CBOE EXECUTE SUCCESS℠

Regulatory Circular RG16-044

Date: February 29, 2016

To: Trading Permit Holders
From: Regulatory Division
RE: Product Description and Margin and Net Capital Requirements
- Asian Style Settlement FLEX Broad-Based Index Options
- Cliquet Style Settlement FLEX Broad-Based Index Options

KEY POINTS

- On March 21, 2016, Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") plans to commence trading Asian style settlement and Cliquet style settlement FLEX Broad-Based Index Options ("Asian options" and "Cliquet options," respectively).[1]

- Asian and Cliquet options are permitted only for broad-based indexes on which options are eligible for trading on CBOE. Asian and Cliquet options may not be exercised prior to the expiration date and must have a $100 multiplier.

- Asian style settlement is a settlement style that may be designated for FLEX Broad-Based Index options and results in the contract settling to an exercise settlement value that is based on an arithmetic average of the specified closing prices of an underlying broad-based index taken on 12 predetermined monthly observation dates.

- Cliquet style settlement is a settlement style that may be designated for FLEX Broad-Based Index options and results in the contract settling to an exercise settlement value that is equal to the greater of $0 or the sum of capped monthly returns (i.e., percent changes in the closing value of the underlying broad-based index from one month to the next month) applied over 12 predetermined monthly observation dates.

- The monthly observation date is set by the parties to a transaction. It is the date each month on which the value of the underlying broad-based index is observed for the purpose of calculating the exercise settlement value. There are twelve consecutive monthly observation dates (which includes an observation on the expiration date).

- Asian and Cliquet options have "preceding business day convention," meaning that if a monthly observation date falls on a non CBOE business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day.

- Asian options shall be call options (no puts) and be designated by: (i) the duration of the contract, which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the strike price; (iii) the expiration date, which must be a CBOE business day; and (iv) a set of monthly observation dates.

- Cliquet options shall be call options (no puts) and be designated by: (i) the duration of the contract, which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date

[1] Asian and Cliquet options will be traded on the Hybrid Trading System Platform and therefore Chapter XXIVB of the CBOE rules applies.

of listing; (ii) the capped monthly return that must be expressed in dollars and cents and in increments not less than $0.05 and must be a value between $0.05 and $25.95; (iii) the expiration date, which must be a CBOE business day; and (iv) a set of monthly observation dates. The capped monthly return will serve as the "exercise (strike) price" for a Cliquet option. Cliquet options do not have a traditional exercise price.

- The number “5” in front of the ticker symbol for an index option denotes an Asian option, while the number “6” denotes a Cliquet option.

- For strategy-based customer margin requirements, broad-based index option margin requirements will apply to Asian and Cliquet options. A basic margin requirement of 15% will apply to **short** Asian options, with a 10% minimum (15% basic / 10% minimum). Only a basic margin requirement of 15% will apply to Cliquet options. (The basic and minimum are the same for Cliquet options because, in the absence of a traditional exercise price, there is no out-of-the-money deduction).

- Currently, portfolio margining is **NOT** available for Asian and Cliquet options.[2]

- Margin and net capital requirements are further described below.

DISCUSSION

PRODUCT DESCRIPTION

CBOE expects to list Asian options and Cliquet options for trading beginning on March 21, 2016.

Asian Options

Asian options are cash-settled index call option contracts (no puts) for which the final payout is based on an arithmetic average of specified closing prices of an underlying broad-based index observed on the designated monthly observation date for 12 consecutive months.

Any broad-based index on which options are eligible for trading on CBOE may underlie an Asian option.

Asian options may not be exercised prior to the expiration date and must have a $100 multiplier.

The expiration date of an Asian option is set by the parties to a transaction and must be a CBOE business day. Asian options have a term of approximately one year – they may expire anytime from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of initial listing.

