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occ news

the official newsletter of The Options Clearing Corporation

Summer 2008

occ conducts business continuity test

On August 22, OCC coordinated a company-wide test to validate the adequacy of its distributed staffing model, which includes personnel from two separate geographic regions that support OCC's daily critical processing.

Post 9/11, OCC focused on changes to both its infrastructure and staffing to ensure full service business continuance in the event of a major regional disaster. Since then, much work has been done to develop a robust processing infrastructure, including two mirror image data centers more than 900 miles apart, and the implementation of a distributed staffing model that balances critical management, business and technical staff across locations.

The August test was designed to simulate the loss or inaccessibility of the Chicago-based staff for an entire business day. During the test, OCC staff from its Southwestern U.S. facilities handled critical processing across all three shifts of production. Though variations of this test had been run previously on a departmental basis, this was the first time that all departments that support critical processing performed these operations simultaneously from a single location.

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"The objective was to ensure that there is an appropriate geographic balance of staff to run critical processing from either of OCC's regional offices on a stand alone basis," said Dave Engaldo, First Vice President, Business Continuity. "We also wanted to determine where additional training, knowledge and skill set development might be useful."

Since the test, OCC management has been analyzing results, drafting recommendations for further improvements and designing additional enterprise-wide tests to evaluate staff balance across its locations.

By year end, OCC will have conducted more than ten disaster recovery/business continuity tests in 2008.

symbology prepares for next stages

The industry-wide Options Symbology Initiative (OSI) prepares for full implementation as OCC releases an informational memo that outlines expectations on the final conversion process for clearing members, and SIFMA will host a one-day Options Symbology Conference on Tuesday, September 23.

Test scripts have been defined and draft versions have been released to OSI committee members for a 30-day comment period. The final scripts are set to be approved at an upcoming committee meeting.

SIFMA's Symbology Conference, hosted in New York City, will provide a platform for exchanges, clearing members, utilities and vendors to discuss their next steps with OSI. The program agenda includes sessions on test connections with exchanges and utilities, how the certification process works, requirements for Electronic Blue Sheet reporting, best practices for front-end displays, how to ensure clients are ready, and the differences between conversion and consolidation. For more details, visit http://events.sifma.org/events.

OCC has also finalized the conversion for its ENCORE and DDS interfaces, on the outbound side, to be OSI-compliant. Clearing members who have not tested their inbound data should contact Mary Kay Kulinski at mkulinski@theocc.com, Karen Glad at kglad@theocc.com or OSI_Testing@theocc.com. Firms should have their inbound data tested prior to Scripted Industry Testing, which is scheduled to begin in September 2009.

For more information on Symbology or technical specifications on the upcoming testing plan and project milestones, visit OCC's Web site, or contact Erin Collins at ecollins@theocc.com.

occ board approves oic expansion

The Options Industry Council (OIC) received a ringing endorsement of its efforts when in July OCC's Board of Directors approved a $2.9 million increase in annual funding to further develop OIC's educational programs and resources.

At the cornerstone of OIC's expansion efforts is a commitment to further leverage its investor reach by educating financial advisors about the benefits of options. The advisor audience has been a difficult segment for OIC to penetrate; however, increased funding will enable OIC to create a specialized marketing and advertising campaign that is designed to attract this segment of the financial industry.

Other key areas targeted for expansion include enhancements to OIC's OptionsEducation.org Web site, the new e-Learning platform as well as the Investor Education Day seminars which will have more dates in additional cities.

Using the momentum gained by the launch of OIC's latest advertising campaign, "Giving You the Power of Options," plans also are underway to further expand its retail advertising and branding campaign.

Along with the continued support and development of OIC's international efforts in Europe and Asia, additional funding will sponsor research that will provide invaluable insight into OIC's target market and define the types of programs that need to be implemented for this audience.

"We are thrilled that the Board of Directors sees value in the types of programs that OIC offers," said Susan Milligan, OIC Executive Director and Senior Vice President, Government Relations and Communications, "We are looking forward to building upon a solid foundation that has been established over the past 16 years."

industry insight

cboe chairman and ceo william j. brodsky

The next several issues of OCC News will feature interviews with prominent leaders from OCC participant exchanges. In honor of the 35th anniversary of the options industry, OCC News recently sat down with William Brodsky, Chairman and CEO of the first exchange to trade listed options, the Chicago Board Options Exchange (CBOE). Mr. Brodsky shared with OCC News his insights on the evolution of the options industry and the role that CBOE has had in its development.

How did you come to make the transition from the legal field to options?

