



DCO Rules

UNITED STATES COMMODITY FUTURES TRADING COMMISSION

Submitter Information	
Organization Name Options Clearing Corporation	
Organization Type DCO	Organization Acronym OCC
Submitted By [REDACTED]	Email Address [REDACTED]
Cover Sheet	
Submission Number 2512-1113-3829-70	Submission Date 12/11/2025 1:38:29 PM ET
Submission Type 40.6(a) Rule Certification	
Submission Description Rule Certification by The Options Clearing Corporation Concerning Contract Adjustments	
<input type="checkbox"/> Request Confidential Treatment	
Registered Entity Identifier Code	
Rule Numbers By-Laws, Rules and Interpretative Guidance	
Date of Intended Implementation 12/30/2025	
Documents	
CFTC Self-Certification - Corporate Actions.pdf CFTC Self-Certification - Exhibits A through C.pdf	
Request For Confidential Treatment - Detailed Written Justification	
N/A	



**THE FOUNDATION
FOR SECURE
MARKETS®**

Options Clearing Corporation
125. S. Franklin Street, Suite 1200
Chicago, IL 60606
312 322 6200 | theocc.com

December 11, 2025

VIA CFTC PORTAL

Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

**Re: Rule Certification by The Options Clearing Corporation Concerning
Contract Adjustments**

Dear Secretary Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6, The Options Clearing Corporation (“OCC”) hereby certifies a rule change concerning that concerns proposed changes to OCC’s By-Laws and Rules pertaining to cleared contract adjustments (the “Proposal”). The date of implementation of the rule is at least 10 business days following receipt of the certification by the CFTC. The proposal has also been submitted to the Securities and Exchange Commission (“SEC”) under Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 19b-4 thereunder. The change will not be implemented until OCC has obtained all necessary regulatory approvals.

In conformity with the requirements of Regulation 40.6(a)(7), OCC states the following:

Explanation and Analysis

This rule certification would (i) relocate OCC’s existing provisions in its By-Laws related to adjustments to proposed Chapter XXVIII of the Rules, with certain non-substantive clarifying changes thereto; (ii) consolidate provisions regarding OCC’s adjustment authority and practices for actively traded products with similar methods of adjustments,¹ such as adjustments to stock futures with provisions for adjustments to stock options, to eliminate duplicative provisions; (iii) set forth certain new provisions to provide greater detail describing OCC’s current practices in making adjustment determinations (e.g., by specifying additional circumstances when OCC will

¹ By-Law adjustment provisions for products that do not currently trade will not be consolidated in the proposed Rules at this time. Article XIV, Sections 3A and 3B (Adjustments for Binary Options), Article XV, Section 4 (Adjustments for Foreign Currency Options), Article XVI, Section 3 (Adjustments for Yield-Based Treasury Options), Article XXIV, Section 4 (Adjustments for BOUNDS), and Article XXVI (Adjustments for Packaged Spread Options) will remain in the By-Laws but would be updated as part of the Proposal to reflect references to other adjustment provisions that are proposed for relocation to the Rules.

generally not make an adjustment or specifying additional factors guiding adjustment determinations); and (iv) update references to current adjustment By-Laws sections relating to the governance of changes to the By-Laws and Rules.

OCC filed proposed changes to OCC's By-Laws and Rules as Exhibits A and B, respectively. Text of Exhibit B is presented with explanatory footnotes indicating the By-Law provision that the proposed Rule replaces. The explanatory footnotes are not proposed to be rule text. Marked changes in Exhibit B indicate changes to rule text previously found in the By-Laws. Text taken from existing provisions is marked as entirely new where it (i) is derived from multiple existing sources or (ii) results from relocating an existing Interpretation and Policy into a newly proposed Rule. OCC has also filed as Exhibit C proposed changes to the Interpretative Guidance on the Adjustment Policy for Cash Dividends and Distributions to conform cross-references to reflect the proposed Rules. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.²

Overview

Certain corporate actions that affect an underlying security — such as declaration of dividends or distributions, stock splits, rights offerings, reorganizations, or the merger or liquidation of an issuer — may require an adjustment to the terms of the overlying derivatives, like the options that are cleared and settled by OCC. The future occurrence of corporate actions is not always foreseeable at the time parties enter a derivatives trade, and therefore the occurrence of such a corporate action is not priced into the economics of the trade. Because derivative contract positions of trading parties may exist for weeks, months or years after the position was established, corporate actions may occur during the life of the contract that affect the economic position of the parties. In general, an adjustment to a contract in such cases is intended to maintain the economic value of the existing positions by mirroring what occurs to the underlying security to the extent possible and within the parameters established in the OCC By-Laws.

An example in the stock options context is useful to help illustrate these points. Assume that the issuer of stock XYZ announces a 2-for-1 stock split. The stock split will result in twice the number of shares of XYZ at half the pre-split price. That is, if there were 1,000 shares of XYZ before the 2-for-1 split (with each share having a value of \$58), immediately post the split there will be 2,000 shares of XYZ with each share having a value of \$29. Now consider these consequences in the context of a related options contract covering XYZ. Assume that prior to the announcement (when XYZ was still trading at \$58 per share), Investor 1 wrote a call option on XYZ with an exercise price of \$60. Assume further that Investor 2 bought that same series of call option having an exercise price of \$60 and paid the related premium. When the 2-for-1 split causes the number of XYZ shares to double and the price of each XYZ share to fall to \$29, Investor 2 will no longer be in the same economic position in the option contract unless some additional and corresponding action is taken to adjust its terms. This is because Investor 2 as the

² OCC's By-Laws and Rules can be found on OCC's public website: <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>.

option holder will only profit from exercising the call option if the price of XYZ shares is above \$60. Now that the XYZ shares are valued at \$29 due to the 2-for-1 split, the chances of that occurring are substantially diminished (i.e., the market price of the XYZ shares would have to increase by more than \$31 prior to the expiration of the option), even though at the time Investor 2 bought the option the market price of XYZ would have only needed to increase by more than \$2 dollars prior to the expiration for Investor 2 to be able to realize a profit from exercising the option.³

The manner in which OCC would generally handle the option contract adjustment in this example is described in Characteristics and Risks of Standardized Options, which is commonly referred to as the Options Disclosure Document (“ODD”).⁴ It states in relevant part:

When a stock distribution, stock split, or stock dividend results in the issuance of one or more whole shares of stock for each outstanding share – such as a 2-for-1 or 3-for-1 split— as a general rule the number of shares will not be adjusted. Instead, the number of outstanding options will be proportionately increased, and the exercise price will be proportionately decreased.

EXAMPLE: *Before a 2-for-1 stock split, an investor holds an option on 100 shares of XYZ stock with an exercise price of \$60. After adjustment for the split, he will hold two XYZ options, each on 100 shares and each with an exercise price of \$30.*⁵

OCC currently has broad authority to effect contract adjustments on a case-by-case basis. The factors typically used to inform whether OCC will make an adjustment to a contract are: (a) the fairness to holders and writers (or purchasers and sellers) of the affected contracts; (b) the maintenance of a fair and orderly market in the affected contracts; (c) consistency of interpretation and practice; (d) the efficiency of exercise settlement procedures; and (e) the coordination with other clearing agencies of the clearance and settlement of transactions in the underlying interest. OCC also maintains a Securities Committee, consisting of one designated representative of each Securities Exchange⁶ and the Chief Executive Officer of OCC, that is authorized to adopt certain statements of policy or interpretations having general application to

³ Example excludes premium cost, taxes, commissions, or other fees that may impact the profitability of an option position.

⁴ Unless a broker-dealer furnishes or has furnished to its customer a copy of the definitive ODD, it is prohibited under Exchange Act Rule 9b-1 from accepting an order from the customer to purchase or sell an option contract in a class covered by the ODD and from approving the customer’s account for trading of such options. See 17 CFR 240.9b-1.

⁵ See ODD at 19 (June 2024), available at <https://www.theocc.com/company-information/documents-and-archives/options-disclosure-document>.

⁶ Consistent with OCC’s rules, a Securities Exchange means a national securities exchange or national securities association that has qualified for participation in OCC as an “Equity Exchange” or “Non-Equity Exchange” pursuant to either Article VIIA or VIIB of OCC’s By-Laws. *See* OCC By-Laws, Article I, Section 1.

specified types of events or OCC cleared contracts.⁷ The purpose of the Securities Committee is to help guide adjustment policy for new or unusual situations as needed, consistent with OCC's By-Laws and Rules.

OCC will generally not make an adjustment to an options or futures contract with respect to ordinary dividends or distributions that are routinely made by the issuer. This is because ordinary dividends or distributions may be factored into the economic expectations of the parties to an options or futures contract even though the event has not yet been formally announced or declared. OCC notes that when OCC makes a determination to adjust an options or futures contract, all market participants holding options or futures contracts are uniformly subject to OCC's adjustment determination.

Proposed Changes

Proposed Consolidation of Adjustments Provisions into OCC Rule Chapter XXVIII

Currently, provisions related to adjustments are found in multiple sections of OCC's By-Laws. The provisions related to options contract adjustments are set forth in Article VI, Section 11 and 11A of the By-Laws. The provisions related to futures contracts and futures options adjustments are set forth in Article XII, Sections 3, 4, and 4A of the By-Laws. Similarly, provisions relating to adjustments for cash settled foreign currency options and index options and certain other cash-settled options (e.g., flexibly structured options) are currently set forth in Article XXII, Section 3 and Article XVII, Section 3 respectively. OCC proposes to consolidate all of these provisions related to adjustments into a single, new Chapter XXVIII of OCC's Rules to promote clarity, consistency, and understanding of OCC's Rules.⁸ OCC believes that this will improve the readability and understanding of OCC's provisions regarding adjustments by having a single chapter of OCC's Rules that governs adjustments for all instruments. OCC believes this will facilitate greater understanding of OCC's regulatory framework in this area, which OCC believes is in the public interest and would further the protection of investors. OCC also proposes to make certain clarifying edits to certain of these provisions. Where there are substantively similar provisions for different instruments—e.g., where OCC's adjustment determinations are the same for options contracts and futures contracts—OCC's proposes to consolidate such provisions for the same reason of promoting clarity, consistency, and understanding of OCC's Rules and handling of adjustments. Similarly, OCC also proposes to add headers to most of the paragraphs or subparagraphs in italicized text to briefly preview and

⁷ OCC notes that it filed as proposed rule changes stated policies, practices, or interpretations as required under Section 19 of the Exchange Act and Rule 19b-4 thereunder. 17 CFR 240.19b-4(a)(6).

⁸ OCC also believes that these provisions are better organized as Rules rather than continuing to be maintained in OCC's By-Laws. This is because typical corporate by-laws address governance and administrative matters and do not address derivatives contract adjustments. Relocating the adjustment provisions into the Rules would therefore incrementally help OCC reshape its By-Laws in a manner that better reflects typical corporate bylaws.

describe in a few words the purpose of the provision in order to improve the readability of the Rules.⁹

Set forth below is a brief description of each of the five newly proposed Rules in Chapter XXVIII (Rules 2801 through 2805), followed by a table that sets forth a list of current OCC By-Law provisions related to adjustments and where they have been redesignated under proposed Chapter XXVIII of OCC's Rules.¹⁰ The third column in each table describes notable changes or consolidations from the current By-Law provision to the new Chapter XXVIII Rule provision. Newly proposed provisions are described separately in the next section of this proposed rule change.

Proposed Rule 2801 – Adjustment by the Corporation

OCC proposes to set forth in Rule 2801 its general authority to make adjustments, the factors that OCC considers in making adjustments and to specify that adjustment determinations are within the sole discretion of OCC. The table below describes where current By-Law provisions are being relocated to proposed Rule 2801 and notable changes to such provisions.

Table 1—Proposed Rule 2801 Changes

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Section 11(a) and (b) of Article VI (Adjustment Policies and Procedures) Section 3 of Article XXII (relating to adjustments on futures and futures options)	Rule 2801 – Adjustment by the Corporation	OCC proposes to change the section title from “Adjustment Policies and Procedures” to “Adjustment by the Corporation,” add clarifying headers (<u>e.g.</u> , by creating a new section (b) as “Factors” considered by OCC and redesignating current Section 11(b) as Rule 2801(c)). OCC also proposes to move the second to last sentence of Section 11(a) of Article VI describing the authority of OCC's Securities Committee to adopt certain statements of policy or interpretation to proposed Rule 2802(a) described below. ¹¹ A modified version of the last

⁹ These headers can be seen in italicized text in Exhibit B. In addition, OCC proposes to replace internal cross-references throughout the proposed Rules to ensure that they correspond to the correct Rule provision(s).

¹⁰ OCC proposes to adjust all internal cross-references within adjustment provisions in its current By-Laws to correspond to the appropriate Chapter XXVIII Rule provision.

¹¹ See Exhibit B, n.5. OCC also proposes other non-substantive changes, such as to delete certain extraneous language or redundant language (e.g., proposed Rule 2801(c) would begin by reading “Every adjustment determination of the Corporation . . .” rather than “Every adjustment determination under the By-Laws or Rules of the Corporation . . .”).

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		sentence of Section 11(a) of Article VI (describing that OCC will apply the factors set forth in Rule 2801(b) in making an adjustment determination based on its knowledge at the time of such determination) is in Rule 2801(b). ¹²

Proposed Rule 2802 – Statements of Adjustment Policies and Interpretations

OCC proposes to set forth in Rule 2802 certain adjustment policies and interpretations, including a description of OCC’s Securities Committee, including its composition, governance, and authority to adopt statements of policy or interpretation having general application to specified types of events. The table below describes where current By-Law provisions are being relocated to proposed Rule 2802 and notable changes to such provisions.

Table 2—Proposed Rule 2802 Changes

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Sections 11(a), (b) and (c) of Article VI	Rule 2802(a) – Statements of Policies and Interpretations Regarding	OCC proposes to describe in Rule 2802(a)(1) the authority of the Securities Committee to adopt statements of policy or interpretation and to specify the types of options for which it may make such statements of policy or interpretation. ¹³ OCC would also add non-substantive

¹² This sentence of Proposed Rule 2801(b) would also replace the last sentence of Section 3(b) of Article XII of the By-Laws with respect to stock futures, which currently sets forth a substantively similar provision (stating that OCC shall apply the factors set forth in Section 4 of Article XII in light of the circumstances known to it at the time such determination is made).

¹³ Specifically, OCC proposes to specify that such policies or interpretations may be made for stock option contracts, Treasury securities option contracts, yield-based Treasury option contracts, debt securities option contracts, foreign currency option contracts, cash-settled foreign currency option contracts, index option contracts or other cash-settled option contracts. OCC proposes to add text to the beginning of Rule 2802(a)(1) specifying that the Securities Committee’s authority under (a)(1) is “[i]n addition to the policies contained in this Chapter . . .” in order to make clear that the Securities Committee’s authority to adopt statements and policies is additional to the policies set forth in Chapter 28. OCC also proposes to modify the title of Rule 2802 to provide that it relates to “Statements of Adjustment Policies and Interpretations” rather than simply “Adjustment Policies and Interpretations” in order to promote clarity that the Securities Committee’s function is to issue such statements.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
	Adjustments of Option Contracts	<p>language such as headers to promote clarity, such as by adding the header in proposed Rule 2802(a)(2) (taken from Section 11(c) of Article VI of the By-Laws) “Securities Committee Composition and Governance.”¹⁴</p> <p>Proposed Rule 2802(a)(2) relocates Section 11(c) of Article VI of the By-Laws with only non-substantive changes.¹⁵</p>
Section 3(a) of Article XII	Rule 2802(b) – Statements of Adjustments of Futures and Futures Options	OCC proposes to relocate the third sentence of Article XII, Section 3(a) to Rule 2802 so that statements on policies for both stock options contracts and stock futures are located within the same rule. ¹⁶

Proposed Rule 2803 – Adjustments for Stock Option Contracts and Stock Futures

OCC proposes to set forth in Rule 2803 provisions related to adjustments for stock option contracts and stock futures. OCC proposes to combine substantially similar provisions related to adjustments for stock option contracts and stock futures into a single Rule. The table below

-
- ¹⁴ OCC proposes to delete text in current Section 11(c) of Article VI of the By-Laws that describes the Securities Committee’s authority as being able to “make certain determinations with respect to cleared contracts” and replace this with “adopt certain statements of policy or interpretations under paragraph (a) above” because this would more accurately describe the Securities Committee’s authority and is more germane to the purpose of proposed Rule 2802(a)(2).
- ¹⁵ See n.6 of Exhibit B. For example, these non-substantive edits include changing a reference from “him” to “them.” OCC also proposes as a non-substantive edit to modify the numbering convention in describing the Securities Committee under (a)(2) from using Arabic numerals to instead use romanettes, to promote consistency with numbering conventions in OCC’s Rules.
- ¹⁶ Currently, Section 11(a) of Article VI of the By-Laws provides that the Securities Committee may adopt statements of policy or interpretation “to specified types of events or specified kinds of cleared contracts.” For futures and futures options, proposed Rule 2802(c) would provide that OCC may adopt statements of policy or interpretations having general application to specified types of events, which corresponds to Article XII, Section 3(a) of the By-Laws (third sentence), which currently provides (among other things) that the Corporation may “adopt statements of policy or interpretations having general application specified types of events. OCC proposes to delete text from Article XII, Section 3(a) of the By-Laws specifying that this authority is policy or interpretation authority is “in addition to determining adjustments to futures and futures options on a case-by-case basis,” because that authority would be set forth under proposed Rules 2804 and 2805.

describes where current By-Law provisions are being relocated to proposed Rule 2803 and notable changes to such provisions.

Table 3—Proposed Rule 2803 Changes

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
<p>Section 11A of Article VI of the By-Laws;</p> <p>Section 3(b) of Article XII (regarding stock Futures</p> <p>Section 3(a) of Article XVII (regarding certain flexibly structured options).</p>	<p>Rule 2803 (a) and (b) – Adjustments for Stock Options and Stock Futures</p>	<p>OCC proposes to consolidate substantively similar provisions currently located in Section 11A of Article VI and Section 3(b) of Article XII of the By-Laws into proposed Rule 2803 to describe the circumstances when OCC may make an adjustment (e.g., where a dividend is issued).</p> <p>OCC proposes to add headers to improve readability (e.g., by specifying that 2803(a) relates to “Corporate Actions; Adjustments Policies and Procedures”) and other non-substantive changes (e.g., to reorganize the option or stock future contract terms that OCC may adjust (such as the exercise price and unit of trading) as a numbered list).¹⁷</p> <p>OCC also proposes to relocate Article XVII, Section 3(a) of the By-Laws to proposed Rule 2803(a) to make clear that proposed Rule 2803 applies to flexibly structured options on fund shares that are cash settled.¹⁸</p>

¹⁷ OCC would also specify that OCC may adjust any of these contract terms or any combination of them with respect to all outstanding stock option contracts and stock futures in that underlying security in the sentence preceding the numbered list, rather than at the end of the list. See n.9 of Exhibit B. OCC also proposes to add specificity to item 2 of the numbered list regarding the unit of trading to specify that OCC may adjust the “unit of trading in the case of an options contract or the unit of trading (or settlement price) in the case of a stock futures.” Similarly, item 3 of the list would specify that OCC may adjust the exercise price “in the case of an options contract.” These changes are intended to provide greater clarity to OCC’s Rules to make clear, for example, that OCC would not adjust the “exercise price” in the case of a stock future because stock futures do not involve a settlement price.

¹⁸ Currently, Section 3(a) of Article XVII provides that “Except in the case of flexibly structure options on fund shares that are cash settled, Section 11A of Article VI of the By-Laws shall not apply to cash-settled option contracts.” OCC proposes a non-substantive rephrasing of this provision as “For the avoidance of doubt, flexibly structured options on fund shares that are cash settled are governed by this Rule 2803.” See n.10 of Exhibit B. OCC also proposes to reiterate this provision in proposed Rule 2804 (which governs

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
<p>Section 11A(c) of Article VI (clause (x));¹⁹</p> <p>Section 3(c) of Article XII (regarding stock futures)</p>	<p>Rule 2803(c) and (c)(1) – Events not normally resulting in a contract adjustment</p>	<p>OCC proposes to consolidate substantively similar provisions describing events that will generally not result in an adjustment currently located in Section 11A(c) of Article VI (clause (x)) and</p> <p>Section 3(c) of Article XII (regarding stock futures) into proposed Rule 2803(c).²⁰</p>
<p>Interpretation and Policy .01 to Section 11A of Article VI (third sentence of first paragraph²¹ and first sentence of second paragraph);²² and Interpretation and Policy .01(a) to Section 3 of Article XII (regarding stock futures) (last sentence of first paragraph²³ and first sentence of the second paragraph)²⁴</p>	<p>Rule 2803(c)(1)(i) - Factors considered in making adjustment determinations</p>	<p>OCC proposes to set forth in Rule 2803(c)(1)(i) the factors that OCC may consider in determining whether to make an adjustment by consolidating certain provisions currently set forth in Policy .01 to Section 11A of Article VI and Policy .01(a) to Section 3 of Article XII of the By-Laws. In so doing, OCC proposes combining substantively identical provisions in its By-Laws for options and stock futures to consolidate OCC’s rules and improve readability. OCC proposes to set forth these factors as lettered items (items (A) through (D)) rather than as a single sentence to improve readability. OCC</p>

adjustments of index options and futures and certain other cash-settled options and futures) to provide additional clarity that flexibly structured options on fund shares that are cash settled are governed by Rule 2803 (and not Rule 2804). See n.57 of Exhibit B.

¹⁹ Clause (x) currently provides that as a general rule, there will be no adjustment to reflect ordinary cash dividends or distributions or ordinary stock dividends or distributions.

²⁰ See n.11 of Exhibit B.

²¹ This provision provides: “The Corporation will determine on a case-by-case basis whether other dividends or distributions are ‘ordinary distributions’ or whether they are dividends or distributions for which an adjustment should be made.”

²² This provision describes the factors that OCC may take into account, which include without limitation, the issuer’s stated dividend payment policy, the issuer’s characterization of a particular dividend or distribution as “regular,” “special,” “accelerated,” or “deferred.”

²³ This provision is identical to the third sentence of the first paragraph of Interpretation and Policy .01 to Section 11A of Article VI cited above but applies to stock futures.

²⁴ This provision is identical to the first sentence of the second paragraph of Interpretation and Policy .01 to Section 11A of Article VI cited above.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		does not propose substantive changes to these provisions.
Interpretation and Policy.01 to Section 11A of Article VI (first sentence); ²⁵ Interpretation and Policy .01(a) to Section 3 of Article XII (regarding stock futures) (first sentence) ²⁶	Rule 2803(c)(1)(ii)(A) (describing cash dividends and distributions deemed to be an “ordinary distribution”)	OCC proposes to describe the meaning of an “ordinary distribution” in the context of cash dividends or distributions in Rule 2803(c)(1)(ii)(A) by combining substantively similar provisions currently set forth in the first sentence of Interpretation and Policy .01 to Section 11A of Article VI and to Interpretation and Policy .01(a) to Section 3 of Article XII to the By-Laws. ²⁷ OCC does not propose substantive changes to meaning of what is considered an “ordinary distribution.”
Interpretation and Policy .09 to Section 11A of Article VI; ²⁸ and Interpretation and Policy .10 to Section 3 of Article XII (regarding stock futures) ²⁹	Rule 2803(c)(1)(ii)(B) (specifying that interest payments on index-linked securities will generally be considered an “ordinary distribution”)	OCC proposes to specify that an “ordinary distribution” generally includes interest payments on index-linked securities in Rule 2803(c)(1)(ii)(B) by combining substantively similar provisions currently set forth in the first sentence of Interpretation and Policy .09 to Section 11A of Article VI and to Interpretation and Policy .10 to Section 3 of Article XII to the By-Laws. ³⁰ OCC does not propose substantive changes to this provision – i.e., OCC does not propose any different

²⁵ This provision describes the meaning of an “ordinary cash dividend or distribution,” generally providing that cash dividends or distributions (regardless of size) by the issuer of the underlying security which OCC believes to have been declared pursuant to a policy of paying such dividend or distributions on a quarterly or other regular basis will generally be deemed an ordinary cash dividend or distribution.

