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# Fixed Return Optionss

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## FROs

### Symbology



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A unique FRO root symbol, similar to an option wrap symbol, is utilized to denote a FRO. This is similar to the wrap symbols currently used to denote LEAPs. Currently, IBM options use IBM as the option root symbol and use VIB as the option root symbol for the January 2009 LEAP and WIB for the January 2010 LEAP. MSQ is the option root symbol for MSFT, VMF is used for the January 2009 LEAP and WMF is used for the January 2010 LEAP. If XYZ was the option root symbol for XYZZ, then the FRO may use an option root such as ABC to denote the FROs.

### EXAMPLES

#### **XYZ listed calls use ABC to denote FROs**

XYZ	Jan	25	Standard Listed Call	=	XYZ AE
ABC	Jan	25	Finish High FRO	=	ABC AE
XYZ	Jan	25	Standard Listed Put	=	XYZ ME
ABC	Jan	25	Finish Low FRO	=	ABC ME

#### **LMN listed calls use HIJ to denote FROs**

LMN	May	10	Standard Listed Call	=	LMN EB
HIJ	May	10	Finish High FRO	=	HIJ EB
LMN	May	10	Standard Listed Put	=	LMN QB
HIJ	May	10	Finish Low FRO	=	HIJ QB

## Summary

Although FROs and standard listed options share many of the same features, there are significant differences in the settlement process and profit and loss characteristics. Since these differences exist, an investor considering the purchase or sale of FROs must understand that these similarities and



differences are represented by the standard listed option root symbol and the FROs root symbol. For example, the LMN May 10 call is a standard listed option contract, which is American style exercise and physically settled. The HIJ May 10 Finish High FRO, however, is European style settlement and cash-settled. Even though both contracts are based on the same underlying LMN stock, the differences in exercise and settlement are significant.

**For the sake of simplicity, the examples shown do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.**

**Fixed Return Options (FROs) involve risk and are not suitable for everyone. Prior to buying or selling a FRO, a person must receive a copy of *Characteristics and Risks of Standardized Options*. Copies may be obtained from your broker, one of the options exchanges or The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, IL 60606 or call 1-888-OPTIONS or visit [www.888options.com](http://www.888options.com).**

**FROs exercise and assignment is based on an all day expiration day Amex FRO Settlement Index<sup>(SM)</sup> so it is possible for the standard listed options to be in-the-money at expiration and the FROs to be out-of-the-money or for the FROs to be in-the-money and the standard listed options to be out-of-the-money. An investor must understand FROs settlement before entering into any FROs transaction.**

**Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and education purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities. Supporting documentation will be supplied upon written request.**

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