



Cboe Options Regulatory Circular RG19-009

Date: January 30, 2019
To: Trading Permit Holders
From: Regulatory Division
and Product Development
RE: Product Description and Margin and Net Capital Requirements
-S&P Select Sector Index Options - Updated¹

Overview

Cboe Exchange, Inc. (“Cboe Options” or “Exchange”) plans to list for trading options on 11 S&P Select Sector Indexes according to the schedule below.

| Listing <u>Date</u> | <u>Index Name</u> | Option <u>Symbol</u> | Underlying <u>Symbol</u> | Settlement <u>Symbol</u> |
|------------------------|---|-------------------------|-----------------------------|-----------------------------|
| 02/07/2019 | S&P Materials Select Sector Index | SIXB | SIXB | SISB |
| 02/11/2019 | S&P Communications Services Select Sector Index | SIXC | SIXC | SISC |
| 02/11/2019 | S&P Energy Select Sector Index | SIXE | SIXE | SISE |
| 02/12/2019 | S&P Industrials Select Sector Index | SIXI | SIXI | SISIN |
| 02/12/2019 | S&P Financial Select Sector Index | SIXM | SIXM | SISM |
| 02/13/2019 | S&P Consumer Staples Select Sector Index | SIXR | SIXR | SISR |
| 02/13/2019 | S&P Real Estate Select Sector Index | SIXRE | SIXRE | SISRE |
| 02/13/2019 | S&P Technology Select Sector Index | SIXT | SIXT | SIST |
| 02/14/2019 | S&P Utilities Select Sector Index | SIXU | SIXU | SISUT |
| 02/14/2019 | S&P Health Care Select Sector Index | SIXV | SIXV | SISV |
| 02/14/2019 | S&P Consumer Discretionary Select Sector Index | SIXY | SIXY | SISY |

- The S&P Select Sector Indexes are modified capitalization-weighted indexes representing the performance of a sector of companies that are components of the S&P 500 Index. Each index is comprised of securities which are traded on the New York Stock Exchange or the NASDAQ Stock Market.
- S&P Select Sector Index options are cash-settled, have European and A.M.-style exercise and have a \$100 multiplier.

¹ Reissued February 4, 2019 to update the option symbols. Reissued February 5, 2019 to cross-reference Rule 24.4A.

- Margin requirements, including strategy-based and portfolio, and net capital requirements are described in detail below.

Product Description

Cboe Exchange, Inc. (“Cboe Options” or “Exchange”) plans to list for trading options on 11 S&P Select Sector Indexes as detailed in the table shown above.

The S&P Select Sector Indexes are modified capitalization-weighted indexes representing the performance of large cap companies in each of 11 sectors of the S&P 500. Each index is comprised of securities traded on the New York Stock Exchange or The NASDAQ Stock Market.

S&P Select Sector Index options have European-style exercise; options generally may be exercised only on the Expiration Date. S&P Select Sector Index options are A.M.-settled. S&P Select Sector Index options ordinarily expire on the third Friday of the expiration month. If that Friday is an Exchange holiday, the Expiration Date will be the preceding business day. The last trading day for expiring S&P Select Sector Index options will ordinarily be the business day (usually a Thursday) preceding the Expiration Date. (Note that the Expiration Date can fall on a day of the week other than a Friday in the case of certain S&P Select Sector Index option series, such as Weekly Expirations, End of Month and Quarterly Series, should they be listed in the future.)

The contract multiplier for S&P Select Sector Index options will be \$100. The minimum tick for S&P Select Sector Index option series trading below \$3 is 0.05 (\$5.00); at or above \$3 is 0.10 (\$10.00). The minimum strike price interval for S&P Select Sector Index options is 5 points.

Up to twelve near term S&P Select Sector Index option expiration months can be listed. In addition, the Exchange may list up to 10 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 for each index is calculated using the opening sale price of each component security of an index 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 24,000 contract position limit (on the same side of the market) for S&P Select Sector Index options pursuant to Cboe Options Rule 24.4A. S&P Select Sector Index options are also subject to the reporting requirements applicable to Trading Permit Holders under Cboe Options Rule 4.13(a).

Trading hours for S&P Select Sector Index options are 8:30 AM to 3:00 PM (Chicago time).

