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# OCC news

the official newsletter of The Options Clearing Corporation

Spring 2008



## occ named clearing house of the year

On April 7, OCC was awarded the distinction of "Clearing House of the Year" by FOW Magazine, a leading global derivatives publication. The honor was announced in London during FOW's annual event which recognizes the achievements of organizations that have made significant contributions to the derivatives industry. Michael E. Cahill, OCC President and Chief Operating Officer, accepted the award on OCC's behalf.

"We are very honored that OCC has been recognized by FOW as Clearing House of the Year. It's an acknowledgement of our staff's dedication to the listed options and futures markets we serve," Cahill said. "We're proud of our ability to provide the lowest cost clearing and settlement services while maintaining state-of-the-art technology, proven production processing, world class risk management and robust business continuity capabilities."

Upon presenting the award, FOW recalled the following comment from one of the panel judges. "The Options Clearing



*Michael Cahill accepts the Clearing House of the Year award.*

Corporation supports multiple exchanges. It has coped with an influx of business and looked for outward expansion — that's a great effort."

The U.S. options industry has experienced phenomenal growth over the last several years with OCC clearing on average almost 14 million contracts a day for 2008.

## momentum building for symbology initiative

The Committee for the Options Symbology Initiative (OSI) has been working steadily with clearing members and exchanges as momentum builds for the industry-wide effort. "We are encouraged by the number of organizations working toward early adoption and making system changes to support OSI data, particularly within the links between the exchanges, OCC and member firms," said Mark Baumgardner, OSI Committee Member and Vice President, Business Development at OCC.

On March 19, the Committee voted to extend the OSI's implementation date by six months, from July 31, 2009 until February 12, 2010. The approved extension was based on the desire from industry participants to spread out the development costs into the 2009 fiscal budget and to help meet demands that clearing members were encountering as they developed their implementation plans. When discussing the extension, the options community was divided among those participants who felt the delay would increase costs and those who believed it would be beneficial to diffuse costs over a multi-year period. In the end, OCC's Board of Directors and industry leaders were supportive of the extension, but stressed there will not be any further extensions beyond the February deadline.

For the remainder of 2008, firms should be focused on developing their implementation strategies for conversion to OSI-compliant data. OCC and the exchanges have information available to assist firms with managing their interfaces. Firms are encouraged to complete their exchange/firm interface conversion projects early so that they can concentrate on firm/client or firm/vendor interfaces.

The Committee has previously emphasized to firms that all exchanges have independent interfaces due to proprietary data. Firms were advised to consider this factor when developing and executing their conversion plans. To help with the adaptation process, exchanges have offered a conversion period where firms can utilize both old and new record layouts. After this period, participant firms will need to be fully converted to the new record layouts. Conversion periods vary among exchanges. More information on these time windows can be found at [www.optionsclearing.com/initiatives/symbology/default.jsp](http://www.optionsclearing.com/initiatives/symbology/default.jsp) then click on the quick link "OCC Exchange and Vendor Symbology Specifications."

OCC will officially convert its interface, on the outbound side, to OSI-compliant data on June 27, 2008. After this date, firms must coordinate the testing of its machine readable data in order to send inbound data to OCC. All firms should have inbound data tested with OCC no later than September 2009. Firms can contact their OCC member services representative to coordinate testing specifics.

"Overall, we are seeing an increase in the level of awareness among end users, such as investment advisors, asset managers and vendors," Baumgardner said. "The Committee is focused on the detailed test scripts to be used in 2009, and we are on track to meet the new milestones."

For more information on Symbology or technical specifications on the upcoming test plan and project milestones, visit OCC's Web site or contact Mark Baumgardner at [mbaumgardner@theocc.com](mailto:mbaumgardner@theocc.com).

## transatlantic options trading and clearing link on the horizon

OCC has agreed to partner with Eurex and the International Securities Exchange (ISE) in plans to create one of the first modern transatlantic trading and clearing links between the U.S. and the European markets. Through this link, Eurex members will have full access to options products that are available through ISE. Customers will also be able to execute orders in the ISE order book using their connectivity to Eurex.

"This link will expand distribution and increase the reach of U.S. listed options," said Wayne Luthringshausen, OCC Chairman and Chief Executive Officer. "Non-U.S. market participants will now find it easier to trade and clear U.S. products that will be offered through this link."