²⁶ This provision is substantively similar to the first sentence of Interpretation and Policy .01 to Section 11A of Article VI cited immediately above.

²⁷ See n.13 of Exhibit B.

²⁸ This provision provides in relevant part that interest payments on index-linked securities will, as a general rule, be deemed to be “ordinary cash dividends or distributions.”

²⁹ This provision is substantively similar to Interpretation and Policy .01 to Section 11A of Article VI cited immediately above.

³⁰ See n.14 of Exhibit B.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		treatment of interest payments on index-linked securities as part of the Proposal.
Interpretation and Policy .01 to Section 11A of Article VI (second sentence); ³¹ and Interpretation and Policy .01(b) to Section 3 of Article XII (regarding stock futures) ³²	Rule 2803(c)(1)(iii) (A) (describing when stock dividends and distributions are deemed to be an “ordinary distribution”)	OCC proposes to describe the meaning of an “ordinary distribution” in the context of stock dividends or distributions in Rule 2803(c)(1)(iii)(A) and (B) by combining substantively similar provisions currently set forth in the first sentence of Interpretation and Policy .01 to Section 11A of Article VI and to Interpretation and Policy .01(b) to Section 3 of Article XII to the By-Laws. ³³ OCC does not propose substantive changes to meaning of what stock dividends or distributions are generally considered an “ordinary distribution.”
Interpretation and Policy .01 to Section 11A of Article VI (last sentence of second paragraph); ³⁴ Interpretation and Policy .01(a) to Section 3 of Article XII (regarding stock futures) (last	Rule 2803(c)(1) (iv)(A) (describing dividends and distributions generally not deemed ordinary)	OCC proposes to describe certain types of dividends or distributions not deemed to be an “ordinary distribution” in Rule 2803(c)(1)(iv)(A) (specifically when OCC does not expect such distribution to be provided regularly) by combining substantively similar provisions currently set forth in Interpretation and Policy .01 to Section 11A of Article VI and to Interpretation and Policy .01(a) to Section 3

³¹ This provision sets forth the criteria by which OCC will generally consider a stock dividend or distribution to be considered an “ordinary stock dividend or distribution,” such as where the stock dividend does not exceed 10% of the number of shares outstanding at the close of trading on the declaration date and where OCC believes the distribution was declared pursuant to a policy or practice of paying such dividend or distribution on a quarterly basis.

³² This provision is substantively similar to the second sentence of Interpretation and Policy .01 to Section 11A of Article VI cited immediately above.

³³ See n.15 of Exhibit B.

³⁴ This provision currently provides that, normally, OCC shall classify a cash dividend or distribution as non-ordinary when it believes that similar dividends or distributions will not be paid on a quarterly or other regular basis.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
sentence of second paragraph) ³⁵		of Article XII to the By-Laws. ³⁶ OCC does not proposes substantive changes to these provisions.
Interpretation and Policy .08 to Section 11A of Article VI (clause (i)); ³⁷ and Interpretation and Policy .08 to Section 3 of Article XII (regarding stock futures) (clause (i)) ³⁸	Rule 2803(c)(1)(iv)(B) (describing how distributions of short and long term capital gains are ordinarily not considered an ordinary distribution)	OCC proposes to describe certain types of dividends or distributions not deemed to be an “ordinary distribution” in Rule 2803(c)(1)(iv)(B) (specifically distributions of short-term and long-term capital gains) by combining substantively similar provisions currently set forth in Interpretation and Policy .08 to Section 11A of Article VI and to Interpretation and Policy .08(a) to Section 3 of Article XII to the By-Laws. ³⁹ OCC does not propose substantive changes to these provisions.
Interpretation and Policy .08 to Section 11A of Article VI (clause (ii)); ⁴⁰ and Interpretation and Policy .08 to Section 3 of Article XII (regarding	Rule 2803(c)(1)(iv)(C) (describing when certain distributions resulting from certain events on an index will not be considered an	OCC proposes to describe when certain types of dividends or distributions on index fund shares are not deemed to be an “ordinary distribution” in Rule 2803(c)(1)(iv)(C) by combining substantively similar provisions currently set forth in Interpretation and Policy .08 to Section 11A of Article VI and to Interpretation and Policy .08(a) to Section 3

³⁵ This provision is substantively similar to the last sentence of the second paragraph of Interpretation and Policy .01 to Section 11A of Article VI cited immediately above.

³⁶ See n.17 of Exhibit B.

³⁷ This provision provides that distributions of short-term and long-term capital gains in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions”

³⁸ This provision substantively similar to clause (i) of Interpretation and Policy .08 to Section 11A of Article VI cited immediately above.

³⁹ See n.18 of Exhibit B.

⁴⁰ This provision generally provides that other distributions in respect of fund shares by the issuer thereof, as a general rule, shall not be deemed to be an “ordinary distribution” if the fund meets certain criteria (e.g., the fund distributes short-term or long-term capital gains, the fund tracks the performance of an index that underlies a class of index options or index futures and the distribution on the fund shares includes a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor).

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
stock futures) (clause (ii)) ⁴¹	“ordinary distribution”)	of Article XII to the By-Laws. ⁴² OCC does not propose substantive changes to these provisions.
Interpretation and Policy .01 to Section 11A of Article VI (last sentence of the first paragraph) ⁴³	Rule 2803(c)(1)(v) (describing how OCC determines whether a dividend is issued on a quarterly or other regular basis)	OCC proposes to replace text from Interpretation and Policy .01 to Section 11A of Article VI in Rule 2803(c)(1)(v) to provide that where a question arises as to whether a dividend or distribution was declared pursuant to a policy of paying such dividend/distribution quarterly or on another regular basis, such question shall be determined by OCC. OCC does not propose substantive changes to this provision other than to change the phrase “shall be referred to the Corporation for determination” to “shall be determined by the Corporation.” This change is to make the Rule more accurate because no entity refers these to OCC—rather, OCC identifies and makes these determinations.
Interpretation and Policy .02 to Section 11A of Article VI; and Interpretation and Policy .02 to Section 3 of Article XII (regarding stock futures) (fifth and sixth sentences) ⁴⁴	Rule 2803(c)(3)(i) (describing poison pill rights among events not ordinarily resulting in adjustments)	OCC proposes to consolidate substantively similar provisions currently located in the Interpretation and Policy .02 to Section 11A of Article VI and fifth and sixth sentences Interpretation and Policy .02 to Section 3 of Article XII, which specify (among other things) that OCC will not ordinarily make an adjustment to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. OCC

⁴¹ This provision substantively similar to clause (ii) of Interpretation and Policy .08 to Section 11A of Article VI of the By-Laws cited immediately above.

⁴² See n.19 of Exhibit B.

⁴³ See n.20 of Exhibit B.

⁴⁴ See n.23 of Exhibit B.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		does not propose substantive changes to these provisions.
Interpretation and Policy .03 to Section 11A of Article VI; and Interpretation and Policy .03 to Section 3 of Article XII (regarding stock futures) ⁴⁵	Rule 2803(c)(3)(ii) (describing a tender offer or exchange offer as among events not ordinarily resulting in adjustments)	OCC proposes to consolidate substantively similar provisions currently located in Interpretation and Policy .03 to Section 11A of Article VI and Interpretation and Policy .03 to Section 3 of Article XII of the By-Laws, which specify (among other things) that OCC will not ordinarily make an adjustment to reflect a tender offer or exchange offer irrespective of whether the offer is made by the issuer or a third party and whether the offer is for cash, securities or other property. ⁴⁶ OCC does not propose substantive changes to the these provisions.
Interpretation and Policy .04 to Section 11A; and Interpretation and Policy .04 to Section 3 of Article XII (regarding stock futures) ⁴⁷	Rule 2803(c)(3)(iii) (describing changes in capital structure as among events not ordinarily resulting in adjustments)	OCC proposes to consolidate substantively similar provisions currently located in the Interpretation and Policy .04 to Section 11A of Article VI and Interpretation and Policy .04 to Section 3 of Article XII of the By-Laws, which specify (among other things) that OCC will not ordinarily adjust a contract to reflect changes in the capital structure of an issuer where all of the underlying securities outstanding in the hands of the public (other than dissenters' shares) are not changed into another security, cash or other property. OCC does not propose substantive changes to these provisions.
Section 11A(d) of Article VI; Section 3(d)	Rule 2803(d) (describing events ordinarily resulting	OCC proposes to relocate current Section 11A(d)(i) – (iii) of Article VI of the By-Laws as Rule 2803(d)(1)(i) – (iii) to describe when OCC ordinarily will make an

⁴⁵ See n.24 of Exhibit B.

⁴⁶ OCC proposes to add a cross reference to Rule 2803(d)(2), which would govern adjustments for cash mergers and similar events.

⁴⁷ See n.25 of Exhibit B.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
of Article XII (regarding stock futures) ⁴⁸	in contract adjustments)	adjustment for distributions of combinations of shares. OCC proposes to add a header as Rule 2803(d)(1) to clarify that these adjustments are circumstances where the distribution of additional shares of the underlying security by the issuer of the security are not deemed to be “ordinary dividends and distributions” pursuant to proposed Rule 2803(c). ⁴⁹ OCC also proposes to consolidate Section 3(d) of Article XII of the By-Laws, which sets forth substantively similar provisions with respect to stock futures into Rule 2803(d)(1), with added language to clarify that the provision governs both options contract adjustments and stock futures. ⁵⁰ OCC does not propose substantive changes to the these provisions.
Interpretation and Policy .05 to Section 11A of Article VI; and Interpretation and Policy .05 to Section 3 of Article XII (regarding stock futures) ⁵¹	Rule 2803(d)(2) (describing adjustments in the case of cash mergers and similar events)	OCC proposes to relocate Interpretation and Policy .05 to Section 11A of Article VI of the By-Laws, which generally governs adjustments to options contracts where an underlying security is converted into a right to receive a fixed amount of cash. OCC also proposes to consolidate Interpretation and Policy .05 to Section 3 of Article XII of the By-Laws, which sets forth substantively similar provisions with respect to stock

⁴⁸ See n.28 of Exhibit B.

⁴⁹ OCC also proposes to add non-substantive clarifying language to proposed Rule 2803(d)(i) – (iii) to, for example, add the phrase “in the event of” to precede a description of the type of distribution (*e.g.*, a stock dividend, stock split, or reverse stock split) and to specify that the type of distribution is caused by the issuer (*e.g.*, a stock split “for which the issuer of the security issues” some number of shares).

⁵⁰ See highlighted text of proposed Rule 2803(d)(1) of Exhibit B, which notes relevant language from Section 3(d) of Article XII of the By-Laws that has been added to make Rule 2803(d) also apply to stock futures. For example, OCC would add language to proposed Rule 2803(d)(1)(ii) to note that that, in the event of certain distributions other than a whole number of shares, OCC would proportionately reduce the exercise price “in case of options contracts, or the last settlement price established, in the case of stock futures.”

⁵¹ See n.29 of Exhibit B.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		futures into Rule 2803(d)(2). ⁵² OCC does not propose substantive changes to these provisions.
Interpretation and Policy .06 to Section 11A of Article VI; and Interpretation and Policy .06 to Section 3 of Article XII (regarding stock futures) ⁵³	Rule 2803(d)(3) (describing adjustments in the case of a reorganization, stock merger or a cash and stock merger or a similar event)	OCC proposes to replace Interpretation and Policy .06 to Section 11A of Article VI and Interpretation and Policy .06 to Section 3 of Article XII of the By-Laws, which currently governs adjustments in the case of corporate reorganizations or similar events that result in an automatic share for share exchange of shares will ordinarily be adjusted by replacing such underlying security with a like number of units of the shares of the resulting company. ⁵⁴ OCC proposes to consolidate these substantively similar option contract and stock future provisions into new Rule 2803(d)(3) to provide that “[w]hen an underlying security is converted into a right to receive another security or a combination of another security and cash, such as in a merger, reorganization, or similar event, the Corporation shall adjust outstanding option contracts and stock futures by replacing such underlying security with the like number of units of the shares of the resulting company or cash in an amount per share or unit equal to the conversion or redemption price.” OCC does not believe that the revised language represents a substantive change, as both the existing and revised provisions provide that

⁵² Specifically, OCC proposes to add language from Interpretation and Policy .05 to Section 3 of Article XII of the By-Laws that OCC will adjust outstanding options “and outstanding stock futures to replace such underlying interest with cash” in an amount per share or unit equal to the conversion or redemption price.”

⁵³ See n.30 of Exhibit B.

⁵⁴ These provisions also specify that, because the securities are generally exchanged only on the books of the issuer and the resulting company (and are not generally exchanged physically), deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original issuer, but which, as a result of the corporate transaction, represent shares in the resulting company. OCC proposes to delete this language because OCC does not believe that such specificity is necessary. In all adjustments under this provision relating to share for share exchanges, the result will be shares of the resulting company.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		option and stock future holders will receive a like number of units of shares of the resulting company. ⁵⁵
Interpretation and Policy .07 to Section 11A of Article VI; and Interpretation and Policy .07 to Section 3 of Article XII (regarding stock futures) ⁵⁶	Rule 2803(d)(4) (describing subsequent adjustments for conversion to a debt security or a preferred stock)	OCC proposes to consolidate Interpretation and Policy .07 to Section 11A of Article VI and Interpretation and Policy .07 to Section 3 of Article XII of the By-Laws, which govern additional adjustments for options contracts and stock futures respectively when an underlying security is converted in whole or in part into a debt security or a preferred stock, into proposed Rule 2803(d)(4). OCC proposes non-substantive edits to these provisions to combine the options and stock futures provisions ⁵⁷ and to improve readability. ⁵⁸
Interpretation and Policy .02 to Section 3 of Article XII (regarding stock futures) (second	Rule 2803(d)(5) (describing rights distributions with	OCC proposes to relocate the second through third sentences of Interpretation and Policy .02 to Section 3 of Article XII without substantive edit.

⁵⁵ Proposed Rule 2803(d)(3) adds language to address a stock and cash merger, which was previously not addressed explicitly in OCC's By-Laws.

⁵⁶ See n.31 of Exhibit B.

⁵⁷ Currently, Interpretation and Policy .07 to Section 11A of Article VI provides that the further adjustment (in contemplation of conversion to a debt security or a preferred stock) applies to outstanding options "that have been adjusted to call for delivery of such debt security or preferred stock." OCC proposes to replace this text with language from Interpretation and Policy .07 to Section 3 of Article XII (which currently only applies to stock futures) to provide that the further adjustment applies to outstanding options or stock futures "that have been adjusted by replacing the original underlying security with the security into which the original underlying security has been converted." OCC believes that this change is not material because "the adjustment of an outstanding option to call for delivery of such debt security or preferred stock" would necessarily require replacement of the original underlying security with the security into which the original underlying security has been converted. OCC also proposes to add the word "such" to the first sentence of proposed Rule 2803(d)(4) before the clause ". . . as in a merger" to promote clarity in the Rule that this a merger is just one example of the type of corporate action contemplated by the Rule.

⁵⁸ OCC also proposes non-substantive edits to streamline the text of the Rule, such as by replacing the clause "shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon" with "shall be further adjusted to call for delivery of the securities distributed as interest or dividends, effective as of the ex-date for each payment of interest or dividends."

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
through fourth sentences) ⁵⁹	respect to stock futures)	
Section 11A(e) of Article VI of the By-Laws; and Section 3(e) of Article XII (regarding stock futures) ⁶⁰	Rule 2803(e) (describing adjustments for other distributions not addressed elsewhere in OCC's Rules)	OCC proposes to consolidate and relocate current Section 11A(e) of Article VI and Section 3(e) of Article XII of the By-Laws as proposed Rule 2803(e) to govern other types of distributions not addressed elsewhere in OCC's Rules. OCC proposes to add language to make clear that the consolidated Rule applies to both options and stock futures. ⁶¹ OCC also proposes to relocate text from these By-Laws provisions which provides that OCC has the authority to determine the value of distributed property to proposed Rule 2803(j). OCC does not otherwise propose substantive changes to these By-Law provisions.
Section 11A(f) of Article VI; and Section 3(f) of Article XII (regarding stock futures) ⁶²	Rule 2803(f) (describing corporate actions not otherwise provided for in OCC's adjustment Rules)	OCC proposes to consolidate and relocate current Section 11A(f) of Article VI and Section 3(f) of Article XII of the By-Laws as proposed Rule 2803(e) to govern other corporate actions not otherwise provided for in OCC's Rules. OCC proposes to add language to make clear that the consolidated Rule applies to both options and stock futures. ⁶³ OCC does not otherwise propose substantive changes to these By-Law provisions.

⁵⁹ See n.32 of Exhibit B.

⁶⁰ See n.33 of Exhibit B.

⁶¹ For example, OCC proposes to add text to part (i) of the proposed Rule to note that OCC shall make certain adjustments to the exercise price in effect "in the case of an option or the last settlement price established in the case of a stock future." OCC also proposes to add the word "alternatively" just before part (ii) of the proposed Rule to improve readability.

⁶² See n.34 of Exhibit B.

⁶³ Specifically, OCC proposes to add the phrase "and stock futures" to the proposed Rule.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Section 11A(g) of Article VI; and Section 3(g) of Article XII (regarding stock futures) ⁶⁴	Rule 2803(g) (providing that adjustments pursuant to proposed Rule 2803 will become effective on the “ex-date”)	OCC proposes to consolidate and relocate current Section 11A(g) of Article VI and Section 3(g) of Article XII of the By-Laws as proposed Rule 2803(g) to provide that adjustments under proposed Rule 2803 will become effective on the “ex-date” established by the primary market for the underlying security. OCC proposes to add language to make clear that the consolidated Rule applies to both options and stock futures. ⁶⁵ OCC does not otherwise propose substantive changes to these By-Law provisions.
Section 11A(h) of Article VI; and Section 3(h) of Article XII (regarding stock futures) ⁶⁶	Rule 2803(h) (describing OCC’s rounding process for adjustments)	OCC proposes to consolidate and relocate current Section 11A(h) of Article VI and Section 3(h) of Article XII of the By-Laws as proposed Rule 2803(h) to describe how OCC performs rounding of exercise prices or settlement prices. OCC proposes to add language to make clear that the consolidated Rule applies to both options and stock futures. ⁶⁷ OCC does not otherwise propose substantive changes to these By-Law provisions.
Section 11A(e) of Article VI (last sentence); and Section 3(e) of Article XII (last sentence) (regarding stock futures) ⁶⁸	Rule 2803(j) (regarding OCC’s authority to determine the cash value of any	OCC proposes to relocate the last sentence from Section 11A(e) of Article VI of the By-Laws (which is also the last sentence of and Section 3(e) of Article XII of the By-Laws) as the first sentence of Proposed Rule 2803(j). OCC proposes to add an additional new provision to proposed Rule 2803(j),

⁶⁴ See n.35 of Exhibit B.

⁶⁵ Specifically, OCC proposes to add the phrase “and stock futures” to the proposed Rule.

⁶⁶ See n.36 of Exhibit B.

⁶⁷ Specifically, OCC proposes to add the phrase “and stock futures” in two instances to the proposed Rule, as well as references to the “settlement price” in four instances where the proposed Rule references the exercise price with respect to options contracts.

⁶⁸ See n.38 of Exhibit B.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
	distributed property)	which is described below in this proposed rule change. ⁶⁹ OCC does not otherwise propose substantive changes to this By-Law provision.
Section 11A(i) of Article VI; and Section 3(i) of Article XII (regarding stock futures) ⁷⁰	Rule 2803(n) (describing OCC’s authority to make exceptions to the general rules governing adjustments)	OCC proposes to consolidate and relocate current Section 11A(i) of Article VI and Section 3(i) of Article XII of the By-Laws as proposed Rule 2803(n) to set forth OCC’s authority to make exceptions to its general rules governing adjustments. OCC proposes non-substantive changes to the phrasing of these By-Law provisions and changes to internal cross-references therein. ⁷¹
Section 3(j) of Article XII (regarding stock futures) ⁷²	Rule 2803(o) (describing adjustment of stock futures using amounts reported by an exchange)	OCC proposes to relocate Section 3(j) of Article XII of the By-Laws as Rule 2803(o) without substantive change. The only change would be to update internal cross-references and add the phrase “of this Rule” following the reference to paragraph (c) in the first sentence.

Proposed Rule 2804 – Adjustments of Index Options and Futures and Certain Other Cash-Settled Options and Futures

OCC proposes to set forth in Rule 2804 provisions related to adjustments for index options and futures and certain other cash-settled options and futures. Proposed Rule 2804 would primarily consolidate into a single Rule provisions currently located in Section 3 of Article XVII and Section 4 of Article XII of the By-Laws. The table below describes where

⁶⁹ See infra n.112 and accompanying text.

⁷⁰ See n.43 of Exhibit B.

⁷¹ For example, OCC proposes to delete the phrase “[n]otwithstanding the general rules set forth in paragraphs (c) through (h) of this Section 11A” with “[t]he Corporation shall have the power to make exceptions to the general rules set forth in paragraphs (c) through (i) of this Rule.” Proposed Rule 2803(i), relating to election mergers and similar events, is described below in this proposed rule change.

⁷² See n.44 of Exhibit B.

current By-Law provisions are being relocated to proposed Rule 2804 and notable changes to such provisions.

Table 4—Proposed Rule 2804 Changes

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Section 3(b) of Article XVII (regarding index options and certain other cash-settled options); and Section 4A(b) of Article XII (regarding stock futures) ⁷³	Rule 2804(a) (governing adjustment of index options and futures and certain other cash-settled options and futures)	OCC proposes to consolidate and relocate Section 3(b) of Article XVII and Section 4 of Article XII as proposed Rule 2804(a). Proposed Rule 2804(a) would generally provide that, in the case of cash-settled options or cash-settled futures that do not require physical delivery of the underlying interest (except as expressly provided otherwise in the Rules ⁷⁴ relating to a particular cleared contract) determinations as to whether and how to adjust the terms of such instruments to reflect events affecting the underlying interest shall be made by OCC in accordance with Rule 2801. The notable changes from the baseline By-Law provisions include: (i) specifying that proposed Rule 2804(a) applies to cash settled options or cash-settled futures that “do not require physical delivery of the underlying interest”; ⁷⁵ (ii) delete text describing the factors OCC would consider in making an adjustment decision and replace it with a cross-reference to Rule

⁷³ See n.55 and 56 of Exhibit B.

⁷⁴ Currently, Section 3 of Article XVII of the By-Laws provides an exception for any other provision expressly relating to a particular cleared contract in OCC’s “By-Laws and Rules.” As proposed, Rule 2804 would note that such exception only arises where OCC’s “Rules” (and not By-Laws) expressly provide for different treatment. The reason for this change is because OCC is, through this proposed rule change, relocating all of its adjustment authority to its Rules, which obviates the need to also incorporate its By-Laws in this carve-out.

