



Regulatory Circular 20-048

Date: September 11, 2020

Exchanges: Cboe Options

Markets: Options

To: Trading Permit Holders

Re: Margin and Net Capital Requirements – S&P 500 ESG Index Options

Overview

On September 21, 2020, Cboe Exchange, Inc. (“Cboe Options” or “Exchange”) plans to list for trading options on the S&P 500 ESG Index. S&P 500 ESG Index options will trade under the ticker symbol SPESG.

- The S&P 500 ESG Index is a broad-based, market-capitalization weighted index that is designed to measure the performance of securities meeting sustainability criteria, while maintaining similar overall industry group weights as the S&P 500. The S&P 500 ESG Index is composed of a subset of the constituents of the S&P 500 Index that meet certain criteria in respect of environmental, social and governmental principles.
- SPESG options are cash-settled, have European and A.M.-style exercise and have a \$100 multiplier.
- More detail concerning SPESG options can be found in Rule Filing [SR-CBOE-2020-080](#) (Release [34-89749.pdf](#)) and [Exchange Notice C2020082700](#).
- Certain information on margin requirements (strategy-based and portfolio) and net capital requirements are described below.

Margin Requirements

Below is a summary of certain margin provisions. Please refer to Chapter 10 of the Cboe Options Rulebook (available [here](#)) for additional information on applicable margin requirements. Please also note that the margin requirements prescribed in the Cboe Options Rules are minimums. Other rules and regulations, and TPH Organization imposed requirements, may apply.

Customer Strategy-Based Margin

Purchases of SPESG 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 Cboe Options Rule 10.3(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 15% 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 10.3(h) and 10.10.

Where a short SPESG option contract is covered by an “escrow agreement” meeting the requirements of Cboe Options Rule 10.3(d), no margin need be required.

Customer Portfolio Margin

SPESG options are eligible for portfolio margining and will be included in Class Group 18 (S&P 500). Class Group 18 is included in Product Group 9 (High-Capitalization Broad-Based Indexes) of The Options Clearing Corporation (OCC) portfolio margining (TIMS) platform.

The portfolio margin requirement for SPESG options will be equal to the maximum potential loss over a range of market movements covering -8%/+6%. The current (spot or cash) SPESG Index value will be used to calculate theoretical gains and losses for SPESG 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 Class Group 18, gains offset losses at 100%. For details regarding the offsets between Class Groups that are held within a Product Group, see

https://www.theocc.com/getmedia/df082868-771b-43ec-83c5-acf67ecb1702/cpm_parameters.pdf

Option Market-Maker Margin Requirements

Pursuant to Cboe Options Rule 10.3(f), SPESG option positions of an SPESG options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

Cross-margining of SPESG options and CME ESG Index futures will not be available when trading commences but is under consideration for future implementation.

Net Capital Requirements

Below is a summary of certain net capital provisions. Please refer to Chapter 11 of the Cboe Options Rulebook (available [here](#)) for additional information on applicable net capital requirements. Please also note that the net capital requirements prescribed in the Cboe Options Rules are minimums. Other rules and regulations, and TPH Organization imposed requirements, may apply.

Risk-based haircuts will be available for SPESG options through the risk-based haircut platform maintained by The Options Clearing Corporation (OCC).¹ 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 -8%/+6% 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. 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 Risk-Based Haircut Offsets Matrix on OCC's website, which can be reached through the following link:

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

https://www.theocc.com/getmedia/48f315ef-b63b-4286-851a-db44176d85e9/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 SPESG options, including contract specifications, is available at:

<https://www.cboe.com/products/stock-index-options-spx-rut-msci-ftse/s-p-500-esg-index-options>

Questions regarding product specifications may be directed to Dennis O'Callahan, Product Development, at 312.786.7508.

Questions regarding Cboe Options Rules, including margin and net capital requirements, may be directed to Regulatory Interpretations at reginterps@cboe.com or 312.786.8141.