CBOE

CBOE Regulatory Circular RG16-152

Date: **September 15, 2016**

To: **CBOE Trading Permit Holders**

From: **Regulatory Division**

RE: **Product Description and Margin and Net Capital Requirements**
- Options on the FTSE Emerging Index (FTEM)

KEY POINTS

- On September 26, 2016, Chicago Board Options Exchange Incorporated (CBOE or Exchange) plans to commence trading options on the FTSE Emerging Index. Options will trade under the ticker symbol "FTEM."

- The FTSE Emerging Index is a market-capitalization weighted index representing the performance of large and mid-cap companies in emerging markets. The index is comprised of approximately 950 securities from 22 countries, and is derived from the FTSE Global Equity Index Series (GEIS), which covers over 7,400 securities in 47 different countries and captures 98% of the world's investable market capitalization.

- FTEM 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** FTEM 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 Emerging Index (Ticker: FTEM) beginning on September 26, 2016. The FTSE Emerging Index is a market capitalization weighted index representing the performance of large and mid-cap companies in emerging markets. The index is comprised of approximately 950 securities from 22 countries, and is derived from the FTSE Global Equity Index Series (GEIS), which covers over 7,400 securities in 47 different countries and captures 98% of the world's investable market capitalization.

FTEM options have European-style exercise; options generally may be exercised only on the Expiration Date. FTEM options are P.M. settled. Trading in FTEM options will cease at 3:15 p.m. Central Time on the Expiration Date (usually a Friday). If that Friday is an Exchange holiday, the exercise settlement value would be calculated on the preceding business day. (Note that the Expiration Date can fall on a day of the week other than a Friday in the case of certain FTEM option series, such as Weekly Expirations, End of Month, Short Term Options Series and Quarterly Series, should they be listed in the future.)

The contract multiplier for FTEM options will be $100. The minimum tick for FTEM option series trading below $3 is 0.05 ($5.00); at or above $3 is 0.10 ($10.00).

Minimum strike price intervals for FTEM 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 FTEM option expiration months can be listed. In addition, the Exchange may list up to 10 FTEM LEAPS expiration months that expire from 12 to 180 months from date of issuance.

Exercise will result in delivery of cash on the business day following expiration. The exercise settlement value (Symbol: EMS) is the official closing value of the FTSE Emerging Index as reported by FTSE Russell on the last trading day of the expiring contract. 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 FTEM options, with no more than 15,000 contracts in the near term expiration month. There is a 15,000 contract exercise limit for FTEM options. FTEM options are subject to the reporting requirements applicable to Trading Permit Holders (TPHs) under CBOE Rule 4.13.

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

FTEM options are eligible for portfolio margining. FTEM options will be accommodated in The Options Clearing Corporation's (OCC) Emerging Markets Indexes Product Group (523), a non-high-capitalization broad-based index Product Group, with an 85% offset with the other classes contained in that Product Group. The portfolio margin requirement for FTEM options will be equal to the maximum potential loss over a range of market movements covering +/-10%. The current (spot or cash) FTEM index value will be used to calculate theoretical gains and losses for FTEM 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), FTEM option positions of an FTEM options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

FTEM options and FTSE Emerging Index futures positions of a FTEM 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, FTEM options will be accommodated in the OCC's Emerging Markets Indexes Product Group (523), a non-high-capitalization broad-based index Product Group, with an 85% 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 Emerging Index futures will be included in the same Product Group with a 100% offset vs. FTEM 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).