⁷⁵ Currently, Section 3(b) of Article XVII of the By-Laws provides that it applies to cash settled options that have “a single commodity as their underlying interest.” OCC proposes to delete the condition, add cash-settled futures, and replace the qualifying condition as cash-settled options or cash-settled futures that “do not require physical delivery of the underlying interest.” OCC proposes this change because all cash settled options that have a single commodity as their underlying interest also do not require physical delivery of the underlying interest.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		2801. ⁷⁶ OCC also proposes to specify in proposed Rule 2804(a) that flexibly structure options on fund shares that are cash settled are governed by proposed Rule 2803. ⁷⁷ Finally, OCC proposes to replace Section 4A(b) of Article XII of the By-Laws, which currently sets forth OCC’s authority to adjust the underlying interest, unit of trading, settlement price or any other terms of a futures contract that does not require physical delivery of the underlying interest. ⁷⁸
Section 3(c) of Article XVII (regarding index options and certain other cash-settled options); and Section 4(a) of	Rule 2804(b) (governing the addition, deletion or change to index components)	OCC proposes to consolidate and relocate Section 3(c) of Article XVII and Section 4(a) of Article XII of the By-Laws as proposed Rule 2804(b) to set forth OCC’s adjustment practices with respect to changes to index components that underlie an index option contract, index futures contract, or variance futures that have an index as their

⁷⁶ Specifically, OCC proposes to delete text from current Section 3 of Article XVII of the By-Laws specifying that OCC would make an adjustment decision based on its judgment as to what is appropriate for the protection of investors and the public interest and taking account factors such as fairness to buyers and sellers, maintaining a fair and orderly market, and consistency of interpretation and practice. Each of these same considerations are set forth in proposed Rule 2801(b) (which also includes additional considerations such as the efficiency of exercise settlement procedures and coordination with other clearing agencies). As a result, OCC believes that the same factors would be considered for the adjustment of instruments covered by proposed Rule 2804, plus additional relevant considerations set forth in Rule 2801(b).

⁷⁷ Currently, Section 3(a) of Article XVII of the By-Laws specifies that “[e]xcept in the case of flexibly structured options on fund shares that are cash settled, Section 11A of Article VI of the By-Laws shall not apply to cash-settled option contracts.” OCC proposes in this proposed rule change to replace Section 11A of Article VI of the By-Laws with proposed Rule 2803. As a result, the new language in proposed Rule 2804 relating to flexibly structured options would remain the same – i.e., it would continue to specify that flexibly structured options are governed by Section 11A, now redesignated as proposed Rule 2803. See n.57 of Exhibit B.

⁷⁸ Proposed Rule 2804(a) differs from current Section 4A(b) of Article XII of the By-Laws in that it would no longer specify that OCC may “adjust the underlying interest, unit of trading, settlement price or any other terms of such futures contract.” OCC believes that these details are not necessary because it is captured in OCC’s general authority, stated in proposed Rule 2804(a), to “adjust the terms” of the contracts. Section 4A(b) of Article XII of the By-Laws also describes the factors that would be considered by OCC in making an adjustment determination, which OCC proposes to replace with the cross-reference to proposed Rule 2801.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Article XII (regarding stock futures) ⁷⁹		reference variable. ⁸⁰ OCC does not propose substantive changes to these provisions. ⁸¹
Section 3(d) of Article XVII (regarding index options and certain other cash-settled options); and Section 4(b) and 4(d) of Article XII (regarding stock futures) ⁸²	Rule 2804(c) (governing a change to an index multiplier, calculation method, or underlying index or reference index)	OCC proposes to consolidate and relocate Section 3(d) of Article XVII and Section 4(b) and (d) of Article XII of the By-Laws as proposed Rule 2804(c) to set forth the conditions precedent and adjustment practices where there is a change to an index multiplier, calculation method, or the underlying index or reference index with respect to an index option contract, index futures contract or variance futures contract. ⁸³ OCC proposes to reorganize these provisions into two parts to improve readability and describe in proposed Rule 2804(c)(1) the conditions when OCC will make adjustments to these contracts and in proposed Rule 2804(c)(2) the adjustment

⁷⁹ See n.58 of Exhibit B.

⁸⁰ Section 3(c) of Article XVII and Section 4(a) of Article XII of the By-Laws are substantially similar to one another, both providing that OCC will not ordinarily make adjustments to such contracts in the event that index components are added to or deleted from the underlying index or reference index.

⁸¹ OCC proposes certain non-substantive changes and rephrasing of certain of the provisions, such as by splitting the current text of Section 3(c) of Article XVII and Section 4(a) of Article XII of the By-Laws into proposed Rule 2804(b)(1) and (2) and by revising the first sentence of these provisions to provide “[e]xcept as provided by paragraph (b)(2), the Corporation ordinarily will not . . .” in lieu of “[n]o adjustments will ordinarily be made in . . . However, if . . .” OCC also proposes to add the final sentence of Section 4(a) of Article XII of the By-Laws regarding variance futures as the final sentence of proposed Rule 2804(b)(2).

⁸² See n.59 of Exhibit B.

⁸³ Section 3(d) of Article XVII and Section 4(b) of Article XII of the By-Laws are substantially similarly to one another, but the former address index options contracts while the latter addresses index futures contracts/variance futures contracts. Given these similarities, OCC proposes to combine these provisions so that they are addressed in a single Rule and add language to effect this combination (e.g., by adding references to “buyers and sellers” of index futures/variance futures contracts rather than just “holders and writers” of index options or by replacing a reference to “the index securities” with “the constituents of the index” given that OCC). OCC also proposes in proposed Rule 2804(c)(1)(ii) to revise the phrase “an underlying index or reference index” with “an index that is an underlying interest or reference variable” to allow the proposed Rule to apply to index options, index futures options, and variance futures. This same change is proposed (for the same reason) in Rule 2804(d)(2) where the phrase “underling index or reference index” would be replaced with “underling interest or reference variable.”

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		practices. ⁸⁴ OCC proposes to restate the condition for an adjustment to an underlying variance currently set forth in Section 4(d) of Article XII of the By-Laws as proposed Rule 2804(c)(1)(iii). ⁸⁵ OCC does not propose substantive changes to these provisions.
Section 3(e) of Article XVII (regarding index options and certain other cash-settled options); and Section 4(c) of Article XII (regarding stock futures) ⁸⁶	Rule 2804(d) (governing the substitution of a successor index)	OCC proposes to consolidate and relocate Section 3(e) of Article XVII and Section 4(c) of Article XII of the By-Laws as proposed Rule 2804(d) to address when OCC may substitute another index (a “successor index” may be substituted for an index option, index futures contract, or variance futures contract. ⁸⁷ OCC proposes to reorganize these provisions into three separate subparts (as proposed Rule 2804(d)(1)-(3). OCC proposes to relocate the final sentence of Section 4(c) of Article XII of the By-Laws, which is specific only to index futures contracts and variance futures as proposed Rule 2804(d)(3). ⁸⁸ OCC

⁸⁴ To accomplish this reorganization, OCC proposes to add new introductory language to proposed Rule 2804(c)(1) providing that “[t]he Corporation shall make adjustments to an index option contract, index futures contract, or variance futures contract if . . .” and in proposed Rule 2804(c)(2) providing that “[in] the event an above condition occurs . . .” OCC proposes to update the current cross-reference to Section 3(e) in current Section 3(d) of Article XVII to Section 3(d) of the By-Laws with a cross-reference to proposed Rule 2804(e).

⁸⁵ The second part of Section 4(d) of Article XII of the By-Laws describing the adjustments that OCC would make to variance futures would be set forth in proposed Rule 2804(c)(2)

⁸⁶ See n.60 of Exhibit B.

⁸⁷ Section 3(e) of Article XVII and Section 4(c) of Article XII of the By-Laws are substantially similar to one another, but the former address index options contracts while the latter addresses index futures contracts/variance futures contracts. Given these similarities, OCC proposes to combine these provisions so that they are addressed in a single Rule. OCC proposes to add introductory language to proposed Rule 2804(d)(1) to make clear the purpose of the Rule by providing that “[t]he Corporation may substitute another index (a ‘successor index’) as the underlying interest or reference variable if . . .” and to delete the current introductory phrase “[i]n the event . . .”

⁸⁸ OCC proposes to add introductory language to proposed Rule 2804(d)(3) to make clear that such provision is specific just to index futures contracts and variance futures. OCC also proposes to update the internal

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		does not propose substantive changes to these provisions.
Section 3(f) of Article XVII (regarding index options and certain other cash-settled options) ⁸⁹	Rule 2804(e) (addressing where the underlying relative performance index is below zero)	OCC proposes to relocate Section 3(f) of Article XVII of the By-Laws in proposed Rule 2804(e) to address events where the value of an underlying relative performance index falls below zero. OCC does not propose substantive changes to these provisions. ⁹⁰
Section 3(g) of Article XVII (regarding index options and certain other cash-settled options) ⁹¹	Rule 2804(f) (addressing the elimination of an individual reference security)	OCC proposes to relocate Section 3(g) of Article XVII of the By-Laws in proposed Rule 2804(f) to address events where any individual reference security in an underlying relative performance index is eliminated. ⁹² OCC does not propose substantive changes to these provisions.
Section 4(e) of Article XII (regarding stock futures) ⁹³	Rule 2804(g) (governing adjustments of options on index futures or variance futures)	OCC proposes to relocate Section 4(e) of Article XII of the By-Laws as proposed Rule 2804(g) to provide that where OCC adjusts an index futures or variance futures contract underlying a futures option, such futures option ordinarily will be adjusted to provide, upon exercise, for delivery of the futures contract as adjusted by OCC.

cross reference to Section 5 of Article XII in this provision, rather than Section of 5 of “this Article” as the provision is being moved to proposed Rule 2804(d)(3).

⁸⁹ See n.61 of Exhibit B.

⁹⁰ OCC proposes to add text to the first sentence of this provision to make clear that it applies to “a cash-settled option or future,” consistent with how Section 3(f) of Article XVII of the By-Laws applies today.

⁹¹ See n.62 of Exhibit B.

⁹² OCC proposes certain non-substantive edits to this provision to delete the introductory phrase “[i]n the event that . . .” and an extraneous reference to an underlying relative performance index “defined in the preceding paragraph” as such phrases are unnecessary and improve readability. The paragraph that precedes current Section 3(g) of Article XVII of the By-Laws (Section 3(f)) does not define a relative performance index, so this reference is obsolete. A “relative performance index” refers to an index that measures the relative performance of two components, generally using relative total return.

⁹³ See n.63 of Exhibit B.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Section 3(h) and Interpretations and Policies .01 of Section 3 of Article XVII (regarding index options and certain other cash-settled options)	Rule 2804(h) (rule application and adjustment authority for OTC options)	OCC proposes to combine and relocated 3(h) and Interpretations and Policies .01 of Section 3 of Article XVII of the By-Laws to Rule 2804(g). Reference to applicability of Article VI, Sections 11 and 11A are removed as they are included in Rule 2804(a) as references to Rules 2801 and 2803.

Proposed Rule 2805 – Adjustment of Cash-Settled Foreign Currency Options and Futures

OCC proposes to set forth in Rule 2805 provisions related to adjustment of cash-settled foreign currency options and futures. Proposed Rule 2805 would consolidate into a single Rule provisions currently located in Section 3 of Article XXII and Section 4A(a) of Article XII of the By-Laws. The table below describes where current By-Law provisions are being relocated to proposed Rule 2805 and notable changes to such provisions.

Table 5—Proposed Rule 2805 Changes

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
Section 3 of Article XXII (regarding cash-settled foreign currency options); and Section 4A(a) of Article XII (regarding stock futures) ⁹⁴	Rule 2805 (regarding adjustment of cash-settled foreign currency options and futures)	OCC proposes to relocate Section 3 of Article XXII and Section 4A(a) of Article XII of the By-Laws (including Interpretation and Policy .01 to each) as proposed Rule 2805 to address adjustments of cash-settled foreign currency options and cash-settled foreign currency futures. ⁹⁵ OCC proposes to set forth Interpretation and Policy .01 of these By-Law provisions as proposed Rule 2805(b) without

⁹⁴ See n.64 of Exhibit B.

⁹⁵ Section 3 of Article XXII and Section 4A(a) of Article XII of the By-Laws are substantially similar to one another except that the former applies to cash-settled foreign currency options while the latter applies to foreign currency futures. Given these similarities, OCC proposes to combine these provisions in a single Rule with proposed Rule 2805(a)(1) describing the adjustments OCC may make to a cash-settled foreign currency option and (a)(2) describing the adjustments OCC may make to a cash-settled foreign currency future.

Current By-Law Provisions	Proposed Chapter XXVIII Rule	Notable Changes
		<p>substantive change. OCC proposes to delete a reference in Section 3 of Article XXII of the By-Laws providing that “[t]he provisions of Article VI, Section 11 of the By-Laws shall apply equally to adjustments made by OCC pursuant to this Article XXII, Section 4,” because these references would be no longer current and are not necessary.⁹⁶</p> <p>OCC does not propose substantive changes to these provisions.</p>

Proposed Consolidation of Adjustments for All Instruments Cleared by OCC into a Single Rule Chapter

As noted above, one of the key purposes of the proposed rule change is to consolidate into the Chapter XXVIII Rule series the various By-Law provisions relating to adjustments for different types of instruments cleared by OCC, including: (i) options contracts (Article VI of the By-Laws); (ii) futures, futures options and commodity options (Article XII of the By-Laws); (iii) index options and certain other cash-settled options (Article XVII of the By-Laws); and (iv) cash-settled foreign currency options (Article XXII of the By-Laws). Currently, each of the Articles in OCC’s By-Laws regarding each type of cleared instrument has a separate provision concerning adjustments, and in many cases these provisions are substantially similar or identical to each other. For example, Section 11(a) of Article VI of the By-Laws (regarding options), Section 3(b) of Article XII of the By-Laws (regarding futures), and Section 3(b) of Article XVII (regarding index options and certain other cash-settled options) each provide, among other things, that OCC shall determine whether to make adjustments to reflect particular events in respect of an underlying interest based on OCC’s judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers (or purchasers and sellers) of the instruments, the maintenance of a fair and

⁹⁶ Article VI, Section 11 of the By-Laws would be replaced under this proposed rule change with proposed Rule 2801. Proposed Rule 2801 would provide (among other things) general authority for OCC to make adjustments unless otherwise provided in the By-Laws or Rules. It is therefore not necessary for proposed Rule 2805 to make clear that Article VI, Section 11 of the By-Laws (proposed as Rule 2801) would apply to these adjustments because proposed Rule 2801 would apply to adjustments under Rule 2805 by its terms. Similarly, Section 4A(a) of Article XII of the By-Laws describes the factors that OCC would consider in making an adjustment (such as considering what is appropriate for the protection of investors and the public interest and fairness to buyers and sellers). OCC does not propose to carry over this provision to proposed Rule 2805 because these factors that OCC would consider are already set forth in proposed Rule 2801, which, as noted, would apply to adjustments under proposed Rule 2805.

orderly market in the affected contracts, and consistency of interpretation and practice.⁹⁷ Rather than setting forth separate provisions that are substantively similar for each of these different instruments, OCC believes Clearing Members and the public would benefit from having a single set of Rules describing OCC's practices related to adjustments, including the criteria OCC considers in making such adjustments.

To accomplish this objective, OCC proposes in a number of places to add language to an existing provision of Section 11, Article VI of the By-Laws, restated as a Chapter XXVIII Rule, to add mention of "stock future(s)" and add other relevant text to ensure the proposed Rule appropriately applies to stock futures (e.g., by adding mention of the "settlement price" of a stock future).⁹⁸

Proposed New Provisions Related to Adjustments

OCC also proposes to add several new provisions related to its adjustment process which are intended to codify in OCC's rules certain practices that OCC has developed with respect to adjustments under OCC's existing adjustment authority. OCC believes that these additions will provide greater detail and transparency regarding OCC's current adjustment practices. Each new provision is described below.

Distributions "in lieu of" Ordinary Dividends or Distributions

OCC proposes two additions to the Rules to reflect that distributions made in lieu of ordinary dividends or distributions will generally not result in an adjustment regardless of the manner in which the dividend is ultimately paid. The first of these additions applies to cash dividends or distributions with rule text in proposed Rule 2803(c)(1)(iii)(B), providing that as a general rule, a stock dividend or distribution by the issuer of the underlying security that is paid in lieu of a cash dividend or distribution which otherwise would have been an ordinary distribution as a cash dividend or distribution, will be deemed to be "ordinary distributions" and therefore will generally not warrant an option contract adjustment.⁹⁹ This provision is intended to clarify that where an issuer initiates some form of distribution that is paid in lieu of a cash dividend or distribution that would have been considered an ordinary distribution, OCC will

⁹⁷ The adjustment provisions for options contracts and futures contracts also specify two additional criteria to be considered: (i) the efficiency of exercise settlement procedures and (ii) the coordination with other clearing agencies of the clearance and settlement of transactions in the underlying interest. OCC proposes that all instruments would be subject to these two additional criteria pursuant to proposed Rule 2801, which OCC believes are also potentially relevant considerations for determining adjustments for index options and certain other cash-settled options.

⁹⁸ See e.g., proposed Rule 2803(h). Options contracts involve an exercise price while a stock future involves a settlement price. Accordingly, where OCC proposes to integrate stock futures into an existing options-related adjustment provision, OCC proposes to add reference to a stock future's settlement price where the current provision references an exercise price.

⁹⁹ See n.16 of Exhibit B.

view such “in lieu of” distribution as an ordinary distribution.¹⁰⁰ OCC believes that treating such an “in lieu of” distribution as an ordinary distribution where the cash dividend or distribution would have otherwise been considered an ordinary distribution is consistent with OCC’s current adjustment rules, which are broadly designed to treat ordinary distributions as such, even where an ordinary distribution may be replaced with an “in lieu of” distribution.

Second, OCC proposes Rule 2803(c)(3)(v) to provide that adjustments generally will not be made where a dividend or distribution is determined to be ordinary regardless of whether it is subject to a shareholder election regarding the form in which it will be paid, such as cash or stock. OCC believes that this proposed provision would be consistent with Section 11A(a) of Article VI of OCC’s By-Laws (replaced by proposed Rule 2803(c)(1)), which generally provides that OCC will not make adjustments where a stock or cash dividend or distribution is considered to be ordinary. The purpose of this proposed Rule 2803(c)(3)(v) is to make clear that the determination of whether a dividend or distribution is considered ordinary will generally determine whether OCC will make an adjustment for such dividend or distribution, notwithstanding that there may have been a shareholder election to determine the precise form of the ordinary distribution.

Cash in Lieu of Fractional Entitlements

In certain circumstances, the terms of a corporate action on an underlying security of an option may result in a fractional entitlement per 100 shares of stock for which cash will be paid in lieu of the fractional shares. In such situations, a contract adjustment that is effective on the option in response to the corporate action on the underlying security may result in an adjusted option deliverable that includes a cash component in lieu of fractional shares. For example, in the case of a stock dividend where fractional entitlements are paid as cash in lieu of additional shares, if the issuer of XYZ stock issues a stock dividend for all whole shares with a distribution rate of 18.2 percent, an owner of 100 shares of XYZ stock would be entitled to 18.2 shares, which may be distributed as 18 whole shares of XYZ and cash-in-lieu amount for the 2/10 share. Such situations can result from various types of corporate actions, such as mergers and spinoffs, among others. OCC proposes to add several provisions to its adjustments Rules to directly address adjustments in the context of cash in lieu of fractional entitlements.

First, OCC proposes to add a new provision as Rule 2803(k) providing that cash amounts in lieu of fractional share entitlements included in adjusted deliverables will generally be made in a manner consistent with the cash-in-lieu price used by a central securities depository clearing agency. The purpose of this provision is to make clear that where a stock dividend or distribution by an issuer involves some cash amount in lieu of fractional share entitlements and OCC determines that an adjustment is necessary pursuant to its By-Laws and Rules, OCC will generally seek to align its distribution with the approach taken by the central securities depository clearing agency (*i.e.*, Depository Trust Company) so that an option’s adjusted deliverable resulting from a corporate action reflects the amount of cash paid in lieu of fractional

¹⁰⁰ For example, if an issuer normally provides a cash dividend each quarter but in one quarter determines to provide a stock dividend in lieu of such cash dividend, OCC will consider the stock dividend as an ordinary distribution.

shares that the holder of 100 shares of the underlying security receives from the corporate action. This is and has been the longstanding practice of determining cash in lieu of fractional shares for adjusted option deliverables, as evidenced by the following examples:

- On February 12, 2024, options on Precision BioSciences, Inc. (“DTIL”) were adjusted in response to a 1-for-30 reverse stock split, and the adjusted deliverable resulting from the option contract adjustment called for 1) 3 (New) DTIL Common Shares and 2) cash in lieu of approximately 0.3333 fractional DTIL Shares. After the cash-in-lieu price was available from the central securities depository clearing agency, OCC published an information memo stating that the price of \$11.81 was used to determine the cash-in-lieu component amount of \$3.94 cash per contract ($.3333 \times \$11.81 = \3.94).¹⁰¹
- On February 11, 2015, options on Intervest Bancshares Corporation (“IBCA”) were adjusted in response merger with Bank of the Ozarks, Inc. (“OZRK”), and the adjusted deliverable resulting from the option contract adjustment called for 1) 30 OZRK Common Shares, and 2) cash in lieu of 0.14 fractional OZRK Common Shares. After the cash-in-lieu price was available from the central securities depository clearing agency, OCC published an information memo stating that the price of \$33.88 was used to determine the cash-in-lieu component amount of \$4.74 cash per contract ($0.14 \times \33.88).¹⁰²
- On April 12, 2015, PC Mall, Inc. (“MALL”) distributed 1.2071 common shares of eCOST.com, Inc. (“ECST”) to MALL Shareholders for each share held as a spinoff, and the adjusted deliverable resulting from the option contract adjustment called for 1) 100 MALL Common Shares, 2) 120 ECST Common Shares, and 3) cash in lieu of .71 fractional ECST Shares. After the cash-in-lieu price was available from the central securities depository clearing agency, OCC published an information memo stating that the price of \$4.61 was used to determine the cash-in-lieu component amount of \$3.27 cash per contract ($.71 \times \$4.61 = \3.27).¹⁰³

In connection with clarifying language in Rule 2803(k), OCC notes that in rare instances, OCC may be required to independently determine a cash-in-lieu price for fractional shares because of the terms of the underlying corporate action. For example, on July 13, 2007, options on CBOT Holdings, Inc. (“BOT”) were adjusted to reflect the merger between BOT and CME Group Inc. (“CME”).¹⁰⁴ The adjusted options deliverable became 1) 37 CME Group Inc. (“CME”) Common Shares and 2) cash in lieu of .5 fractional CME shares. However, pursuant to the terms of the corporate action, CME issued fractional shares instead of paying cash in lieu of fractional shares. Because OCC cannot facilitate settlement of fractional shares, it was determined that the closing price from the day prior to the consummation of the merger would be

¹⁰¹ See OCC Information Memo #54176, <https://infomemo.theocc.com/infomemos?number=54176>.

¹⁰² See OCC Information Memo #36262, <https://infomemo.theocc.com/infomemos?number=36262>.

¹⁰³ See OCC Information Memo #20861, <https://infomemo.theocc.com/infomemos?number=20861>.

¹⁰⁴ See OCC Information Memo #23267, <https://infomemo.theocc.com/infomemos?number=23267>.

used to determine the cash-in-lieu amount. Such situations are very uncommon, but when they do occur OCC may utilize its authority currently in Section 11A(e) of Article VI and in proposed Rule 2803(j) to determine the cash value of any distributed property.

Second, pursuant to Article VI, Section 11A(c) paragraph (y) of OCC's By-Laws (redesignated as proposed Rule 2803(c)(2) under this Proposal), OCC will generally not make an adjustment to a stock option contract for any cash dividend or distribution of the underlying security if such dividend or distribution is less than \$0.125 per share.¹⁰⁵ For the avoidance of doubt, OCC proposes to note that this provision is not applicable to cash paid in lieu of fractional share entitlements or other distributed property. Specifically, OCC proposes to state in Rule 2803(c)(2) that in connection with contract adjustment determinations involving fractional entitlements (for example in respect of stock rights, contingent value rights or other distributions) the determination will not be subject to this general rule.¹⁰⁶ This proposed change is necessary to clarify that adjustments in lieu of property are governed by other provisions of proposed Rule 2803. Additionally, this clarification aligns with longstanding practices. For example, on January 31, 2013, options on LATAM Airlines Group S.A. ("LFL") were adjusted in response to a \$ 0.011576 cash distribution made to holder of LFL American Depositary Shares in lieu of rights that were distributed to LFL common shareholders.¹⁰⁷ The adjustment was effected by reducing option strike prices by 0.011576 despite the fact that the distribution amount was below the \$0.125 adjustment threshold established by Article VI, Section 11A, Interpretation and Policies .08 because the \$0.125 adjustment threshold does not apply to this type of contract adjustment.

