EXECUTE SUCCESS℠

Regulatory Circular RG15-138

Date: October 2, 2015

To: Trading Permit Holders and Clearing Trading Permit Holders
From: Regulatory Division
RE: Product Description and Margin and Net Capital Requirements
- Weekly Options on the CBOE Volatility Index

KEY POINTS

- On Thursday, October 8, 2015, Chicago Board Options Exchange, Incorporated (CBOE or Exchange) plans to list for trading options with weekly expirations (Weeklys) on the CBOE Volatility Index (Ticker Symbol: VIX).

- With the exception of more frequent expiration dates, VIX Weekly options generally have the same contract specifications as monthly expiring contracts. VIX Weekly options are series of the VIX option class.

- The modified Hybrid Opening System (HOSS) opening procedures that apply to Hybrid option series will be used to calculate the exercise settlement value for VIX Weekly options as described in CBOE Regulatory Circular RG15-133.

- A distinction from standard (monthly) VIX expirations is that exercise settlement values for VIX weekly options shall be a Special Opening Quotation (SOQ) of the VIX Index calculated using a sequence of opening prices during regular trading hours of P.M.-settled SPX End-of-Week (SPXW) options (SPX Weeklys) and the "time to expiration" will typically be 30 days, plus 390 minutes to reflect the extra time to trade the constituent SPXW option series until 3:00 p.m. Chicago time (CT) on their expiration date. If CBOE announces that it will close early or that trading in constituent option series is delayed, the "time to expiration" used to calculate the SOQ will be adjusted accordingly.

    - Example 1: SPX Weeklys will close at 12:00 p.m. CT on November 27, 2015 in observance of the Thanksgiving holiday, so the "time to expiration" used to calculate the SOQ for the VIX Weekly options that expire on Wednesday, October 28, 2015 will be 30 days, 210 minutes.

    - Example 2: If CBOE announces that the opening of trading in the constituent option series is delayed, the "time to expiration" for the constituent option series used to calculate the exercise settlement value for VIX weekly or VIX standard (monthly) expirations (as applicable) would be reduced to reflect the actual opening time of the constituent option series.

- CBOE holidays observed on Wednesdays or Fridays will result in a settlement day change and may result in a change in "time to expiration" used to calculate the exercise settlement value for VIX Weekly options. Specifically, if the Friday thirty days following a Wednesday (i.e., thirty days away) is a CBOE holiday or a Wednesday is a CBOE holiday, the settlement day and "time to expiration" may be adjusted accordingly:

    - Example 1: The VIX Weekly options that settle during the last week of November 2015 will expire on Tuesday, November 24, 2015 because trading in the SPX Weeklys that will be used to calculate the exercise settlement value for this VIX Weekly expiration will be closed on Friday, December 25, 2015 for the Christmas holiday. Also, trading in the constituent SPX

Weeklys will close early at 12:00 p.m. CT on December 24, 2015 (the day before Christmas). As a result, the "time to expiration" used to calculate the SOQ for the VIX Weekly options that expire on November 24, 2015 will be 30 days, 210 minutes. Similarly, the VIX Weekly options that expire during the first week of December 2015 will expire on Tuesday, December 1, 2015, because trading in the SPX Weeklys that will be used to calculate the exercise settlement value for this VIX Weekly expiration will be closed on Friday, January 1, 2016 for the New Year's Day holiday. As a result, the "time to expiration" used to calculate the SOQ for the November 24, 2015 VIX Weekly options will be 30 days, 390 minutes.

- Example 2: If a Wednesday is a CBOE holiday and the Friday thirty days later is not a CBOE holiday, the VIX Weekly options that expire that week will settle on the preceding Tuesday and the "time to expiration" used to calculate the SOQ will be adjusted accordingly to reflect the minutes to expiration. In this example, if the business day preceding the Wednesday holiday is a Tuesday, the minutes to expiration for the weekly VIX options expiring that week would be 31 days 390 minutes.

- VIX Weekly options will trade during the same Regular and Extended Trading hours as standard (monthly) VIX options.

- New VIX Weekly options expirations will generally be listed on Thursdays (excluding holidays) and will expire on Wednesdays. Up to six consecutive VIX Weekly expirations may be listed.

- The same strategy-based customer margin requirements that apply to **short** standard (monthly) VIX options will apply to **short** VIX Weekly options - a basic margin requirement of 20% with a 10% minimum (20% basic / 10% minimum).

- The same portfolio margin and net capital requirements that apply to standard (monthly) expiring VIX options will apply to VIX Weekly options. Margin and net capital requirements are described in detail below.

DISCUSSION

PRODUCT DESCRIPTION

On Thursday, October 8, 2015, CBOE plans to list for trading options with weekly expirations (Weeklys) on the CBOE Volatility Index (Ticker Symbol: VIX). With the exception of more frequent expiration dates, VIX Weekly options generally have the same contract specifications as monthly expiring contracts. VIX Weekly options are series of the VIX option class.