The monthly observation date of an Asian option is set by the parties to a transaction. The monthly observation date is the date each month on which the price of the underlying broad-based index is observed for the purpose of calculating the exercise settlement value for Asian options. Each Asian option has 12 consecutive monthly observation dates (which includes an observation on the expiration date) and each observation is based on the closing price of the underlying broad-based index. The specific monthly observation dates are determined by working backward from the farthest out observation date prior to the expiration date. If a given monthly observation date falls on a non CBOE business day (e.g., holiday or weekend), the monthly observation will be on the immediately preceding business day (“preceding business day convention”). The parties may not designate a subsequent business day convention for Asian options.

Strike prices of an Asian option are set by the parties to a transaction and may be specified as an index level, as a percentage or numerical deviation from a closing index level or an intra-day value level, or any

[2] Portfolio margining was included in the original rule filing SR-CBOE-2015-044, but was removed from the filing prior to its approval by the SEC. See Exchange Act Release No. 75425 (July 10, 2015), 80 FR 42152 (July 16, 2015).

other readily understood method for deriving an index level, rounded to the nearest hundredth of an index point (e.g., 1,640.27).

Premium quotations for Asian options may be stated in percentage terms of the reference value of the underlying broad-based index, as a specific dollar amount per contract or the premium may be contingent on specific factors in other related markets. Premiums are rounded to the nearest hundredth (greater than or equal to .005 rounds up).

The exercise settlement value for Asian options is the arithmetic average of the closing prices of the underlying broad-based index on 12 consecutive monthly observation dates, which includes the expiration date of the Asian option.

The exercise settlement amount for an Asian option is calculated similarly to other options (i.e., the difference between the strike price and the exercise settlement value determine the value, or "moneyness," of the contract at expiration).

Example: An example of an Asian option expiring in-the-money follows. On March 16, 2016, an investor hedging the value of the S&P 500 Index over a year purchases an Asian option (call) expiring on March 17, 2017, with a strike price of 2000 and a contract multiplier of $100. The option has monthly observation dates occurring on the 18th of each month.

Monthly Observation Date	Hypothetical S&P 500 Index Closing Value
16-Mar-16[3]	2000.00[4]
18-Apr-16	2025.36
18-May-16	2049.34
17-Jun-16*	2019.77
18-Jul-16	1989.65
18-Aug-16	2005.64
16-Sep-16*	2035.10
18-Oct-16	2032.15
18-Nov-16	2076.18
16-Dec-16*	2099.01
18-Jan-17	2109.32
17-Feb-17*	2085.42
17-Mar-17*	2084.81
Exercise (Averaged) Settlement Value	24,611.75/12 = **2050.98**[5]

* Because Asian options use the "preceding business day convention," the dates of June 18, 2016, September 18, 2016, December 18, 2016, February 18, 2017 and March 18, 2017, were not used in the above example because those dates fall on a weekend or a holiday. Instead, the business days immediately preceding those dates were used as the monthly observation date.

[3] Creation date.
[4] Strike price.
[5] The Exercise Settlement Value is 2050.98. It is the average of the 12 S&P 500 Index closing values listed between April 18, 2016 and March 17, 2017

The exercise settlement amount for this 2000 Asian option is equal to $5,098. This amount is determined by adding the 12 observed closing values for the S&P 500 Index and dividing that amount by 12 (24,611.75/12), which is equal to 2050.98 (when rounded). As a result, this 2000 call option is $5,098 in-the-money (50.98 x $100).

If, in the above example, the strike price for the Asian option was 2060, that contract would have expired out-of-the-money. This is because the exercise settlement value for this 2060 call option is equal to 2050.98 (when rounded). Since the strike price of 2060 is more than the 2050.98 exercise settlement value, this call option would not be exercised and would expire worthless.

There are no position or exercise limits for Asian options on certain broad-based indexes, including: SPX, NDX, RUT and DJX. However, there are reporting requirements for positions that exceed certain thresholds. For more information on position limits and reporting requirements, refer to CBOE Rules 24A.7 and 24B.7.

The chart below sets forth the symbology for Asian options. In the above example, the first five characters of that option's symbol would be 5SPXH.