Election Mergers or Similar Events

OCC proposes to add a new provision as Rule 2803(i) providing that the deliverable resulting from an adjustment in the case of an election merger or similar event involving shareholder elections, such as shareholder election of a non-ordinary dividend, will generally be based on the consideration accruing to a non-electing shareholder if the Corporation determines in its sole discretion that it is readily able to facilitate delivery of that consideration. The purpose of this provision is to provide additional details to the Rules to describe the longstanding adjustment practice for corporate action events involving shareholder elections to reflect, to the extent possible, what a shareholder who does not make an election will receive.¹⁰⁸ For example,

¹⁰⁵ Where the stock option contract is originally listed with a unit of trading larger than 100 shares, the applicable threshold under both OCC's current and proposed By-Laws and Rules, the applicable threshold is \$12.50 per contract.

¹⁰⁶ See n.22 of Exhibit B. As a result of this proposed provision, where OCC a distribution involves cash in lieu of fractional entitlements, OCC would not be subject to the general rule that it will not make an adjustment if the dividend or distribution is that \$0.125 per share (or \$12.50 per contract where the option contract is originally listed with a trading unit of more than 100 shares).

¹⁰⁷ See OCC Information Memo #32143, <https://infomemo.theocc.com/infomemos?number=32144>.

¹⁰⁸ OCC notes that there may be circumstances where it is not possible to determine the make an adjustment that aligns with the interest of a non-electing shareholder. For example, in anticipation of the consummation of the election merger whereby Allis-Chalmers Energy Inc. was acquired by Seawell

on September 26, 2014, Iron Mountain Incorporated (“IRM”) was ex-distribution a \$3.62 special dividend payable in cash or stock at the election of IRM shareholders. Pursuant to the terms of the corporate action on the underlying security, IRM shareholders who did not make an election for the dividend would receive the dividend in the form of shares, and the corresponding contract adjustment to IRM options ultimately resulted in an adjustment deliverable of 1) 110 IRM Common Shares, and 2) \$5.97 cash resulting from cash in lieu of fractional shares.¹⁰⁹ As an additional example, on February 1, 2006, Siebel Systems, Inc. (“SEBL”) merged with Oracle Corporation, and the merger was subject to SEBL shareholder election to receive the merger consideration in the form of cash or stock. Pursuant to the terms of the underlying corporate action, SEBL shareholders who did not make an election received the cash consideration, and the corresponding contract adjustment to SEBL options resulted in an adjusted option deliverable of \$1033.00 cash per option contract.¹¹⁰

Other Events Not Ordinarily Resulting in an Adjustment

OCC proposes to add a new provision to specify an additional type of event that will ordinarily not result in an adjustment. OCC’s current By-Laws relocated to new Rule 2803(c)(3) under this Proposal, specify certain types of events that will ordinarily not result in an adjustment, such as the issuance of so-called “poison pill” rights, tender offers, or changes in capital structure. OCC proposes to add an additional type of event to this list for transparency purposes to reflect longstanding adjustment determination practices. OCC proposes Rule 2803(c)(3)(iv) to provide that adjustments generally will not be made to reflect a distribution of non-transferable property. OCC proposes this addition because distributions of non-transferable property can neither be traded on a national market nor transferred through the facilities of a central securities depository clearing agency. As a practical matter, there is no means to facilitate delivery of non-transferable distributions in fulfillment of option exercises and assignments and no trading price of the non-transferable property to provide a value. OCC therefore has determined in the past that adjustments would not be made for distributions of non-transferable property. As an example, in November of 2018, Pulse Biosciences, Inc. (“PLSE”) distributed non-transferable rights to PLSE shareholders. In response to this non-transferable distribution, OCC issued Information Memo #43972 to state that no adjustment would be made.¹¹¹ In this and other instances when adjustments are not made for a non-transferable

Limited, OCC published Information Memos #28424 and #28448 to state that if the non-electing merger consideration included a security that did not trade on a U.S. market, a U.S. dollar equivalent would be determined for the non-electing merger consideration as the adjusted options deliverable. Although the non-electing merger consideration was subsequently determined to be all cash as states in Information Memo #28570, the information in Information Memos #28424 and #28448 illustrates that it is possible that the non-electing merger consideration may not be used to determine an adjusted option deliverable in rare circumstances. See OCC Information Memo #28424, <https://infomemo.theocc.com/infomemos?number=28424>, OCC Information Memo #28448 <https://infomemo.theocc.com/infomemos?number=28448>, and OCC Information Memo #28570 <https://infomemo.theocc.com/infomemos?number=28570>.

¹⁰⁹ See OCC Information Memos #35275, <https://infomemo.theocc.com/infomemos?number=35311>; #35663, <https://infomemo.theocc.com/infomemos?number=35663>.

¹¹⁰ See OCC Information Memo #21403, <https://infomemo.theocc.com/infomemos?number=21403>.

¹¹¹ See OCC Information Memo #43972, <https://infomemo.theocc.com/infomemos?number=43972>.

distribution, call option holders who receive the distribution must exercise their options in sufficient time to become a holder of record with entitlement to receive the distribution. OCC would, however retain general authority pursuant to proposed Chapter XXVIII of the Rules to make adjustments to non-transferable property on a case-by-case where necessary.

Cash Value Determination

Section 11A(e) of Article VI and the last sentence of Section 3(e) of Article XII of the By-Laws both provide that OCC has authority to determine the value of distributed property with respect to any adjustments. As previously noted, OCC proposes to relocate this provision as Rule 2803(j). OCC also proposes to add to Rule 2803(j) additional text providing that OCC may use this authority in circumstances that include but are not limited to cases in which OCC determines that the final amount or distribution resulting from a corporate action may not be determined for a long period. OCC proposes to add this additional text to make clear that OCC would consider using its authority to determine the value of distributed property when OCC expects that it may take a long period of time to determine the final amount of a distribution resulting from a corporate action. Where a lengthy delay to determine the distributed property value is expected, options or stock futures contracts may expire or mature prior the time when the value is determined, which would leave such options and stock futures contract holders with considerable uncertainty as to the value of their position and their positions subject to delayed settlement for an extended period of time. As a historical example of this type of situation, options on Winthrop Realty Trust (“FUR”) were adjusted on August 8, 2016, in response to the liquidation of the underlying security. As detailed in Information Memo #39462, assets and liabilities of the trust were transferred to a liquidating trust, and each FUR share would be converted into a non-transferable Unit of Beneficial Interest in the liquidating trust. Since the timing and amount of any liquidating distributions were unknown and because the Unit of Beneficial Interest could not be transferred, the adjustment determination was made to set a cash value equivalent for FUR Shares using a high and low price from the last day of trading, thereby allowing settlement to occur in a timely manner. In certain situations, OCC believes that it is appropriate to use its existing authority to determine the cash value of distributed property in such circumstances. OCC believes that adding this provision to proposed Rule 2803(j) will provide detail regarding the anticipated use cases of such provision, which OCC believes furthers the protection of investors and the public interest.¹¹²

Foreign Withholding Tax

OCC proposes to add as Rule 2803(l) a provision relating to foreign withholding tax, which would provide that, in general, all contract adjustments will be made net of any relevant foreign withholding taxes, with the exception of events for which local tax authorities issue rulings that exempt certain groups from the withholding tax and it is reasonable that U.S. investors collectively can be included in such groups.¹¹³ The purpose of this provision is to make clear to market participants that OCC’s contract adjustments will ordinarily include foreign

¹¹² 15 U.S.C. 78q-1(b)(3)(F).

¹¹³ See n.41 of Exhibit B.

withholding taxes unless, as noted above, there is an exception from local tax authorities in the foreign jurisdiction for which OCC reasonably believes U.S. investors could avail themselves. For example, on May 12, 2023, Loma Negra Compania Industrial Argentina Sociedad Anonima (“LOMA”) was ex-dividend a \$0.4010845 distribution; however, the contract adjustment for this event on LOMA options reduced option strike prices by 0.3530086 as the net dividend, reduced by foreign withholding tax and a dividend fee.¹¹⁴ In contrast, the cash settlement adjustment for DSP Group, Inc. (“DSPG”) options in response to the all-cash merger of DSPG with a subsidiary of Synaptics Incorporated, did not reduce the cash settlement amount by any withholding tax because DSPG received an Israeli Tax Authority ruling, exempting non-Israeli shareholders from withholding.¹¹⁵ OCC investigates withholding tax information on foreign securities routinely and intends to adjust options taking withholding tax into account in the manner described above when such information is readily available.

Adjustments Made Per Contract

OCC proposes to add as Rule 2803(m) a provision specifying that all contract adjustments will be made on a per contract basis. As a practical matter, all exercises and assignments of options are based on a single contract as the lowest possible holding of an option. Consequently, contract option adjustments must also be made on a per contract basis. This practice is required for the proper functioning of the exercise and assignment process; however, this fact is not explicitly stated in OCC’s By-Laws and Rules. OCC proposes to add this provision to promote clarity, consistency, and understanding of its Rules.

Proposed Updates to By-Laws Sections for Adjustment Provisions Relating to Products Not Actively Traded

OCC’s By-Laws relating to certain products that are not currently actively traded have provisions relating to contract adjustments for such products. These provisions generally provide that adjustments for such products will be governed by Section 11 and/or Section 11A of Article VI of the By-Laws or, in the case of Packaged Spread Options, Section 3 of Article XVII of the By-Laws. As these adjustment-related provisions of the By-Laws would be deleted under the Proposal and moved to Chapter XXVIII of the Rules, OCC proposes to update the cross references in the By-Laws relating to the inactive products to correspond to the appropriate Rule provisions in Chapter XXVIII.

Specifically, OCC proposes to modify the following adjustment related cross references for products that are not actively traded today:

- Binary options and range options (Article XIV) – The following cross references would be updated in Article XIV: (i) in the bracketed language at the end of Section 3, the reference to Section 11 and 11A of Article VI of the By-Laws would be updated to refer to Chapter XXVIII of the Rules; (ii) the reference to Section 11 of Article VI of the By-

¹¹⁴ See OCC Information Memo #52394, <https://infomemo.theocc.com/infomemos?number=52394>.

¹¹⁵ See OCC Information Memo #49777, <https://infomemo.theocc.com/infomemos?number=49777>.

Laws in Section 3A(a)(2) would be updated to refer to Rule 2801 and Rule 2802; (iii) the reference to Section 11(a) of Article VI of the By-Laws in Section 3A(d) would be updated to refer to Rule 2801; (iv) the reference to Article VI, Section 11A of the By-Laws in Interpretation and Policy .02 would be updated to refer to Rule 2803(c)(1)(iv); and (v) the reference to Section 11 of Article VI of the By-Laws in Section 3B(d) would be updated to refer to Rule 2801 and Rule 2802.

- Foreign currency options (Article XV) – The following cross references would be updated in Article XV: (i) the reference to Article VI, Section 11 of the By-Laws in Section 4 would be updated to refer to Rule 2801 and Rule 2802; and (ii) in the bracketed language at the end of Section 4, the reference to Section 11A of would be updated to refer to Rule 2803 and the reference to Article VI of the By-Laws would be updated to refer to Chapter XXVIII of the Rules.
- Yield-based Treasury options (Article XVI) – The following references would be updated in Article XVI: (i) the reference to Section 11 of Article VI of the By-Laws in Section 3(a) and (d) would be updated to refer to Rule 2801 and Rule 2802; (ii) in the bracketed language at the end of Section 3, the reference to Section 11 of Article VI of the By-Laws would be updated to refer to Rule 2801 and Rule 2802; and (iii) the reference to Section 11 of Article VI of the By-Laws in Section 4(a)(2) would be updated to refer to Rule 2802.
- BOUNDS (Article XXIV) – The following references would be updated in Article XXIV: (i) the references to Section 11 and Section 11A of Article VI of the By-Laws, including reference to Interpretations and Policies following Section 11A, in Sections 4(a) and 4(f) of Section 4 would be updated to refer to Rule 2801, Rule 2802 and Rule 2803; (ii) the references to Section 11A of Article VI of the By-Laws in Sections 4(d) as well as the second reference to Section 11A contained in Section 4(a) of Section 4 would be updated to refer to Rule 2803; and (iii) in the bracketed language at the end of Section 4 would be updated to refer to Chapter XXVIII of the Rules.
- Packaged spread options (Article XXVI) – The reference in Section 3 of Article XXVI to Section 3 of Article XVII of the By-Laws would be changed to Rule 2804.

These proposed changes are not intended as substantive changes but rather are necessary to ensure consistency in OCC's Rules, notwithstanding that they pertain to products that are not currently traded.

Proposed Updates to By-Laws Sections Governance Provisions for By-Law and Rules Amendments

Article XI, Section 1 of the By-Laws states that amendment to certain provisions of the By-Laws, including Sections 11 and 11A of Article VI, requires approval of the holders of all outstanding Common Stock of OCC. Because of the proposed relocation of the content of Sections 11 and 11A of Article VI to Chapter XXVII of the Rules, OCC proposes to move the requirement for stockholder approval to Section 2 of Article XI, which states the requirements

for amendments to the Rules, by including language that amendment to Chapter XXVII of the Rules will require approval of the holders of all outstanding Common Stock of OCC.

Proposed Updates to Interpretative Guidance

OCC also proposes to amend the Interpretative Guidance on the Adjustment Policy for Cash Dividends and Distributions (the “Interpretative Guidance”), last updated and published in 2024,¹¹⁶ to align with the restatement of the contract adjustment provisions and migration of those provisions from the OCC By-Laws to the OCC Rules.¹¹⁷ Specifically, OCC would update two cross references in the Interpretative Guidance to Interpretation and Policy .08 to Article VI, Section 11A of the OCC By-Laws, which concerns adjustments related to capital gains distributions in respect of fund shares. OCC would update the cross references to refer instead to the applicable OCC Rules in which the restated provisions would be located:

- (1) OCC Rule 2803(c)(1)(iv)(B) with respect to the general rule that OCC will not classify distributions of short-term or long-term capital gains in respect of fund shares to be ordinary distributions for purposes of OCC’s contract adjustment rules; and
- (2) OCC Rule 2803(c)(2) with respect to the \$0.125 per share adjustment threshold for cash distributions in respect of stock option contracts, inclusive of fund shares’ capital gains distributions as a result of Article I of the OCC By-Laws, which defines “stock option contract” to include options on fund shares.

Consistency with DCO Core Principles

OCC reviewed the DCO core principles (“Core Principles”) as set forth in the Act, the regulations thereunder, and the provisions applicable to a DCO that elects to be subject to the provisions of 17 CFR Subpart C (“Subpart C DCO”). During this review, OCC identified the following as potentially being impacted:

Legal Risk. OCC believes that the proposed changes are aligned with Core Principle R,¹¹⁸ which requires that each DCO have a well-founded, transparent, and enforceable legal framework for each aspect of its activities. CFTC Regulation 39.27 further provides that such framework must, among other things, provide for the DCO to act as a counterparty and other significant aspects of the DCO’s operations, risk management procedures, and related requirements.¹¹⁹ OCC believes that by improving the readability of its Rules governing contract adjustments through the consolidation of adjustment provisions into a single Rule chapter and by providing additional clarity with respect to OCC’s adjustment practices in a variety of different situations, OCC policies and

¹¹⁶ See Exchange Act Release No. 99641 (Feb. 29, 2024), 89 FR 16043 (Mar. 6, 2024) (SR-OCC-2024-003).

¹¹⁷ OCC filed the Interpretative Guidance with marked changes as Exhibit 5 to Partial Amendment No. 1 to File No. SR-OCC-2025-017.

¹¹⁸ 7 U.S.C. 7a-1(c)(2)(R).

¹¹⁹ 7 CFR 39.27(b)(1), (6).

procedures regarding contract adjustments will be more clear, transparent and enforceable. OCC also proposes certain new provisions related to adjustments designed to provide greater specificity and clarity with respect to OCC's adjustment practices than are currently set forth in OCC's By-Laws and Rules. These proposed new provisions are also already within the scope of OCC's existing adjustment authority, which provides OCC with broad discretion to adjust the terms of cleared contract to reflect particular events in respect of an underlying interest, taking into account such factors as (among other things) the fairness to holders and writers (or purchasers and sellers) of the affected contracts, the maintenance of a fair and orderly market in the affected contracts, and consistency of interpretation and practice. As such, the proposed new provisions are generally utilized by OCC, and the additional language to the Rules will promote additional transparency and clarity to the industry.

For these reasons, OCC believes that the proposed changes are consistent with the requirements of the DCO Core Principles and the CFTC Regulations thereunder.

Opposing Views

No substantive opposing views were expressed related to the rule amendments by OCC's Board members, Clearing Members or market participants. Public comments on the proposed rule change filed with the SEC, if any, and any OCC response to such comments may be viewed on the SEC's public website.¹²⁰

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of this certification on OCC's website concurrently with the filing of this submission.

¹²⁰ See Options Clearing Corporation (OCC) Rulemaking, <https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking/occ>.

Christopher J. Kirkpatrick
December 11, 2025
Page 38

Certification

OCC hereby certifies that the rule set forth at Exhibits A through C of the enclosed filing complies with the Act and the CFTC's regulations thereunder.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

/s/ [REDACTED]

[REDACTED]

The Options Clearing Corporation

Enclosures: Exhibit A (OCC By-Laws amendments)
Exhibit B (OCC Rules amendments)
Exhibit C (Interpretative Guidance amendments)

EXHIBIT A



OCC BY-LAWS

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

THE OPTIONS CLEARING CORPORATION

BY-LAWS

* * *

Article VI

Clearance of Confirmed Trades

* * *

Adjustment Policies and Procedures

SECTION 11.

Reserved.

~~(a) Unless otherwise provided in the By-Laws or Rules of the Corporation, all adjustments to the terms of outstanding cleared contracts shall be made by the Corporation, which shall determine whether to make adjustments to reflect particular events in respect of an underlying interest, and the nature and extent of any adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers (or purchasers and sellers) of the affected contracts, the maintenance of a fair and orderly market in the affected contracts, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the coordination with other clearing agencies of the clearance and settlement of transactions in the underlying interest. The Securities Committee shall be authorized to adopt statements of policy or interpretations having general application to specified types of events or specified kinds of cleared contracts. In making any adjustment determination, the Corporation shall apply the factors set forth in this Section 11 and the policies and interpretations of the Securities Committee in light of the circumstances known to it at the time such determination is made, subject to the discretion of the Corporation to depart from policy or precedent where the Corporation determines that unusual circumstances make such a departure appropriate.~~

~~(b) Every adjustment determination under the By-Laws or Rules of the Corporation shall be within the sole discretion of the Corporation and shall be conclusive and binding on all investors and not subject to review. If the Corporation does not learn, or does not learn in a timely manner, of an event for which the Corporation would have otherwise made an adjustment, the Corporation shall not be liable for any failure to make such adjustment or delay in making such adjustment.~~

~~(c) The composition and manner of acting of the Securities Committee and panels comprised of representatives of Securities Exchanges that have authority under the By-Laws and Rules to make certain determinations with respect to cleared contracts shall be as set forth below, unless otherwise provided in the By-Laws and Rules of the Corporation:~~

~~(1) The Securities Committee shall consist of one designated representative of each Securities Exchange and the Chief Executive Officer. The Chief Executive Office shall not be a voting member of the Committee or of any panel except in the case of a tie vote, in which case the Chief Executive Officer shall have the right to cast a vote to break the tie and shall, for such purpose, be deemed to be a voting member.~~

~~(2) The vote of a majority of the voting members of the Securities Committee shall constitute the determination of the Securities Committee. With respect to a panel convened for the purpose of determining a required amount or value (other than as provided for in Article VI, Section 11A of the By Laws), a majority of the Securities Exchanges on which such cleared contract is open for trading shall constitute a quorum for purposes of acting.~~

~~(3) The Securities Committee or any panel may transact its business by telephone or such other means as may be designated by the Securities Committee from time to time.~~

~~(4) Notwithstanding the foregoing provisions of this Section 11 or any other requirements of the By Laws and Rules, the Chief Executive Officer may designate any other representative of the Corporation, and any representative of an Exchange may designate any other representative of such Exchange, to serve in his place at any meeting of the Securities Committee or of any panel. In the event of such designation, the designee shall, for the purposes of such meeting, have all of the powers and duties under this Section 11 of the person designating him. Neither the Corporation nor any Exchange shall designate to serve on any panel (i) any Exchange member or Clearing Member, or any director, officer, partner, or employee of any Exchange member or Clearing Member, or (ii) any person who, to the knowledge of the self regulatory organization designating such person, is the beneficial holder of a long or short position in the cleared contracts as to which such panel is to make a determination.~~

Adjustments for Stock Option Contracts

~~**SECTION 11A.** (a) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of option contracts, the unit of trading, the exercise price, and the underlying security, or any of them, with respect to all outstanding option contracts open for trading in that underlying security may be adjusted in accordance with this Section 11A.~~

~~(b) All adjustments hereunder shall be made by the Corporation in accordance with the policies and procedures set forth in Section 11.~~

~~(c) It shall be the general rule that there will be no adjustment to reflect (x) ordinary cash dividends or distributions or ordinary stock dividends or distributions (collectively, "ordinary distributions") by the issuer of the underlying security or (y) any cash dividend or distribution by the issuer of the underlying security if such dividend or distribution is less than \$0.125 per share provided that, in the case of a contract that is originally listed with a unit of trading larger than 100 shares, the applicable threshold shall be \$12.50 per contract.~~

~~(d) It shall be the general rule that in the case of:~~

~~(i) a stock dividend, stock distribution or stock split whereby a whole number of additional shares of the underlying security is issued with respect to each outstanding share, each option contract covering that underlying security shall be increased by the same number of additional option contracts as the additional number of shares issued with respect to each share of the underlying security, the exercise price per share in effect immediately prior to such event shall be proportionately reduced, and the unit of trading shall remain the same.~~

~~(ii) a stock dividend, stock distribution or stock split whereby other than a whole number of shares of the underlying security is issued in respect of each outstanding share, the exercise price in effect immediately prior to such event shall be proportionately reduced and the unit of trading shall be proportionately increased.~~

~~(iii) reverse stock splits, combinations of shares, or similar events, option contracts shall be adjusted solely for purposes of determining the property deliverable upon exercise of the option, by decreasing the unit of trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the unit of trading for all such adjusted series of options shall remain unchanged for purposes of determining the aggregate exercise price of the option and for purposes of determining the premium for any such option purchased and sold.~~

~~(e) It shall be the general rule that in the case of any distribution made with respect to shares of an underlying security, other than ordinary distributions and other than distributions for which adjustments are provided in paragraph (d) of this Section 11A, if an adjustment is determined by the Corporation to be appropriate, (i) the exercise price in effect immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the unit of trading shall not be adjusted, or (ii) the unit of trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the underlying security represented by the unit of trading in effect prior to such adjustment, in which event the exercise price shall not be adjusted. The Corporation shall, with respect to adjustments under this paragraph or any other paragraph of this Section 11A, have the authority to determine the value of distributed property.~~

~~(f) In the case of any event for which adjustment is not provided in any of the foregoing paragraphs of this Section 11A, the Corporation may make such adjustments, if any, with respect to the option contracts affected by such event as the Corporation determines.~~

~~(g) Adjustments pursuant to this Section 11A shall as a general rule become effective in respect of option contracts outstanding on the “ex date” established by the primary market for the underlying security.~~