As with standard (monthly) VIX options, VIX Weekly options have European-style exercise; options generally may be exercised only on the Expiration Date. New expirations for VIX Weekly options will generally be listed on Thursdays (excluding holidays) and will expire on Wednesdays. If a Wednesday is an Exchange holiday, the exercise settlement value would be calculated on the preceding business day. Trading in VIX Weekly options will ordinarily cease on the business day (usually a Tuesday) preceding the day on which the exercise-settlement value is calculated.

As with standard (monthly) VIX options, VIX Weekly options have: a contract multiplier of $100; a minimum tick for option series trading below $3 of 0.05 ($5.00); and a minimum tick for option series trading above $3 of 0.10 ($10.00)

The same minimum strike price intervals that apply to standard (monthly) VIX options will apply to VIX Weekly options - .50 of a point for options with a strike price less than $15, 1 point for options with a strike price less than $200; and 5 points for options with a strike price greater than $200.

Up to six consecutive VIX Weekly expirations may be listed.

Exercise will result in delivery of cash on the business day following expiration. The same procedure used to calculate the exercise-settlement value for standard (monthly) VIX options will apply to VIX Weekly options, except that the exercise settlement value for VIX Weekly options shall be a Special Opening Quotation (SOQ) of the VIX index calculated using prices of P.M.-settled SPX End-of-Week (SPXW) options (SPX Weeklys) rather than standard SPX options. As with standard (monthly) VIX options, VIX Weekly options will utilize the symbol "VRO" for the exercise-settlement value. The exercise-settlement amount is equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by $100.

No position and exercise limits are in effect for VIX options. Each Trading Permit Holder (other than a market-maker) or TPH organization that maintains an end of day position in excess of 100,000 VIX option contracts (including VIX Weekly options) for its proprietary account or for the account of a customer, shall report certain information to the Regulatory Division (in lieu of the former Department of Market Regulation). The TPH must report information as to whether such position is hedged and, if so, a description of the hedge employed e.g. stock portfolio current market value, other stock index option positions, stock index futures positions, options on stock index futures; and for customer accounts, provide the account name, account number and tax ID or social security number. Thereafter, if the position is maintained at or above the reporting threshold, a subsequent report is required on Monday following expiration and when any change to the hedge results in the position being either unhedged or only partially hedged. Reductions below these thresholds do not need to be reported. An e-mail address for submitting required reports is as follows: indexreporting@cboe.com.

Regular trading hours for VIX Weekly options are 8:30 AM to 3:15 p.m. CT. Extended trading hours are 2:00 a.m. to 8:15 a.m. CT.

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

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

CUSTOMER STRATEGY-BASED MARGIN

For the purpose of calculating margin requirements (as well as risk–based haircuts), the same rules that apply to standard (monthly) VIX options will apply to VIX Weekly options. Because standard (monthly) VIX expirations and VIX Weekly expirations are series within the same VIX option class, reference is made to VIX options generally in the remainder of this circular.

For purchases of options with more than 9 months until expiration, Exchange rules permit a minimum margin requirement of 75% of the total cost (option current market value) to be deposited (maintained). When time to expiration reaches 9 months, the option no longer has value for margin purposes. Purchases of puts and calls options with 9 months or less until expiration must be paid for in full.

The initial and maintenance margin requirement for a short put or call is 100% of the option proceeds* plus 20% of the aggregate contract value (current (spot or cash) 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.) Additional margin may be required pursuant to Exchange Rules 12.3(h) and 12.10.

Spreads and straddles are permitted for VIX options having equivalent aggregate underlying values. In respect of calendar spreads, TPH organizations are reminded that VIX options have European-style exercise. 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 exercise settlement value calculated on the Expiration Date. Therefore, TPH organizations must apply "house" margin requirement policies and procedures for calendar spreads with European style options in order to insure 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.

CUSTOMER PORTFOLIO MARGIN

VIX options are eligible for portfolio margining. VIX options will be accommodated in The Options Clearing Corporation’s (OCC) Broad-Based Index Volatility Indexes Product Group (500), and included in the VIX options class, with a 75% offset with the other classes contained in that Product Group. The portfolio margin requirement for VIX options will be equal to the maximum potential loss over a range of market movements covering +/-20%. 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), VIX option positions of a VIX options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

VIX options and related futures positions of an options market-maker are eligible for cross-margin treatment in a cross-margin account carried for the options market-maker by a Clearing TPH that clears and carries both the VIX options and related futures position. A futures account must be used for cross-margining. Cross-margining of VIX options and related futures positions must be undertaken in a cross-margin account that is exclusive to CBOE and the CBOE Futures Exchange, LLC (CFE) products. The SPAN file will be updated to take any risk offsets between VIX options and related 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, VIX options are eligible for a market professional cross-margin account, in which offsetting positions in VIX options and related 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 VIX options and related 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, VIX options will be accommodated in OCC’s Broad-Based Index Volatility Indexes Product Group (500), and included in the VIX options class, with a 75% offset with the other classes contained in that Product Group.[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. 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. VIX futures will be included in the same option class 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 Dennis O'Callahan, Research Department, at (312) 786-7508.

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.