THE OPTIONS CLEARING CORPORATION

#24454

TO: **ALL CLEARING MEMBERS**

FROM: **DAVID H. HARRISON, VICE PRESIDENT, MEMBER SERVICES**

DATE: **JUNE 2, 2008**

SUBJECT: ****REMINDER** EXPIRATION THRESHOLD REDUCTION**

Effective with June 2008 Equity Standard expiration, OCC will be reducing the expiration threshold from .05 to .01. Please review details below which were originally sent in memo #24341.

The Securities and Exchange Commission (SEC) approved the Options Clearing Corporation (OCC) request to reduce the automatic exercise thresholds for equity options as previously announced in Information Memo #24117. OCC will implement this change with the June 2008 Equity Standard expiration, which is Saturday June 21, 2008. The change in the expiration thresholds are listed below:

Account Type	Current Threshold	New Threshold
Customer	.05	.01
Firm	.05	.01
Market Maker	.05	.01

Under the OCC's expiration procedures, options that are in the money at expiration equal to or more than the specified threshold amount are exercised automatically unless the Clearing Member carrying the position instructs OCC not to exercise. For equity options, the threshold amount will be reduced from $.05 to $.01 for all account types.

Background:

OCC's long term goal is to process equity expiration on Friday evening. In order to accomplish this, OCC must streamline the expiration process. Reducing the exercise thresholds for equity options will be another step in achieving this goal.

Expiring Exercise Declaration (EED) vs. Do Not Exercise Declaration (DNED)

Currently, Clearing Members have the ability to submit an Expiring Exercise Declaration (EED) on Expiration (Weekly, Quarterly and Standard). The EED represents a "Positive" instruction or the intent to exercise a specified quantity contrary to the auto exercise threshold. EEDs are typically executed on expiring positions that are "In-The-Money" above OCC's Ex-by-Ex threshold or on an expiring position that is below OCC's Ex-by-Ex threshold.

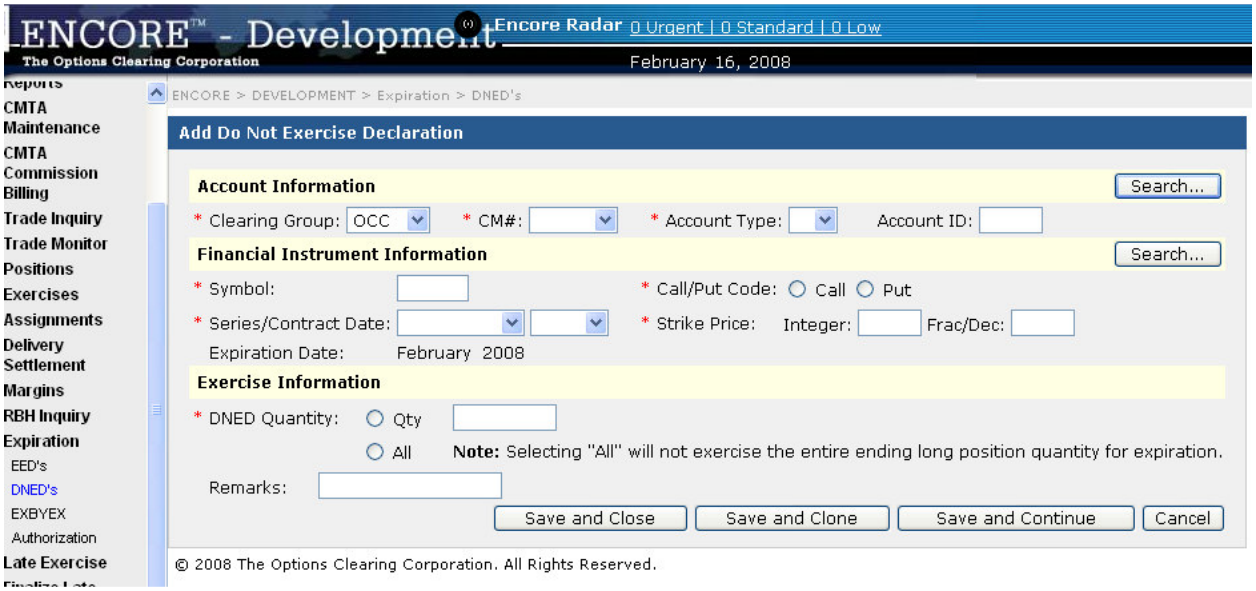
OCC will now implement a facility allowing Clearing Members to enter a Do Not Exercise Declaration (DNED). The DNED will represent a "Negative" instruction or the intent to not exercise a specified quantity when creating an Ex-by-Ex instruction on Expiration (Weekly, Quarterly and Standard). By implementing the new functionality, Clearing Members will have the ability to choose between using a positive instruction (EED) or a negative instruction (DNED), whichever is more efficient for their needs. DNED instructions can only be entered for expiring series that are "In- The-Money" by the automatic exercise threshold.

A contrary intention record will be created if an EED or DNED is submitted on Friday or if there is a difference between what was intended to be exercised and what was actually exercised on Saturday. OCC will now include DNED instructions in the Contrary Intention report sent to the exchanges.

NOTE: EEDs and DNEDs are mutually exclusive for a given option series. Clearing Members will only be permitted to enter either an EED or a DNED instruction for each expiring option series. For example, if an EED is entered for a 100 June 2008 IBM call, a DNED instruction can not be entered for the same 100 June 2008 IBM call. If a user attempts enter and EED and DNED for the same option series, an error message will be displayed.

ENCORE Changes

Due to the implementation of DNED instructions, OCC will install a new ENCORE screen to allow clearing members to manually input DNED instructions. DNEDs are located under the Expiration topic in ENCORE. Below is the updated **Add** DNED screen:



OCC will also update additional ENCORE screens and reports which will be installed prior to June 2008 expiration. Listed below are the screens and reports that will change:

ENCORE Screens

Exercise by Exception Instructions Filter

- Instructions drop down has been modified to include the following filter criteria:
  - EED Entered
  - EED/DNED/Ex by Ex Entered
  - DNED entered

Exercise by Exception List View

- DNED quantity now included in EED column which will appear in parenthesis

Post Trade File Statistics

- Do Not Exercise Declaration added to transaction list

ENCORE Reports

Contrary Intention Report

- DNED instructions will be denoted in the contrary intention column which will appear in parentheses

Ex by Ex Audit Trail

- DNED quantity now included in EED column which will appear in parentheses

Ex by Ex Final Report

- DNED quantity now included in EED column which will appear in parentheses

Dollar Extension Report

- DNED quantity now included in EED column which will appear in parentheses

Transaction Audit

- DNED are now included on this report

Machine Readable Post Trade Audit

- DNED is now included on this report added to transaction type on Grand Totals page

<u>DDS Changes</u>

Do Not Exercise Declarations (PosMntReq) – Inbound Transmission –
OCC will begin accepting DNED test messages in May 2008 for inbound FIXML.

Updated schemas have been posted and can be found under the FIXML Schema Definition Files section on OCC's website:
http://www.optionsclearing.com/products/dds_ref_materials.jsp

If you have any questions please contact your clearing member representative or the Member Services Help Desk at 1-800-544-6091. Canadian members may call at 1-800-424-7320. Clearing Members may also e-mail us at memberservices@theocc.com.