~~(h) It shall be the general rule that (1) all adjustments of the exercise price of an outstanding option contract shall be rounded to the nearest adjustment increment, (2) when an adjustment causes an exercise price to be equidistant between two adjustment increments, the exercise price shall be rounded up to the next highest adjustment increment, (3) all adjustments of the unit of trading shall be rounded down to eliminate any fraction, and (4) if the adjustment is made~~

~~pursuant to subparagraph (d)(ii) above and the unit of trading is rounded down to eliminate a fraction, the adjusted exercise price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the option contract resulting from the elimination of the fraction, or if the adjustment is made pursuant to subparagraph (d)(iii) above and the unit of trading is rounded down to eliminate a fraction, the value of the fractional share so eliminated as determined by the Corporation shall be added to the unit of trading.~~

~~(i) Notwithstanding the general rules set forth in paragraphs (c) through (h) of this Section 11A or which may be set forth as interpretations and policies under this Section 11A, the Corporation shall have the power to make exceptions in those cases or groups of cases (which may include making exceptions for one or more series of flexibly structured options) in which, in applying the standards set forth in Section 11(a) hereof, the Corporation shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Corporation affirmatively determines to make an exception in a particular case or group of cases.~~

~~**... Interpretations and Policies:**~~

~~.01 Cash dividends or distributions (regardless of size) by the issuer of the underlying security which the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly or other regular basis or which the Corporation believes represents an acceleration or deferral of such payments will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of paragraph (c) of Section 11A. Stock dividends or distributions by the issuer of the underlying security (i) in an aggregate amount per dividend or distribution which does not exceed 10% of the number of shares or other units of the underlying security outstanding as of the close of trading on the declaration date, and (ii) which the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or which the Corporation believes represents an acceleration or deferral of such payments will, as a general rule, be deemed to be “ordinary stock dividends or distributions” within the meaning of paragraph (c) of Section 11A. The Corporation will determine on a case-by-case basis whether other dividends or distributions are “ordinary distributions” or whether they are dividends or distributions for which an adjustment should be made. Where the Corporation determines to adjust for a dividend or distribution, the adjustment shall be made in accordance with paragraph (c) of Section 11A. Any issue as to whether a particular dividend or distribution was declared pursuant to a policy of paying such dividends or distributions on a quarterly or (where applicable) other regular basis shall be referred to the Corporation for a determination.~~

~~In making such determinations, the Corporation may take into account such factors as it deems appropriate, including, without limitation, the issuer’s stated dividend payment policy, the issuer’s characterization of a particular dividend or distribution as “regular,” “special,” “accelerated” or “deferred,” whether the dividend can be differentiated from other dividends (if any) paid on a quarterly or other regular basis, and the issuer’s dividend payment history. Normally, the Corporation shall classify a dividend or distribution as non-ordinary when it~~

~~believes that similar dividends or distributions will not be paid on a quarterly or other regular basis.~~

~~.02 Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Corporation will determine whether an adjustment is appropriate.~~

~~.03 Adjustments will not be made to reflect a tender offer or exchange offer to the holders of the underlying security, whether such offer is made by the issuer of the underlying security or by a third person or whether the offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favorably or adversely affected by the offer or whether the offer may be deemed to be “coercive.” Outstanding options ordinarily will be adjusted to reflect a merger, consolidation or similar event that becomes effective following the completion of a tender offer or exchange offer.~~

~~.04 Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the underlying securities outstanding in the hands of the public (other than dissenters’ shares) are not changed into another security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an underlying security) of new or additional debt, stock, or options, warrants or other securities convertible into or exercisable for the underlying security, the~~

~~refinancing of the issuer’s outstanding debt, the repurchase by the issuer of less than all of the underlying securities outstanding, or the sale by the issuer of significant capital assets.~~

~~.05 When an underlying security is converted into a right to receive a fixed amount of cash, such as in a merger or a call or redemption of an entire class of index-linked securities, outstanding options will be adjusted to require the delivery upon exercise of cash in an amount per share or unit equal to the conversion or redemption price. As a result of such adjustment, the value of all outstanding in-the-money options will become fixed, and all at-the-money and out-of-the-money options will become worthless. No adjustment will ordinarily be made in the event of a call of less than an entire class of index-linked securities.~~

~~.06 In the case of a corporate reorganization, reincorporation or similar occurrence by the issuer of an underlying security which results in an automatic share-for-share exchange of shares in the issuer for shares in the resulting company, the options on the underlying security will ordinarily be adjusted to require delivery upon exercise of a like number of units of the shares of the resulting company. Because the securities are generally exchanged only on the books of the issuer and the resulting company, and are not generally exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original issuer, but which, as a result of the corporate transaction, represent shares in the resulting company.~~

~~.07 When an underlying security is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding options that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.~~

~~.08 Notwithstanding Interpretation and Policy .01 under Section 11A of Article VI of the By-Laws, (i) distributions of short term or long term capital gains in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (c) of Section 11A, and (ii) other distributions in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (c) of this Section 11A if (x) the fund tracks the performance of an index that underlies a class of index options or index futures, and the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor; or (y) the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security (I) that results in an~~

~~adjustment of options on other fund shares pursuant to clause (ii)(x), or (II) that is not deemed an ordinary distribution under Interpretation .01 above. Adjustments of the terms of options on such fund shares for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (c) of Section 11A, unless the Corporation determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution that is less than \$.125 per fund share and provided that, in the case of a contract that is originally listed with a unit of trading larger than 100 fund shares, the applicable threshold shall be \$12.50 per contract.~~

~~.09 Interest payments on index-linked securities will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of paragraph (c) of this Section 11A.~~

* * *

Article XI

Amendment of the By-Laws and the Rules

* * *

Amendment of the By-Laws

SECTION 1. The By-Laws may be amended at any time by the Board of Directors upon the affirmative vote of two-thirds of the directors then in office (but not less than a majority of the number of directors fixed by these By-Laws); provided that Sections 2, 3 and 5 of Article II,

Article III, the first sentence of Section 10 of Article VI, ~~Sections 11 and 11A of Article VI~~, Article VIIA, Article VIIB, Section 9 of Article IX, and this Section 1 of Article XI may not be amended by action of the Board of Directors without the approval of the holders of all of the outstanding Common Stock of the Corporation.

Amendment of the Rules

SECTION 2. The Rules may be amended at any time by the Board of Directors, a committee thereof as defined in Article III, Section 4, or an officer to whom the Board of Directors may from time to time delegate such authority; provided that any amendment of the introduction to Chapter X of the Rules, Rule 1002, Rule 1006, Rule 1009 and Rule 1010 shall require the affirmative vote of two-thirds of the directors then in office (but not less than a majority of the number of directors fixed by these By-Laws) and Chapter XXVIII may not be amended by action of the Board of Directors without the approval of the holders of all of the outstanding Common Stock of the Corporation.

* * *

Article XII Futures, Futures Options and Commodity Options

* * *

~~Adjustments to Futures and Futures Options~~

~~SECTION 3. (a) Section 11 of Article VI of the By-Laws shall not apply to futures or futures options. Except as provided in paragraph (j) below, determinations as to whether and how to adjust the terms of futures and futures options to reflect events affecting underlying interests shall be made by the Corporation based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers of such futures and futures options, the maintenance of a fair and orderly market in futures on the underlying interest and options on such futures, consistency of interpretation and practice (including consistency with the actions of the Corporation in making adjustments to options on the same underlying interest), efficiency of settlement of delivery obligations arising from physically settled stock futures, and the coordination with other clearing agencies of the clearance and settlement of transactions in the underlying interest. The Corporation may, in addition to determining adjustments to futures and futures options on a case-by-case basis, adopt statements of policy or interpretations having general application to specified types of events. Except as provided in paragraph (j) below, every determination by the Corporation in respect of futures or futures options pursuant to this Section 3, or pursuant to Section 4 or Section 4A of this Article shall be within the sole discretion of the Corporation. Such determinations shall be conclusive and binding on all investors and not subject to review. The following paragraphs of this Section 3 apply to stock futures only. Special rules for adjustment of index futures and futures options and variance futures and futures options are set~~

~~out in Section 4. Special rules for adjustment of other cash settled futures are set out in Section 4A.~~

~~(b) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of stock futures, the unit of trading (or settlement price) and the underlying security, or any of them, with respect to all outstanding security futures open for trading in the underlying security may be adjusted in accordance with this Section 3. If the Corporation does not learn, or does not learn in a timely manner, of an event for which the Corporation would have otherwise made an adjustment, the Corporation shall not be liable for any failure to make such adjustment or delay in making such adjustment. In making any adjustment determination, the Corporation shall apply the factors set forth in this Section 4 in light of the circumstances known to it at the time such determination is made.~~

~~(c) Except as provided in paragraph (j) below, it shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions or ordinary stock dividends or distributions (collectively, "ordinary distributions") by the issuer of the underlying security.~~

~~(d) It shall be the general rule that in the case of:~~

~~(i) a stock dividend, stock distribution or stock split whereby a whole number of additional shares of the underlying security is issued with respect to each outstanding share, each stock future covering that underlying security shall be increased by the same number of additional stock futures as the additional number of shares issued with respect to each share of the underlying security, the last settlement price established immediately before such event shall be proportionately reduced, and the unit of trading shall remain the same.~~

~~(ii) a stock dividend, stock distribution or stock split whereby other than a whole number of shares of the underlying security is issued in respect of each outstanding share, the last settlement price established immediately before such event shall be proportionately reduced and the unit of trading shall be proportionately increased.~~

~~(iii) reverse stock splits, combinations of shares, or similar events, stock futures shall be adjusted solely for purposes of determining the property deliverable in respect of such futures contract, by decreasing the unit of trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the unit of trading for all such adjusted futures contracts shall remain unchanged for purposes of determining the aggregate settlement value of the futures contract payable upon delivery and for purposes of determining the settlement value for any such futures contract purchased and sold.~~

~~(e) It shall be the general rule that in the case of any distribution made with respect to shares of an underlying security other than ordinary distributions and other than distributions for which adjustments are provided in paragraph (d) of this Section 3, if the Corporation determines that an adjustment to the terms of stock futures on such underlying security is appropriate, (i) the last settlement price established immediately before such event shall be reduced by the value per~~

~~share of the distributed property, in which event the unit of trading shall not be adjusted, or alternatively, (ii) the unit of trading in effect immediately before such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the underlying security represented by the unit of trading in effect prior to such adjustment, in which event the settlement price shall not be adjusted. The Corporation shall, with respect to adjustments under this paragraph or any other paragraph of this Section 3, have the authority to determine the value of distributed property.~~

~~(f) In the case of any event for which adjustment is not provided in any of the foregoing paragraphs of this Section 3, the Corporation may make such adjustments, if any, with respect to the stock futures affected by such event as the Corporation determines.~~

~~(g) Adjustments pursuant to this Section 3 shall as a general rule become effective in respect of outstanding stock futures on the “ex date” established by the primary market for the underlying security.~~

~~(h) It shall be the general rule that (i) all adjustments of the settlement price of an outstanding stock future shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes a settlement price to be equidistant between two adjustment increments, the settlement price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the unit of trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (d)(ii) above and the unit of trading is rounded down to eliminate a fraction, the adjusted settlement price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the stock future resulting from the elimination of the fraction, or if the adjustment is made pursuant to subparagraph (d)(iii) above and the unit of trading is rounded down to eliminate a fraction, the value of the fractional share so eliminated as determined by the Corporation shall be added to the unit of trading.~~

~~(i) Notwithstanding the general rules set forth in paragraphs (c) through (h) and (j) of this Section 3 or which may be set forth as interpretations and policies under this Section 3, the Corporation shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in paragraph (a) of this Section 3, the Corporation shall determine such exceptions to be appropriate.~~

~~However, the general rules shall be applied unless the Corporation affirmatively determines to make an exception in a particular case or group of cases.~~

~~(j) Notwithstanding the general rule set forth in paragraph (c), such security futures as may be designated by the Exchange on which such contracts are traded as subject to this paragraph (j) shall be adjusted for the aggregate amount of all cash dividends or distributions as reported by such Exchange to the Corporation. The settlement price of each such contract on the ex date shall be adjusted by such aggregate amount of such dividend or distribution, provided that (i) the Exchange has reported such information to the Corporation prior to the ex date in accordance with the Corporation’s requirements, or~~

~~(ii) the Exchange failed to provide the information on a timely basis or reported incorrect information to the Corporation, but provides such information or corrected information to the Corporation on the ex-date. The Corporation shall have no liability with respect to a dividend or distribution that has not been timely reported by the trading Exchange or for which such Exchange has reported incorrect information without making a timely subsequent correction.~~

~~**... Interpretations and Policies:**~~

~~.01 (a) Cash dividends or distributions by the issuer of the underlying security that the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly or other regular basis or which the Corporation believes represents an acceleration or deferral of such payments will, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (c) of Section 3. The Corporation will determine on a case-by-case basis whether other dividends or distributions are “ordinary distributions” or whether they are dividends or distributions for which an adjustment should be made.~~

~~In making such determinations, the Corporation may take into account such factors as it deems appropriate, including, without limitation, the issuer’s stated dividend payment policy, the issuer’s characterization of a particular dividend or distribution as “regular,” “special,” “accelerated” or “deferred,” whether the dividend can be differentiated from other dividends (if any) paid on a quarterly or other regular basis, and the issuer’s dividend payment history. Normally, the Corporation shall classify a dividend or distribution as non-ordinary when it believes that similar dividends or distributions will not be paid on a quarterly or other regular basis.~~

~~(b) Stock dividends or distributions by the issuer of the underlying security that the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (c) of Section 3. The Corporation will ordinarily adjust for other stock dividends and distributions.~~

~~(c) Where the Corporation determines to adjust for a cash or stock dividend or distribution, the adjustment shall be made in accordance with the applicable provisions of Section 3.~~

~~.02 Adjustments will ordinarily be made for rights distributions, except as provided below in the case of certain “poison pill” rights. When an adjustment is made for a rights distribution, the unit of trading in effect immediately prior to the distribution will ordinarily be adjusted to include the number of rights distributed with respect to the number of shares or other units of the underlying security comprising the unit of trading. If, however, the Corporation determines that the rights are due to expire before the time they could be exercised upon delivery under the futures contract, then delivery of the rights will not be required. Instead, the Corporation will ordinarily adjust the last settlement price established before the rights expire to reflect the value, if any, of the rights as determined by the Corporation in its sole discretion. Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed~~

by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Corporation will determine whether an adjustment is appropriate.

~~.03 Adjustments will not be made to reflect a tender offer or exchange offer to the holders of the underlying security, whether such offer is made by the issuer of the underlying security or by a third person or whether the offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favorably or adversely affected by the offer or whether the offer may be deemed to be “coercive.” Outstanding stock futures ordinarily will be adjusted to reflect a merger, consolidation or similar event that becomes effective following the completion of a tender offer or exchange offer.~~

~~.04 Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the underlying securities outstanding in the hands of the public (other than dissenters’ shares) are not changed into another security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an underlying security) of new or additional debt, stock, or options, warrants or other securities convertible into or exercisable for the underlying security, the refinancing of the issuer’s outstanding debt, the repurchase by the issuer of less than all of the underlying securities outstanding, or the sale by the issuer of significant capital assets.~~

~~.05 When an underlying security is converted into a right to receive a fixed amount of cash, such as in a merger or a call or redemption of an entire class of index-linked securities, outstanding stock futures will be adjusted to replace such underlying security with such fixed amount of cash as the underlying interest, and the unit of trading shall remain unchanged. No adjustment will ordinarily be made in the event of a call of less than an entire class of index-linked securities.~~

~~.06 In the case of a corporate reorganization, reincorporation or similar occurrence by the issuer of an underlying security which results in an automatic share-for-share exchange of shares in the issuer for shares in the resulting company, security futures on the underlying security will ordinarily be adjusted by replacing such underlying security with a like number of units of the shares of the resulting company.~~

Because the securities are generally exchanged only on the books of the issuer and the resulting company, and are not generally exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original issuer, but which, as a result of the corporate transaction, represent shares in the resulting company.

~~.07 When an underlying security is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding stock futures that have been adjusted by replacing the original underlying security with the security into which the original underlying security has been converted shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, by increasing the unit of trading by the number of units of the new underlying security distributed as interest or dividends thereon.~~

~~.08 Notwithstanding Interpretation and Policy .01 above, (i) distributions of short-term and long-term capital gains in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (c) of this Section 3 and (ii) other distributions in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (c) of Section 3 if (x) the fund tracks the performance of an index that underlies a class of index options or index futures, and the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor; or (y) the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security (I) that results in an adjustment of stock futures on other fund shares pursuant to clause (ii)(x) or (II) that is not deemed an ordinary distribution under Interpretation .01 above.~~

~~Adjustments of the terms of stock futures on such fund shares for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (c) of this Section 3 unless the Corporation determines, on a case-by-case basis, not to adjust for such a distribution.~~

~~.09 Other than as provided for in the By-Laws and Rules, including in paragraph (j) of this Section 3, the Corporation will not adjust officially reported settlement prices, even if the information provided by the Exchange regarding dividends or distributions is subsequently found to have been erroneous, except in extraordinary circumstances. Such circumstances might be found to exist where, for example, the information initially provided by the Exchange is clearly erroneous or the Corporation otherwise learns of the error, and corrected information is promptly provided by the Exchange. In no event will a completed settlement be adjusted due to errors discovered after settlement.~~

~~.10 Interest payments on index-linked securities will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of paragraph (c) of this Section 3.~~

~~[Section 3 of this Article replaces Article VI, Section 11A of the By-Laws.]~~

Adjustments to Index Futures and Variance Futures and Options on Such Futures

SECTION 4. (a) ~~No adjustments will ordinarily be made in the terms of index futures or in the terms of variance futures that have an index as their reference variable in the event that securities, commodities, or other constituents are added to or deleted from the index or when the relative weight of one or more such constituents in the index is changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion or change causes significant discontinuity in the level of the index, the Corporation may adjust the terms of the affected index futures by adjusting the index multiplier with respect to such contracts or by taking such other action as the Corporation in its sole discretion deems fair to both the buyers and sellers of such contracts. Similarly, the Corporation may use its discretion to adjust variance futures if necessary to correct for any impact such an event could have on an underlying variance.~~

~~(b) If (i) an Exchange shall increase or decrease the multiplier for any index futures contract or variance futures contract, (ii) the reporting authority shall change the method of calculation of an index that is an underlying interest or reference variable so as to create a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the constituents in the index, or (iii) the Corporation shall substitute one index for another pursuant to paragraph (c) of this Section, the Corporation shall make such adjustments in the number of outstanding affected futures or the contract prices of such futures or such other adjustments, if any, as the Corporation in its sole discretion deems fair to both the buyers and the sellers of such contracts.~~

~~(c) In the event the Corporation determines that: (i) publication of an index that is an underlying interest or reference variable has been discontinued; (ii) such an index has been replaced by another index; or (iii) the composition or method of calculation of such an index is so materially changed since its selection as an underlying interest or reference variable that it is deemed to be a different index, the Corporation may substitute another index (a “successor index”) as the underlying interest or reference variable. A successor index shall be reasonably comparable, as determined by the Corporation in its discretion, to the original index for which it is substituted. An index may be created specifically for the purpose of becoming a successor index. If the Corporation determines in its discretion not to substitute a successor index, the Corporation may terminate the futures contract and fix a final settlement price in accordance with Section 5 of this Article. Any outstanding options on a futures contract terminated in accordance with the preceding sentence will be automatically exercised if in the money based upon the final settlement price for the underlying future or will terminate if out of the money based upon such final settlement price.~~

~~(d) If a futures market or its reporting authority shall change the method of calculation of an underlying variance so as to create a discontinuity or change in the underlying variance that does not reflect a change in the variability of the reference variable, the Corporation shall make such adjustments in the number of outstanding affected variance futures or the contract prices of such futures or such other adjustments, if any, as the Corporation in its sole discretion deems fair to both the buyers and the sellers of such contracts.~~

~~(e)(i) In the event the Corporation, acting pursuant to paragraph (a) of this Section, adjusts an index futures contract or variance futures contract underlying a futures option, such futures option will ordinarily be adjusted to provide, upon exercise, for delivery of the futures contract as adjusted by the Corporation.~~

~~(ii) In the event the Corporation, acting pursuant to paragraph (b) or (d) of this Section, adjusts (A) the number of outstanding index futures or variance futures in a series of futures underlying a futures option, (B) the contract price of index futures or variance futures underlying a futures option, or (C) the index futures or variance futures underlying a futures option in any other manner, the futures option ordinarily will be adjusted in a manner corresponding to the adjustment in the underlying futures contract (e.g., if the number of outstanding index futures or variance futures in a series of futures underlying a futures option is adjusted, the number of futures options on the adjusted underlying index future or variance future will be similarly~~

adjusted; if the contract price of the underlying index future or variance future is adjusted, the exercise price of the futures options will be similarly adjusted; etc.).

[Section 4 of this Article replaces Article VI, Section 11 of the By-Laws.]

Adjustments to Other Cash-Settled Futures

SECTION 4A. (a) ~~Cash-settled foreign currency futures. In the event that (i) the currency underlying a cash-settled foreign currency future is officially replaced by a new currency, or (ii) such currency's exchange rate or exchange characteristics with respect to other currencies are officially altered, the Corporation may adjust the underlying interest, unit of trading, settlement price or any other terms of futures affected by such event. The Corporation shall determine whether to make adjustments to reflect particular events, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers, the maintenance of a fair and orderly market in futures on the underlying interest, and consistency of interpretation and practice (including consistency with the actions of the Corporation in making adjustments to option contracts on the same underlying interest).~~

(b) ~~Other cash-settled futures. In the case of any futures contract that does not require physical delivery of the underlying interest and that is not covered under Section 4 or 4A(a), the Corporation may adjust the underlying interest, unit of trading, settlement price or any other terms of such futures if the Corporation determines that an adjustment is appropriate to reflect the occurrence of an event affecting such underlying interest. The Corporation shall determine whether to make adjustments to reflect particular events, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers, the maintenance of a fair and orderly market in futures on the underlying interest, and consistency of interpretation and practice (including consistency with the actions of the Corporation in making adjustments to option contracts on the same underlying interest).~~

[Section 4A of this Article replaces Section 11A and the Interpretations and Policies promulgated thereunder, of Article VI of the By-Laws.]

... Interpretations and Policies:

~~.01 The Corporation will not ordinarily adjust the terms of cash-settled foreign currency futures in response to devaluations or revaluations of currencies underlying such futures.~~

* * *

Article XIV Binary Options; Range Options

* * *

Adjustments of Event Options

SECTION 3. The listing Exchange is vested with complete discretionary authority to confirm adjustment events and make adjustments to event options in accordance with Exchange Rules, as they are interpreted by the Exchange. Adjustment determinations shall be reported to the Corporation by the Exchange. Every adjustment determination by the Exchange will be within its sole discretion and shall be conclusive and binding on all holders and writers and not subject to review. The Corporation shall not be responsible for any adjustment determination by the Exchange.

[Section 3 of this Article replaces ~~Section 11 and 11A of Article VI of the By-Laws~~ [Chapter XXVIII of the Rules](#).]

Adjustments of Binary Options (other than Event Options) and Range Options for which the Underlying Interest is a Security or an Index of Securities

SECTION 3A. (a) Binary Options for which the Underlying Interest is an Equity Security. (1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying equity security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying equity security, the number of option contracts, the exercise price, the exercise settlement amount, the underlying interest, the unit of trading, or any of them, with respect to all outstanding binary option contracts open for trading in that underlying equity security may be adjusted in accordance with this Section 3A(a).

(2) All adjustments under Section 3A(a) and 3A(b) shall be made by the Corporation in accordance with the policies and procedures set forth in ~~Section 11 of Article VI of the By-Laws~~ [Rule 2801 and Rule 2802](#).