Initial moves towards making the link active

are already underway as ISE, Eurex and its clearing house, Eurex Clearing, recently signed a Term Sheet with OCC. This Term Sheet is the first step in signing a Definitive Agreement which will enable Eurex customers to clear contracts traded via the link using their existing clearing accounts at Eurex Clearing.

Pending regulatory approval, implementation plans for the link are slated for the latter half of 2009.



# industry insight

## reflections from gig hender

*George "Gig" Hender who served as Management Vice Chairman, retired from his role at OCC this past January. OCC News recently discussed with Gig his extensive career in the options industry and his plans for the future.*

### **How did you get your start in the financial sector, and more specifically, the derivatives industry?**

I started my career at the Philadelphia Stock Exchange (PHLX) where I was general counsel in the late '60s and early '70s. In that role, I was responsible for keeping up relationships with the other exchanges. I came to Chicago for a meeting with what was known as the Midwest Stock Exchange. I was also invited to listen to a fellow named Joe Sullivan who worked for the Chicago Board of Trade (CBOT). He talked about this new product involving trading options on stock and how CBOT was going to create a new exchange. This exchange would later become the Chicago Board Options Exchange (CBOE).

As I listened to him, I thought this was a great idea and I wanted PHLX to be involved. I built the program for PHLX and was fortunate enough to be on the floor of the CBOE the first day that options traded. About a year and a half later, we started trading in Philadelphia. It was at this point that PHLX's chairman left his position to start trading options and he wanted me to join him. Together, we formed a company and started trading products on the PHLX exchange.

My connection with OCC and Wayne Luthringshausen, Chairman and CEO, began when we negotiated Philadelphia's ownership in OCC. I had a lot respect for both Wayne and OCC as an organization. At one point, he asked me to be on OCC's Board of Directors, which was an honor. After about two years, Wayne told me that they needed someone with my skills to work at OCC. It was a difficult decision because of my ties to Philadelphia, but in 1987 I started with OCC.

### **The options industry is celebrating its 35<sup>th</sup> anniversary this year. Which experiences stand out as pivotal moments?**

Clearly, the crashes in '87 and '89 come to mind as well as the financial crisis we are going through right now. Certainly 9/11 was one of the biggest moments in history. These events had a tremendous impact on this country and this organization. Though you never like to see things like that happen, it was a great

experience to have been at OCC at the time and be a part of the senior management who were dealing with these crisis situations. One interesting story from when options first started trading is that the SEC mandated that you could only trade calls, but not puts. The worry was that puts would somehow drive the market down and cause a crash. When the SEC finally allowed the exchanges to trade both calls and puts stands out to me as a pivotal moment. Another exciting time in the industry is when the U.S. exchanges began to see that options were going to be successful and realizing that OCC was going to be part of that by clearing that business for them. Early on I knew this was going to be a great product, but I don't think I ever realized just how big it was going to become. What was started in Chicago has grown all over the world. It is definitely pivotal to see what basically started as a domestic product grow on such a global level.

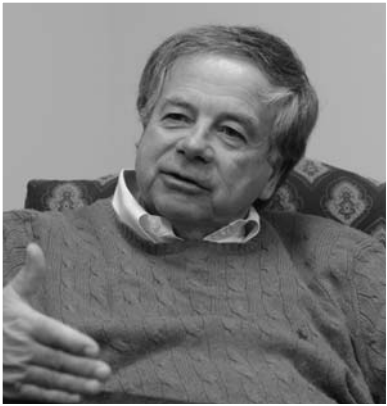
### **What's your opinion about options in a marketplace that has become increasingly global and competitive? Where does OCC fit within this changing landscape?**

When I first started in this business we were doing about 100 contracts a day. Now we average nearly 14 million per day. Options have grown by leaps and bounds and it's far from over. But with growth, comes challenges. One challenge is that because we are owned by the exchanges, it is difficult to reach consensus on how OCC can expand globally. Another is that our customers love us for what we are as an industry leader. OCC provides low cost and great service. Customers don't want to see that interrupted, which can create some hesitation to let OCC branch out and do other things. Regardless, I think the future for OCC is just as bright as it was 10 years ago, but I do think we have to continue to expand because the industry is certainly going to continue to grow.

