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# OCC news

the official newsletter of The Options Clearing Corporation

Summer 2006



## options industry conference held in may occ announced updates and new initiatives

The 24th Annual Options Industry Conference was held in Miami Beach, Fla., in early May providing an opportunity for OCC to highlight some new initiatives.

As the first day of the annual conference has increasingly become a day for industry committees to meet—before the full sessions begin—this year's host exchange, the Philadelphia Stock Exchange, added a new feature to allow the committees, exchanges and others to update everyone on their activities. OCC is a member of all of the committees that met that day and was also given a chance to speak about some OCC-specific activities.

Despite the beautiful sunny South Beach afternoon with temperatures in the mid-80s—and the fact that the traditional conference kick-off reception and dinner was still hours away—more than 200 people attended the update session. In total, 15 updates were presented that afternoon—which meant they all had to be brief. OCC sent four representatives to the podium.

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**Gina McFadden**, Executive Vice President, Business Operations Group, discussed the efforts of the industry symbology committee. Just a few days earlier on May 1, the committee published its proposed plan to change the way options contracts are represented in back office processing since the method in use for the past 25 years poses a number of limitations in today's marketplace. The committee—formed at the direction of OCC's Board of Directors—recommended replacing the alphabetical codes and fractional strike pricing currently used to represent listed options contracts with an explicit series key and decimal strike prices.

When implemented, most options symbols will match the underlying security symbol, which will reduce corporate action symbol conversions, eliminate the need for wrap symbols and the LEAPS® rollover process, thereby reducing errors in front, middle and back office processes, while providing flexibility in new product development at the exchanges. This multi-year effort would conclude in November 2009 under the recommended implementation plan. Industry participants can comment on the plan which can be accessed via OCC's web site, [www.optionsclearing.com](http://www.optionsclearing.com), until Aug. 29, 2006.

**Michael Walinskas**, Senior Vice President, Product and Business Development, provided the day's first update covering The Options Industry Council (OIC) in his role as OIC Executive Director. The update provided information on recent OIC accomplishments and future plans—some of which were first announced at the conference. Among the recent accomplishments detailed was the 21 percent increase in OIC's live options education seminar attendance. The free seminars target individual investors familiar with stock investing. Walinskas highlighted the launch of OIC's redesigned web site last October—averaging 125,000 visitors and 1.1 million page views per month.

Walinskas noted that an increase in funding from OCC has allowed OIC to expand its web-based programs including the recent launch of monthly webcasts, increase its institutional investor outreach and expand its efforts in the Pacific Rim. OIC also enhanced its governance by adding firm representatives to the committee of exchange and OCC representatives.

OIC also announced a new partnership with the Futures Industry Association (FIA) to hold an options conference in New York this September (see related article on page 5).

**Susan Milligan**, Senior Vice President and Special Counsel, Government Relations, reported on events in Washington, D.C., including CFTC Reauthorization and portfolio margining. Customer portfolio margining had come up as part of the congressional reauthorization of the CFTC as reauthorization legislation would require the SEC and the CFTC to permit portfolio margining for security options and security futures by this fall. Several weeks before the conference, both the Chicago Board Options Exchange (CBOE) and the New York Stock Exchange (NYSE) filed rule proposals to provide for customer portfolio margining. OCC has since then filed a supportive comment letter on the CBOE and NYSE proposals.

**Geri Love**, First Vice President, Business Operations Group—Member Services, updated the crowd on expiration processing and same-day reconciliation. Working through the Operations Roundtable, OCC is trying to utilize the real-time nature of ENCORE and the outbound DDS FIX messages to achieve same-day reconciliation. This could result in the ability to track a transaction within 30 minutes of execution. Accomplishing these goals would provide a more streamlined and efficient processing system. Same-day reconciliation would also reduce assignment risk due to misclears.

# options volume surpasses 1 billion contracts

Options volume continues to rise along with the summer temperatures.

The options industry experienced the highest quarterly volume ever during the second quarter with 522,306,302 contracts, surpassing the record held from the first quarter of 485,348,099 contracts. The two outstanding quarters helped drive trading volume past 1 billion contracts on June 29, marking the third consecutive year that volume has achieved this level. As of June 30, year-to-date total options contracts traded were 1,007,654,401.

In addition to the 1 billion contract volume milestone, June also produced a new open interest record and set month-end records for equity and total open interest. The open interest record was set on June 16 with 225,518,667 total contracts outstanding and the

month-end records for equity and total open interest were 187,924,706 contracts and 203,054,344 contracts, respectively.