(a)3-(c) – [No change]

(d) Notwithstanding the general rules set forth in paragraphs (a) through (c) of this Section 3A or which may be set forth as interpretations and policies under this Section 3A, the Corporation shall have the power to make exceptions in those cases or groups of cases (which may include making exceptions for one or more series of flexibly structured options) in which, in applying the standards set forth in ~~Article VI, Section 11(a) of the By-Laws~~ [Rule 2801](#), the Corporation shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Corporation affirmatively determines to make an exception in a particular case or group of cases.

... Interpretations and Policies:

.01 [No change]

.02 Notwithstanding Interpretation and Policy .01, (i) distributions of short-term and long-term capital gains in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of Section 3A(a)(3) and (ii) other distributions in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of Section 3A(a)(3) if (x) the fund tracks the performance of an index that underlies a class of index options or index futures, and the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor; or (y) the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security (I) that results in an adjustment of options on other fund shares pursuant to clause (ii)(x) of this Interpretation or pursuant ~~to clause (ii)(x) of Interpretation .08 under Article VI, Section 11A of the By-Laws~~ to [Rule 2803\(c\)\(1\)\(iv\)](#) or (II) that is not deemed an ordinary distribution under Interpretation .01 above. Adjustments for distributions described in clause (i) or (ii) above to the terms of binary options that have such fund shares as their underlying security shall be made in accordance with Section 3A(a)(5), unless the Corporation determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution where the amount of the adjustment would be less than \$.125 per fund share.

Adjustments of Binary Options (other than Event Options) and Range Options for which the Underlying Interest is a Commodity or an Index of Commodities

SECTION 3B.

(a) - (c) [Nochange]

(d) Notwithstanding the general rules set forth in paragraphs (a) through (c) of this Section 3B, the Corporation shall have the power to make exceptions to such rules in determining the appropriate adjustments to binary options or range options upon the occurrence of the events specified therein. ~~Section 11 of Article VI of the By-Laws~~ [Rule 2801 and Rule 2802](#) shall not apply to binary options or range options that are not traded on a Securities Exchange.

* * *

Article XV
Foreign Currency Options

* * *

Adjustments

SECTION 4. In the event that (i) a trading or an underlying currency is replaced by a new currency, or (ii) the exchange rate or exchange characteristics of a trading or underlying currency

with respect to other currencies are officially altered, the Corporation may adjust the exercise price, unit of trading, number of contracts of underlying currency, or other terms of option contracts affected by such event. The provisions of ~~Article VI, Section 11 of the By-Laws~~ [Rule 2801 and Rule 2802](#) shall apply equally to adjustments made by the Corporation pursuant to this Article XV, Section 4.

[Section 4 of this Article replaces ~~Chapter XXVIII of the Rules~~ [Section 11A](#), and the ~~Interpretations and Policies promulgated thereunder, of Article VI of the By-Laws.~~]

* * *

Article XVI Yield-Based Treasury Options

* * *

Adjustments

SECTION 3. (a) Except as provided in this Section 3, ~~Section 11 of Article VI of the By-Laws~~ [Rule 2801 and Rule 2802](#) shall not apply to yield-based Treasury option contracts.

(b) - (c) [No change]

(d) Determinations with respect to adjustments pursuant to this Section shall be made by the Corporation as provided in ~~Article VI, Section 11 of the By-Laws~~ [Rule 2801 and Rule 2802](#).

[Section 3 of this Article supplements ~~Section 11 of Article VI of the By-Laws~~ [Rule 2801 and Rule 2802](#).]

Unavailability or Inaccuracy of Settlement Value of Underlying Yield

SECTION 4. (a) If the Corporation shall determine that the settlement value of the underlying yield for any series of yield-based Treasury options (the “affected series”) is unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount for exercised contracts of the affected series, then, in addition to any other actions that the Corporation may be entitled Article XVI – Yield-Based Treasury Options 128 to take under the By-Laws and Rules, the Corporation shall be empowered to do any or all of the following:

(1) [No change]

(2) The Corporation may fix the exercise settlement amount for exercised contracts of an affected series. The exercise settlement amount shall be fixed by a panel consisting of two designated representatives of each Exchange on which the affected series is open for trading and the Chief Executive Officer. The panel shall fix the exercise settlement amount based on its judgment as to what is appropriate for the protection of investors and the public interest, taking

into account such factors as fairness to holders and writers of options of the affected series, the maintenance of a fair and orderly market in such affected series of options, consistency of interpretation and practice, and consistency with actions taken in related futures or other markets. Without limiting the generality of the foregoing, the panel may fix the exercise settlement amount using: (i) the reported value of the underlying yield at the close of regular trading hours (as determined by the Corporation) on the last preceding trading day for which such a value was reported by the reporting authority; (ii) the reported value of the underlying yield at the opening of regular trading hours (as determined by the Corporation) on the next trading day for which such an opening value is reported by the reporting authority; or (iii) a value for the underlying yield at such other time, or representing a combination or average of values at such time or times, as the Corporation deems appropriate. The provisions of ~~Article VI, Section 11(e) of the By-Laws~~ Rule 2802 with respect to the vote required to constitute the determination of a panel, the voting rights of members of such panels, the ability of such panels to conduct their business by telephone or other designated means, and the ability of the Chief Executive Officer and Exchange representatives to designate others to serve in their place on such panels shall apply equally to panels convened pursuant to this Section. Every determination of a panel convened pursuant to this Section shall be within the sole discretion of such panel and shall be conclusive and binding on all investors and not subject to review.

* * *

Article XVII

Index Options and Certain Other Cash-Settled Options

* * *

Adjustments

~~SECTION 3. (a) Except in the case of flexibly structured options on fund shares that are cash settled, Section 11A of Article VI of the By-Laws shall not apply to cash-settled option contracts.~~

~~(b) In the case of cash-settled options that have a single commodity as their underlying interest, except as expressly provided otherwise in the By-Laws or Rules relating to a particular cleared contract, determinations as to whether and how to adjust the terms of such options to reflect events affecting the underlying interest shall be made by the Corporation based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers of such options, the maintenance of a fair and orderly market in such options and consistency of interpretation and practice.~~

~~(c) No adjustments will ordinarily be made in the terms of index option contracts in the event that index components are added to or deleted from the underlying index or reference index or when the relative weight of one or more such index components has changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion, or change~~

~~causes significant discontinuity in the level of the underlying index, the Corporation may adjust the terms of the affected index option contracts by adjusting the index multiplier and/or exercise price with respect to such contracts or by taking such other action as the Corporation in its sole discretion deems fair to both the holders and writers of such contracts.~~

~~(d) If an Exchange shall increase or decrease the index multiplier for any index option contract, or the reporting authority shall change the method of calculation of an underlying index or reference index so as to create a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the index securities, or the Corporation shall substitute one underlying index or reference index for another pursuant to paragraph (e) of this Section 3, the Corporation shall make such adjustments in the number of outstanding affected options or the exercise prices of such options or such other adjustments, if any, as the Corporation in its sole discretion deems fair to both the holders and the writers of such options.~~

~~(e) In the event the Corporation determines that: (i) publication of an underlying index or reference index has been discontinued; (ii) an underlying index or reference index has been replaced by another index, or (iii) the composition or method of calculation of an underlying index or reference index is so materially changed since its selection as an underlying index or reference index that it is deemed to be a different index, the Corporation may substitute another index (a "successor index") as the underlying index or reference index. A successor index shall be reasonably comparable, as determined by the Corporation in its discretion, to the original underlying index or reference index for which it substitutes. An index may be created specifically for the purpose of becoming a successor index.~~

~~(f) In the event that the value of an underlying relative performance index falls below zero, any such negative value of the index will be deemed by the Corporation to be zero; provided, however, that if it is deemed impractical for systems reasons to have an index value of zero, then any index value of zero or below will be deemed to be an economically nominal positive number. Such an adjustment will have the effect of limiting the maximum exercise settlement amount for in the money put options on such indexes to the difference between the exercise price and the nominal positive number substituted for the actual index value (times the applicable multiplier).~~

~~(g) In the event that any individual reference security in an underlying relative performance index (as defined in the preceding paragraph) is eliminated as the result of a cash-out merger or other event, the reporting authority may cease to publish the index. In that case, the exercise settlement value of the options would become fixed based upon the last published value for the index, and the Exchange on which such options are traded may determine to accelerate the expiration date for such options (and, in the case of European-style options, their exercisability). The expiration date for such options will ordinarily be accelerated to fall on the next regularly scheduled expiration date for the same class of options or such other date as the Corporation may establish in consultation with the Exchange on which such options are traded.~~

~~(h) Except in the case of OTC index options or any of the events described in paragraphs (f) and (g) of this Section 3, determinations with respect to adjustments pursuant to this Section shall be~~

~~made by the Corporation. The provisions of Article VI, Section 11 of the By-Laws shall apply equally to adjustments made by the Corporation pursuant to this Article XVII, Section 3 and to adjustments made by the Corporation pursuant to Article VI, Section 11A for flexibly structured options on fund shares that are cash settled.~~

~~**... Interpretations and Policies:**~~

~~.01 For the elimination of doubt, all adjustments to the terms of outstanding cleared contracts in OTC index options shall be made by the Corporation in its sole discretion, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers (or purchasers and sellers) of the affected contracts, the maintenance of a fair and orderly market in the affected contracts, consistency of interpretation and practice (including consistency with adjustments to Exchange-listed index options on the same underlying interest), and efficiency of exercise settlement procedures.~~

~~[Section 3 of this Article replaces Section 11A of Article VI of the By-Laws.]~~

* * *

Article XXII
Cash-Settled Foreign Currency Options

* * *

Adjustments

~~**SECTION 3.** In the event that (i) a trading or an underlying currency is replaced by a new currency, or (ii) the exchange rate or exchange characteristics of a trading or underlying currency with respect to other currencies are officially altered, the Corporation may adjust the exercise price, unit of trading, number of contracts, underlying currency, or other terms of option contracts affected by such event. The provisions of Article VI, Section 11 of the By-Laws shall apply equally to adjustments made by the Corporation pursuant to this Article XXII, Section 4.~~

~~[Section 3 of this Article replaces Section 11A, and the Interpretations and Policies promulgated thereunder, of Article VI of the By-Laws.]~~

~~**... Interpretations and Policies:**~~

~~.01 The Corporation will not ordinarily adjust the terms of cash settled foreign currency options in response to devaluations or revaluations of trading or underlying currencies.~~

Unavailability or Inaccuracy of Spot Price

SECTION 4. (a) If the Corporation shall determine that the spot price for the currency underlying any series of cash-settled foreign currency options (the “affected series”) is

unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount for exercised contracts of the affected series, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and Rules, the Corporation shall be empowered to do any or all of the following with respect to the affected series:

(1) [No change]

(2) The Corporation may fix the exercise settlement amount for exercised contracts of an affected series. The exercise settlement amount shall be fixed by a panel consisting of two designated representatives of each Exchange on which the affected series is open for trading and the Chief Executive Officer. The panel shall fix the exercise settlement amount based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of options of the affected series, the maintenance of a fair and orderly market in such affected series, consistency of interpretation and practice, and consistency with actions taken in related futures or other markets. Without limiting the generality of the foregoing, the panel may fix the exercise settlement amount using: (i) the reported price of the underlying currency at the close of regular trading hours for options on the affected series (as determined by the Corporation) on the last preceding trading day for which such a price was reported by the reporting authority; (ii) the reported price of the underlying currency at the opening of regular trading hours for options on the affected series (as determined by the Corporation) on the next trading day for which such a price is reported by the reporting authority; or (iii) the price of the underlying currency at such other time, or representing a combination or average of prices or quotations at such time or times, and reported in such manner, as the Corporation deems appropriate. The provisions of ~~Article VI, Section 11(e) of the By-Laws~~ [Rule 2802](#) with respect to the vote required to constitute the determination of a panel, the voting rights of members of such panels, the ability of such panels to conduct their business by telephone or other designated means, and the ability of the Chief Executive Officer and Exchange representatives to designate others to serve in their place on such panels shall apply equally to panels convened pursuant to this Section. Every determination of a panel convened pursuant to this Section shall be within the sole discretion of such panel and shall be conclusive and binding on all investors and not subject to review.

4(a)(3) – (b) [No Change]

* * *

Article XXIV

Bounds

* * *

Adjustments

SECTION 4. (a) The provisions of ~~Section 11 and Section 11A of Article VI of the By-Laws Rule 2801, Rule 2802 and Rule 2803, and the Interpretations and Policies following Section 11A,~~ shall apply to BOUNDS, subject to the provisions of this Section 4. For that purpose, the term “option contract” or “option” as used therein shall mean a BOUND, the term “exercise price” shall mean the “strike price” of a BOUND and the term “exercise settlement procedures” shall mean the expiration settlement procedures for BOUNDS. In addition to the actions provided for in paragraph (a) of ~~Article VI, Section 11A Rule 2803,~~ the expiration date of a BOUND contract may be adjusted as provided in paragraph (e) of this Section 4.

(b) - (c) [No change]

(d) If a distribution governed by the provisions of paragraph (e) of ~~Section 11A of Article VI of the By-Laws Rule 2803~~ is made with respect to shares of an underlying security, and BOUNDS of the affected class are adjusted by including the distributed property within the unit of trading covered by such BOUNDS, the “Closing Price” for such BOUND contract at expiration shall also include the value of the distributed property. If such distributed property is a security that is traded on a national securities exchange, then the value of the distributed security shall be determined in the same way that the Closing Price of any other underlying security would ordinarily be determined. In other cases, the Corporation shall use its discretion to determine how the current market value of the distributed property is to be fixed.

(e) [No change]

(f) The foregoing are general rules, and the Corporation shall have the same discretionary authority with respect to the adjustment of BOUNDS as it has with respect to adjustments of option contracts under ~~Article VI, Section 11 and Section 11A of the By-Laws~~ Rule 2801, Rule 2802 and Rule 2803.

[Section 4 of this Article supplements ~~Section 11A of Article VI of the By-Laws~~ Chapter XXVIII of the Rules.]

Unavailability of Closing Price

SECTION 6. (a) If the underlying security was not traded in the primary market on the business day preceding the expiration date, or if the Corporation determines that a closing price for the underlying security is unreported or otherwise unavailable, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and Rules, the Corporation shall be empowered to do any or all of the following with respect to any series of BOUNDS affected by such event (“affected series”):

(1) [No change]

(2) The Corporation may fix the Closing Price for BOUNDS contracts of an affected series. The Closing Price shall be fixed by a panel consisting of two designated representatives of each Exchange on which the affected series is open for trading and the Chief Executive Officer. The panel shall fix the Closing Price based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of affected BOUNDS contracts, the maintenance of a fair and orderly market in such contracts, and consistency of interpretation and practice. Without limiting the generality of the foregoing, the panel may, if it deems such action appropriate for the protection of investors and the public interest, fix the closing price on the basis of the price at the close of trading on the last preceding trading day for which a Closing Price was reported by the primary market. The provisions of ~~Article VI, Section 11(e) of the By-Laws~~ [Rule 2802](#) with respect to the vote required to constitute the determination of a panel, the voting rights of members of such panels, the ability of such panels to conduct their business by telephone or other designated means, and the ability of the Chief Executive Officer and Exchange representatives to designate others to serve in their place on such panels shall apply equally to panels convened pursuant to this subparagraph. Every determination of a panel convened pursuant to this subparagraph shall be within the sole discretion of such panel and shall be conclusive and binding on all investors and not subject to review.

(b) [No change]

* * *

Article XXVI Packaged Spread Options

* * *

Adjustments

SECTION 3. ~~Section 3 of Article XVII of the By-Laws~~ [Rule 2804](#) shall apply to packaged spread options interpreting the term “index option” as used therein to include packaged spread options.

EXHIBIT B



OCC Rules

Footnotes are used throughout to identify the source of the existing provisions. The term “relocates” is used to identify that the existing provision is shown as it would be moved into Chapter XXVIII with any proposed changes marked. The term “replaces” is used to mean that an existing Interpretation and Policy is being moved entirely into a rule.

Underlining and strikethroughs are marked against the existing provisions wherever feasible and footnotes are used throughout to identify the source of the existing provisions. Text taken from existing provisions is marked as entirely new where it (i) is derived from multiple existing sources or (ii) results from relocating an existing Interpretation and Policy into a newly proposed Rule.

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

Chapter XXVIII – Contract Adjustments^[1]

RULE 2801 – Adjustment by the Corporation~~Policies and Procedures~~^[2]

~~SECTION 11.~~ (a) Determination of the Corporation. Unless otherwise provided in the By-Laws or Rules of the Corporation, all adjustments to the terms of outstanding cleared contracts shall be made by the Corporation, ~~which shall determine whether to make adjustments~~ to reflect particular events in respect of an underlying interest, and the nature and extent of any adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest.;

(b) Factors. When determining whether to make an adjustment, the Corporation will ~~taking~~take into account such factors as:

- (i) fairness to holders and writers (or purchasers and sellers) of the affected contracts.;
- (ii) the maintenance of a fair and orderly market in the affected contracts.;
- (iii) consistency of interpretation and practice.;
- (iv) efficiency of exercise settlement procedures.;
- and
- (v) the coordination with other clearing agencies of the clearance and settlement of transactions in the underlying interest. ~~The Securities Committee shall be authorized to adopt statements of policy or interpretations having general application to specified types of events or specified kinds of cleared contracts.~~

In making any adjustment determination, the Corporation shall apply the factors set forth in this ~~Section~~ Rule and any policy statements set forth in this Rule 2801(b), as applicable, in light of the circumstances known to the Corporation at the time such determination is made, subject to the discretion of the Corporation to depart from policy or precedent where the Corporation determines that unusual circumstances make such a departure appropriate.^[3]

~~(b)~~(c) Discretion of the Corporation. Every adjustment determination ~~under the By-Laws or Rules~~ of the Corporation shall be within the sole discretion of the Corporation and shall be conclusive and binding on all investors and not subject to review. If the Corporation does not learn, or does not learn in a timely manner, of an event for which the Corporation would have

¹ Proposed Chapter XXVIII aggregates the contract adjustment provisions under current By-Law Article VI, Section 11 and 11A; Article XII, Section 3, 4 and 4A; Article XVII, Section 3; and Article XXII, Section 3.

² Proposed Rule 2801 relocates Section 11 of Article VI with changes as marked. Proposed Rule 2801 would also replace Section 3(a) of Article XII with respect to adjustments of futures and futures options.

³ Proposed Rule 2801(b) relocates Section 11(a) of Article VI with changes as marked, including replacing reference to “this Section 11” with “this Rule 2801(b)”. Proposed Rule 2801(b) would replace the last sentence of Section 3(b) of Article XII with respect to stock futures.

otherwise made an adjustment, the Corporation shall not be liable for any failure to make such adjustment or delay in making such adjustment.^[4]

RULE 2802 – Statements of Adjustment Policies and Interpretations

(a)(1) Statements of Policies and Interpretations Regarding Adjustments of Option Contracts. In addition to the policies contained in this Chapter, the Securities Committee shall be authorized to adopt statements of policy or interpretations having general application to specified types of events or specified kinds of cleared contracts that are stock option contracts, Treasury securities option contracts, yield-based Treasury option contracts, debt securities option contracts, foreign currency option contracts, cash-settled foreign currency option contracts, index option contracts or other cash-settled option contracts.^[5]

~~(e)(2) Securities Committee; Composition and Governance.~~ The composition and manner of acting of the Securities Committee and panels comprised of representatives of Securities Exchanges that have authority under the By-Laws and Rules to adopt statements of policy or interpretations under paragraph (a)(1) above will ~~make certain determinations with respect to cleared contracts shall~~ be as set forth below, unless otherwise provided in the By-Laws and Rules of the Corporation:

~~(1)~~i) The Securities Committee shall consist of one designated representative of each Securities Exchange and the Chief Executive Officer. The Chief Executive Officer shall not be a voting member of the Committee or of any panel except in the case of a tie vote, in which case the Chief Executive Officer shall have the right to cast a vote to break the tie and shall, for such purpose, be deemed to be a voting member.

~~(2)~~ii) The vote of a majority of the voting members of the Securities Committee shall constitute the determination of the Securities Committee. With respect to a panel convened for the purpose of determining a required amount or value (other than as provided for in ~~Article VI, Section 11A of the By-Laws~~ Rule 1703), a majority of the Securities Exchanges on which such cleared contract is open for trading shall constitute a quorum for purposes of acting.

~~(3)~~iii) The Securities Committee or any panel may transact its business by telephone or such other means as may be designated by the Securities Committee from time to time.

~~(4)~~iv) Notwithstanding the foregoing provisions of this ~~Section 11~~Rule or any other requirements of the By-Laws and Rules, the Chief Executive Officer may designate any other representative of the Corporation, and any representative of an Exchange may designate any other representative of such Exchange, to serve in his place at any meeting of the Securities Committee or of any panel. In the event of such designation, the designee shall, for the

⁴ Proposed Rule 2801(c) relocates Section 11(b) of Article VI. Proposed Rule 2801(c) would replace the second sentence of Section 3(a) of Article XII with respect to futures and futures options.

⁵ This sentence of proposed Rule 2802(a) relocates the second to last sentence of Section 11(a) of Article VI with modifications, including stating with particularity the types of securities option contracts for which the Securities Committee may adopt statements of policy or interpretations having general application.

purposes of such meeting, have all of the powers and duties under this ~~Section 11~~ Rule of the person designating ~~him~~ them. Neither the Corporation nor any Exchange shall designate to serve on any panel (i) any Exchange member or Clearing Member, or any director, officer, partner, or employee of any Exchange member or Clearing Member, or (ii) any person who, to the knowledge of the self-regulatory organization designating such person, is the beneficial holder of a long or short position in the cleared contracts as to which such panel is to make a determination.^[6]

(b) Statements of Policies Regarding Adjustments of Futures and Futures Options. The Corporation may for futures and futures options adopt statements of policy having general application to specified types of events.^[7]

RULE 2803 – Adjustments for Stock Option Contracts and Stock Futures^[8]

~~SECTION 11A.~~ (a) Corporate Actions; Adjustment Policies and Procedures. Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the Corporation may adjust any of the following, or any combination of the following, with respect to all outstanding stock option contracts and stock futures in that underlying security in accordance with this Rule:

- (1) the number of contracts;~~;~~
- (2) the unit of trading in the case of an options contract or the unit of trading (or settlement price) in the case of a stock futures;
- (3) the exercise price in the case of an options contract; and
- (4) the underlying security, ~~or any of them, with respect to all outstanding option contracts open for trading in that underlying security may be adjusted in accordance with this Section 11A.~~^[9]

For the avoidance of doubt, flexibly structured options on fund shares that are cash settled are governed by this Rule 2803.^[10]

⁶ Proposed Rule 2802(a)(2) relocates Section 11(c) of Article VI with changes as marked.

⁷ Proposed Rule 2802(b) relocates the third sentence of Section 3 of Article XII with modifications to delete “in addition to determining adjustments to futures and futures options on a case-by-case basis” because that authority will already be addressed in proposed Rule 2804 and 2805.

⁸ Proposed Rule 2803 relocates Section 11A of Article VI with changes as marked. Proposed Rule 2803 replaces the first sentence of paragraph (b), paragraphs (c) through (j), and the Interpretations and Policies to Section 3 of Article XII with respect to stock futures.

⁹ Proposed Rule 2803(a) relocates Section 11A(a) of Article VI with changes as marked and replaces the first sentence of Section 3(b) of Article XII with respect to stock futures.

¹⁰ This sentence replaces the first clause in Section 3(a) of Article XVII, and is also included in proposed Rule 2804(a) for clarity for users of the Rules to determine that Rule 2803 governs adjustments of flexibly

(b) All adjustments ~~hereunder~~ shall be made by the Corporation in accordance with the policies and procedures set forth ~~in Section 11~~ under this Chapter.