Space 1 (FLEX Indicator)	**Spaces 2 – 4 (Index Class)**	**Space 5 (Observation Date)**	
5 = Asian	SPX	1	01
	RUT	2	02
	NDX	3	03
	DJX	4	04
		5	05
		6	06
		7	07
		8	08
		9	09
		0	10
		A	11
		B	12
		C	13
		D	14
		E	15
		F	16
		G	17
		H	18
		I	19
		J	20
		K	21
		L	22
		M	23
		N	24
		O	25
		P	26
		Q	27
		R	28
		S	29
		T	30
		U	31

The trading hours for Asian options are the same as regular trading hours for standard options on the same broad-based index (typically 8:30 a.m. to 3:15 p.m. (Chicago time)). Asian options are not eligible for trading during Extended Trading Hours.

Cliquet Options

Cliquet options are cash-settled index call option contracts (no puts) for which the final payout is the greater of $0 or the initial reference price of a broad-based index increased by the sum of “capped” monthly returns (i.e., percent changes) of an underlying broad-based index observed on the designated observation date for 12 consecutive months.

Any broad-based index on which options are eligible for trading on CBOE may underlie a Cliquet option.

Cliquet options may not be exercised prior to the expiration date and must have a $100 multiplier.

The expiration date of a Cliquet option is set by the parties to a transaction. Cliquet options have a term of approximately one year – they may expire anytime from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of initial listing. The expiration date specified must be a CBOE business day.

The monthly observation date of a Cliquet option is set by the parties to a transaction. The monthly observation date is the date each month on which the price of the underlying broad-based index is observed for the purpose of calculating the exercise settlement value for Cliquet options. Each Cliquet option has 12 consecutive monthly observation dates (which includes an observation on the expiration date), and each observation is based on the closing price of the underlying broad-based index. The specific monthly observation dates are determined by working backward from the farthest out observation date prior to the expiration date. If a given monthly observation date falls on a non CBOE business day (e.g., holiday or weekend), the monthly observation will be on the immediately preceding business day (“preceding business day convention”). The parties may not designate a subsequent business day convention for Cliquet options.

The calculation of a settlement amount for a Cliquet option utilizes an initial reference price, which is the closing value of the underlying broad-based index on the date a new Cliquet option position is opened.

Cliquet options have a monthly return cap, which is set by the parties to a transaction. The monthly cap is the maximum monthly return that will be included in the calculation of the exercise settlement value. A “monthly return” is defined as the percent change in the closing values of the underlying broad-based index from one month to the next month. The value to be included as the monthly return for a Cliquet option will be the lesser of the actual monthly return or the designated monthly cap.

Cliquet options do not have traditional strike prices. Operationally, the “strike price” field represents the designated capped monthly return to be expressed in dollars and cents, ranging from $0.05 to $25.95. For example, a capped monthly return of 1% would be entered into the strike price field for a Cliquet option as “$1.00.” In addition, the “strike” price for a Cliquet option may only be designated in $0.05 increments, e.g., $1.75, $2.50, $4.15. Increments of $0.01 in the “strike” price field (representing the capped monthly return) would not be permitted.

The first “monthly” return for a Cliquet option would be based on the initial reference price, which would be the closing value of the underlying broad-based index on the date a new Cliquet option is listed. The time period measured for the first “monthly” return would be between the initial listing date and the first monthly observation date. For example, if a Cliquet option was opened on January 1 and the parties designated the 31st of each month as the monthly observation date, the measurement period for the first monthly return would span the time period from January 1 to January 31. The time period measured for the second monthly return, and all subsequent monthly returns, would run from the 31st of one month to the 31st of the next month (or the last CBOE business day of each month depending on the actual number of calendar days in each month covered by the contract).

Premium quotations for Cliquet options may be stated in percentage terms of the reference value of the underlying broad-based index, as a specific dollar amount per contract or the premium may be contingent on specific factors in other related markets. Premiums are rounded to the nearest hundredth (greater than or equal to .005 rounds up).

