

Regulatory Circular RG16-058

Date: March 23, 2016

To: Trading Permit Holders

From: Regulatory Division

RE: Product Description and Margin and Net Capital Requirements
- Options on the FTSE 100 Index (UKXM)

KEY POINTS

- On March 29, 2016, Chicago Board Options Exchange, Incorporated (CBOE or Exchange) plans to commence trading options on the FTSE 100 Index. Options will trade under the ticker symbol "UKXM."
- The FTSE 100 Index is a market capitalization weighted index of UK-listed blue chip companies. The index is part of the FTSE UK Series and is designed to measure the performance of the 100 largest companies traded on the London Stock Exchange that pass screening for size and liquidity. FTSE 100 constituents are all traded on the London Stock Exchange's SETS trading system.
- UKXM options are reduced-value index options. Trading is based on one-tenth of the value of the FTSE 100 Index.
- UKXM 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** UKXM 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 100 Index (Ticker: UKXM) beginning on March 29, 2016. The FTSE 100 Index is a market capitalization weighted index of UK-listed blue chip companies. The index is part of the FTSE UK Series and is designed to measure the performance of the 100 largest companies traded on the London Stock Exchange that pass screening for size and liquidity. FTSE 100 constituents are all traded on the London Stock Exchange's SETS trading system.

UKXM options are reduced-value index options; trading being based on one-tenth the value of the FTSE 100 Index.

UKXM options have European-style exercise; options generally may be exercised only on the Expiration Date. UKXM 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 UKXM 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 UKXM options will be \$100. The minimum tick for UKXM option series trading below \$3 is 0.05 (\$5.00); at or above \$3 is 0.10 (\$10.00).

Minimum strike price intervals for UKXM 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 UKXM option expiration months can be listed. In addition, the Exchange may list up to 10 UKXM 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: UKS) is one-tenth (1/10th) of the FTSE 100 Index calculated by FTSE International with reference to the outcome of the Exchange Delivery Settlement Price ('EDSP') intra-day auction at the London Stock Exchange carried out on the morning of 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 UKXM options, with no more than 15,000 contracts in the near term expiration month. There is a 15,000 contract exercise limit for UKXM options. UKXM options are subject to the reporting requirements applicable to Trading Permit Holders (TPHs) under CBOE Rule 4.13.

Trading hours for UKXM 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/ukxm-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 UKXM 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 UKXM options having equivalent aggregate underlying values. In respect of calendar spreads, TPH organizations are reminded that UKXM 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

UKXM options are eligible for portfolio margining. The Options Clearing Corporation (OCC) has established a new Product Group titled “FTSE 100 Index Product Group (60),” a high-capitalization broad-based index Product Group, in which UKXM options will be accommodated. The portfolio margin requirement for UKXM options will be equal to the maximum potential loss over a range of market movements covering +6%/-8%. The current (spot or cash) UKXM index value will be used to calculate theoretical gains and losses for UKXM options. 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), UKXM option positions of an UKXM options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

UKXM options and FTSE 100 Index futures positions of a UKXM 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, OCC has established a new Product Group titled “FTSE 100 Index Product Group (60),” a high-capitalization broad-based index Product Group in which UKXM options will be accommodated.¹ The risk-based haircut will be equal to the maximum potential loss calculated over a range of market movements covering +6%/-10% 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. FTSE 100 Index futures will be included in the same Product Group with a 100% offset vs. UKXM 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).