

Title: Must Be Nice to Be Able to Change the Rules Mid-Game: Options Disclosure Document Includes the Introduction of a New Type of Implied Volatility Option

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Straight from the ~~OCC's~~ ~~horse's~~ ~~whore's~~ complicit 'self-regulating' market entity's mouth: "contains supplemental material to accommodate the introduction of a third type of implied volatility option with an exercise settlement value that is calculated differently from other existing implied volatility options." https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document

[hmmm, you don't say...](https://preview.redd.it/0m222yojgf181.png?width=1060&format;=png&auto;=webp&s;=e93720757b2cbdd674efdab07aacb6bf4475c782)

Scrolled through New for awhile and searched various keywords/phrases and haven't seen this mentioned yet. Seemed relevant for everyone's favorite stonk (that also happens to be especially volatile recently, after a bit of, shall we say, *sideways trading,* looking at you [u/johnwithcheese](https://www.reddit.com/user/johnwithcheese/)). Seemed especially relevant considering the recent DD on variance swaps by u/leenixus and friends, related/supporting work by u/mauerastronaut and everyone's favorite pomeraniape u/criand. Seems like it also might help explain curveballs thrown at u/gherkinit's current well-formed and data-tested hypothesis, and those of others' as well.

The last time that this type of product was introduced was October 2018 (and April 2015 before that):

https://preview.redd.it/lrhqedgkf181.png?width=425&format;=png&auto;=webp&s;=ef348b98b5aa5f0b6b0b2c69787ec1284c142d27

Also felt worth mentioning that it gets mentioned at the literal last sentence of the 97 page document (and syntactically separate from the previous list of (vii) incusions):

https://preview.redd.it/1q7pn93nlf181.png?width=403&format;=png&auto;=webp&s;=1ae3f9fa73c3e54046e9b85a9801bf92689eb486

One of the points that jumped out at me the most is that the relevant variance swap products were valued at end of day, which determines exercise settlement value and directly affects when the swap owners have to hedge/cover/roll/etc. How much you wanna bet this new implied volatility option isn't valued at EOD...? Drum rolllllllll please:

[Well you don't say, values derived from a range of component put and call options, or values of same put/call options calculated during one or more periods of time at or near the OPENING of trading. Seems totally legit, transparent, and non-shady.](https://preview.redd.it/laoqy13tmf181.png?width=980&format;=png&auto;=webp&s;=83348478d69549af45dd26b37b9a71b9ff0c69dc)

So yeah there's that. Oh, and if the underlying stock doesn't trade at open for whatever reason, *a substitute value* (pg 33), can be used in place of the opening values or range of values or whatever other horse shit they come up with that makes the numbers line up closer to where they need them. I mean,

come on...

[as long as you yell SURPRISE first. i don't know about you, but i didn't hear anyone yell this time ;-;](<https://preview.redd.it/6ary6zu3uf181.jpg?width=1080&format=jpg&auto=webp&s=d70254b737412d0d2d9a7ef9f1db76ddaff64053>)

There are a bunch more notable amendments, including these from two paragraphs on page 47 of the document, regarding settlement and exercise of options held by individuals outside the US:

<https://preview.redd.it/q9dp8mpyof181.png?width=830&format=png&auto=webp&s=1d8bdbfdc0266c75451e219bad6c49a5c42510a8>

These amendments appear to remove the ICC from the equation in these types of settlements, as well as allow the OCC to "discharge" their "obligation to deliver or pay... in satisfaction of option exercises" to correspondent banks, forcing "brokerage firms and their customers" to rely on said correspondent banks "to deliver or pay". Let's pass that buck around some more, shall we...?

There are other amendments that also appear to be notable, juicy, and possibly relevant, tidbits in addition to these (especially those that relate to new IV option type, settlement and exercise, and "Special Features of Flexibly Structured Options"), but I'm somewhere half- and full-baked and am gonna wrap-up for now and go chill for a bit.

*passes doobie to the left and just barely remembers to do a TL:DR for the fellow smoothies**

TL:DR: The new (October 2021) Options Disclosure Document from the OCC introduced a new type of implied volatility option, and its valuation is handled differently than existing IV options (value at open/range of values at open instead of value at EOD). The last time this happened was in October 2018. Other amendments include various changes to settlement and exercise procedure.

SPECULATION: Feels particularly relevant to current context, market action, and recent DD; might help explain recent volatility and be helpful in adjusting current hypotheses.

EDIT: It was kindly brought to my attention that calling the OCC a 'whore' is actually an insult to sex workers worldwide, and that the use of the word 'whore' in that context could be considered insulting/dehumanizing to some, which was never my intent. Hopefully this quick edit illustrates that, and my sincere apologies to anyone that was offended by the original. Hope everybody has a nice day, gobble gobble xD

[the dude abides](<https://preview.redd.it/we901s31wf181.jpg?width=625&format=jpg&auto=webp&s=b599139d9266348bab47bafbe9f710978edc9d08>)