The exercise settlement value for Cliquet options is equal to the initial reference price of the underlying broad-based index increased by the sum of the monthly returns (with the cap applied) on the 12 consecutive monthly observation dates, which include the expiration date of the option, if that sum is greater than $0. If the sum of the monthly returns (with the applied cap) is $0 or a negative percentage, the option would expire worthless.[6]

Example: On March 16, 2016, an investor hedging the value of the S&P 500 Index over a year purchases a Cliquet option (call) expiring on March 17, 2017, with a capped monthly return of 2% and a contract multiplier of $100. The initial reference price of the S&P 500 Index (closing value) on March 16, 2016, is 2000. The option has monthly observation dates occurring on the 18th of each month.

Monthly Observation Date	Hypothetical S&P 500 Index Closing Value (S_i)	Actual Monthly Return	Capped Monthly Return (CMR_i)
16-Mar-16[7]	2000.00		
18-Apr-16	2025.36	1.27%	1.27%
18-May-16	2049.34	1.18%	1.18%
17-Jun-16*	2019.77	-1.44%	-1.44%
18-Jul-16	1989.65	-1.49%	-1.49%
18-Aug-16	2005.64	0.80%	0.80%
16-Sep-16*	2035.10	1.47%	1.47%
18-Oct-16	2032.15	-0.14%	-0.14%
18-Nov-16	2076.18	2.17%	***2.00%*****
16-Dec-16*	2099.01	1.10%	1.10%
18-Jan-17	2109.32	0.49%	0.49%
17-Feb-17*	2085.42	-1.13%	-1.13%
17-Mar-17*	2084.81	-0.03%	-0.03%
Exercise Settlement Value	**4.08%[8] * 2000.00 + 2 = 83.60**		

* Because Cliquet options use the "preceding business day convention," the dates of June 18, 2016, September 18, 2016, December 18, 2016, February 18, 2017 and March 18, 2017, were not used in

[6] Prior to expiration, it is possible that the accumulated monthly returns could become negative to a point at which it is known that the value of the contract at expiration would be zero. The holder or writer of such a position may choose to exit the position prior to expiration for a negligible credit or debit amount, respectively.
[7] Creation date.
[8] The sum of the Capped Monthly Returns is 4.08%.

the above example because those dates fall on a weekend or a holiday. Instead, the business days immediately preceding those dates were used as the monthly observation dates.
* *Monthly capped return applied.

The exercise settlement amount for this March 17, 2017, Cliquet option, with a capped monthly 2% return ("strike price") and a contract multiplier of $100 would be equal to $8,360. This value would be calculated by summing the monthly capped returns (equal to 4.08%) and multiplying that amount by the initial reference price (equal to 2000), which equals 81.60. The "strike price" (2%) amount would then be added to that amount (81.60) to arrive at an exercise settlement value of 83.60. Because the "strike price" field for a Cliquet option would be the manner in which the designated capped monthly return would be identified for the contract and because the designated monthly return for the contract would have been already substantively applied to determine the exercise settlement value, the "strike price" of 2.0 would be subtracted from the exercise settlement value before the contract multiplier ($100) would be applied [(83.60 - 2) * 100]. Accordingly, resulting payout for this contract would be $8,160.

If the sum of the monthly capped returns had been negative, this option would have expired worthless.

There are no position or exercise limits for Cliquet options on certain broad-based indexes, including: SPX, NDX, RUT and DJX. However, there are reporting requirements for positions that exceed certain thresholds. For more information on position limits and reporting requirements, refer to CBOE Rules 24A.7 and 24B.7.

The chart below sets forth the symbology for Cliquet options. In the above example, the first six characters of that option's symbol would be 6SCAHF.

