

SCREEN DEALING BULLETIN NO. 22/00



AO OPTION SETTLEMENT SKEW

At a recent meeting, the Options Contract Committee unanimously supported a proposal to extend the AO option skew from its current format of 10 strikes either side of at-the-money to 25 either side of at-the-money.

The Committee agreed that it was in the best interest of the market to extend the AO option skew for the following reasons:

- The existing skew did not extend wide enough and out-of-the-money strikes were not being settled at fair market value
- To reduce SFECH risk for positions incorrectly valued which could otherwise lead to over-exposure
- To increase the compatibility between the AO and AP option contracts whereby the AP contract currently uses 25 strikes either side
- The dissatisfaction by Members and clients regarding the settlement values of out-of-the-money options

The Committee also discussed adopting flexible skew increments, however, acknowledged that this issue required further market consultation.

As it is the Exchange's aim to implement the extension of the AO option skew to 25 strikes as soon as possible, Member feedback is sought with regards to timing of the implementation of the skew and increased flexibility in skew increments.

Members are requested to consult with their AO options clients and provide written feedback to the undersigned by Tuesday, 20 June 2000.

GEORGE MAGANAS
SCREEN DEALING MANAGER

31 AUGUST 2000