



CBOE Regulatory Circular RG07-73

DATE: July 16, 2007

TO: Members and Member Firms

FROM: CBOE Research and Product Development

SUBJECT: Credit Default Options Product Review

**OVERVIEW**

On June 19, 2007, CBOE commenced trading Credit Default Options. Listed below are some features of the proposed Credit Default Options:

- Credit Default Options are cash-settled binary options that pay \$100,000 upon the confirmation of a Credit Event (e.g., bankruptcy or failure-to-pay) in a Reference Entity (i.e., debt issuer or guarantor) and \$0 if there is no Credit Event prior to the Last Trading Day.
- The Last Trading Day for Credit Default Options if there is no Credit Event will be the 3rd Friday of the month. If there is a Credit Event confirmed prior to that day, the series will cease trading at the time of confirmation of the Credit Event and the Last Trading Day will be accelerated to the confirmation date.
- The Expiration Date for Credit Default Options if there is no Credit Event will be the 4th business day after the Last Trading Day. If there is a Credit Event the Expiration Date will be accelerated to the 2nd business day immediately following the Credit Event confirmation date.
- Up to 41 quarterly expiration months (10.25 years) may be listed at any time. Each calendar year for Credit Default Options will have a unique class symbol.
- Credit Default Options will have unique class symbols, distinct from equity option classes based on the same company.
- Credit Default Options will be ***P.M.-settled***.
- Credit Default Options will trade from 8:30 a.m. – 3:00 p.m. (CT).

## **CURRENT CLASS LISTINGS**

Following are the classes and contract months for series of Credit Default Options currently listed for trading:

Equity Ticker	Company Name	Credit Default Option Symbols/ Exp. Dates	
		Sep 2008	Sep 2012
F	Ford Motor Co	FDE	FDW
GM	General Motors Corp	GCB	GCY
HOV	Hovnanian Enterprises Inc.	CKA	CKJ
SPF	Standard-Pacific Corp	JSV	JSW

To the extent they are provided in the terms of the Relevant Obligations (described below), the following are the applicable Credit Events for the above-listed classes:

- A Failure-to-Pay Default on its Reference Obligation (*e.g.*, Company ABC 8.5% July 2013 bond) or on any other debt security obligations of the Reference Entity other than non-recourse indebtedness (the set of these obligations and the Reference Obligation are referred as the “Relevant Obligations”); provided that the minimum failure-to-pay amount, individually or in the aggregate, shall be the greater of \$750,000 or the amount specified in accordance with the terms of the Relevant Obligation(s).
- Bankruptcy as defined in the terms of the Relevant Obligation(s).

## **INFORMATION SOURCES**

CBOE will confirm Credit Events and Special Contingencies based on at least two of the following sources of publicly available information: (1) Wall Street Journal, Bloomberg Service, Reuters, Dow Jones News Wire, Financial Times, New York Times; and/or (2) information submitted to or filed with the courts, the SEC, an exchange or association, the OCC, or another regulatory agency or similar authority.

## **SUCCESSION-RELATED ADJUSTMENTS**

Each Credit Default Option will be replaced by one or more Credit Default Options derived from Successor Reference Entities that have succeeded the original Reference Entity as a result of a Succession Event based on the applicable share of each Successor Reference Entity.

- A “Successor Reference Entity” and a “Succession Event” will be defined in accordance with the terms of the Relevant Obligation(s). In determining the applicable share, an equal share will be allocated to each Successor Reference Entity that has succeeded the original Reference Entity as issuer or guarantor of at least one Relevant Obligation and at least 25% of the principal amount of the original Reference Entity’s outstanding debt obligations other than non-recourse indebtedness. If no Successor Reference Entity satisfies the “at least 25%” requirement and the original Reference Entity does not

survive following the Succession Event, an equal share will be allocated to the Successor Reference Entity(ies) that succeeded to the largest percentage of the original Reference Entity's outstanding debt obligations other than non-recourse indebtedness.

- In respect of each successor Credit Default Option, the cash settlement amount and contract multiplier will be adjusted based on the applicable share of each Successor Reference Entity. All other terms and conditions of each successor Credit Default Option will be the same as the original Credit Default Option unless the Exchange determines, in its sole discretion, that a modification is necessary and appropriate for the protection of investors and the public interest, including but not limited to the maintenance of fair and orderly markets, consistency of interpretation and practice, and the efficiency of settlement procedures.

For additional information regarding Credit Default Option adjustments, please refer to Rule 29.4.

### **ADDITIONAL INFORMATION**

Please refer to Chapter XXIX of CBOE's rules and the following CBOE circulars for more information regarding Credit Default Options:

RG07-065  
RG07-067  
IC07-081  
IC07-082  
IC07-089

You can also find additional information on our website located at <http://www.cboe.com/credit>.

Any questions about this memorandum may be directed to the Help Desk at (312) 786-7086 or 8749.