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OCC news

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Winter 2010



options volume continues upward swing in a recovering market

Going into last year, there was a level of uncertainty about how the tumultuous times that had fully engulfed the financial community would impact options. Would volume decline? If so, how low would it trend downward? As the industry braced for impact, the gloomy mood that rippled through the options market early in the year proved itself to be somewhat unfounded.

As it turned out, 2009 was the busiest year in OCC's 36-year history. A new annual record was set for the seventh consecutive year as total options volume climbed to more than 3.6 billion contracts. Along with surpassing 2008's record by nearly 1 percent, it is also the seventeenth time out of 18 years that the industry has hit this milestone.

In the aftermath of the financial crisis in late 2008, options volume for the month of January 2009 declined by 28 percent



compared to January of the previous year. However, it was still the second highest January by volume in history. There were typical ups and downs heading into the fourth quarter 2009, but volume levels had held up well enough that by October, it seemed that a new annual record might be attainable. Investors appeared to be returning to the marketplace using options to manage their risk

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after the financial crisis. At the close of December 2009, options volume was up 33 percent compared to December 2008, putting the year in the record books.

In addition to record levels of options trading, OCC expanded its futures and stock loan services appreciably. With the addition of two new exchanges, OCC cleared more than 12 million futures contracts, surpassing 2008's level by nearly 140 percent. Also in 2009, OCC became the central counterparty for the AQS platform. This additional securities lending business contributed to a cleared stock loan contract notional value that averaged about \$14 billion per day last year.

As we enter a new decade, options volume continues to trend higher with total options trading volume for February coming in at more than 262 million contracts, representing a 2.33 percent increase over February 2009. There have also been noteworthy upward swings in February's year-to-date volume and year-to-date average daily volume with increases over 2009 of 11.61 and 14.55 percent, respectively. The number of OCC participant exchanges has expanded and with it comes a host of innovative products that will hopefully result in OCC seeing an increase in clearing volumes at the end of the year.

new web site brings increased efficiency, enhanced usability



Last November, OCC launched a redesign of its web site, implementing significant changes to meet the growing needs of its clearing members,

exchanges and other market participants. Visitors to www.optionsclearing.com now experience a more streamlined view of OCC's content, making virtual visits to OCC more informative than ever.

Throughout the duration of this initiative, OCC's Internet Services consulted with several departments for input on the technology approach and overall design for the new site. The result is improved navigation, enhanced market data and report offerings, and a more modern design. Content has been reorganized into OCC's core business areas — Clearing & Settlement, Risk Management, and Membership — displaying information in a more efficient manner. Additionally, users are able to access an improved Press Room, read up on current OCC initiatives and view an updated Career Center for prospective employees.

The new site features customizable reports that support two years of rolling historical data. These reports now have the functionality to sort and export data in a variety of formats. The Historical Volume Statistics report will

maintain five years of rolling historical data (with the exception of annual statistics, which will be provided from 1973 to present) and allow users the ability to search and display volume data for options and futures, open interest and options put/call ratios.

Since the launch, daily traffic has increased considerably, breaking page visit records on three separate occasions. Likewise, average monthly search traffic has increased 17 percent since the unveiling. Because of these extensive improvements, external users now have the ability to obtain a more focused view of who OCC is as an organization and our role within the financial services industry. Moving forward, the site will continue to evolve with new content and additional site enhancements.

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industry insight

occ ceo wayne luthringshausen



Wayne P. Luthringshausen is OCC's Chief Executive Officer and Chairman of the Board. He has served in this capacity since the company's inception more than 36 years ago. OCC News recently spoke with Mr. Luthringshausen about his take on the impact of the recent market turbulence and some of the new endeavors on the horizon for OCC.

The options industry has had to navigate some rough terrain in recent months. Having been a part of OCC since its beginning, have you ever experienced anything like this and if so, what experience would be comparable?

The only comparison would be in 1987 when the market tanked on that infamous Monday. I think that time was worse than 2008 simply because it impacted the options market especially hard. This time, the focus was not on our markets, so the impact to OCC was not as severe. In many ways, we were fortunate to come through it like we did. Certainly, we were nervous. We had to act and react, but in the end, we managed it well largely due to the team effort at OCC. OCC is a solid organization with great employees who understand what we have to do every day to get the job done.

In spite of the economy, options volume for 2009 fared extremely well, even slightly ahead of 2008. How was the industry able to come through like it has in the face of economic uncertainty?

Options provide leverage, risk avoidance, hedging and income. If you're a long-term investor who was hit hard at the end of 2008, you might want to bring a little more protection into your portfolio the following year. Options allow you to buy some of that protection, so its value to investors is very clear when there is concern in the marketplace.

I was very pleased with how volume held up in 2009. At the beginning of the year, I was somewhat concerned about declining volume but we ended up having a strong year and new opportunities grew out of what was happening in the market. Last year was very busy at OCC because we had a lot going on besides volume.

OCC has expanded its futures clearing business through its partnerships with NYSE Liffe and ELX. Do you anticipate this

shift to areas outside of U.S. listed options to continue?

