THE OPTIONS CLEARING CORPORATION

#23349

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DATE: **AUGUST 2, 2007**

SUBJECT: **REMINDER: CHANGES TO STOCK FUTURES ADJUSTMENT METHODOLOGY**

EFFECTIVE DATE: SEPTEMBER 4, 2007

This Information Memo is a reiteration of information previously published (OCC Information Memo 23212). There are no changes from the previously published Memo.

The Securities and Exchange Commission (SEC) has approved changes to the OCC By-Laws governing how options contract adjustments are executed for a wide variety of stock splits and stock distributions. (The changes eliminate rounding of strike prices in contract adjustments. See OCC Information Memo #22687) Taking into consideration these changes to options adjustments, the SEC has also approved changes to **stock futures** adjustment methodology in order to permit stock futures to be adjusted in a manner consistent with adjustments made to option contracts on the same underlying security (See SEC Release No. 34-55349).

The changes will be implemented **September 4, 2007** to coincide with the changes to options contract adjustments (see OCC Information Memo 23016).

The purpose of this Information Memo is to review the approved changes to futures contract adjustment methodology for stock splits and distributions.

Background and Rationale

Currently, Article XII, Section 3 of OCC's By-Laws specifies two alternative methods of adjusting stock futures contracts for stock splits and stock distributions. In cases where one or more whole shares are issued with respect to each outstanding share, the number of outstanding futures contracts is correspondingly increased and settlement prices are proportionately reduced to reflect the split ratio. For example, in the event of a 3-for-1 split, an XYZ futures contract calling for the delivery of 100 shares of XYZ stock with a settlement price of 60 would be divided into three XYZ futures contracts, each calling for the delivery of 100 shares of XYZ stock. The settlement price would be adjusted to 20 and the multiplier for extending settlement and trade price amounts would remain 100.

In all other cases, the number of contracts remains the same while the deliverable and multiplier are increased, and settlement prices are reduced. For example, in a 3-for-2 split, an XYZ future calling for the delivery of 100 shares with a settlement price of 60 would be adjusted to a new futures contract calling for the delivery of 150 shares with a reduced settlement price of 40. The new adjusted future would also have multiplier of 150 for extending settlement and trade prices.

In both of the above examples, stock futures contract adjustments parallel the methodology used to adjust options on the same underlying security. However, options adjustment methodology is changing with respect to stock splits or distributions where the rounding of option strike prices would otherwise occur in the adjustment process. (This most commonly occurs when the split/distribution ratio is other than 2-for-1 or 4-for-1.) Accordingly, in order to allow stock futures and options contracts to be adjusted in a consistent manner, stock futures adjustment methodology must change as well.

New Method

With the exception of 2-for1 and 4-for-1 stock splits, all contract adjustments in response to splits or stock distributions will be done using the "New Method" described below. The adjustment methodology for 2-for-1 and 4-for-1 splits is unchanged.

The "New Method" adjusts only the contract deliverable (and symbol):

- **a) Settlement prices remain unchanged.**
- **b) The additional shares are added to the contract deliverable.**
- **c) The adjusted future continues to use 100 as the multiplier to extend premium and strike amounts.**
- **d) The number of contracts remains the same.**

Examples of New Method – No Change in Settlement Prices

3 for 2 Split		**Old Method**	**New Method**
	Before Ex Date	Ex Date	Ex Date
Futures Symbol	ABC1C	ABC2C	ABC2C
Stock Price	42	28	28
Settlement Price	45	**30**	**45**
Settlement/Trade Price Multiplier	100	**150**	**100**
Deliverable	100 ABC	**150 ABC**	**150 ABC**
Price Formula for Underlying	1.0 (42)	**1.0 (28) = 28**	**1.5 (28) = 42**
# Contracts	1	**1**	**1**

Note: In the New Method: a) Settlement prices do not change, b) the settlement/trade price multiplier does not change, c) the price formula to calculate the value of the underlying changes, d) the symbol changes.

3 for 1 Split		**Old Method**	**New Method**
	Before Ex Date	Ex Date	Ex Date
Futures Symbol	ABC1C	ABC1C	**ABC2C**
Stock Price	42	14	14
Settlement Price	45	**15**	**45**
Settlement/Trade Price Multiplier	100	100	100
Deliverable	100 ABC	**100 ABC**	**300 ABC**
Price Formula for Underlying	1.0 (42)	**1.0 (14) = 14**	**3.0 (14) = 42**
# Contracts	1	**3**	**1**

Note: In the New Method: a) Settlement prices do not change, b) number of contracts does not change, c) the new deliverable is 300 shares, d) the settlement/trade price multiplier remains unchanged, e) the price formula to calculate the value of the underlying changes, f) the futures symbol changes.

15% Stock Dividend		**Old Method**	**New Method**
	Before Ex Date	Ex Date	Ex Date
Futures Symbol	ABC1C	ABC2C	ABC2C
Stock Price	42	36.52	36.52
Settlement Price	45	**39.13**	**45**
Settlement/Trade Price Multiplier	100	**115**	**100**
Deliverable	100 ABC	**115 ABC**	**115 ABC**
Price Formula for Underlying	1.0 (42)	**1.0 (36.52) = 36.52**	**1.15 (36.52) =42**
# Contracts	1	**1**	**1**

Note: In the New Method: a) Settlement prices do not change, b) the settlement/trade price multiplier remains unchanged, c) the price formula to calculate the value of the underlying changes, d) the symbol changes.

4 for 3 Split		**Old Method**	**New Method**
	Before Ex Date	Ex Date	Ex Date
Futures Symbol	ABC1C	ABC2C	ABC2C
Stock Price	42	31.50	31.50
Settlement Price	45	**33.75**	**45**
Settlement/Trade Price Multiplier	100	**133**	**100**
Deliverable	100 ABC	**133 ABC**	**133 shares, plus $10.40 cash in lieu of .33 shares**
Price Formula for Underlying	1.0 (42)	**1.0 (31.50) = 31.50**	**1.33 (31.50) Plus $.10 cash in 1ieu of .33 = 42**
# Contracts	1	**1**	**1**

Note: In the New Method: a) Settlement prices do not change, b) the settlement/trade price multiplier remains unchanged, c) the price formula to calculate the value of the underlying changes, d) the symbol changes.

Important Futures Trading Considerations

After the New Method is effective, futures investors must always be aware of the number of shares in the deliverable and the fact that the multiplier used for trade and settlement price dollar extensions remains unchanged (at 100). The number of shares in the deliverable is **not the same** as the trade/settlement price multiplier.

Although this trading consideration resulting from the New Method is an important change for the split adjustments, it is already familiar as the methodology used for spinoff and merger adjustments. In these kinds of adjustments - which often involve multiple stock components in the deliverable, unusual share amounts and/or cash components – the number of shares in the deliverable is also not the same as the multiplier used for settlement and trade price calculations.

For questions regarding this memo, call 1-888-OPTIONS or email options@theocc.com.