### **This June, you will pass the baton as Chairman of the Financial Services Sector Coordinating Council (FSSCC). What has been your overall experience with FSSCC and where do you see this organization heading?**

FSSCC's relationship with institutions like the Treasury Department and the Federal Reserve has been phenomenal. We've done some great things together. For instance, last fall we conducted a three-week, financial sector-wide Pandemic Flu Exercise. There has never been an exercise of this scope and scale. Co-sponsored by the Financial and Banking Information Infrastructure Committee (FBIIC) and FSSCC with the Securities Industry and Financial Markets Association (SIFMA) managing the project, more than 100 individuals came together to develop the exercise. Participation was well beyond our expectations as more than 2,700 organizations, and tens of thousands of people, took part in the exercise. It gave the industry a great way of testing its business continuity plans, as well as a better understanding of the interdependencies within the sector and across other sectors.

There are a number of changes taking place within FSSCC that I believe will make it stronger as an organization. We need to expand FSSCC membership to include more of the larger owner/operators from the sector. Many of these firms are currently represented by the industry associations of which they are members. FSSCC would be better served by having a few more of these firms around the table during a crisis. In addition, FSSCC needs to evolve into a dues-based organization so that the financial burden of leading FSSCC is not borne by a single organization, but instead by its members. This would also create opportunity for a smaller association or firm to lead FSSCC in the future.



FSSCC has placed a lot of focus on physical terrorism threats and other man-made or natural disasters. I think we are doing a pretty good job addressing preparedness and prevention for these issues. On the other hand, cyber threats are becoming an increasingly large problem. The impacts of these threats go much farther than simple identity theft or denial of service attacks. FSSCC recently formed the Cyber Security Committee, which is working on the issues through four major themes: Long Range Vision, Exercise & Planning, International Issues and Information Sharing. Work Groups have been formed and efforts are underway to help head off these threats.

**After more than 20 years with OCC, what are you going to miss about the day-to-day operations?**

First, I will miss the people I worked with at OCC. One of the other things that I really enjoyed about OCC and about this business is that there wasn't a day where I didn't learn something new. There has been such dynamic growth in the industry. For me, it's been about being at the right place at the right time and in the right industry with the right people. I'll miss all of that. When you've put as much time as I have into this organization, this industry and the relationships that I've built, you're definitely going to miss that.



**What's next on the horizon for Gig Hender, and just curious, how did you come to be known as "Gig?"**

I've been approached by some of the Federal agencies to work on a few projects. I've also been asked to serve on several boards. It is definitely something that I am considering if it is the right opportunity. I'm also interested in doing some charitable work.



On the personal side, I've got three great kids and five grandkids that all live in the Chicago area. I'm really looking forward to spending more time with them.

In terms of the Gig question, my father is named George. For whatever reason they decided to name me George, but I'm not a junior. My mother didn't want to have two Georges around the house, so since before I can remember, I've been Gig.

# oic news & notes

## ► OIC Launches New Ad Campaign



In January, The Options Industry Council (OIC) released a new ad campaign featuring a collaborative out-reach effort in print, radio, television and on the web. The key objective of OIC's new marketing strategy is to brand options as an investment tool while promoting OIC as the primary, unbiased resource for options education. Results

from the campaign are already noticeable as OIC has seen increased traffic to its Web site [www.optionseducation.org](http://www.optionseducation.org) as well as a significant increase in attendance at OIC seminars.

## ► OIC Lends Support to Collar Study

OIC expanded its educational efforts towards institutional investors by providing support for a study of the performance of a passive collar strategy on the PowerShares QQQ™ exchange-traded fund (ETF).

"Collaring the Cube: Protection Options for a QQQ ETF Portfolio," looked at data from March 1999 to March 2008. Over the 108-month study period, the strategy returned more than 150 percent, cumulatively, while the cube portfolio lost more than 12 percent. The study was conducted by the Isenberg School of Management's Center for International Securities and Derivatives Markets (CISDM) at the University of Massachusetts.

The study demonstrated that a passive collar strategy using a six-month put purchase and consecutive one-month call writes provided far superior returns when compared with buying and holding the NASDAQ-100 Index® ETF with about one-third of the index volatility.

To read the study in its entirety, visit OIC's institutional Web site at [www.optionseducation.org/institutional](http://www.optionseducation.org/institutional).

## ► TABB Study Findings Released

In February, the TABB Group released a new study, "Equity Options Trading 2008: Rising Out of Obscurity," with their findings on the image shift and subsequent volume spike in the options market in recent years. OIC assisted with Tabb's research and purchased unique distribution rights for the study. The study estimates that one-third of institutional investors are now actively using options, with institutions accounting for roughly sixty percent of trading volume. As volatility increases, more and more institutional investors are including puts and calls in their portfolio strategies. While equity options used to be thought of as "remotely speculative," they are increasingly being implemented to hedge against volatility.