The top 10 highest volume trading days have all occurred in 2006, while the rate of trading volume growth has increased every month this year, beginning with a 51.7 percent rise over the previous January through June's 49.5 percent increase.

Total options volume for the first half of 2006 is 44.8 percent higher than it was in the first half of 2005, a record-setting year with more than 1.5 billion contracts traded.

"Our expectations continue to be exceeded," said Michael E. Cahill, OCC President and Chief Operating Officer. "To reach 1 billion contracts within the first six months of the year, a feat that took almost twice as long in 2004, is remarkable."

# fixml standardization continues

OCC continues its implementation of FIXML, the Financial Information eXchange Markup Language, and the conversion to its new data distribution service system (DDS).

DDS is a key component of ENCORE, OCC's clearing system, which uses FIXML to provide a more effective method of data messaging. This is achieved by FIXML's standardized use of elements and attributes instead of traditional proprietary record layouts, allowing OCC greater flexibility to adapt and serve the financial marketplace. Overall, DDS provides OCC and the industry with many benefits, including standardized messaging and real-time trade and position reconciliation.

Additionally, DDS features a subscription based, fully customizable interface with OCC. Participants are discovering the innovative benefits of DDS, FIXML and real-time messaging. The real-time, strategic solutions being developed allow for less risk, greater speed and increased flexibility within the industry. OCC is in the process of assisting all of its data service recipients with the adoption of FIXML and DDS. OCC has requested that all clearing members, exchanges and third party vendors transition to the new system by Sept. 29, 2006.

In related news, FIA recently honored Bob Lake, Director of Application Development, and Matt Wolfe, Business Analyst in Product and Business Development, with Achievement Awards recognizing their work on FIXML. FIA presented Achievement Awards to six individuals who were key participants in the effort to develop a communication protocol for processing within the derivatives industry. The awards were presented at the 31st Annual International Futures Industry Conference in Boca Raton, Fla.

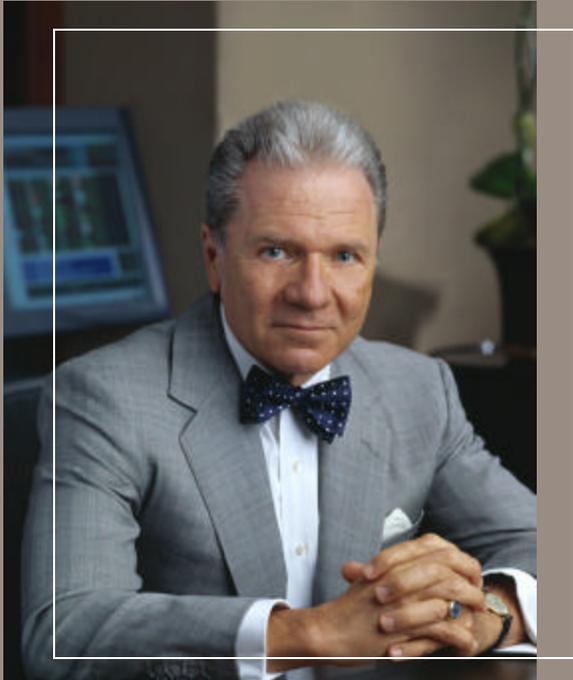
"More than 120 million trades [messages], primarily in the U.S., are transmitted every day between the clearinghouse and firms using FIXML," said FIA President John Damgard. "This tremendous achievement is the result of a cooperative effort between the U.S. exchanges and coordinated by the FIA Standards Working Group."

"I'm pleased that Bob and Matt were recognized by FIA for the notable work they have contributed to FIXML," said Michael E. Cahill, OCC President and Chief Operating Officer. "The dedication and expertise they put forth is a testament to OCC's efforts on behalf of our customers and to our commitment to not only meet, but anticipate industry standards and trends."

To learn more about FIXML and DDS, visit [http://www.optionsclearing.com/products/dds\\_ref\\_materials.jsp](http://www.optionsclearing.com/products/dds_ref_materials.jsp), or call OCC's Member Services Help Desk at 1-800-621-6072.