(c) Events Not Ordinarily Resulting in a Contract Adjustment. Except as provided by paragraph (k) below with respect to certain stock futures, ~~It~~ shall be the general rule that the Corporation will not adjust outstanding stock options contracts or stock futures ~~there will be no adjustment~~ to reflect ~~(x)~~ the following:

(1) Ordinary Dividends or Distributions. The Corporation generally will not make an adjustment following an ordinary cash dividends or distributions or an ordinary stock dividends or distribution ~~(collectively, each an~~ “ordinary distributions”) by the issuer of the underlying security.^[11]

(i) Factors. The Corporation will determine on a case-by-case basis whether a dividend or distribution is an “ordinary distribution” or whether it is a dividend or distribution for which an adjustment should be made. In making such determinations, the Corporation may take into account such factors as it deems appropriate, including, without limitation:

(A) the issuer’s stated dividend payment policy;

(B) the issuer’s characterization of a particular dividend or distribution as “regular,” “special,” “accelerated” or “deferred”;

(C) whether the dividend can be differentiated from other dividends (if any) paid on a quarterly or other regular basis; and

(D) the issuer’s dividend payment history.^[12]

(ii) Cash Dividends or Distribution. As a general rule, a cash dividend or distribution deemed to be an “ordinary distribution” includes:

(A) a cash dividend or distribution (regardless of size) by the issuer of the underlying security which the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly or other regular basis or which the Corporation believes represents an acceleration or deferral of such payments; and^[13]

structured options on fund shares that are cash settled rather than Rule 2804 that more generally applies to adjustment of cash settled options.

¹¹ Proposed Rule 2803(c) and (c)(1) relocates clause (x) of Section 11A(c) of Article VI with changes as marked and replaces the Section 3(c) of Article XII with respect to stock futures.

¹² Proposed Rule 2803(c)(1)(i) replaces the third sentence of the first paragraph and the first sentence of the second paragraph of Interpretation and Policy .01 to Section 11A of Article VI and the last sentence of the first paragraph and the first sentence of the second paragraph of Interpretation and Policy .01(a) to Section 3 of Article XII with respect to stock futures.

¹³ Proposed Rule 2803(c)(1)(ii)(A) replaces the first sentence of Interpretation and Policy .01 to Section 11A of Article VI and the first sentence of Interpretation and Policy .01(a) to Section 3 of Article XII.

(B) interest payments on index-linked securities.^[14]

(iii) *Stock Dividends or Distributions.* As a general rule, a stock dividend or distribution by the issuer of the underlying security deemed to be “ordinary distributions” include those:

(A) in an aggregate amount per dividend or distribution which does not exceed 10% of the number of shares or other units of the underlying security outstanding as of the close of trading on the declaration date, and which the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or which the Corporation believes represents an acceleration or deferral of such payments.^[15]

(B) which are paid in lieu of a cash dividend or distribution that itself would have been an ordinary distribution.^[16]

(iv) *Dividends and Distributions Not Deemed Ordinary.* As a general rule, the Corporation shall not classify as an ordinary distribution:

(A) a dividend or distribution when the Corporation believes that similar dividends or distributions will not be paid on a quarterly or other regular basis.^[17]

(B) a distribution of short-term or long-term capital gains in respect of fund shares by the issuer; and^[18]

(C) other distributions in respect of fund shares by the issuer if (x) the fund tracks the performance of an index that underlies a class of index options or index futures, and the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor; or (y) the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security (I) that results in an adjustment of options on other fund shares pursuant to clause (x), or (II) that is not deemed an ordinary distribution.^[19]

¹⁴ Proposed Rule 2803(c)(1)(ii)(B) replaces Interpretation and Policy .09 to Section 11A of Article VI and Interpretation and Policy .10 to Section 3 of Article XII.

¹⁵ Proposed Rule 2803(c)(1)(iii)(A) relocates the second sentence of Interpretation and Policy .01 to Section 11A of Article VI and replaces Interpretation and Policy .01(b) to Section 3 of Article XII.

¹⁶ Proposed Rule 2803(c)(1)(iii)(B) is new.

¹⁷ Proposed Rule 2803(c)(1)(iv)(A) replaces the last sentence of the second paragraph of Interpretation and Policy .01 to Section 11A of Article VI and the last sentence of the second paragraph of Interpretation and Policy .01(a) to Section 3 of Article XII.

¹⁸ Proposed Rule 2803(c)(1)(iv)(B) replaces clause (i) of Interpretation and Policy .08 to Section 11A of Article VI and clause (i) of Interpretation and Policy .08 to Section 3 of Article XII.

¹⁹ Proposed Rule 2803(c)(1)(iv)(C) replaces clause (ii) of Interpretation and Policy .08 to Section 11A of Article VI and clause (ii) of Interpretation and Policy .08 to Section 3 of Article XII.

(v) *Determination.* Any issue as to whether a particular dividend or distribution was declared pursuant to a policy of paying such dividends or distributions on a quarterly or (where applicable) other regular basis shall be determined by the Corporation.^[20]

(2) *Cash Distributions or Dividends Below Threshold.* ~~or (y)~~ The Corporation generally will not make an adjustment to a stock option contract for any cash dividend or distribution by the issuer of the underlying security if such dividend or distribution is less than \$0.125 per share provided that, in the case of a stock option contract that is originally listed with a unit of trading larger than 100 shares, the applicable threshold shall be \$12.50 per contract.^[21] However, in connection with contract adjustment determinations involving cash in lieu of fractional entitlements for a stock option contract (for example in respect of stock rights, contingent value rights or other distributions) the determination will not be subject to the general rule stated in the preceding sentence.^[22]

(3) *Other Events Not Ordinarily Resulting in Adjustments.*

(i) *Poison Pill Rights.* The Corporation will not ordinarily make an adjustment to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Corporation will determine whether an adjustment is appropriate pursuant to Rule 2803(d)(1).^[23]

(ii) *Tender Offer or Exchange Offer.* The Corporation will not ordinarily make an adjustment to reflect a tender offer or exchange offer to the holders of the underlying security, whether such offer is made by the issuer of the underlying security or by a third person or whether the offer is for cash, securities or other property. This Rule will apply without regard to whether the price of the underlying security may be favorably or adversely affected by the offer or whether the offer may be deemed to be “coercive.” Outstanding options ordinarily will be adjusted to reflect a merger, consolidation or similar event that becomes effective following the completion of a tender offer or exchange offer as described in Rule 2803(d)(2).^[24]

(iii) *Change in Capital Structure.* The Corporation will not ordinarily adjust a contract to reflect changes in the capital structure of an issuer where all of the underlying securities

²⁰ Proposed Rule 2803(c)(1)(v) replaces the last sentence of the first paragraph of Interpretation and Policy .01 to Section 11A of Article VI.

²¹ Proposed Rule 2803(c)(2) relocates clause (y) of Section 11A(c) of Article VI with changes as marked, including to clarify that it applies to stock option contracts but not stock futures.

²² This sentence of proposed Rule 2803(c)(2) is new.

²³ Proposed Rule 2803(c)(3)(i) replaces Interpretation and Policy .02 to Section 11A of Article VI and the first, fifth and sixth sentences of Interpretation and Policy .02 to Section 3 of Article XII.

²⁴ Proposed Rule 2803(c)(3)(ii) replaces Interpretation and Policy .03 to Section 11A of Article VI and Interpretation and Policy .03 to Section 3 of Article XII.

outstanding in the hands of the public (other than dissenters' shares) are not changed into another security, cash or other property. For example, the Corporation will not ordinarily adjust a contract merely to reflect the issuance (except as a distribution on an underlying security) of new or additional debt, stock, or options, warrants or other securities convertible into or exercisable for the underlying security, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the underlying securities outstanding, or the sale by the issuer of significant capital assets.^[25]

(iv) *Non-Transferable Property.* Adjustments generally will not be made to reflect a distribution of non-transferable property.^[26]

(v) *Shareholder Election of the Form of Dividend or Distribution.* Adjustments generally will not be made where a dividend or distribution is determined to be ordinary regardless of whether it is subject to a shareholder election regarding the form in which it will be paid, such as cash or stock.^[27]

(d) *Events Ordinarily Resulting in Contract Adjustments.* It shall be the general rule that ~~in the case of~~ the Corporation shall make an adjustment in the following cases:

(1) *Distribution or Combination of Shares.* Distribution of additional shares of the underlying security by the issuer of the security that are not deemed to be "ordinary dividends and distributions" pursuant to Rule 2803(c), shall be adjusted as follows:

(i) In the event of a stock dividend, stock distribution or stock split ~~whereby for which the issuer of the security issues~~ a whole number of additional shares of the underlying security ~~is issued~~ with respect to each outstanding share, each option contract and each stock future covering that underlying security shall be increased by the same number of additional option contracts or stock futures as the additional number of shares issued with respect to each share of the underlying security, the exercise price per share in effect or last settlement price established immediately prior to such event shall be proportionately reduced, and the unit of trading shall remain the same.

(ii) In the event of a stock dividend, stock distribution or stock split ~~whereby for which the issuer of the security issues~~ other than a whole number of shares of the underlying security ~~is issued in with~~ respect of each outstanding share, the exercise price in effect, in the case of options contracts, or the last settlement price established, in the case of stock futures, immediately prior to such event shall be proportionately reduced and the unit of trading shall be proportionately increased.

(iii) In the event of reverse stock splits, combinations of shares, or similar events, option contracts and stock futures shall be adjusted solely for purposes of determining the

²⁵ Proposed Rule 2803(c)(3)(iii) replaces Interpretation and Policy .04 to Section 11A and Interpretation and Policy .04 to Section 3 of Article XII.

²⁶ Proposed Rule 2803(c)(3)(iv) is new.

²⁷ Proposed Rule 2803(c)(3)(v) is new.

property deliverable upon exercise of the option or in respect of such futures contract, by decreasing the unit of trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the unit of trading for all such adjusted series of options and such adjusted futures contracts shall remain unchanged for purposes of determining the aggregate exercise price of the option or the aggregate settlement value of the futures contract payable upon delivery and for purposes of determining the premium for any such option purchased and sold or the settlement value of any such futures contract purchased and sold.^[28]

(2) Cash Mergers, and Similar Events. When an underlying security is converted into a right to receive a fixed amount of cash, such as in a merger or a call or redemption of an entire class of index-linked securities, the Corporation shall adjust outstanding options and outstanding stock futures to replace such underlying interest with cash in an amount per share or unit equal to the conversion or redemption price. As a result of such adjustment, the value of all outstanding in-the-money options will become fixed, and all at-the-money and out-of-the-money options will become worthless. No adjustment will ordinarily be made in the event of a call of less than an entire class of index-linked securities.^[29]

(3) Stock or Cash, Reorganizations and Stock Mergers or Similar Event. When an underlying security is converted into a right to receive another security or a combination of another security and cash, such as in a merger, reorganization or similar event, the Corporation shall adjust outstanding option contracts and stock futures by replacing such underlying security with the like number of units of the shares of the resulting company or cash in an amount per share or unit equal to the conversion or redemption price^[30]

(4) Subsequent Adjustments for Conversion to Debt Security or Preferred Stock. When an underlying security is converted in whole or in part into a debt security or a preferred stock, such as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding options or stock futures that have been adjusted by replacing the original underlying security with the security into which the original underlying security has been converted shall be further adjusted to call for delivery of the securities distributed as interest or dividends, effective as of the ex-date for each payment of interest or dividends.^[31]

(5) Rights Distributions with Respect to Stock Futures. When an adjustment is made for a rights distribution, the unit of trading in effect immediately prior to the distribution will

²⁸ Proposed Rule 2803(d) relocates Section 11A(d) of Article VI with changes as marked and replaces Section 3(d) of Article XII with respect to stock futures.

²⁹ Proposed Rule 2803(d)(2) replaces Interpretation and Policy .05 to Section 11A of Article VI and Interpretation and Policy .05 to Section 3 of Article XII.

³⁰ Proposed Rule 2803(d)(3) replaces Interpretation and Policy .06 to Section 11A of Article VI and Interpretation and Policy .06 to Section 3 of Article XII.

³¹ Proposed Rule 2803(d)(4) replaces Interpretation and Policy .07 to Section 11A of Article VI and Interpretation and Policy .07 to Section 3 of Article XII.

ordinarily be adjusted to include the number of rights distributed with respect to the number of shares or other units of the underlying security comprising the unit of trading. If, however, the Corporation determines that the rights are due to expire before the time they could be exercised upon delivery under the futures contract, then delivery of the rights will not be required. Instead, the Corporation will ordinarily adjust the last settlement price established before the rights expire to reflect the value, if any, of the rights as determined by the Corporation in its sole discretion.^[32]

(e) Other Distributions. It shall be the general rule that in the case of any distribution made with respect to shares of an underlying security, other than ordinary distributions and other than distributions for which adjustments are provided in paragraph (d) of this ~~Section 11A~~Rule, if an adjustment is determined by the Corporation to be appropriate, (i) the exercise price in effect in the case of an option or the last settlement price established in the case of a stock future immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the unit of trading shall not be adjusted, or alternatively, (ii) the unit of trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the underlying security represented by the unit of trading in effect prior to such adjustment, in which event the exercise price shall not be adjusted. ~~The Corporation shall, with respect to adjustments under this paragraph or any other paragraph of this Section 11A, have the authority to determine the value of distributed property.~~^[33]

(f) Corporate Actions Not Otherwise Provided For. In the case of any event for which adjustment is not provided in any of the foregoing paragraphs of this ~~Section 11A~~Rule, the Corporation may make such adjustments, if any, with respect to the option contracts and stock futures affected by such event as the Corporation determines.^[34]

(g) Effective on Ex-Date. Adjustments pursuant to this ~~Section 11A~~Rule shall as a general rule become effective in respect of option contracts and stock futures outstanding on the “ex-date” established by the primary market for the underlying security.^[35]

(h) Rounding. It shall be the general rule that:

³² Proposed Rule 2803(d)(5) replaces the second through third sentences of Interpretation and Policy .02 to Section 3 of Article XII.

³³ Proposed Rule 2803(e) relocates Section 11A(e) of Article VI with changes as marked and replaces Section 3(e) of Article XII with respect to stock futures. The last sentence of current Section 11A(e) is relocated to proposed Rule 2804(j) with certain modifications, including to update the current reference to Section 11A of Article VI.

³⁴ Proposed Rule 2803(f) relocates Section 11A(f) of Article VI with changes as marked and replaces Section 3(f) of Article XII with respect to stock futures.

³⁵ Proposed Rule 2803(g) relocates Section 11A(g) of Article VI with changes as marked and replaces Section 3(g) of Article XII with respect to stock futures.

(1) all adjustments of the exercise price of an outstanding option contract or settlement price of an outstanding stock future shall be rounded to the nearest adjustment increment;³⁶

(2) when an adjustment causes an exercise price or settlement price to be equidistant between two adjustment increments, the exercise price or settlement price shall be rounded up to the next highest adjustment increment;³⁷

(3) all adjustments of the unit of trading shall be rounded down to eliminate any fraction;³⁸ and

(4) if the adjustment is made pursuant to ~~subparagraph~~ Rule 2804(d)(1)(ii) above and the unit of trading is rounded down to eliminate a fraction, the adjusted exercise price or settlement price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the option contract or stock future resulting from the elimination of the fraction, or if the adjustment is made pursuant to ~~subparagraph~~ Rule 2804 (d)(1)(iii) above and the unit of trading is rounded down to eliminate a fraction, the value of the fractional share so eliminated as determined by the Corporation shall be added to the unit of trading.^[36]

(i) Election Mergers and Similar Events. The deliverable resulting from an adjustment in the case of an election merger or similar event involving shareholder elections, such as shareholder election of a non-ordinary dividend, will generally be based on the consideration accruing to a non-electing shareholder if the Corporation determines in its sole discretion that it is readily able to facilitate delivery of that consideration.^[37]

(j) Cash Value Determination. The Corporation has the authority to determine the value of distributed property with respect to any adjustments.^[38] The Corporation may use this authority in circumstances that include, but are not limited to, cases in which the Corporation determines that the final amount or distribution resulting from a corporate action may not be determined for a long period.^[39]

(k) Determination of Cash Amounts In Lieu of Fractional Share Entitlements in Adjusted Deliverables. Cash amounts in lieu of fractional share entitlements included in adjusted deliverables will generally be made in a manner consistent with any determinations by a central securities depository clearing agency.^[40]

(l) Foreign Withholding Tax. In general, all contract adjustments will be made net of any relevant foreign withholding taxes, with the exception of events for which local tax authorities

³⁶ Proposed Rule 2803(h) relocates Section 11A(h) of Article VI with changes as marked and replaces Section 3(h) of Article XII with respect to stock futures.

³⁷ Proposed Rule 2803(i) is new.

³⁸ Proposed Rule 2803(j) replaces the last sentence of Section 11A(e) of Article VI and the last sentence of Section 3(e) of Article XII.

³⁹ This second sentence of proposed Rule 2803(j) is new.

⁴⁰ Proposed Rule 2803(k) is new.

issue rulings that exempt certain groups from the withholding tax and it is reasonable that U.S. investors collectively can be included in such groups.^[41]

(m) Adjustments Made Per Contract. All contract adjustments will be made on a per contract basis.^[42]

~~(i)(n) Exceptions.~~ ~~Notwithstanding the general rules set forth in paragraphs (c) through (h) of this Section 11A, the~~ The Corporation shall have the power to make exceptions to the general rules set forth in paragraphs (c) through (i) of this Rule in those cases or groups of cases (which may include making exceptions for one or more series of flexibly structured options) in which, in applying the standards set forth ~~in Section 11(a) hereof or adopted under Rule 2803,~~ the Corporation shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Corporation affirmatively determines to make an exception in a particular case or group of cases.^[43]

(o) Adjustment of Stock Futures Using Amounts Reported by an Exchange. Notwithstanding the general rule set forth in paragraph (c) of this Rule, such security futures as may be designated by the Exchange on which such contracts are traded as subject to this paragraph (o) shall be adjusted for the aggregate amount of all cash dividends or distributions as reported by such Exchange to the Corporation. The settlement price of each such contract on the ex-date shall be adjusted by such aggregate amount of such dividend or distribution, provided that (i) the Exchange has reported such information to the Corporation prior to the ex-date in accordance with the Corporation's requirements, or (ii) the Exchange failed to provide the information on a timely basis or reported incorrect information to the Corporation, but provides such information or corrected information to the Corporation on the ex-date. The Corporation shall have no liability with respect to a dividend or distribution that has not been timely reported by the trading Exchange or for which such Exchange has reported incorrect information without making a timely subsequent correction.^[44]

~~... Interpretations and Policies:~~

~~.01 Cash dividends or distributions (regardless of size) by the issuer of the underlying security which the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly or other regular basis or which the Corporation believes represents an acceleration or deferral of such payments will, as a general rule, be deemed to be "ordinary cash dividends or distributions" within the meaning of paragraph (c) of Section 11A. Stock dividends or distributions by the issuer of the underlying security (i) in an aggregate amount per dividend or distribution which does not exceed 10% of the number of~~

⁴¹ Proposed Rule 2803(l) is new.

⁴² Proposed Rule 2803(m) is new.

⁴³ Proposed Rule 2803(n) relocates Section 11A(i) of Article VI with changes as marked and replaces Section 3(i) of Article XII with respect to stock futures. The exception is also modified to cover new proposed Rule 2803(i) regarding the general rule regarding the deliverable for election mergers and similar events.

⁴⁴ Proposed Rule 2803(o) replaces Section 3(j) of Article XII.

~~shares or other units of the underlying security outstanding as of the close of trading on the declaration date, and (ii) which the Corporation believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or which the Corporation believes represents an acceleration or deferral of such payments will, as a general rule, be deemed to be “ordinary stock dividends or distributions” within the meaning of paragraph (c) of Section 11A. The Corporation will determine on a case-by-case basis whether other dividends or distributions are “ordinary distributions” or whether they are dividends or distributions for which an adjustment should be made. Where the Corporation determines to adjust for a dividend or distribution, the adjustment shall be made in accordance with paragraph (e) of Section 11A. Any issue as to whether a particular dividend or distribution was declared pursuant to a policy of paying such dividends or distributions on a quarterly or (where applicable) other regular basis shall be referred to the Corporation for a determination.~~^[45]

~~In making such determinations, the Corporation may take into account such factors as it deems appropriate, including, without limitation, the issuer’s stated dividend payment policy, the issuer’s characterization of a particular dividend or distribution as “regular,” “special,” “accelerated” or “deferred,” whether the dividend can be differentiated from other dividends (if any) paid on a quarterly or other regular basis, and the issuer’s dividend payment history. Normally, the Corporation shall classify a dividend or distribution as non-ordinary when it believes that similar dividends or distributions will not be paid on a quarterly or other regular basis.~~^[46]

~~.02 Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Corporation will determine whether an adjustment is appropriate.~~^[47]

~~.03 Adjustments will not be made to reflect a tender offer or exchange offer to the holders of the underlying security, whether such offer is made by the issuer of the underlying security or by a third person or whether the offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favorably or adversely affected by the offer or whether the offer may be deemed to be “coercive.” Outstanding options~~

⁴⁵ The first sentence of Interpretation and Policy .01 to Section 11A is replaced by proposed Rule 2803(c)(1)(ii)(A). The second sentence is replaced by proposed Rule 2803(c)(1)(iii). The third sentence replaced by the first sentence of proposed Rule 2803(c)(1)(i). The fourth sentence is deleted as redundant of Rule 2803 (e). The last sentence of the first paragraph is replaced by the second sentence of proposed Rule 2803(c)(1)(iv).

⁴⁶ The first sentence of the second paragraph of Interpretation and Policy .01 to Section 11A is replaced by the second sentence and subitems (A) through (D) of proposed Rule 2803(a)(1)(i) relocates. The last sentence of the second paragraph is replaced by the first sentence of proposed Rule 2803(c)(1)(iv).

⁴⁷ Interpretation and Policy .02 to Section 11A of Article VI is replaced by proposed Rule 2803(c)(3)(i).

~~ordinarily will be adjusted to reflect a merger, consolidation or similar event that becomes effective following the completion of a tender offer or exchange offer.~~^[48]

~~.04 Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the underlying securities outstanding in the hands of the public (other than dissenters' shares) are not changed into another security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an underlying security) of new or additional debt, stock, or options, warrants or other securities convertible into or exercisable for the underlying security, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the underlying securities outstanding, or the sale by the issuer of significant capital assets.~~^[49]

~~.05 When an underlying security is converted into a right to receive a fixed amount of cash, such as in a merger or a call or redemption of an entire class of index-linked securities, outstanding options will be adjusted to require the delivery upon exercise of cash in an amount per share or unit equal to the conversion or redemption price. As a result of such adjustment, the value of all outstanding in-the-money options will become fixed, and all at-the-money and out-of-the-money options will become worthless. No adjustment will ordinarily be made in the event of a call of less than an entire class of index-linked securities.~~^[50]

~~.06 In the case of a corporate reorganization, reincorporation or similar occurrence by the issuer of an underlying security which results in an automatic share-for-share exchange of shares in the issuer for shares in the resulting company, the options on the underlying security will ordinarily be adjusted to require delivery upon exercise of a like number of units of the shares of the resulting company. Because the securities are generally exchanged only on the books of the issuer and the resulting company, and are not generally exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original issuer, but which, as a result of the corporate transaction, represent shares in the resulting company.~~^[51]

~~.07 When an underlying security is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding options that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.~~^[52]

⁴⁸ Interpretation and Policy .03 to Section 11A of Article VI is replaced by proposed Rule 2803(c)(3)(ii).

⁴⁹ Interpretation and Policy .04 to Section 11A of Article VI is replaced by proposed Rule 2803(c)(3)(iii).