We are already looking to expand our futures business significantly. OCC will continue to work on initiatives that add value to the markets and customers we serve. We are currently considering clearing OTC options on indexes and individual stocks. We're working with the marketplace to build consensus on what and how equity OTC products should be cleared. It's still in negotiations, but we're excited because that kind of business would significantly increase the size and scale of OCC's position in the derivatives market by creating a new set of products for us to clear.

It's important to note here that we continue to focus on our core business. Operationally, Symbology has been huge for OCC and the industry. Without it, we would have eventually run out of options symbols. Now, we have a code that is tied more closely to the actual underlying. It can support an almost unlimited number of options series and classes. We have also begun clearing for a new options exchange with another one to be added soon, so we'll see what that brings to the industry.

Along with futures, OCC has also expanded its presence in securities lending by becoming the central guarantor of transactions coming through Quadrivers's AQS Securities Lending Marketplace™. How has the addition of the new product mix brought in through these partnerships impacted OCC as a clearing organization?

It helps us grow. When you look at the world of derivatives, most positions have a close economic relationship to other derivative or cash market positions. The ultimate goal is to pull everything together in order to manage the risk as a single portfolio. Let's suppose you are a clearing member holding an options portfolio of short puts hedged by a short stock position. By clearing the stock borrow through OCC, we are able to recognize and provide the appropriate margin offset for those related positions. Quadrivers and its users benefit greatly from this efficient treatment of both cleared positions and collateral.

One thing experience has taught us over 30 plus years is that the more you cut the cost of doing business in a product, the better. Exchanges competing for business drives down the cost of trading options. The result is that volume goes up. When volume goes up,

the cost goes down, resulting in more volume. The same thing is happening in the stock loan business. There's a lot of potential there. It's an important product and a good partnership for us.

The regulatory landscape within the industry is changing. What do you see happening in Washington, D.C. and what's OCC's role?

I hope that financial regulatory reform will happen in a way that improves the regulatory landscape. We need to have a way to use our assets to access short-term financing during a crisis. When it's all said and done, I think that we'll have better avenues to get that done. We're probably going to face more regulation, although it probably will not be as bad as we originally thought.

At the end of the day, I think the OTC derivatives business is going to be more transparent. If you're an exchange today, you're transparent. Every trade gets printed. When a dealer does a swap with another institution over the counter, nobody except those two parties knows that transaction took place and at what price. However, there's regulatory pressure to get those transactions into an inventory of positions. Part of the non-transparency is already going away as regulators gain access to what's going on. Personally, I think the OTC market will continue to exist. I can't tell which OTC products will exist, but there will be an OTC market because it serves the needs of hedge funds, institutions and pension plans.

With the world becoming increasingly interconnected globally, what is your take on industry efforts to forge new relationships on an international level?

I understand why the exchanges would like to grow business from outside our borders. It has been said that 15-20% of options volume done in the United States comes from non-U.S. markets, mostly in Europe. You want to build that as much as you can. U.S. exchanges are working to solidify relationships with exchanges abroad and to build a global business that produces value. I think the challenge is differences in regulation. If we impose a tax on stock transactions here and Europe doesn't, business is going to Europe. The business is that mobile.

In the clearing arena, it's more difficult. Regulation at the clearing level is tough. If we tried to buy a British clearinghouse, the Bank of England may ask itself; do we want the decision on how to close out and what to walk away from in a crisis being made by Luthringshausen in Chicago or by someone in London? It has always been difficult for a U.S. clearinghouse to clear outside our borders, but now deals are being negotiated to connect in other ways. We are working on a deal with Eurex, which runs an exchange and a clearinghouse in Europe and owns the International Securities Exchange (ISE). Under the deal, Eurex terminals in Europe and around the world will be able to access options on the ISE which will enable non-U.S. customers to make trades on options cleared by OCC. Eurex will be an OCC super clearing member. This link enables traders and institutions to execute transactions in the U.S. through a Eurex terminal and have them cleared by OCC. Once we start, it is going to take time to build that business up. There's a lot of opportunity out there.

oic expands educational program

In its ongoing effort to increase the awareness of exchange-listed options, The Options Industry Council (OIC) is expanding and strengthening its educational offerings. Funded by the U.S. options exchanges and OCC, OIC's goal is to provide objective, balanced education that encourages the responsible use of options.

One of OIC's most impactful offerings is its live seminars. In 2010, OIC's voice will be heard at more places, more often than ever before. OIC instructors will present more than 50 seminars across the United States, while continuing to host Investor Education Day conferences in Atlanta, Chicago, Costa Mesa, CA, and New York. Several all-day options events will take place throughout Canada, as part of OIC's partnership with Montreal Exchange. This year's plan also includes expanded participation in industry and investor conferences.

OIC will enhance its online presence, offering innovative tools and classes that make options education more accessible for a wider audience of investors. OIC Education, launched last year, assesses a visitor's options knowledge and then provides a customized learning track. An exclusive web site for financial advisors provides client strategies, best practices, legislative updates and white papers to help advisors understand options and share that knowledge with clients. Webcasts and podcasts continue to generate a successful response. There have been more than 110,000 webcast views on topics ranging from options basics to volatility since 2008. Four video webcasts will be created in 2010. In March, OIC launched its new audio podcast show, Options Talk with OIC. Each week, OIC hosts exchange instructors and other specialists to discuss a specific options topic.

