CBOE EXECUTE SUCCESS℠

Regulatory Circular RG16-046

Date: March 3, 2016

To: Trading Permit Holders
From: Regulatory Division
RE: Margin Requirement Considerations –
Asian Style and Cliquet Style Settlement FLEX Broad-Based Index Options

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Strategy-based customer margin requirements for broad-based index options as set-forth in Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") Rule 12.3 apply to CBOE's Asian style settlement FLEX Broad-Based Index Options ("Asian options") and Cliquet style settlement FLEX Broad-Based Index Options ("Cliquet options").[1] However, certain nuances, which are described below, arise in applying the Exchange's strategy-based customer margin requirements for broad-based index options to Asian options and Cliquet options. The exceptions to the Exchange's strategy-based customer margin requirements described below are being announced pursuant to the Exchange's authority set forth in CBOE Rules 12.3(h) and 12.10.

Asian Options

In the case of Asian options, spread margin rules are not entirely operable. Therefore, and pursuant to authority provided under CBOE Rule 12.10, *Margin Required is Minimum*, the Exchange is restricting spread margin treatment for Asian options. Under this restriction, spreads are permitted only if all long and short components expire at the same time and have the same observation date. Spread margin would then be computed in accordance with CBOE Rule 12.3.

Cliquet Options

The Exchange's strategy-based customer margin requirements for broad-based index options provide for an out-of-the-money ("OTM") reduction when calculating the margin requirement on a short option.[2] A Cliquet option does not have a traditional exercise price, which is needed to calculate an OTM amount.[3] Therefore, an OTM reduction is not operable for Cliquet options and the initial and maintenance margin requirement for a short option is simply 100% of the option proceeds* plus 15% of the aggregate current index value (current index level x $100). (*For calculating maintenance margin, use option current market value instead of option proceeds.)

An exercise price is needed to calculate spread margin requirements. Therefore, spread margin rules are not operable for Cliquet options, with one exception. No margin would be required in the case of long and short components if, 1) they all expire at the same time, 2) they all have the same observation dates, and 3) the long components have a higher monthly cap than the short components.

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[1] See Exchange Act Release No. 75425 (July 10, 2015), 80 FR 42152 (July 16, 2015),order approving SR-CBOE-2015-044, proposing to introduce Asian Style settlement and Cliquet style settlement for FLexible EXchange Broad-Based Index Options, including application of the Exchange's existing strategy-based customer margin requirements for broad-based index options.
[2] CBOE Rule 12.3(c)(5)(A).
[3] Unlike other options, Cliquet options do not have a traditional exercise (strike) price. Rather, the exercise (strike) price field for a Cliquet option represents the designated capped monthly return for the contract and is expressed in dollars and cents.

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. In the case of a Cliquet option carried short in a customer's account, if it is known that the value of the contract at expiration would be zero, no margin is required.[4] This is consistent with Interpretation and Policy .14 of Rule 12.3.

Portfolio margining is not available for Asian and Cliquet options.

CBOE Regulatory Circular RG16-044 sets forth a product description, margin and net capital requirements for Asian and Cliquet options.

Additional Information:

Questions regarding this Regulatory Circular should be directed to CBOE's Regulatory Interpretations and Guidance team at (312) 786-8141 or reginterps@cboe.com.

[4] Example: Immediately after its tenth observation date, a Cliquet option with a 2% observation period cap has achieved a cumulative sum of capped returns equal to negative 5%. Even if the Cliquet option earned the maximum 2% return in the last two observation periods, it is not possible for the cumulative return to be positive by expiration.