission has reviewed the proposed supplement and finds that it complies with Rule 9b-1 under the Act.⁷ The proposed supplement is intended to be read in conjunction with the more general ODD, which, as described above, discusses the characteristics and risks of options generally.

Rule 9b-1(b)(2)(i) under the Act⁸ provides that an options market must file five copies of an amendment or supplement to the ODD with the Commission at least 30 days prior to the date definitive copies are furnished to customers, unless the Commission determines otherwise, having due regard to the adequacy of information disclosed and the public interest and protection of investors.⁹ In addition, five definitive copies shall be

⁵ The Commission notes that the ODD will take existing disclosure on stock indexes and options on stock indexes and move it to a new, separate section titled "Stock Indexes."

⁶ The Commission notes that OCC must continue to ensure that the ODD is in compliance with the requirements of Rule 9b-1(b)(2)(i) under the Act, 17 CFR 240.9b-1(b)(2)(i), including when future changes relating to volatility indexes or volatility options are made. In addition, the Commission notes that any changes to the rules of the exchanges concerning volatility indexes or volatility options would need to be submitted to the Commission under Section 19(b) of the Act. 15 U.S.C. 78s(b).

⁷ 17 CFR 240.9b-1.

⁸ 17 CFR 240.9b-1(b)(2)(i).

⁹ This provision is intended to permit the Commission either to accelerate or extend

filed with the Commission not later than the date the amendment or supplement, or the amended options disclosure document, is furnished to customers. The Commission has reviewed the proposed supplement, and finds, having due regard to the adequacy of the information disclosed, it is consistent with the protection of investors and in the public interest to allow the distribution of this document as of the date of this order.

IT IS THEREFORE ORDERED, pursuant to Rule 9b-1 under the Act,¹⁰ that the proposed supplement (SR-ODD-2005-01), which provides disclosure relating to volatility indexes and volatility options, is approved. The Commission has also determined that definitive copies can be furnished to customers as of the date of this order.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland
Deputy Secretary

the time period in which definitive copies of a disclosure document may be distributed to the public.

¹⁰ 17 CFR 240.9b-1.

¹¹ 17 CFR 200.30-3(a)(39).