# industry insight

## thomas peterffy



*Thomas Peterffy emigrated from Hungary to the United States in 1965. After working for 10 years as a computer programmer, he became a member of The American Stock Exchange (AMEX) in 1977. As an individual floor trader, he founded the firm known today as Interactive Brokers Group, a global electronic broker dealer. As Chief Executive Officer, Mr. Peterffy is active in the day-to-day management of the Company.*

*Mr. Peterffy received the Joseph W. Sullivan Award at the 24th Annual Options Industry Conference in May. OCC News took the opportunity to discuss Mr. Peterffy's career in the options industry and other issues, including his views on electronic trading.*

**At the Options Industry Conference you mentioned that you fell in love with options while working on gold pricing. What was it that attracted you to options?**

Merely wrestling with the idea that you "know" how the value of an option should vary with strike, volatility, etc. These functions could be empirically drawn up as beautiful curves, but how do you put them into simple mathematical terms?

This remains a mind-numbing problem until you come up with the idea of putting a probability distribution function underneath it. In retrospect this should have been a simple matter, but I was walking around for weeks in a daze until I stumbled on the idea.

**How is your perspective of the industry unique compared to your peers?**

We [Interactive Brokers Group] have always believed that exchange-listed products, trading electronically and cleared by a reputable common clearer such as OCC, would be a far superior product to over-the-counter derivatives. This is because free market competition will reduce bid/offer spreads and deliver a fair price to the investor, quickly and without error.

We also remain worried about potential counterparty default and the following domino effect due to the very large number of over-the-counter deals outstanding.

**What was it about your experience on the floor of the AMEX that prompted you to create a computer trading program and to start your own brokerage firm?**

Standing on the floor all day doing a mechanical task pointed out the waste of high priced human talent and the opportunity to substitute brute computerized force.

**What were some of the most difficult challenges in getting electronic trading accepted? Who were some of the early supporters?**

Obviously our competitors, the other market makers and brokers were opposed for economic reasons and given that they had effective governing control of the exchanges, they prevailed for a very long time.

Early supporters included Paul Stevens, [who was] at the AMEX at the time. [Other supporters at the time included] David Krell [formerly] of NYSE, Bill Brodsky [formerly] of the Chicago Mercantile Exchange and Wayne Luthringshausen, Chairman and CEO of OCC.

**How and when did you develop the idea for hand-held screens? How difficult was it to get them on the floor?**

Once we had a computerized model, we needed to get the output of the model and the quotes to our floor traders. Before we went with the solution of connecting our computers with phone lines to screens on the floors, we tried to shrink the computers (not an easy task in those

days) so that our traders could carry them around on the floor. We tried to bring it into the CBOE floor, but the local committees would not allow us to use them. The AMEX was less suspicious.

**At the Conference you also said the industry's increasing volume is a direct result of reduced transaction costs. Is this a trend that can continue? Does consolidation among liquidity providers and exchanges help or hinder reductions in transaction costs?**

Yes, the trend towards reducing transaction costs will continue, not as much for exchange-traded products that are already at such a low cost that further reduction will be less meaningful, but as over-the-counter products are listed by exchanges, their cost will drop dramatically.

The one possible counter effect may come from the regulators who require ever more systems to sit on top of systems to assure that nothing ever goes wrong. As these security layers grow, they will at one point become counter productive and introduce additional risk instead of alleviating existing ones.

As far as consolidation beyond a certain level is concerned, I do not think that ever helps the price of anything. That being said, I do not believe that as long as we have at least six to ten liquidity providers and a similar number of exchanges, we have to worry about competition.



## oic and fia to jointly host options conference

The Options Industry Council (OIC) and the FIA have announced a partnership to jointly host an options conference in New York City on Sept. 20 and 21, 2006. The event is the first-ever joint initiative between OIC and FIA and also the first options-focused conference created for both industry professionals and retail investors.

"This is an exciting partnership. OIC brings to the table a keen knowledge of the listed options marketplace and investor education in particular. FIA delivers a proven track record in running industry conferences, including the FIA Expo, one of the premier annual conferences for listed derivatives professionals" said Michael Walinskas, Executive Director of OIC. "New York is the home and workplace for a large number of listed options professionals and their customers. And the timing is perfect—the industry is dealing with many important issues, such as penny quoting, internalization, and cross-border exchange mergers. Industry participants are yearning for information to help them deal with their business issues."

"The futures and equity options industries share common members and market users, so it is only natural that we work together to educate investors and provide a platform for industry discussions," said FIA President John M. Damgard. "FIA has a long history of partnering with the equity options industry on regulatory, operational and product issues, and we are pleased to be working with The Options Industry Council to sponsor the first conference devoted to equity options in New York."

