CBOE EXECUTE SUCCESS℠

Regulatory Circular RG13-155

Date: December 2, 2013

To: Trading Permit Holders and Clearing Trading Permit Holders
From: Research Department
Regulatory Services Division
RE: Product Description, Margin and Net Capital Requirements
- Options on the CBOE Russell 2000 Volatility Index (RVX)

KEY POINTS

- On December 3, 2013, Chicago Board Options Exchange, Incorporated (CBOE or Exchange) plans to commence trading of options on the CBOE Russell 2000 Volatility Index℠. Options will trade under the ticker symbol "RVX℠."

- RVX options are cash-settled, have European-style exercise and have a $100 multiplier.

- The CBOE Russell 2000 Volatility Index represents an up-to-the-minute estimate of the expected 30-day volatility of the Russell 2000® Index and is derived by applying the CBOE Volatility Index (VIX) methodology to Russell 2000 Index (RUT) options traded on CBOE.

- For strategy-based customer margin requirements, broad-based index option margin requirements apply to **short** RVX options (15% basic / 10% minimum).

- For net capital treatment, the non-high-capitalization broad-based index requirements apply to RVX options. Margin and net capital requirements are described in detail below.

DISCUSSION

PRODUCT DESCRIPTION

CBOE will list cash-settled, European-style option contracts on the RVX beginning on December 3, 2013.

RVX is an up-to-the-minute market estimate of the expected 30-day volatility of the Russell 2000® Index (RUT). Calculation of the index is based on the CBOE Volatility Index (VIX) methodology, applied to CBOE listed options on RUT. RVX uses real-time bid/ask quotes of nearby and second nearby options with at least eight days left to expiration, and weights these options to yield a constant, 30-day measure of expected volatility.

The contract multiplier for RVX options will be $100. The minimum tick for RVX option series trading below $3 is 0.05 ($5.00); above $3 is 0.10 ($10.00).

RVX option series may be listed with minimum strike price intervals of not less than $1 where the strike price is $200 or less and $5 or greater where the strike price is greater than $200.

Initially, CBOE plans to list RVX options expiring in January, February and March. CBOE may list up to six RVX options contract months, provided that the time to expiration is not greater than 12 months.

RVX options have European-style exercise; options generally may be exercised only on the Expiration Date.

The last day to trade expiring RVX options will be the business day prior to the Expiration Date. The Expiration Date for RVX options will be the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the month in which the contract expires. If the third Friday of the month immediately following the month in which the contract expires is a CBOE holiday, the last day to trade and the Expiration Date for the contract shall be thirty days prior to the CBOE business day immediately preceding that Friday.

RVX options are A.M.-settled; the exercise-settlement value for options on RVX shall be a Special Opening Quotation (SOQ" of RVX (Ticker – RSL) calculated from the sequence of opening prices, as traded on CBOE, of a single strip of RUT options expiring 30 days after the RVX settlement date. The opening price for any series in which there is no trade shall be the average of that option's bid price and ask price as determined at the opening of trading. Exercise will result in delivery of cash on the business day following expiration. The exercise-settlement amount is equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by $100. If the exercise-settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the final settlement value will be determined in accordance with the rules and bylaws of The Options Clearing Corporation (OCC).

The position limit for RVX options is 50,000 contracts on either side of the market with no more than 30,000 contracts in the nearest expiration month.

Trading hours for RVX options are 8:30 AM to 3:15 PM Central Time (Chicago time).

Detailed product specifications may be found on the CBOE website at the following URL:

http://www.cboe.com/products/indexopts/RVX_spec.aspx

CUSTOMER MARGIN

Broad-based index option margin requirements apply to RVX options, CBOE Rule 12.3(c)(5), except that the current (cash) index value is **not** used to compute the requirements for short options. RVX options are expected to price in relation to the price of the futures contract having a settlement month that coincides with the expiration month of the option. Therefore, the price of the securities futures contract (traded on CBOE Futures Exchange (CFE), ticker symbol VU) with a settlement month that matches the expiration month of the option must be used. If there is no futures contract with a settlement month that matches the expiration month of the option, use the next futures contract settlement month that is available going forward. If there is no futures contract settlement month going forward, use the last futures contract settlement month available chronologically.

