

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74813; File No. SR-ODD-2015-01)

April 27, 2015

Self-Regulatory Organizations; The Options Clearing Corporation; Order Granting Approval of Accelerated Delivery of Supplement to the Options Disclosure Document Reflecting the Inclusion of Disclosure Regarding Foreign Currency Index Options and Changes to Disclosure Regarding Implied Volatility Index Options

On May 20, 2014, 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 preliminary copies of a supplement to amend the options disclosure document (“ODD”) to include disclosure regarding foreign currency index options and amend disclosure regarding implied volatility index options (“April 2015 Supplement”).² On April 15, 2015, the Commission received from the OCC five definitive copies of the April 2015 Supplement.³

Foreign Currency Index Options

Currently, the ODD states that indexes that may underlie options include stock indexes, variability indexes, strategy-based indexes, dividend indexes, and relative performance indexes. In April 2013, the Commission approved a proposed rule change by the International Securities Exchange, LLC (“ISE”) to list options on the Dow Jones FXCM Dollar Index.⁴ The April 2015

¹ 17 CFR 240.9b-1.

² See email from Jean M. Cawley, SVP and Deputy General Counsel, OCC, to Sharon Lawson, David Michehl, and Yue Ding, Division of Trading and Markets (“Division”), Commission, dated May 20, 2014.

³ See letter from Jean M. Cawley, Senior Vice President and Deputy General Counsel, OCC, to Sharon Lawson, Senior Special Counsel, Division, Commission, dated April 14, 2015. The April 2015 Supplement also makes certain technical, non-substantive amendments to the ODD.

⁴ See Securities Exchange Act Release No. 69365 (April 11, 2013), 78 FR 23321 (April 18, 2013) (SR-ISE-2013-14).

Supplement amends disclosures in the ODD to add foreign currency indexes as a type of index that can underlie an option, in order to accommodate the trading of options on the Dow Jones FXCM Dollar Index and similarly structured foreign currency indexes.⁵ Specifically, the April 2015 Supplement adds new disclosure regarding the characteristics of foreign currency index options and their special risks. In addition, the supplement adds an example of the calculation of a foreign currency index. The supplement also amends disclosures in the ODD to accommodate the fact that components of foreign currency indexes are foreign currencies rather than securities (e.g., by referring to “components” of an index rather than “constituent securities” of an index).

Implied Volatility Index Options

The ODD currently contains general disclosures on the characteristics and risks of trading standardized options on variability indexes. The ODD states that variability indexes are indexes intended to measure the implied volatility, or the realized variance or volatility, of specified stock indexes or specified securities. In January 2014, the Commission approved a proposed rule change by the ISE to list options on the Nations VolDex Index.⁶ The April 2015 Supplement amends disclosures in the ODD regarding implied volatility index options to accommodate the listing of options on the Nations VolDex Index and similarly structured implied volatility indexes.⁷ Specifically, the April 2015 Supplement amends the discussion of implied volatility index options by including disclosure regarding exercise settlement value calculations that use the

⁵ The April 2015 Supplement is intended to accommodate the trading of options on foreign currency indexes that reflect the value of one currency, often the U.S. dollar, against a basket of foreign currencies. Foreign currency indexes are calculated using exchange rates.

⁶ See Securities Exchange Act Release No. 71365 (January 22, 2014), 79 FR 4512 (January 28, 2014) (SR-ISE-2013-42).

⁷ The exercise settlement value for the Nations VolDex Index is calculated using the mid-point of the NBBO for the component options of the index, whereas most other index settlement values are calculated using transaction prices of the index components.

mid-point of the bid and offer of the index components and the risks of the different calculation methodologies. The supplement also provides disclosure regarding the types of options that can be used to calculate implied volatility indexes (i.e., out-of-the-money option series and hypothetical at-the-money option series; options with certain expiration months or weeks; number of days the options have until expiration).

The April 2015 Supplement is intended to be read in conjunction with the more general ODD, which discusses the characteristics and risks of options generally.⁸

Rule 9b-1(b)(2)(i) under the Act⁹ 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 the information disclosed and the public interest and protection of investors.¹⁰ In addition, five copies of the definitive ODD, as amended or supplemented, must be filed with the Commission not later than the date the amendment or supplement, or the amended ODD, is furnished to customers. The Commission has reviewed the April 2015 Supplement, and the amendments to the ODD contained therein, and finds that, having due regard to the adequacy of the information disclosed and the public interest and protection of investors, the supplement may be furnished to customers as of the date of this order.

⁸ The Commission notes that the options markets 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 changes regarding foreign currency index options and implied volatility index options are made in the future. Any future changes to the rules of the options markets concerning foreign currency index options and implied volatility index options would need to be submitted to the Commission under Section 19(b) of the Act. 15 U.S.C. 78s(b).

⁹ 17 CFR 240.9b-1(b)(2)(i).

¹⁰ This provision permits the Commission to shorten or lengthen the period of time which must elapse before definitive copies may be furnished to customers.

IT IS THEREFORE ORDERED, pursuant to Rule 9b-1 under the Act,¹¹ that definitive copies of the April 2015 Supplement to the ODD (SR-ODD-2015-01), reflecting the inclusion of disclosure regarding foreign currency index options and changes to disclosure regarding implied volatility index options, may be furnished to customers as of the date of this order.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Brent J. Fields
Secretary

¹¹ 17 CFR 240.9b-1.

¹² 17 CFR 200.30-3(a)(39).