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# occ news

the official newsletter of The Options Clearing Corporation

Summer 2009



## professionals rally at options industry conference

The 27th Annual Options Industry Conference that concluded in early May was a success on several levels. Most obvious was the attendance, more than 400 people participated despite difficult economic times that have cost jobs and restricted travel budgets. More importantly, though, was an expansion of the conference program giving attendees more for their dollar.

This year's conference was organized by the Boston Options Exchange — its first time in that role. The program expansion came from a new format that included a two-track series of break-out sessions. A Trading & Technology track and a Legal, Regulatory & Compliance track ran concurrently on the first day, while day two coupled Trading & Technology with a Clearing track. Michael Cahill, President and Chief Operating Officer and Michael McClain, Senior Vice President, Business Operations Group, moderated panels on the Clearing track.



Cahill led the panel discussion about international linkages and multi-product clearing with Pete Axilrod from DTCC, Dale Michaels of CME Group, and Marc Huglin from LCH.Clearnet. McClain's panel looked at Hot Issues in Clearing with Herb Kurlan of VTrader

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Group, Samuel Lek from Lek Securities, Bill McGowan from Interactive Brokers and John Ruth of Goldman Sachs Execution and Clearing. Like many other discussions throughout the conference, this panel eventually weighed in on the issue of short-sale regulation.

OCC was also represented in the pre-conference industry updates. Susan Milligan, Sr. Vice President, Government

Relations and Communications, provided an update on the activities of OCC's Washington office. Carolyn Mitchell, First Vice President, Business Development, outlined a number of current OCC projects and shared market statistics while Mary Savoie, Vice President, Options Industry Services, presented an overview of The Options Industry Council's new initiatives.



## symbology testing continues

The Options Symbology Initiative (OSI) continues to move forward on schedule with its established milestones.

Certification testing

with OCC and the exchanges began in June and will continue throughout the summer. Scripted industry testing will begin in September. To access finalized test scripts, Clearing Members should visit the Symbology section of OCC's web site, [www.optionsclearing.com](http://www.optionsclearing.com), and click on the quick link for OSI Testing.

This past April in Hollywood, Florida, the SIFMA Operations Conference presented a panel discussion on

OSI. Panelists, including David Harrison, OCC Vice President, Member Services, discussed the benefits of Symbology, certification schedules, testing, and upcoming consolidation details. Harrison updated participants on the current OSI schedule. Attendees were also encouraged to test their QA region format/layouts prior to the start of scripted industry testing.

SIFMA is hosting a one day Options Symbology Symposium on July 28 in New York. For more information, visit [www.sifma.org/events](http://www.sifma.org/events).

To stay informed on upcoming OSI milestones or if you have questions, visit OCC's web site or contact [OSI\\_Testing@theocc.com](mailto:OSI_Testing@theocc.com).

## symbology test availability

Exchange availability for testing is as follows:

	Test Data Available	Test Environment
Options Clearing Corporation	May '09	June '09
Boston Options Exchange	June '09	June '09
Chicago Board Options Exchange	June '09	June '09
International Securities Exchange	July '09	April '09
NASDAQ	June '09	July '09
NASDAQ OMX PHLX	TBD	August '09
NYSE AMEX	June '09	June '09
NYSE Arca	June '09	June '09

# industry insight

## nyse euronext senior vice president ed boyle

*This latest installment of interviews with industry leaders from OCC's participant exchanges is with Ed Boyle, Senior Vice President, NYSE Euronext. Mr. Boyle sat down with OCC News to discuss his background in options and his thoughts on topics impacting the industry.*



**The Boyle family has a long-standing history in the options business, from your father to several of your siblings. At what point did you decide to follow in the footsteps of tradition, or was it just a given?**

It was never really a given that I would be in the securities industry. Actually my sights were taking me in a different direction. I come from a family

with 12 children. My oldest brother, Terry, started at the Chicago Board Options Exchange (CBOE) when it was first launched at the Board of Trade. He was on the floor for almost its entire existence up until recently. I also had brothers and sisters who were in the business.

Being from a large family, you graduate high school, but college isn't a given. You have to work and pay your way through school. It was summer and I was between jobs going to night school when my brother Kevin said, "Why don't you just come down and see what's going on here." I walked on the CBOE floor and was very intrigued by it. One of Kevin's colleagues gave me a job on the spot as a runner. I quickly became an options clerk and then started trading a couple years later.

I think I was mesmerized by the intensity of it, the action and the camaraderie. You felt like you belonged almost immediately. At the end of the day, you choose your path and your career, but sometimes your career chooses you. It was something that I excelled at quickly and I found myself fitting into it.

**Your move from TD Securities to NYSE Euronext marks a professional transition from the firm side to an exchange. What are some of the differences between the two that you have observed now that you are on the exchange side?**

Interestingly enough, I never pictured myself working at an exchange, but coming into it I have found that the exchange space

really isn't all that different from being at a firm. There's a multitude of different pieces inside those businesses. On the firm side, there are entry level positions all the way up to what everyone views as the glamour job — being a trader. On the exchange side while there isn't the glamour of being a trader, you're still servicing clients and running a business, which is a lot of what I did on the other side.