## ► OIC Hosts European Roadshow

This past April, OIC hosted events in London, Frankfurt, Amsterdam and Zürich to meet with and educate European market participants about the U.S. options industry. Topics discussed during the four-city tour included the benefits of having multiple exchanges, the penny pilot in a changing market and the importance of retail investors. "We received an enthusiastic response from the attendees," said Susan Milligan, OIC Executive Director and OCC Senior Vice President, Government Relations and Communications. "It was a great opportunity to connect and show our commitment to our European customer base and clearing members."

## ► MX and OIC Join Forces to Educate Canadian Investors about Options

Montréal Exchange Inc. (MX) and OIC have partnered in an effort to help Canadian investors learn about equity options and accelerate the growth of the options market in Canada.

In early April, MX and OIC hosted two options education days in Calgary and Edmonton. The full-day events drew more than 300 investors combined and featured OIC's new Basic and Intermediate seminars.

## news briefs

### ► NASDAQ Options Market Becomes Participant Exchange

On March 31, 2008, NASDAQ joined the American Stock Exchange LLC, Boston Stock Exchange, Incorporated, Chicago Board Options Exchange, Incorporated, International Securities Exchange LLC, NYSE Arca, Inc. and the Philadelphia Stock Exchange by becoming an OCC

participant exchange. Subsequently, NASDAQ also joined The Options Industry Council in April.

### ► Save-the-Date

Mark your calendar for the 3<sup>rd</sup> Annual New York Equity Options Conference September 8-9, 2008 at The New York Marriott Downtown. Further details regarding event programming and registration are forthcoming.



## occ introduces new myocc

May 10 marked the launch of a redesigned MyOCC Web site. This new portal offers an updated look, feel and functionality to improve the user experience. OCC is utilizing IBM's Websphere Portal Extend

Software, which affords a scalable solution and seamless integration into the existing ENCORE technology framework.

The site upgrade provides users with a personalized home

page where content and applications may be assembled (or "aggregated") from a variety of available data sources. Additionally, individuals can search the site for information that they are authorized to access and view. Based on user feedback, content area and navigation has been reorganized and streamlined. For instance, users can now move commonly used tools and pieces of information (also known as portlets) onto their own customizable home pages which alleviates administrative processes by providing work flows, version control and content management. Log on to MyOCC at [www.myocc.com](http://www.myocc.com) today and check out all the new features.

## annual report awarded gold at bma tower awards

OCC's 2006 Annual Report received the highest of accolades by winning the Gold award at the Business Marketing Association's 25<sup>th</sup> Annual Tower Awards. This event, hosted by BMA's Chicago Chapter, recognizes excellence in business-to-business marketing communications.

Depicted through a series of colorful illustrations, the 2006 report, titled "Growth, Reliability, Excellence," focuses on the theme of continued progress within an industry that is grounded in the stability that OCC provides.

"Our Annual Report is a key method of communicating essential information to our members and the public," said Michael Cahill, OCC President and Chief Operating Officer. "It is a true honor to have OCC's creative talents recognized with the BMA's highest distinction."

The award-winning 2006 report as well as OCC's current Annual Report can be viewed at [www.optionsclearing.com/about/ann\\_rep/annual\\_reports.jsp](http://www.optionsclearing.com/about/ann_rep/annual_reports.jsp).

## sec approves reduced ex-by-ex threshold

For the past several years, OCC along with clearing members and the exchanges have been diligently working on streamlining the expiration process. As OCC's cleared volume steadily rises, one area of focus has been the continuous reduction of the equity Exercise-by-Exception (Ex-by-Ex) threshold.

OCC filed a proposed rule change with the Securities and Exchange Commission (SEC) and received approval to reduce the equity Ex-by-Ex threshold from \$.05 to \$.01 for all account types.

"This improvement is expected to significantly decrease the amount of records that our largest clearing members have to manage at expiration," said David Harrison, Vice President, Member Services. "It will also allow OCC to process and distribute data much earlier on Expiration Saturday."

This change became effective commencing with the standard equity expiration on June 21. For additional information, contact the Investor Services Help Desk at 1-888-OPTIONS or via email at [options@theocc.com](mailto:options@theocc.com).

## occ news

[www.optionsclearing.com](http://www.optionsclearing.com)

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