



JANUARY 2004 SUPPLEMENT

This supplement supersedes and replaces the November 1995 Supplement to, and amends specified portions of, Characteristics and Risks of Standardized Options (the "Booklet").

To permit greater flexibility in the methods used for assigning options exercises, the Booklet is amended by replacing the first two paragraphs following the caption "Assignment" in Chapter VIII of the Booklet with the following:

OCC follows established procedures for assigning exercises to Clearing Member accounts that contain short option positions identical to the exercised options. These procedures may be different for different classes of options. A description of OCC's assignment procedures and the options classes to which they apply is available on request from OCC at One North Wacker Drive, Suite 500, Chicago, Illinois 60606.

Assignments are ordinarily made prior to the commencement of trading on the business day following receipt by OCC of the exercise instruction. In the case of options traded in evening sessions, exercise instructions received by OCC on a business day are ordinarily assigned prior to the opening of trading in that day's evening session.

Exercises may be assigned by OCC to a Clearing Member's customers' account. In that event, the Clearing Member must in turn assign those exercises to its customers maintaining positions as writers of the exercised options series. The rules of the options markets require their member firms to establish fixed procedures for allocating assignments to customers (e.g., random selection or "first-in, first-out") and to inform their customers of the method used and how it works.

Regardless of the method used, an option writer is subject to the risk each day the option is exercisable

that some or all of his short position may be assigned. (See the discussion in Chapter X under "Risks of Option Writers.") However, if less than all of the open interest in an options series is exercised, OCC's procedures for assigning exercises to Clearing Members and brokers' procedures for allocating assignments to customers may affect the likelihood that a customer's position will be assigned and the potential size of the assignment.

To address special considerations with respect to the deadlines for the exercise of certain options that expire on a day on which an options market is open for trading, the fourth paragraph under the caption "How to Exercise" in Chapter VIII of the Booklet is amended to read as follows:

A brokerage firm's cut-off time for accepting exercise instructions becomes critical on the last trading day before an option expires. An option that expires unexercised becomes worthless. An option holder who intends to exercise an option before expiration must give exercise instructions to his brokerage firm before the firm's cut-off time for accepting exercise instructions on the last trading day before expiration. If the expiration date of an option falls on a day on which an options market is open for trading in that option, a brokerage firm's last cut-off time for accepting exercise instructions prior to the option's expiration may be on the expiration date. Investors should be aware of their brokerage firm's policies in this regard. Many brokerage firms accept standing instructions to exercise, or have procedures for the exercise of, every option which is in the money by a specified amount at expiration. These procedures often incorporate by reference OCC's administrative procedures that provide for the exercise of every option that is in the money by a specified amount at expiration unless the Clearing Firm carrying the option in its accounts instructs OCC not to exercise the option. Investors should determine from their brokerage firm the applicable cut-off times, the firm's procedures for submitting exercise instructions, and whether any of their options are subject to automatic exercise. Investors should also determine whether the exercise of their options is subject to standing instructions of their brokerage firm, and, if so, they should discuss with the firm the potential consequences of such instructions.