Detailed product specifications for index options on each Select Sector Index may be found on the Cboe website through the following link:

<http://www.cboe.com/products/stock-index-options-spx-rut-msci-ftse/options-on-sector-indexes/option-contract-specifications>

Customer Strategy-Based Margin

Purchases of S&P Select Sector Index options with 9 months or less until expiration must be paid for in full. Purchases of puts or calls with more than 9 months until expiration may be effected on a

margin basis and must comply with Exchange Rule 12.3(c)(4)(B). When time to expiration reaches 9 months, the option no longer has value for margin purposes.

Writers of uncovered puts or calls must deposit/maintain 100% of the option proceeds* plus 20% of the aggregate contract value (current 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 exercise price amount. (* For calculating maintenance margin, use option current market value instead of option proceeds.)

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

Where a short S&P Select Sector Index option contract is covered by an “escrow agreement” meeting the requirements of Cboe Options Rule 12.3(d), no margin need be required.

Customer Portfolio Margin

S&P Select Sector Index options are eligible for portfolio margining. S&P Select Sector Index options will be accommodated in respective Class Groups in The Options Clearing Corporation (OCC) portfolio margining platform. It should be noted that an analogous S&P Select Sector SPDR® Fund (and overlying options) are also contained in each respective Class Group.

Four of the eleven Class Groups will be contained within a corresponding Product Group. The other seven are stand-alone Class Groups. The four S&P Select Sector Indexes that are components of a Product Group are as follows:

| <u>Class Group</u> | <u>Class Group ID</u> | <u>Product Group</u> | <u>Product Group ID</u> |
|--------------------------------|-----------------------|-------------------------------------|-------------------------|
| Financial Select Sector Index | 99 | U.S. Financial Sector Product Group | 99 |
| Energy Select Sector Index | 521 | Oil and Gas Services Product Group | 15 |
| Technology Select Sector Index | 508 | Technology Sector Product Group | 76 |
| Utilities Select Sector Index | 514 | Utility Sector Product Group | 57 |

The portfolio margin requirement for S&P Select Sector Index options will be equal to the maximum potential loss over a range of market movements covering +/-15%. The current (spot or cash) S&P Select Sector Index value will be used to calculate theoretical gains and losses for S&P Select Sector Index 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. Within a Class Group, gains offset losses at 100%. For details regarding the offsets between Class Groups that are held within a Product Group, see the applicable S&P Select Sector Index Option specification sheet, which can be reached through the link given above.

Option Market-Maker Margin Requirements

Pursuant to Cboe Options Rule 12.3(f), S&P Select Sector Index option positions of an S&P Select Sector Index options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

Cross-margining of S&P Select Sector Index options and S&P Select Sector Index futures is **not** available at this time.

Net Capital Requirements

S&P Select Sector Index options will be accommodated in respective Class Groups in the risk-based haircut platform maintained by The Options Clearing Corporation (OCC).¹² Class Group and Product Group structure is analogous to the structure described above for customer portfolio margining.

The risk-based haircut will be equal to the maximum potential loss calculated over a range of market movements covering +/-15% for all broker-dealers, including options market-makers. 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. Within a Class Group, gains offset losses at 100%. S&P Select Sector Index futures will be included in the respective Class Group with a 100% offset vs. S&P Select Sector Index options. For details regarding the offsets between Class Groups that are held within a Product Group, see the Risk-Based Haircut Offsets Matrix on OCC's website, which can be reached through the following link:

www.theocc.com/components/docs/risk-management/rbh/rbh_parameters.pdf

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:

Additional information about Cboe Options' options on S&P Select Sector Indexes is available at: <http://www.cboe.com/products/stock-index-options-spx-rut-msci-ftse/options-on-sector-indexes> and

http://markets.cboe.com/resources/product_update/2019/Operational-System-Settings-for-New-Options-on-11-SP-Select-Sector-Indices_OW.pdf

Questions regarding product specifications should be directed to Dennis O'Callahan, Product Development, at (312) 786-7508.

Questions regarding Cboe Options rules, including margin and net capital, should be directed to Regulatory Interpretations at reginterps@cboe.com or (312) 786-8141.

² Risk-based haircuts may be applied pursuant to SEC Rule 15c3-1a (Appendix A).