⁵⁰ Interpretation and Policy .05 to Section 11A of Article VI is replaced by proposed Rule 2803(d)(2).

⁵¹ Interpretation and Policy .06 to Section 11 of Article VI is removed and replaced by proposed Rule 2803(d)(3).

⁵² Interpretation and Policy .07 to Section 11A of Article VI is replaced by proposed Rule 2803(d)(4) with certain modifications, including changing “and/or” to “or”.

~~.08 Notwithstanding Interpretation and Policy .01 under Section 11A of Article VI of the By-Laws, (i) distributions of short term or long term capital gains in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (e) of Section 11A, and (ii) other distributions in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be “ordinary distributions” within the meaning of paragraph (e) of this Section 11A if (x) the fund tracks the performance of an index that underlies a class of index options or index futures, and the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor; or (y) the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security (I) that results in an adjustment of options on other fund shares pursuant to clause (ii)(x), or (II) that is not deemed an ordinary distribution under Interpretation .01 above. Adjustments of the terms of options on such fund shares for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (e) of Section 11A, unless the Corporation determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution that is less than \$.125 per fund share and provided that, in the case of a contract that is originally listed with a unit of trading larger than 100 fund shares, the applicable threshold shall be \$12.50 per contract.~~^[53]

~~.09 Interest payments on index-linked securities will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of paragraph (e) of this Section 11A.~~^[54]

RULE 2804 – Adjustment of Index Options and Futures and Certain Other Cash-Settled Options and Futures^[55]

~~SECTION 3. (a) Except in the case of flexibly structured options on fund shares that are cash settled, Section 11A of Article VI of the By-Laws shall not apply to cash settled option contracts.~~

~~(b)(a) *Adjustment of Cash-Settled Options and Futures Generally.* In the case of cash-settled options or cash-settled futures that have a single commodity as their underlying interest do not require physical delivery of the underlying interest,~~ except as expressly provided otherwise in the ~~By-Laws or~~ Rules relating to a particular cleared contract, determinations as to whether and how to adjust the terms of such ~~cash-settled~~ options ~~or cash-settled futures~~ to reflect events affecting the underlying interest shall be made by the Corporation ~~in accordance with Rule 2801 based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers of such options, the maintenance of a fair and orderly market in such options and consistency of interpretation and~~

⁵³ Interpretation and Policy .07 to Section 11A of Article VI is replaced by proposed Rule 2803(c)(1)(v).

⁵⁴ Interpretation and Policy .09 to Section 11A of Article VI is replaced by Proposed Rule 2803(c)(1)(ii)(B).

⁵⁵ Proposed Rule 2804 relocates Section 3 of Article XVII with changes as marked. Proposed Rule 2804 replaces Section 4 of Article XII.

~~practice.~~^[56] Flexibly structured options on fund shares that are cash settled are governed by Rule 2803.^[57]

~~(e)~~(b) Addition, Deletion or Change to Index Components.

(1) Except as provided by paragraph (b)(2), the Corporation ordinarily will not~~No~~
~~adjustments will ordinarily be made in~~ the terms of index option contracts, index futures
contracts, or variance futures that have an index as their reference variable in the event that
index components are added to or deleted from the underlying index or reference index or
when the relative weight of one or more such index components has changed.

(2) However, if~~if~~ the Corporation shall determine in its sole discretion that any ~~such~~ addition,
deletion, or change to the index components causes significant discontinuity in the level of
the underlying index, the Corporation may adjust the terms of the affected index option
contracts or index futures contract by adjusting either or both of the index multiplier and ~~or~~
exercise price, as applicable, with respect to such contracts or by taking such other action as
the Corporation in its sole discretion deems fair to both the holders and writers of such
contracts. The Corporation may use its discretion to adjust variance futures as necessary to
correct for any impact such an event could have on an underlying variance.^[58]

~~(d)~~(c) Change to Index Multiplier, Calculation Method, or Underlying Index or Reference Index.

(1) Conditions. The Corporation shall make adjustments to an index option contract, index
futures contract, or variance futures contract if:

(i) If~~If~~ an Exchange shall increase or decrease the index multiplier for any index option
contract, index futures contract or variance futures contract; ~~or~~

(ii) the reporting authority shall change the method of calculation of ~~an underlying index~~
~~or reference index~~ an index that is an underlying interest or reference variable so as to
create a discontinuity or change in the level of the index that does not reflect a change in
the prices or values of ~~the index securities~~ the constituents of the index;

(iii) a futures market or its reporting authority shall change the method of calculation of
an underlying variance so as to create a discontinuity or change in the underlying
variance that does not reflect a change in the variability of the reference variable; or

(iv) the Corporation shall substitute one underlying index or reference index for another
pursuant to Rule 2804(d) ~~paragraph (e) of this Section 3,~~

⁵⁶ Proposed Rule 2804(a) relocates Section 3(b) of Article XVII with changes as marked. Proposed Rule 2804(a) replaces Section 4A(b) of Article XII.

⁵⁷ This sentence replaces the first clause in Section 3(a) of Article XVII.

⁵⁸ Proposed Rule 2804(b) relocates Section 3(c) of Article XVII with changes as marked. Proposed Rule 2804(b) replaces Section 4(a) of Article XII.

(2) Adjustments. In the event an above condition occurs, the Corporation shall make such adjustments in the number of outstanding affected options or futures, ~~or~~ the exercise prices of such options or the contract prices of such futures, or such other adjustments, if any, as the Corporation in its sole discretion deems fair to both the holders and the writers of such options or buyers and sellers of such futures.^[59]

~~(e)~~(d) Substitution of Successor Index. (1) The Corporation may substitute another index (a “successor index”) as the underlying interest or reference variable if ~~In the event~~ the Corporation determines that:

- (i) publication of an underlying index or reference index has been discontinued;
- (ii) an underlying index or reference index has been replaced by another index, or
- (iii) the composition or method of calculation of an underlying index or reference index is so materially changed since its selection as an underlying index or reference index that it is deemed to be a different index, the Corporation may substitute another index (a “successor index”) as the ~~underlying index or reference index~~ underlying interest or reference variable.

(2) A successor index shall be reasonably comparable, as determined by the Corporation in its discretion, to the original underlying index or reference index for which it substitutes. An index may be created specifically for the purpose of becoming a successor index.

(3) With respect to index futures contracts and variance futures, if ~~if~~ the Corporation determines in its discretion not to substitute a successor index, the Corporation may terminate the futures contract and fix a final settlement price in accordance with Section 5 of ~~this~~ Article XII. Any outstanding options on a futures contract terminated in accordance with the preceding sentence will be automatically exercised if in-the-money based upon the final settlement price for the underlying future or will terminate if out-of-the-money based upon such final settlement price.^[60]

~~(f)~~(e) Underlying Relative Performance Index Below Zero. In the event that the value of an underlying relative performance index for a cash-settled option falls below zero, any such negative value of the index will be deemed by the Corporation to be zero; provided, however, that if it is deemed impractical for systems reasons to have an index value of zero, then any index value of zero or below will be deemed to be an economically nominal positive number. Such an adjustment will have the effect of limiting the maximum exercise settlement amount for in-the-

⁵⁹ Proposed Rule 2804(c) relocates Section 3(d) of Article XVII with changes as marked. Proposed Rule 2804(c) replaces Section 4(b) and 4(d) of Article XII.

⁶⁰ Proposed Rule 2804(d) relocates Section 3(e) of Article XVII with changes as marked. Proposed Rule 2804(d) replaces Section 4(c) of Article XII.

money put options on such indexes to the difference between the exercise price and the nominal positive number substituted for the actual index value (times the applicable multiplier).^[61]

~~(e)(f)~~ *Elimination of Individual Reference Security.* ~~In the event that~~ If any individual reference security in an underlying relative performance index for a cash-settled option defined in the preceding paragraph is eliminated as the result of a cash-out merger or other event, the reporting authority may cease to publish the index. In that case, the exercise settlement value of the options would become fixed based upon the last published value for the index, and the Exchange on which such options are traded may determine to accelerate the expiration date for such options (and, in the case of European-style options, their exercisability). The expiration date for such options will ordinarily be accelerated to fall on the next regularly scheduled expiration date for the same class of options or such other date as the Corporation may establish in consultation with the Exchange on which such options are traded.^[62]

(g) Adjustment of Options on Index Futures or Variance Futures. (i) If the Corporation adjusts an index futures contract or variance futures contract underlying a futures option, such futures option ordinarily will be adjusted to provide, upon exercise, for delivery of the futures contract as adjusted by the Corporation. (ii) In the event the Corporation, acting pursuant ~~to paragraph (b) or (d) of this Section~~ Rule 2804(c), adjusts (A) the number of outstanding index futures or variance futures in a series of futures underlying a futures option, (B) the contract price of index futures or variance futures underlying a futures option, or (C) the index futures or variance futures underlying a futures option in any other manner, the futures option ordinarily will be adjusted in a manner corresponding to the adjustment in the underlying futures contract (e.g., if the number of outstanding index futures or variance futures in a series of futures underlying a futures option is adjusted, the number of futures options on the adjusted underlying index future or variance future will be similarly adjusted; if the contract price of the underlying index future or variance future is adjusted, the exercise price of the futures options will be similarly adjusted; etc.).⁶³

(h) *General Rule Application and OTC Adjustments.* Except in the case of OTC index options or any of the events described in paragraphs (e) and (f) ~~and (g)~~ of this Section 3-Rule, determinations with respect to adjustments pursuant to this Section Rule shall be made by the Corporation. ~~The provisions of Article VI, Section 11 of the By-Laws shall apply equally to adjustments made by the Corporation pursuant to this Article XVII, Section 3.~~

~~... Interpretations and Policies:~~

~~.01~~ For the elimination of doubt, all adjustments to the terms of outstanding cleared contracts in OTC index options shall be made by the Corporation in its sole discretion, based on its judgment

⁶¹ Proposed Rule 2804(e) relocates Section 3(f) of Article XVII with changes as marked, including to make the provision applicable to any cash-settled option or future and not just index options.

⁶² Proposed Rule 2804(f) relocates Section 3(g) of Article XVII with changes as marked, including to make the provision applicable to any cash-settled option or future and not just index options.

⁶³ Proposed Rule 2804(g) relocates Section 4(e) of Article XII of the By-Laws with modifications marked.

as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers (or purchasers and sellers) of the affected contracts, the maintenance of a fair and orderly market in the affected contracts, consistency of interpretation and practice (including consistency with adjustments to Exchange-listed index options on the same underlying interest), and efficiency of exercise settlement procedures.

RULE 2805 – Adjustment of Cash-Settled Foreign Currency Options and Futures^[64]

~~SECTION 3.~~(a) In the event that (i) a trading or an underlying currency is replaced by a new currency, or (ii) the exchange rate or exchange characteristics of a trading or underlying currency with respect to other currencies are officially altered, the Corporation may adjust:

(1) with respect to cash-settled foreign currency options, the exercise price, unit of trading, number of contracts, underlying currency, or other terms of option contracts affected by such event; ~~or. The provisions of Article VI, Section 11 of the By-Laws shall apply equally to adjustments made by the Corporation pursuant to this Article XXII, Section 4.~~

(2) with respect to cash-settled foreign currency futures, the underlying interest, unit of trading, settlement price or any other terms of futures affected by such event.

~~... Interpretations and Policies:~~

~~.01~~(b) Policy of the Corporation. The Corporation will not ordinarily adjust the terms of cash-settled foreign currency options or cash-settled foreign currency futures in response to devaluations or revaluations of trading or underlying currencies.

⁶⁴ Proposed Rule 2805 relocates Section 3 of Article XXII with modifications a marked. Proposed Rule 2805 replaces Section 4A(a) of Article XII.

Exhibit C

INTERPRETATIVE GUIDANCE ON THE ADJUSTMENT POLICY FOR CASH DIVIDENDS AND DISTRIBUTIONS

Frequently Asked Questions

Disclaimer: This Information Memo is intended to provide useful guidelines for how the contract adjustment policy has been and will be applied in practice. However, as indicated several times below, all adjustments are individually determined by OCC on a case-by-case basis, and exceptions may be made to general rules, interpretations, and policies in cases where OCC determines such exceptions to be appropriate. In no instance are the examples provided below meant to determine in advance the decisions that OCC will make in the future.

Overview of the Adjustment Policy

- Q. Who decides if an option adjustment shall be made?
- A. All adjustments are determined on a case-by-case basis by OCC.
- Q. What cash dividends call for an adjustment?
- A. “Ordinary” cash dividends do not call for adjustments. An “ordinary” cash dividend is defined as one paid “pursuant to a policy or practice of paying such dividend on a quarterly or other regular basis.” A cash dividend which is considered to be *outside* this regular policy or practice is non-ordinary. Assuming a given dividend is non-ordinary according to this definition, a size test is also imposed: the value of the dividend must be at least \$12.50 per option contract. Thus, if the dividend is non-ordinary and yields at least \$12.50 per option contract, then an adjustment will be made.
- Q. What’s the rationale for this approach?
- A. In general, dividends declared pursuant to a policy or practice of a company can be anticipated and priced into option premiums according to standard models. Non-ordinary dividends declared outside the normal policy of the company cannot be anticipated and integrated into pricing with the same degree of assurance. Thus, when such dividends are announced, if no adjustment is made, the only way a call holder can capture the dividend is through exercise prior to the ex-dividend date. When this happens, significant option time value can be lost and financial losses due to operational error in submitting exercises may occur. The intention is to allow such dividends to accrue to the benefit of call holders without requiring them to exercise their options.
- Q. So any dividend that can’t be *anticipated* will be deemed a non-ordinary dividend?
- A. No. Although such dividends may be unanticipated, the important criterion is whether a dividend is paid pursuant to a program or policy of paying dividends on a quarterly or other regular basis. In some cases, the dividends of a company paid according to such a policy may be highly variable and subject to increases or decreases that some may consider “unanticipated.” Nevertheless, these dividends would not normally be deemed non-ordinary.

Examples: What if...?

Q. Can you give an example of how the \$12.50 adjustment threshold will work in practice?

A. In order for an option to be adjusted, the value of the dividend must be at least \$12.50 per option contract. However, if the security on which the dividend is paid underlies option contracts with more than one contract size – e.g., as a result of adjustments for previous splits – then the nonstandard contracts would be adjusted only if the value of the dividend on the nonstandard contract is at least \$12.50 *and* the standard-size contract (normally 100 shares) would also be adjusted.

For example, suppose an option covers 100 shares of stock and a \$0.10 special cash dividend is declared. This dividend, although non-ordinary, would yield only \$10.00 in value for this option contract. Therefore, no adjustment would be made.

A second example: Suppose an option covers 100 shares of stock and another option covers 150 shares of the same stock (as the result of a previous adjustment for a 3 for 2 split). A \$0.10 special dividend is declared. The dividend would yield \$10.00 in value for the 100 share option and \$15.00 for the other. However, in this case, since the standard-size (100 share) contract would not be adjusted (the \$12.50 threshold not being met), the 150 share option would also **not** be adjusted.

A third: Suppose an option covers 100 shares of stock and another option covers 50 shares of the same stock (as a result of a previous adjustment for a 1 for 2 reverse split). A \$0.15 special dividend is declared. The dividend would yield \$15.00 in value for the 100 share option and \$7.50 for the 50 share option. In this case, the standard-size (100 shares) option would be adjusted, but the 50 share option would **not** be adjusted because the value of the dividend per contract would be only \$7.50, and a nonstandard option is not adjusted if the value of the dividend per contract is less than \$12.50 even if the standard-size option is adjusted.

These examples also illustrate that, in general, the \$12.50 threshold is applied at the **option contract** level– **not** per share.¹

Occasionally only nonstandard options exist. In these cases, since there is no standard-size option to refer back to, the application of the \$12.50 per contract threshold will determine whether an adjustment is made.

Q. Who determines if a cash dividend is “non-ordinary”?

A. OCC will make this determination. In doing so, OCC may consider the company’s characterization of the dividend but the company’s characterization is not binding. OCC may take into account other factors deemed appropriate including, but not limited to, the company’s stated dividend policy and payment history, prior option adjustments, and factors bearing on the maintenance of a fair and orderly market.

¹ A threshold of .125 **per share** is used in determining contract adjustments for capital gains and other distributions for fund shares, as described in ~~Interpretation .08 to Article VI, Section 11A of the OCC By-Laws~~ [OCC Rule 2803\(c\)\(2\)](#).

- Q. If a company accelerates the payment of its regular dividends, would such dividends be deemed non-ordinary and occasion an adjustment to options?
- A. No. If OCC determines such accelerated dividends are paid pursuant to the company's regular dividend payment program, they would generally be classified as ordinary, irrespective of the company's characterization of such dividends as "special" or similar designations. The same would be true regardless of whether a single regular dividend or multiple regular dividends are accelerated.
- Q. What if a company that previously paid no dividends initiates a regular dividend program – would the initial dividend be considered "non-ordinary" and therefore adjustable?
- A. No. The initial dividend would be paid pursuant to a policy under which the company intends to pay dividends on a regular basis. Therefore, it would not be deemed "non-ordinary" and adjustable.
- Q. What if a company announced a dramatic increase in a regular dividend? For example, what if a company's last quarterly dividend was \$.20 and the current quarterly dividend was bumped to \$1.00 – wouldn't that be a "non-ordinary", one-time event that would call for an adjustment?
- A. No – most likely not. As mentioned earlier, we would start with the company's description of its dividend. If the company has a quarterly dividend program and the company says this quarter's dividend is \$1.00, then we anticipate the dividend would be deemed to be ordinary and not adjustable. However, as mentioned, the decisions of OCC are always made on a case-by-case basis, in light of the circumstances and facts as understood at the time.
- Q. What if a company declares a "variable dividend"? Does it matter if the dividend is paid in addition to a regular dividend? Since the value of the dividend changes from dividend to dividend would it be considered a "non-ordinary" dividend?
- A. If a company has a policy or practice of paying a "variable dividend" on a regular interval, the variable dividend generally would be considered an ordinary dividend and not adjustable, even if on occasion no variable dividend is paid because a company-established threshold for paying the variable dividend is not met and even if the amount of the dividend may drastically increase or decrease based on such company-established thresholds.
- Q. What about REITs, natural resource trusts, and similar companies that pay very irregular dividends? Such companies could pay no dividends for many months and then suddenly pay a dividend. Would that be considered a "non-ordinary", adjustable dividend?
- A. No – most likely not. The kinds of companies mentioned in the question often have very regular dividend *policies* but will *actually* pay dividends only when certain conditions are met, or in response to market conditions. REITs, for example, are generally required to pay out profits to shareholders when and if profits are realized. They may determine dividends monthly, although the cash amount available for distribution may actually be zero in any given month. Thus, although the dividend payouts of such companies may be irregular, insofar as they occur *pursuant to the policy of the company*, they would be considered ordinary and not adjustable.

- Q. What if a company is reorganizing itself into a REIT and is required to pay out accumulated profits in a large dividend as it commences a dividend program. You said before that *initial* dividends would not normally call for adjustment. Would you adjust in this case?
- A. In our experience, companies reorganizing themselves into REITS or income trusts often designate this initial required pay-out as a “special” dividend. Precedent exists for adjusting for such dividends under OCC’s adjustment rules. Even if the company did not specifically characterize such a dividend as “special,” OCC may decide to deem them non-ordinary and adjust.
- Q. What if a company pays a dividend that is outside of its normal schedule of dividend payments but is required to maintain its tax status as a particular type of organization, such as a REIT?
- A. If a company pays a dividend to maintain its tax status that is not paid pursuant to the policy of the company, or if the distribution is paid in addition to an ordinary dividend, it will most likely be considered non-ordinary and warrant an adjustment, particularly if the company characterizes the pay-out as a “special” or “one-time.”
- Q. Fund share or ETF options have previously been adjusted in response to special dividends declared with respect to component securities of the fund. A notable instance was the Microsoft \$3.00 special dividend in 2004. How will these kinds of distributions be handled?
- A. If a fund (ETF, HOLDR, etc.) is making a cash distribution which is identified (in whole or part) by the fund as attributable to a special dividend on a component security, then the appropriate amount of the cash distribution will also be considered a non-ordinary, adjustable distribution. For example, if an ETF is making a \$1.00 quarterly cash distribution, \$.25 of which is attributable to a special dividend on a component security, the OCC will normally consider \$0.25 of the aggregate distribution as a non-ordinary dividend and adjust for \$.25 (\$25.00 per 100 share option).
- Q. How will the \$.125 per share adjustment threshold be applied to fund shares (e.g., ETFs)?
- A. Pursuant to ~~Interpretation .08 to Article VI, Section A of the OCC By-Laws~~ [OCC Rule 2803\(c\)\(1\)\(iv\)\(B\)](#), fund shares can be adjusted for capital gains distributions. OCC may also determine that fund distributions attributable to non-ordinary dividends on component securities of a fund should be considered non-ordinary and call for adjustment. These distributions, considered individually, may be less than \$.125 per share but greater than \$.125 when considered in aggregate. The \$.125 per share adjustment threshold will generally be applied to the aggregate of capital gains and other non-ordinary fund share distributions which have the same ex-date. For example, if a fund identifies a capital gains distribution of \$.05 per share and a distribution of \$.10 attributable to non-ordinary distributions on component securities (itemized singly or in aggregate), OCC will ordinarily make an adjustment of \$.15 (\$15 per 100 share option) to the terms of the option.

Investors are nevertheless reminded that all adjustment decisions are made on a case-by-case basis by OCC, including determinations of distributions as ordinary or non-ordinary.

- Q. What if a company declares a non-ordinary dividend which is ex-distribution on the same date that a regular dividend is “ex”? Would these be considered one event or two separate events?
- A. Two separate events.
- Q. What if a company’s regular quarterly dividend is a “return of capital”? Would that make it a non-ordinary, adjustable dividend?
- A. No. Insofar as the dividend is still a regular quarterly dividend, it would not call for an adjustment. Ordinarily, the source of cash to be paid will not be determinative of the adjustment decision. In the past, however, determinations have been made to adjust for any dividends paid pursuant to a plan of liquidation – even regular dividends of the company included in the plan. OCC may follow this precedent in the future as well for companies undergoing liquidation.

Operational Matters

- Q. Will we have to wait until the official declaration date of a dividend before a decision is made about option adjustment?
- A. Not necessarily. OCC intends to make adjustment decisions as soon as practicable. OCC may decide it is appropriate to base a decision on the company’s press release or similar announcement, in advance of the formal declaration date. Of course, if this is done, the adjustment decision would be appropriately conditional. For example, “if declared and paid as described in the press release, then....”

For example, suppose a company announces its intention in a press release to pay a special dividend, but this dividend is contingent on shareholder approval or other conditions. Until the conditions are met, it will not be officially declared. Under the policy, it will be easy to see if the dividend meets the size criterion: would it yield \$12.50 per contract? If “yes”, then OCC may determine and announce it is a non-ordinary dividend if the dividend is approved by shareholders, and investors will immediately know an adjustment will occur if the dividend is actually declared.

- Q. If an adjustment is called for, *how* will it be done?
- A. There are two methods of adjustment: 1) simply reduce the strike prices by the amount of the dividend. This is the preferred method and will normally be used if the exact dividend amount is known in advance of the ex-date. 2) If the exact dividend amount is not known or if strike reduction would result in a strike of zero or less, then the amount of the dividend will be added as a cash component to the option deliverable. When this is done, an option symbol change normally occurs.

Adjustments will continue to be made on the ex-date for the cash dividend as determined by the appropriate market.

ALL CLEARING MEMBERS ARE REQUESTED TO IMMEDIATELY ADVISE ALL BRANCH OFFICES AND CORRESPONDENTS ON THE ABOVE.

For questions regarding this memo, please email the Investor Education team at options@theocc.com. Clearing Member Firms of OCC may contact Member Services at 1-800-544-6091 or, within Canada, at 1-800-424-7320, or email memberservices@theocc.com.