The two-day event will be held at the Grand Hyatt New York, located on Park Avenue at Grand Central Terminal. On Wednesday, Sept. 20, the program will be geared towards a retail audience of individual investors, covering basic to intermediate options information via educational seminars and panel discussions. Admission is free on Sept. 20, and registration is required.

On Thursday, Sept. 21, the focus will be on issues effecting industry professionals. Legal and compliance workshops, discussions of trading strategies and panels hosted by exchange leaders are on the agenda. Admission will be charged for attendance and registration is required.

Those interested in attending can register online at [www.888options.com](http://www.888options.com) or by calling 1-888-OPTIONS.

Mark your calendars for this exciting event!

# media mentions

- “Now, just five years later, every American securities options exchange has implemented some form of electronic trading. The result: volumes are soaring even in times of low volatility; transaction costs are lower than ever; and strategy trades like butterflies and straddles can be executed electronically.”

- Futures magazine, “Options' Electronic Frontier,” March 2006

- “Until now, OIC has largely focused on options investing by retail customers, but more institutions are becoming interested in the asset class, so it is working on ways to provide research and advice on specific hedging and trading strategies. ‘Institutional orders make up about 60% of options volume, up from 40% four years ago’, said Philip Gocke, managing director of OIC institutional marketing. ‘But hedge funds are behind most of that volume’, he added.”

- Wall Street Letter, “OIC to Target Institutional Investors,” May 8, 2006

- “The options industry has seen remarkable growth in recent years, even as stock market volatility remained notoriously absent. In the first quarter, for example, the industry as a whole saw volumes increase nearly 40%, according to The Options Industry Council. In 2005, volume rose 27%.”

- Dow Jones Newswires, “Stock Market Volatility a Boon to Options Exchanges,” May 19, 2006

- “For the first five months of 2005, US options volume totaled 836.9 million contracts, or a daily average of 8.1 million contracts, up 43.8% over the same period last year. Based on this data, US options trading is headed to set a new record in 2006, topping the 1.5 billion contracts traded in 2005. Last year, the 1 billion contract mark was reached in mid-September, but, according to industry projections, this could be achieved by the end of June.”

- Financial News, “US Options Volume at New Record in May,” June 2, 2006

# people briefs

- On June 6, 2006, **George S. Hender**, Vice Chairman of OCC and President of The Options Industry Council, was named the new Chairman of the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC) in Washington, D.C. FSSCC is a group of private-sector firms and financial trade associations that works to help reinforce the financial services sector's resilience against terrorist attacks and other threats to the nation's financial infrastructure.

- During the OCC Annual Meeting of Stockholders on April 25, 2006, **Dr. Richard R. Lindsey** was elected Member Vice Chairman, succeeding **Dennis W. Zank**, President, Raymond James & Associates, Inc. Dr. Lindsey, an OCC Board Member since 2001, is President of Bear, Stearns Securities Corp. and a member of the Management Committee of The Bear Stearns Companies Incorporated.

- At the same meeting, **William D. Felder** was elected to the OCC Board of Directors. Mr. Felder is President of SWS Group, Inc., as well as President and Chief Executive Officer and a member of the board of directors of the company's principal subsidiary, Southwest Securities, Inc.

- On March 30, 2006, **Bryce B. Engel** was appointed to OCC's Board of Directors. Mr. Engel is Executive Vice President and Chief Brokerage Operations Officer of TD Ameritrade Holding Corporation.

# oic increases use of online education

OIC continues to make strides in creating awareness of the options product through education. In recent months, the focus has been on web-based education and OIC is undertaking several new online initiatives.

After the successful redesign last fall of its web site, [www.888options.com](http://www.888options.com), OIC recognized the added value and demand from its customers for more web-based education. The site received more visits in 2005 than any previous year, with traffic up 18 percent over 2004 to 13.3 million total page views. Online class enrollment, email subscriptions and orders of The Options Investigator, OIC's free interactive educational software, all increased over prior years. In response, OIC raised additional funds to support online initiatives in an effort to expand its reach to its target audiences of retail investors, financial advisors and institutional investors.

One of the major online initiatives is OIC's webcast program. Piloted in March, the webcast is similar to the live seminar format with the exception that participants attend via OIC's web site, allowing for a much broader reach than live events. Typically one hour in length, OIC webcasts focus on individual topics such as ETFs, protective puts and time decay. OIC currently hosts nearly a dozen archived webcasts on its site and plans to launch a new webcast each month through December. Since its debut in March, over 20,000 investors have viewed the webcasts.