The big difference between trading and investment banking and the exchange side is that at an exchange, you are servicing a multitude of different clients. On the firm side, we have one goal — trade, make money and build a business. As an exchange, our goal is transaction processing and value added services, but we have to answer to the diverse needs of our clients. You have multiple directions that you have to balance very well.

**In your opinion, what type of impact has penny pricing had on the market and what would you like to see happen with regards to this issue?**

The pure retail customer has benefitted from penny pricing and while there are cons such as fragmented liquidity, the industry can solve those issues. The need to expand the penny pilot is there. We've already gone down the path, so we're going to continue to trade in pennies. We can't really say we're going to go backwards and not allow that benefit to reach the customer side of the business.

The penny pilot in the institutional market tends to add some complexity due to the expanded fiduciary responsibilities of getting the best execution of orders across multiple price points. It's not the best thing for the institutional markets, but we've always had a balanced market in the U.S. That's the secret to the penny pilot — expand it in a responsible manner and continue to balance the way the executions take place.

**Along with other exchanges, NYSE Euronext has been vocal on the subject of short sale bans. What is your take on this?**

A short sale ban from a high level may be viewed as a responsible reaction to market forces but in fact it is ineffective. If a stock is not worth its value, it's going to go down. Whether it does so fast or slow is the only difference. A short sale ban acts much more like a throttle. It just slows it down. As it applies to options, a short sale ban does not work well if market makers cannot properly price options because of the inability to short the stock as a hedge. Although I do understand that we must be cautious about the impact of allowing market makers to have an exemption or some other type of relief, you have to balance it to be sure that people don't use options as surrogate for short selling. There's a

# update from the hill: regulatory restructuring

By Bradley Edgell

couple ways around that. One way is to make it very punitive for failing to deliver. It should not be tolerated. At the end of the day there needs to be some type of market maker exemption, the question is how the industry assures it is used properly.

**With the recent umbrella acquisition of the American Stock Exchange (AMEX), NYSE Euronext is now running two different market structure models. What are some of the benefits but also the challenges of running these models concurrently?**

When I came to NYSE over a year and half ago, we looked at the market and the market structure. It was apparent that the options markets would continue to operate in a dual pricing market structure environment for the immediate future. In order to grow the options business NYSE Euronext wanted to support both market structure models so that clients could come to NYSE Euronext to transact their business, regardless of their market structure preferences. The Arca market structure simply does not fit the business needs of a certain set of clients. From a strategic standpoint, we needed another marketplace to service the clients in the more traditional options market structure and pricing. I'm from the school where I believe that the two markets will slowly come together more than come apart. The AMEX is very complimentary to NYSE in a lot of ways. Its biggest issue was technology. Now it has a very robust technology platform and we can be everything to everyone.

The challenges are difficult. Having clients with different needs, it's a constant struggle with balancing the two market structures and how we represent ourselves to the regulatory environment and to the client base.

Options are a great product and there's room to grow. If the industry continues to increase options awareness and education, all U.S. exchanges will benefit. It's an environment where all boats can rise.

**On a lighter note, cowboy boots are known to be a part of your signature style within industry circles. How and when did wearing them become a regular part of your wardrobe?**

I started wearing cowboy boots in my teens. When a lot of people started wearing tennis shoes on the floor, I wore tennis shoes, but I found boots to be more comfortable. Having a heel helps to keep me standing straight up and always helped my lower back. I wore cowboy boots everyday on the trading floor for 14 years. Yes, I've always gotten teased for them, but at my age it's too late to change.

There is much debate in Congress about reforming the U.S. financial regulatory system. Both the House Financial Services Committee (HFSC) and the Senate Banking Committee (SBC) have held a number of hearings on the issue in the first half of 2009. During this time, many private sector organizations have presented their recommendations for changes in response to last year's financial crisis. The House Republican Caucus also released a proposal for regulatory reform in recent months. With the unveiling of the Obama Administration's recent recommendations, the stage is set for HFSC and SBC action on regulatory reform in the second half of the year.

In mid-June, the Obama Administration released a comprehensive package of Financial Regulatory Reform (White Paper) recommendations. President Obama stated that he would like to see these proposals enacted by the end of 2009. The recommendations address the creation of a systemic risk regulator, establishment of a resolution authority for large, non-bank institutions, oversight of OTC derivatives, and restructuring of the current complex and overlapping financial regulatory system.

The White Paper proposes that the Federal Reserve Board (Fed) should act as the systemic risk regulator with a council of federal financial regulators in an advisory role. The systemic risk regulator would oversee and identify emerging problems within the financial system. Many members of Congress have expressed reservations about this proposal. The White Paper also recommends that the Fed oversee clearinghouses in consultation with each clearinghouse's primary regulator.