My career started 40 years ago this past August as a lawyer for a securities brokerage firm in New York. In the fall of 1972, my firm became interested in working with CBOE, which was planning to open the following year and introduce exchange-traded securities options for the first time. To become a member, an officer of the firm had to take a qualifying exam. I was the one designated to take the registered options principal test for my firm one month before CBOE opened its doors.

Looking back, 1973 was a terrible year for the stock market and for those who worked on Wall Street, so my wife, Joan, urged me to pursue something that would further advance my career. In June 1973, just a couple of months after CBOE launched, I wrote the first article published about the CBOE in a legal publication, *The Review of Securities Regulation*. It placed me in somewhat of an authoritative role with the people on Wall Street who then looked to me for more information on options.

The American Stock Exchange (AMEX) offered me a legal position in their government relations department, but because of my involvement with options at the brokerage firm, it wasn't long before they asked me to help AMEX become involved in the options business. In 1975, I became head of options trading, moving out of the legal side and into the business side of the industry. I also was named the AMEX representative on OCC's Board of Directors.

Partly because I understood the equity markets at a time when the Chicago Mercantile Exchange (CME) was introducing stock index futures, I was recruited to Chicago in 1982 to serve as COO and later, CEO of CME. And in 1997, I was lured back to the options business, so I left CME to become Chairman and CEO of the CBOE.

Who are some of the people who most influenced you professionally?

My father, Irwin Brodsky, was my mentor on Wall Street. I worked for him during my first five years at the brokerage firm before I left for AMEX. He was managing partner at the firm when they bought a seat on the CBOE in 1972. Over the years, I've also had tremendous respect for the people who served on OCC's Board of Directors — individuals such as Ed O'Connor, Joe Sullivan, Dave Goldberg and Corky Eisen, among others. Michael Sawyer, one of my professors at Syracuse University, while not a business mentor, had a tremendous impact on my life as well.

With your perspective on the evolution of CBOE from its inception to the organization that it is today, what do you consider the most pivotal moment in that evolution?

I'm not sure there is one single moment, but rather a number of milestones along the way that helped CBOE and the options industry grow to what they are today. When we think about trading just 911 contracts on our first day in 1973 to a million contracts in an hour today, we realize how far the options business has come. That growth came from our innovations — unique products, strategies and technologies. We broke ground by introducing options on broad-based stock indexes, LEAPS® and FLEX® options. Benchmarks like the VIX®, on which futures and options are now traded, and the CBOE S&P 500 BuyWrite Index both are considered revolutionary and have received acclaim from the professional community. We've been very proactive in finding new, flexible ways to manage risk and will continue to keep that innovation going. That's one of the things that set us apart.

The other way CBOE has helped build the options business is through education. This business did not grow the way it has without education, and CBOE both defined and led this effort. In 1985, CBOE created The Options Institute, a division of the exchange dedicated purely to investor education, and this effort has served to benefit the entire options industry by educating investors around the world.

Options have become a much more mainstream tool for investors, and trading volumes are soaring. Is there still room to grow, and if so, what will drive that growth?

Our best days are ahead. Volume is growing and will continue to grow because of the flexibility of the options product. My belief is that if we continue to do a good job educating both retail and institutional investors, we will expand our scope both in types of customers and number of customers.

Another point to consider is that today there is a whole new generation of investors who were born after options were well established, which makes things a lot easier. Now we have 35 years of experience, and people understand that to have a more liquid stock, you also want options trading on it. Quite frankly, today if there are options on your stock, you have a more attractive asset.

As the industry celebrates its 35th anniversary this year, what do you consider the greatest benefit it has brought to the financial marketplace?

The options industry has helped the equity markets become bigger and much more liquid since 1973. It has given investors tools that they never would have had to manage risk. We started a revolution with the options market, blazing a lot of trails, and taking calculated risks with new products, going where no one had gone before. I'd like to think that because of those things, CBOE is still looked upon as the heart and soul of the options industry worldwide.

Also worth noting is the job that Wayne Luthringshausen, OCC Chairman and CEO, has done for the industry. I've had the pleasure of knowing Wayne for 35 years, and the credibility and fairness he demonstrates every day as he works with the competing exchanges has been a great plus for the options business. He deserves credit for the hard work, the integrity and the stability that OCC provides, which lends credibility to the options industry as a whole.

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options in the media

"The options market once baffled investors who felt using puts and calls to bet on stock moves was tantamount to a Wall Street craps game. These days, online brokerages and financial advisors are pitching more investor-friendly ways to use options — and that's led to a significant growth in their popularity. Some 281.7 million total options contracts changed hands in April, up 43 percent from last year, according to The Options Industry Council. The high growth is part of a trend experienced over the last several years, and an increasing amount of individual investors are taking part."

