CBOE EXECUTE SUCCESS℠

Regulatory Circular RG16-057

Date: March 23, 2016

To: Trading Permit Holders
From: Regulatory Division
RE: Product Description and Margin and Net Capital Requirements
- Options on the FTSE China 50 Index (FXTM)

KEY POINTS

- On March 29, 2016, Chicago Board Options Exchange, Incorporated (CBOE or Exchange) plans to commence trading options on the FTSE China 50 Index. Options will trade under the ticker symbol "FXTM."
- The FTSE China 50 Index is a real-time tradable index comprising 50 of the largest and most liquid Chinese stocks (H Shares, Red Chips and P Chips) listed and trading on the Stock Exchange of Hong Kong (SEHK). The index is specifically designed for international investors, combining the ease of trading on SEHK with a methodology to meet fund regulatory requirements worldwide.
- FXTM options are reduced-value index options. Trading is based on one-one-hundredth of the value of the FTSE China 50 Index.
- FXTM options are 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** FXTM 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 the FTSE China 50 Index (Ticker: FXTM) beginning on March 29, 2016. The FTSE China 50 Index is a real-time tradable index comprising 50 of the largest and most liquid Chinese stocks (H Shares, Red Chips and P Chips) listed and trading on the Stock Exchange of Hong Kong (SEHK). The index is specifically designed for international investors, combining the ease of trading on SEHK with a methodology to meet fund regulatory requirements worldwide.

FXTM options have European-style exercise; options generally may be exercised only on the Expiration Date. FXTM options expire on the third Friday of the expiring month and are A.M. settled. If that Friday is an Exchange holiday, the exercise settlement value would be calculated on the preceding business day. Trading in expiring FXTM 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 FXTM options will be $100. The minimum tick for FXTM option series trading below $3 is 0.05 ($5.00); at or above $3 is 0.10 ($10.00).

Minimum strike price intervals for FXTM 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 twelve near-term FXTM option expiration months can be listed. In addition, the Exchange may list up to 10 FXTM LEAPS expiration months that expire from 12 to 60 months from date of issuance.

Exercise will result in delivery of cash on the business day following expiration. The exercise settlement value (Symbol: FZS) is one-one-hundredth (1/100th) of the official closing value of the FTSE China 50 Index – XINOI Index - as reported by FTSE 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 25,000 contract position limit (on the same side of the market) for FXTM options, with no more than 15,000 contracts in the near term expiration month. There is a 15,000 contract exercise limit for FXTM options. FXTM options are subject to the reporting requirements applicable to Trading Permit Holders (TPHs) under CBOE Rule 4.13.

Trading hours for FXTM 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/fxtm-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 FXTM 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.

Spreads and straddles are permitted for FXTM options having equivalent aggregate underlying values. In respect of calendar spreads, TPH organizations are reminded that FXTM 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 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.

CUSTOMER PORTFOLIO MARGIN

FXTM options are eligible for portfolio margining. FXTM options will be accommodated in The Options Clearing Corporation’s (OCC) China Indexes Product Group (81), a non-high-capitalization broad-based index Product Group, with a 90% offset with the other classes contained in that Product Group. The portfolio margin requirement for FXTM options will be equal to the maximum potential loss over a range of market movements covering +/–10%. 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), FXTM option positions of an FXTM options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

FXTM options and FTSE China 50 Index futures positions of a FXTM options market-maker are eligible for cross-margin treatment at the market-maker clearing / carrying firm level (futures account) and clearing house level.

NET CAPITAL REQUIREMENTS

For risk-based haircuts, FXTM options will be accommodated in the OCC's China Indexes Product Group (81), a non-high-capitalization broad-based index Product Group, with a 90% 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 +/-10% for options market-makers and +/-15% 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. FTSE China 50 Index futures will be included in the same Product Group with a 100% offset vs. FXTM options.

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:

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