Space 1 (Cliquet Indicator)	**Space 2 (Index Class)**	**Space 3 (Cap % part 1)**		**Space 4 (Cap % part 2)**		**Space 5 (Observation Date)**		**Space 6 (Creation Date)**	
6 = Cliquet	S = SPX	A	0	A	00	1	01	1	01
	R = RUT	B	1	B	05	2	02	2	02
	N = NDX	C	2	C	10	3	03	3	03
	D = DJX	D	3	D	15	4	04	4	04
		E	4	E	20	5	05	5	05
		F	5	F	25	6	06	6	06
		G	6	G	30	7	07	7	07
		H	7	H	35	8	08	8	08
		I	8	I	40	9	09	9	09
		J	9	J	45	0	10	0	10
		K	10	K	50	A	11	A	11
		L	11	L	55	B	12	B	12
		M	12	M	60	C	13	C	13
		N	13	N	65	D	14	D	14
		O	14	O	70	E	15	E	15
		P	15	P	75	F	16	F	16
		Q	16	Q	80	G	17	G	17
		R	17	R	85	H	18	H	18
		S	18	S	90	I	19	I	19
		T	19	T	95	J	20	J	20
		U	20			K	21	K	21
		V	21			L	22	L	22
		W	22			M	23	M	23
		X	23			N	24	N	24
		Y	24			O	25	O	25
		Z	25			P	26	P	26
						Q	27	Q	27
						R	28	R	28

Space 1 (Cliquet Indicator)	Space 2 (Index Class)	Space 3 (Cap % part 1)	Space 4 (Cap % part 2)	Space 5 (Observation Date)		Space 6 (Creation Date)	
				S	29	S	29
				T	30	T	30
				U	31	U	31

The trading hours for Cliquet options are the same as regular trading hours for standard options on the same broad-based index (typically 8:30 a.m. to 3:15 p.m. (Chicago time)). Cliquet options are not eligible for trading during Extended Trading Hours.

Information regarding Asian and Cliquet options may be found on the CBOE website at the following URL:

http://www.cboe.com/institutional/asian-cliquet-options.aspx

CUSTOMER STRATEGY-BASED MARGIN

The Exchange's customer margin requirements for broad-based index options apply to Asian and Cliquet options, with certain exceptions that are highlighted below.

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 Asian or Cliquet options with 9 months or less until expiration must be paid for in full.

For Asian options, the initial and maintenance margin requirement 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 of option proceeds plus 10% of the aggregate contract value.

A Cliquet option does not have a traditional exercise price, which is needed to calculate an out-of-the-money ("OTM") amount. Without an OTM reduction, the 10% minimum margin requirement for a short, broad-based index option would never be triggered. Therefore, the initial and maintenance margin requirement for a short option is simply 100% of the option proceeds plus 15% of the aggregate contract value (current spot (or cash) index value x $100).

For calculating maintenance margin, use option current market value instead of option proceeds in the case of both Asian and Cliquet options.

Asian options may be accorded spread margin treatment (same underlying broad-based index), **only** if the long and short components all expire at the same time and have the same observation date. No margin is required if these conditions are met.

Cliquet options may be accorded spread margin treatment, **only** if the long and short components 1) all expire at the same time, 2) all have the same observation dates, and 3) the long components have a higher monthly cap than the short components. No margin is required if these conditions are met.

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.

Additional margin may be required pursuant to Exchange Rules 12.3(h) and 12.10.

CUSTOMER PORTFOLIO MARGIN

Currently, portfolio margining is not available for Asian and Cliquet options.

OPTION MARKET–MAKER MARGIN REQUIREMENTS

Pursuant to CBOE Rule 12.3(f), Asian and Cliquet 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.

Cross-margin treatment is not available for Asian and Cliquet options.

NET CAPITAL REQUIREMENTS

For risk-based haircuts, Asian and Cliquet options will be accommodated in the Product Group to which the standard index options belong, in the same class group with the conventional index options. For example, Asian and Cliquet options having the S&P 500 Index as the reference index will be handled in the High-Capitalization Broad-Based Index Product Group (9) within the S&P 500 Index class group.

In product group 9, the risk–based haircut will be equal to the maximum potential loss calculated over a range of market movements covering +6%/-8% 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.[9]

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.

Additional Information:

For more information on Asian and Cliquet options, see Rules 12.3(c), 24B.1(aa & bb) and 24B.4(b)(5 & 6), as well as rule filing SR-CBOE-2015-044.

With respect to product specifications, questions regarding this Regulatory Circular should be directed to Matt McFarland, Business Development Department, at (312) 786-7978.

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.

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