Other recommendations outlined in the document include the passage of a resolution authority for large, systemically-important financial institutions. This authority would be used for institutions like AIG, which was rescued by the Federal government due to concerns about how its bankruptcy would affect its many counterparties in complex investments. A resolution authority would provide a mechanism to unwind positions of such a company in a rational, definitive manner. The Obama Administration has already submitted draft legislation to

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create a resolution authority to Congress. Any bill considered by Congress is likely to be based on this proposal.

The document also proposes the establishment of a new regulatory regime for OTC derivatives contracts and OTC derivatives dealers. The proposal envisions a role for both the SEC and CFTC in overseeing these products and a requirement that standardized OTC derivatives be cleared through regulated central counterparties.

Finally, the White Paper provides recommendations for regulatory restructuring including the harmonization of futures and securities laws. The SEC and CFTC are required by the White Paper to provide recommendations on reconciling the differences between their statutes and regulations to Congress by September 30, 2009. In this area, the White Paper does not go as far as a number of private sector regulatory restructuring

proposals. Several of these proposals, including one from the ISE, recommend merging the SEC and CFTC.

Fed Chairman Ben Bernanke has also outlined priorities for regulatory reform. The Fed supports the creation of a systemic risk regulator and establishment of a resolution authority. However, the Fed has not formally sought appointment as the systemic risk regulator.

HFSC Chairman Barney Frank (D-MA) has announced his intention to consider financial regulatory reform legislation by the end of July 2009. SBC Chairman Chris Dodd (D-CT) has announced that his Committee will not take up legislation on this issue until the Senate has completed action on healthcare reform legislation. Chairman Dodd has said that he would like to turn to financial regulatory reform legislation in September. It remains to be seen if Congress will be able to complete action of regulatory reform by year end.



## oic expands its educational outreach efforts

In order to further leverage its reach with investors by educating financial

advisors about the benefits of options, OIC launched [OptionsEducation.org/advisor](http://OptionsEducation.org/advisor) this past April. Through this dedicated advisor web portal, a wealth of information specifically geared toward financial advisors awaits users behind a secure login.

Advisors can access a number of options trading tools, strategies and best practices. The site integrates OIC's educational components including podcasts, webcasts and online courses together with pertinent articles, market data and legislative updates. From the options savvy advisor to those who are new to the product, there is something for all who are interested in learning how options can help expand their practice.

Spearheading OIC's educational programs for financial advisors is Eric Cott. Cott, a seasoned veteran in the financial industry, has been retained as a consultant to represent OIC at advisor-focused conferences, assist with the development of course curriculum and

web content as well as serve as a liaison in building relationships with various firms, associations and academic institutions.

"The launch of this new financial advisor portal presents a unique opportunity for OIC to significantly expand its educational outreach to this once difficult-to-reach segment of the financial community," said Cott. "Through [OptionsEducation.org/advisor](http://OptionsEducation.org/advisor), we hope to encourage advisors to consider how options can enhance their clients' portfolios."

In May, OIC also added an enhancement to its [www.OptionsEducation.org](http://www.OptionsEducation.org) web site with the development of a feature that allows visitors to tailor fit their options education objectives into a personalized program. OIC Education gives users a choice of utilizing the highly intuitive MyPath, which will assist in developing a specialized learning track through OIC's educational resources including webcasts, podcasts and online classes. Users can also simply select the Course Catalog to handpick the components that would best suit their educational needs. Other key features include message boards, live chat capabilities and an online calendar to view upcoming options seminars.



## OCC adds Liffe to its operations

Last year, NYSE Liffe U.S., LLC (NYL), the U.S. futures exchange of NYSE Euronext, purchased CBOT's precious metals

complex from the CME Group and then selected OCC as its clearing house. NYL and OCC began working to transition clearing responsibilities for trades within the market and, on March 30, OCC officially began clearing metals trades.

"Providing clearing services for NYSE Liffe was a natural fit since we clear options for NYSE Arca and NYSE Amex already," said Carolyn Mitchell, OCC First Vice President, Business Development. "This partnership enables OCC to expand its futures clearing business and provides NYSE Liffe with proven

clearing and risk management services. OCC's teams have worked diligently with the exchange and our members to integrate this new market while minimizing potential interruptions for our customers."

In order to accommodate the addition of NYL's clearing services, OCC made enhancements throughout operations to support the 22-hour metals trading day. OCC also enhanced its ENCORE and DDS systems for NYL's global trading day and anonymous markets.

Clearing members with questions regarding OCC processing can contact their Member Services Representative or the Member Services Help Desk at 1-800-544-6091, or email [memberservices@theocc.com](mailto:memberservices@theocc.com).

## save the date

Mark your calendar for an event you don't want to miss!



OCC is a proud sponsor of the  
**2009 New York Equity Options Conference**  
hosted by the Futures Industry Association  
and The Options Industry Council



**September 22 - 23, 2009**  
**New York Marriott Marquis**

For more information, visit [www.futuresindustry.org](http://www.futuresindustry.org)

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Editor/Designer: Leisha Nicol