CBOE EXECUTE SUCCESS℠

Regulatory Circular RG15-145

Date: October 16, 2015

To: Trading Permit Holders and Clearing Trading Permit Holders
From: Regulatory Division
RE: Product Description and Margin and Net Capital Requirements
- Options on the Russell 1000®, Russell 1000 Growth and Russell 1000 Value Indexes

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KEY POINTS

- On October 20, 2015, Chicago Board Options Exchange, Incorporated (CBOE or Exchange) plans to commence trading options on the Russell 1000, Russell 1000 Growth and Russell 1000 Value Indexes. Options will trade under the ticker symbols "RUI," "RLG" and "RLV," respectively.
- The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Index represents approximately 92% of the U.S. market.
- The Russell 1000 Growth Index and Russell 1000 Value Index measure the performance of those companies in the Russell 1000 Index that are identified as large-cap growth and large-cap value companies, respectively.
- RUI, RLG and RLV options are AM settled, cash-settled, have European-style exercise and have a $100 multiplier.
- For strategy-based customer margin requirements, a basic margin requirement of 15% will apply to **short** RUI, RLG and RLV options, with a 10% minimum (15% basic / 10% minimum).
- Margin, including portfolio margin, requirements and net capital requirements are described in detail below.

DISCUSSION

PRODUCT DESCRIPTION

CBOE expects to list cash-settled option contracts on three Russell Indexes – Russell 1000 (Ticker: RUI), Russell 1000 Growth (Ticker: RLG) and Russell 1000 Value (Ticker: RLV) beginning on October 20, 2015.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Index represents approximately 92% of the U.S. market.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies determined to have higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased benchmark for the large-cap growth segment of the U.S. equity market.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies determined to have lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased benchmark for the large-cap value segment of the U.S. equity market.

More detailed information regarding the Russell 1000, Russell 1000 Growth and Russell 1000 Value Indexes, respectively, may be found at:

http://www.russell.com/indexes/americas/indexes/fact-sheet.page?ic=US1000
http://www.russell.com/indexes/americas/indexes/fact-sheet.page?ic=US1001
http://www.russell.com/indexes/americas/indexes/fact-sheet.page?ic=US1002

RUI, RLG and RLV options have European-style exercise; options generally may be exercised only on the expiration date. RUI, RLG and RLV options expire on the third Friday of the expiring month. If that Friday is an Exchange holiday, the exercise settlement value would be calculated on the preceding business day. Trading in RUI, RLG and RLV options will ordinarily cease on the business day (usually a Thursday) preceding the day on which the exercise-settlement value is calculated.

The contract multiplier for RUI, RLG and RLV options will be $100. The minimum tick for RUI, RLG and RLV option series trading below $3 is 0.05 ($5.00) and for all other series, 0.10 ($10.00).

Minimum strike price intervals for RUI, RLG and RLV options are 2.5 points where the strike price is less than $200, and 5 points where the strike price is $200 or more.

Up to six near term RUI, RLG and RLV option expiration months can be listed. In addition, the Exchange may list up to 10 RUI, RLG and RLV LEAPS expiration months that expire from 12 to 60 months in the future.

Exercise will result in delivery of cash on the business day following expiration. The exercise-settlement values for RUI, RLG and RLV options (Symbols: RIR, RLR and RVS, respectively) are calculated using the opening sales price in the primary market of each component security on the expiration date. The exercise-settlement amount is equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by $100.

There is a 50,000 contract position limit (on the same side of the market) for RUI, RLG and RLV options, with no more than 30,000 contracts in the near term expiration month. There is a 30,000 contract exercise limit for RUI, RLG and RLV options. RUI, RLG and RLV options are subject to the reporting requirements applicable to Trading Permit Holders (TPHs) under CBOE Rule 4.13.

Trading hours for RUI, RLG and RLV options are 8:30 AM to 3:15 PM (Chicago time).

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

http://www.cboe.com/products/indexopts/rui-spec.aspx
http://www.cboe.com/products/indexopts/rlg-spec.aspx
http://www.cboe.com/products/indexopts/rlv-spec.aspx

CUSTOMER STRATEGY-BASED MARGIN

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 RUI, RLG and RLV 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 15% 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.

Within each class (RUI, RLG and RLV) spreads and straddles are permitted for options having equivalent aggregate underlying values. In respect of calendar spreads, TPH organizations are reminded that RUI, RLG and RLV 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

RUI, RLG and RLV options are eligible for portfolio margining.

RUI options will be accommodated in the portfolio margining High-Capitalization Broad-Based Indexes Product Group (9), with a 90% offset with the other classes contained in that Product Group. RLG options will be accommodated in the Growth Indexes Product Group (52), with an 80% offset with the other classes contained in that Product Group. RLV options will be accommodated in the Value Indexes Product Group (53), with a 90% offset with the other classes contained in that Product Group.

With respect to all three option classes, the portfolio margin requirement will be equal to the maximum potential loss over a range of market movements covering -8%/+6%.

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), RUI, RLG and RLV option positions that are attributable to market-making activity may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

RUI, RLG and RLV 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 RUI, RLG or RLV options and related futures position. A futures account must be used for cross-margining. Cross-margining of RUI, RLG and RLV options and related futures positions must be undertaken in a cross-margin account that is exclusive to CBOE and CME Group (CME) products. The SPAN file will be updated to take any risk offsets between RUI, RLG and RLV options and the respective futures contracts 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, RUI, RLG and RLV options are eligible for a market professional cross-margin account, in which offsetting positions in RUI, RLG and RLV options and the respective futures contracts may be combined. A cross-margin account for a market professional must be set-up exclusively for carrying CBOE and CME products that are cross-marginable. OCC currently requires that both RUI, RLG and RLV 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 RBHs, RUI options will be accommodated in the RBHs High-Capitalization Broad-Based Indexes Product Group (9), with a 90% offset with the other classes contained in that Product Group. RLG options will be accommodated in the Growth Indexes Product Group (52), with an 80% offset with the other classes contained in that Product Group. RLV options will be accommodated in the Value Indexes Product Group (53), with a 90% offset with the other classes contained in that Product Group.

With respect to all three of the option classes, the RBH will be equal to the maximum potential loss calculated over a range of market movements covering -8%/+6% for options market-makers and -/+ 10% for 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. Related index futures will be included in the same Product Group with a 100% offset.[1]

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

Additional Information:

With respect to product specifications, questions regarding this Regulatory Circular should be directed to Bruce Traan, Research Department, at (312) 786-7741.

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

[1] RBHs may be applied pursuant to SEC Rule 15c3-1a (Appendix A).