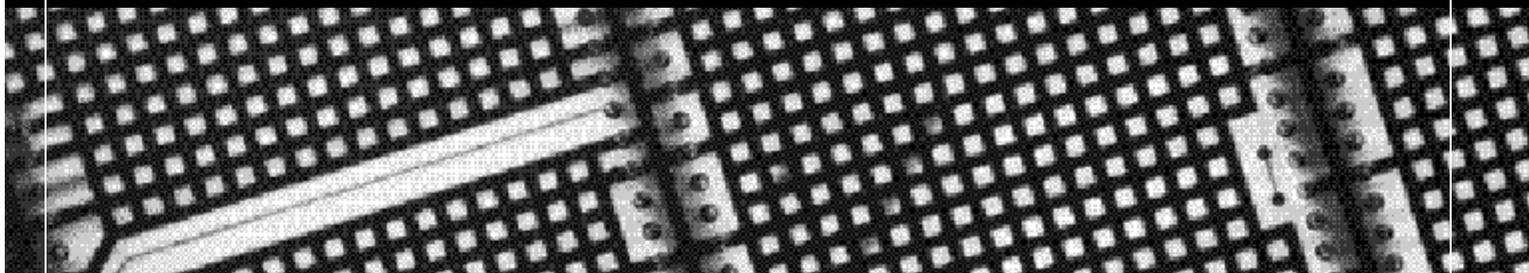
Another program that will enhance the depth and quality of OIC's web education is its new podcast series. Scheduled for launch this summer, the podcasts will allow visitors to download and watch recorded footage from a

live OIC seminar on their MP3 player, iPod or computer. Each podcast will last from 8 to 18 minutes, and will follow the outline of the basic seminar with topics that include options terminology, buying a call, options pricing and LEAPS®. The podcasts are designed to complement OIC's live seminar program, either as a primer before attending or reinforcement after the seminar.

"Offering innovative programs such as webcasts and podcasts provides added value to web site visitors," said Dan Busby, Director, Internet and Investor Services for OIC. "We are excited to utilize new avenues of spreading options education that allow a more convenient and interesting experience for the investor."

Enhancements to the site continue to strengthen existing web-based resources, including online classes, position simulator, calculators and the Strategy Explorer, which allows visitors to test specific strategies and monitor their progress before employing it in a real-life market situation. Plans are also underway to develop an educational site that will be geared towards an institutional audience.

Additionally, OIC continues to foster numerous partnerships with industry firms and exchanges as part of its web partnership and content sharing program. In this program, OIC provides accurate and up-to-date options information to its partners for use on their web sites. Any clearing member interested in OIC's web partnership and content sharing program should contact Dan Busby at 312-322-4066 or [dbusby@theocc.com](mailto:dbusby@theocc.com).



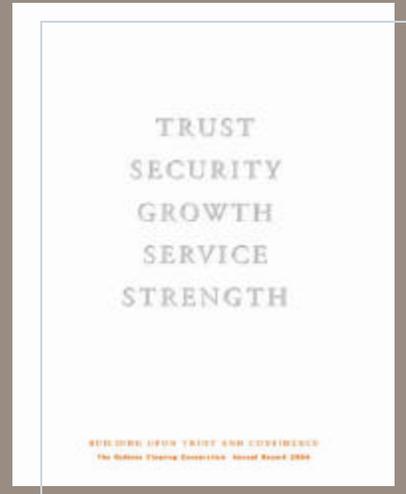
# occ received bronze at bma tower awards

On May 4, 2006, the Chicago Chapter of the Business Marketing Association (BMA) held its 23rd Annual Tower Awards, an event that recognizes excellence in business-to-business marketing communications. OCC was honored with the Bronze award in the "Annual Report" category for outstanding creative work on its 2004 annual report.

OCC's 2004 annual report featured the design theme of architecture and structure to depict the corporation's key attributes—trust, security, growth, service and strength—underscoring its long-standing reputation in providing quality and timely clearing and settlement services. The report was written and edited by OCC's Corporate Communications department and designed by O'Connor Design of Glen Ellyn, Ill.

A panel of nine experienced judges from outside the Chicago market evaluated the entries on the basis of clarity of objective, audience and media strategy employed, impact of creative concept and results.

"The annual report is an essential source of public information for an organization," said OCC President and Chief Operating Officer, Michael E. Cahill. "We are proud that OCC's annual report has been acknowledged for its creative merit by the BMA."



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## occ news

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