- Associated Press, "Brokerages Demystify Options Trading As Way to Ride Markets," May 9, 2008

"This year through June, options trading volume jumped 38 percent from the same period last year, to 1.7 billion contracts according to The Options Clearing Corp., which clears options transactions. While many of those trades were made by Wall Street pros, individual investors have demonstrated a growing appetite for options, which are, in essence, contracts to buy or sell a stock or other asset at a set price within a certain time period."

- Wall Street Journal, "Market's Swoon Prods Investors to Try Options," July 15, 2008

"Randy Frederick, director of derivatives trading at Charles Schwab & Co....says investors considering trading options should take time to get educated. He recommends resources from OIC, such as the book "An Investors Guide to Trading Options" and other tools on the Council's Web site at OptionsEducation.org."

- Associated Press, "Options for the Skittish," July 15, 2008

occ to become central hub for large options position reporting

New automated reporting requirements for filing Large Options Position Reports (LOPR) on listed options and related instruments will go into effect in early 2010. The Intermarket Surveillance Group, through its LOPR working group, has requested that OCC complete a rewrite of the current system in support of plans to transition OCC into the central hub for LOPR processing. The LOPR working group is comprised of representatives from the options exchanges and FINRA.

With the implementation of this new system, OCC will provide firms with the ability to report accounts carrying positions in excess of 200 contracts through OCC, who will in turn, provide the consolidated information to the exchanges and FINRA.

Some of the key benefits in streamlining the reporting process through OCC include:

- LOPR will become compliant with the ongoing Options Symbology Initiative (OSI)
- LOPR data will be transmitted in FIXML formats
- The overall process will be streamlined, allowing firms to add, modify or delete LOPR positions
- The number of different record types and data interfaces will be reduced

"Allowing OCC to serve as a conduit for reporting this type of information will enhance the existing processes as well as keep firms in compliance with rules set forth by the options exchanges and FINRA," said Amy L. Lawson, Vice President, Business Operations Group, "OCC is pleased to be a part of this ongoing effort to provide value-based services to its clearing members and the exchanges."

For more information regarding this project, contact your exchange, FINRA or OCC's Member Services Help Desk at memberservices@theocc.com.

oic rings closing bell at nyse

Representatives from OCC and The Options Industry Council (OIC) visited the New York Stock Exchange (NYSE) for the Closing Bell Ceremony on June 24, 2008. OCC Executive Vice President Gina McFadden, who also serves as OIC President, was given the honor of ringing the bell to signal the close of the markets while OCC President and COO Michael Cahill threw down the gavel.

Pictured left to right: Dawn Combs, OCC Director, Corporate Communications, Mike Cahill, Gina McFadden, NYSE host Larry Leibowitz, Mary Savoie, OCC Vice President, Options Industry Services and Susan Milligan, OIC Executive Director and OCC Senior Vice President, Government Relations and Communications.

options volume rides volatility roller coaster

As the mercury rose this summer, so did options trading volume. While the summer months are typically thought of as slow, this past July proved to be the opposite. In fact, Tuesday, July 15 was a particularly notable day as trading volume reached 25,264,883 contracts—a record day at the time, now the third highest trading day to date.

Monthly trading volume in July climbed to 366,270,867 contracts, a 37.8 percent increase over the same period last year. This new monthly trading volume record is 2.5 percent higher than the previous record set in January of this year.

On July 22, options trading surpassed 2 billion contracts. This marks the third consecutive year that trading volume achieved this level. Total options volume hit 2 billion contracts for the first time on December 22, 2006 and then again on September 25, 2007. While it took 183 trading days to reach this milestone in 2007, it only took 140 trading days for 2 billion contracts to change hands this year.

After such a record-breaking July, summer has begun its eventual wind down. Options trading volume for August was 263,405,886 contracts, a 10.5 percent decline from the same time last year. Average daily volume for the month was down slightly, from 12,791,802 contracts last August to 12,543,137 this year. This marks the first decline in monthly volume from the year-ago period since July 2003. With two less trading days in August when compared to last year, volume for the month is more representative of the usual summer trading slowdown.

Year-to-date options volume through the month of August stands at 2.37 billion contracts, up 30 percent over the same period in 2007.

got an opinion?

Are there topics that you would like to see in future issues of *OCC News* or improvements that will help the publication to better suit your needs? Take our web survey and let us know your thoughts.

Sign on to **www.theocc.com/occnewssurvey** for a brief survey.

Thank you and we look forward to your feedback.

save the date!

OCC will be a participating exhibitor at the upcoming FIA Futures & Options Expo taking place November 10 - 12 at the Hyatt Regency Chicago. Attend seminars on a variety of topics including liquidity and electronic options trading. For registration information, visit www.futuresindustry.org.

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