Other program highlights for 2010 include new market research, with a soon to be released Harris Interactive study comparing options investors to those investors who do not trade options. OIC will maintain its partnerships with universities to produce institutional research such as the recent study on the collar strategy, and to collaborate on accredited continuing education programs for advisors.

Clearing members and industry professionals interested in how OIC can help grow their options business or partnership opportunities with OIC should contact the Options Industry Services Help Desk at 1-888-OPTIONS or email options@theoicc.com.

osi launch a success

On February 12, the industry witnessed the implementation of the Options Symbology Initiative (OSI). Years of preparation and industry-wide testing resulted in a seamless transition with firms, clearing members, vendors, exchanges and OCC now all using the new OSI key. Prior to the conversion, OCC clearing members certified that they had completed the scripted industry testing that took place September 2009 through January 2010, with many participants moving to the new Symbology ahead of the conversion date.

The next step in the process is to complete consolidation events that will enable the industry to represent the vast majority of listed option contracts using the same symbol as the underlying security. The consolida-

tion schedule and documentation have been distributed to the industry. Clearing members can access the schedule and consolidation information at <http://www.theocc.com/initiatives/symbology/implementation.jsp>. Members and other industry participants should be on the lookout for upcoming memos and updated information from OCC as the consolidation events progress.

Clearing members should also visit the Symbology section on OCC's web site to stay informed on upcoming OSI milestones. Additional questions regarding implementation and consolidation should be submitted to OSI_Consolidation@theocc.com.



update from the hill

By Bradley Edgell and Ted Dahlstrom

As 2009 came to an end, there was much progress made in congressional efforts to reform our financial regulation and prevent future financial crises. In December, the House of Representatives approved comprehensive regulatory reform legislation by a vote of 223 to 202. During much of this fall, the House Financial Services Committee debated and approved various sections of the large bill. This hectic pace was capped with merging of these titles into one bill for House approval in late December.

The end result is a bill that includes many significant provisions related to the options industry. One title focuses on encouraging the clearing of many over-the-counter (OTC) derivatives contracts in order to reduce systemic risk and improve transparency in these markets. OCC is considering clearing of some types of these OTC contracts in the future.

Another section would create a dissolution authority that would be responsible for unwinding financial institutions which fail. This measure also amends the Securities Investor Protection Act to allow customers to fully benefit from risk-based portfolio margining by permitting certain futures to be held in customer portfolio margin accounts.

This past November, Senate Banking Committee (SBC) Chairman Dodd released a discussion draft that was loosely based on the Obama Administration's plan. During committee consideration of this draft, it became clear that this draft would not be approved by the SBC. As a result, members of the SBC started bipartisan negotiations on regulatory reform by organizing four working groups focused on four priority areas: consumer reforms, over-the-counter derivatives reforms, structural reforms, and resolution authority reforms. In mid-March, Chairman Dodd released a revised bill that includes some revisions based on the working group negotiations but which is unlikely to draw bipartisan support. After SBC consideration, members of the Committee may come together on a bipartisan basis to perfect the bill as it moves to the Senate floor.

In December the Senate Agriculture Committee (SAC) held an oversight hearing on OTC issues. It is likely that the SAC will also approve their own version of OTC reform legislation.

When committee consideration is done, Senate Leadership will have to meld these bills into one measure to be voted on in the Senate. There will still be many twists and turns before the regulatory reform is completed.





occ cares

OCC employees supported two charitable organizations in 2009, The Greater Chicago Food Depository and

The American Cancer Society. More than \$37,000 was raised in support of both organizations.

The Greater Chicago Food Depository, Chicago's food bank, is a non-profit organization striving to end hunger in Illinois through food distribution and training. This charity provides numerous opportunities for organizations and individuals to eradicate hunger in Illinois and volunteer their time. OCC

employees held several events throughout the year to support the food bank. In addition to donating funds needed to purchase food, employees also volunteered in GCFD's 24th Annual Hunger Walk.

The American Cancer Society is a nationwide, community-based voluntary health organization dedicated to eliminating cancer. Charitable contributions were collected among OCC employees for this cause. A team of employees also participated in ACS's Relay for Life race. OCC's team, "The O is for Options" raised the most funds for their local area race. All proceeds were donated to the ACS.

news briefs

► BATS Becomes a Participant Exchange

On February 26, BATS Exchange, Inc. began listing standard series of equity options with OCC. As a new participant exchange, BATS has listed options on eighteen underlying securities. By late May, the exchange plans to list options on a large number of existing underlying stocks.

► OCC Hires New CIO

In January, Ray Tamayo joined OCC as Chief Information Officer. Previously, Mr. Tamayo served as Director of Information Technology Development and Infrastructure

Management for the Commercial Business and Leasing Group at Citigroup. He brings to his new position more than 20 years of experience in management-level Information Technology and operational positions.

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