



## Regulatory Circular RG11-018

To: Trading Permit Holders

From: Market Quality Assurance Department

Date: January 28, 2011

Subject: Modifications to Strike Setting Parameters of \$1 Strike Program

CBOE recently amended Rule 5.5, Interpretation and Policy .01(a), to modify the strike setting parameters under the \$1 Strike Program. Previously, under the \$1 Strike Program, CBOE could list \$1 strikes prices from \$1 to \$50 that were no more than \$5 from the closing price of the underlying security on the preceding day. Below are descriptions of the changes to the \$1 Strike Program.

### New Provisions for Listing \$1 Strike Prices in Non-LEAP Series

- In addition to using the closing price of the underlying on the preceding day, CBOE may also use the opening price of the underlying in its primary market for determining whether to add \$1 strike prices intraday.
- \$1 strikes prices may be added to eliminate discontinuity between the preceding day's closing price and the opening price.
  - **Example:** If the underlying stock closes at \$14, \$1 strikes may be added from \$9 to \$19. If that underlying stock opens at \$27.10 the next day, the Exchange may add the \$20 (standard strike), \$21 and \$22 and \$1 strikes from \$23 to \$32.
- **Strike prices in \$2.50 intervals below \$50 are prohibited for classes that participate in the \$1 Strike Program.**
- As an exception to the previous limitation on listing \$1 strike prices more than \$5 from the underlying stock, \$1 strike prices are permitted above and below each standard \$5 strike that are more than \$5 from the price of the underlying stock, with the \$1 strike being: (1) \$2 above each standard \$5 strike above the price of the underlying stock, and (2) \$2 below each standard \$5 strike below the price of the underlying stock.<sup>1</sup>
  - **Example:** If a stock is trading at \$19, the permissible standard \$5 strike prices would be: \$5, \$10, \$15, \$20, \$25, \$30 and \$35. CBOE would be permitted to add the following \$1 strike prices that are more than the \$5 from the price of the underlying stock under this new provision: \$3, \$8, \$13, \$27, \$32 and \$37. CBOE would also be permitted to add the following regular \$1 strike prices that are no more than \$5 from the price of the underlying stock: \$14, \$16, \$17, \$18, \$19, \$21, \$22, \$23 and \$24.

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<sup>1</sup> Strike price intervals must meet the strike setting provisions contained in the OLPP and set forth in Rule 5.5A. Specifically, if the price of the underlying security is less than or equal to \$20, CBOE may not list new option series with an exercise price more than 100% above or below the price of the underlying security. If the price of the underlying security is greater than \$20, CBOE may not list new option series with an exercise price more than 50% above or below the price of the underlying security.

### New Provisions for Listing \$1 Strike Prices for LEAP Series

- Previously, CBOE was generally prohibited from listing \$1 strike prices for LEAPs. As amended, Rule 5.5.01(a) permits CBOE to list \$1 strike prices for LEAPs on those classes that participate in the \$1 Strike Program as follows:
  - For LEAPs, CBOE may list a single \$1 strike price between each \$5 standard strike interval, with the \$1 strike being: (1) \$2 above each standard \$5 strike above the price of the underlying stock, and (2) \$2 below each standard \$5 strike below the price of the underlying stock.
    - **Example:** If a stock is trading at \$21.25, the permissible standard \$5 strikes would be: \$13, \$15, \$20, \$25 and \$30. CBOE would be permitted to add the following \$1 strike prices between each standard \$5 strike: \$18, and \$27.
  - CBOE may also list the \$1 strike which is \$2 above the standard strike just below the underlying price at the time of listing and may add additional LEAP strikes as the price of the underlying security moves.
    - **Example:** In the above example, CBOE would be permitted to list the following \$1 strike price: \$22.
- Strikes in \$2.50 intervals below \$50 are prohibited.<sup>2</sup>
- Additional strikes for LEAPs may not be listed within \$1 of an existing strike until less than none months to expiration.

### Contact Information

Questions regarding this circular may be directed to Charlie Hullihan, Trading Operations, at (312) 786-7176 or to Jenny Klebes, Legal Division, at (312) 786-7466.

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<sup>2</sup> This prohibition does not apply to those classes (maximum of 200) which CBOE has selected to permit \$1 strikes up to \$5 in LEAPs on individual stocks.