Purchases of RVX options with 9 months or less until expiration must be paid for in full. Initial margin must be deposited and maintained equal to at least 100% of the current market value of the option. For long options with more than nine months until expiration, Exchange rules require margin of at least 75% of the total cost (option current market value) to be deposited (maintained). When time to expiration reaches nine months, the option no longer has value for margin purposes.

The initial and maintenance margin requirement for a short put or call is 100% of the option proceeds* plus 15% of the aggregate contract value (current index value x $100) minus the amount by which the option is out-of-the-money, if any, subject to a minimum for calls of option proceeds* plus 10% of the aggregate contract value and a minimum for puts of option proceeds* plus 10% of the aggregate put exercise price amount. (*For calculating maintenance margin, use current market value instead of option proceeds.)

Spreads and straddles are permitted for RVX options having equivalent aggregate underlying values. In respect of calendar spreads, TPHs are reminded that RVX options are European-style. It is possible that the spread margin requirement could be, or become, insufficient to cover the assignment obligation on the short option if the long option cannot be exercised and it is trading at less than its intrinsic value in relation to the price of the futures contract or current index value that determines the intrinsic value of the short option. Therefore, the Clearing TPHs will likely require higher margin for calendar spreads with European style options in order to ensure that sufficient margin is held to cover the risk.

Where a short option contract is covered by an “escrow agreement” meeting the requirements of CBOE Rule 12.3(d)(2), no margin need be required.

RVX options are eligible for portfolio margining. A new Product Group will be created. At this time, no offsets with other classes are allowed. The portfolio margin requirement will be equal to the maximum potential loss over a range of market movements covering +/–15%. VU futures contract prices will be utilized to compute theoretical option prices rather than the current (“cash”) index value. All positions are subject to a minimum charge of $37.50 per contract, except that the minimum charge for long options will not exceed the market value. These requirements are Exchange minimums. House portfolio margin requirements may be greater.

OPTION MARKET–MAKER MARGIN REQUIREMENTS

Pursuant to CBOE Rule 12.3(f), RVX option positions of a RVX options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

RVX options and VU futures positions of a RVX options market-maker are eligible for cross-margin treatment in a cross-margin account carried for the options market-maker by a Clearing Trading Permit Holder that clears and carries both the RVX and VU positions. A futures account must be used for cross-margining. Cross-margining of RVX and VU positions must be undertaken in a cross-margin account that is exclusive to CBOE and CFE products. The SPAN file will be updated to take any risk offsets between RVX options and VU security futures into consideration and render a margin requirement accordingly. Additionally, a risk-based haircut (“RBH”) must be computed on the cross-margin account positions. If the RBH is greater than the SPAN margin requirement, the RBH must be used as the margin requirement in lieu of the SPAN margin requirement.

It should be noted that at OCC, RVX options are eligible for a market professional cross-margin account, in which offsetting positions in RVX options and VU futures may be combined. A cross-margin account for a market professional must be set-up exclusively for carrying CBOE and CFE products that are cross-marginable. OCC currently requires that both RVX options and VU futures be cleared and carried by the same OCC clearing member (i.e., a dual broker-dealer / FCM) in order to establish market professional cross-margin accounts at OCC.

NET CAPITAL REQUIREMENTS

For risk-based haircuts, a new Product Group will be created for RVX options.[1] The risk–based haircut will be equal to the maximum potential loss calculated over a range of market movements covering +/-15% for options market-makers and all other broker–dealers. VU futures contract prices will be utilized to compute theoretical option prices rather than the current (“cash”) index value. All positions are subject to a minimum charge of $25 per contract, except that the minimum charge for long positions will not exceed the market value. VU futures will be included in the same Product Group with a 100% offset.

For those firms not utilizing risk–based haircuts, the haircut will be calculated pursuant to the alternative strategy based method of SEC Rule 15c3-1a.

[1] Risk–based haircuts may be applied pursuant to SEC Rule 15c3-1a (Appendix A).

Additional Information:

With respect to product specifications, questions regarding this Regulatory Circular should be directed to Bill Speth, Research Department, at (312) 786 - 7141.

With respect to margin and net capital, questions regarding this Regulatory Circular should be directed to CBOE's Regulatory Interpretations and Guidance team at (312) 786 - 8141 or reginterps@cboe.com.