



TO: Trading Permit Holders

FROM: Registration and Regulatory Services Division

DATE: November 12, 2010

RE: Expiring Exercise Declaration (EED)¹ Procedures for Noncash-Settled Equity Options

The following are the Exchange's regular procedures and cut-off times for the submission of exercise instructions to the Exchange for noncash-settled equity options under C2 Rule 11.1:

- (a) Expiring options are subject to the "Exercise by exception" ("Ex-by-ex") procedure under OCC Rule 805. "Ex-by-ex" is an administrative procedure used by the OCC in which options that are in the money by specified threshold amounts are exercised unless a clearing member submits instructions not to exercise the options. An EED is a notification of a decision either: (1) to not exercise an option that would be automatically exercised under OCC's Ex-by-ex procedure, or (2) to exercise an option that would not be automatically exercised under OCC's Ex-by-ex procedure.
- (b) Option holders desiring to exercise or not exercise expiring options must either: (1) take no action and allow exercise determinations to be made in accordance with OCC's Rule 805;² or (2) submit an EED to the Exchange by the deadline specified in paragraph (d) below.
- (c) An EED is deemed submitted to the Exchange if a TPH: (1) submits its instructions through the following site:
<https://www.cboe.org/C2/members/GeneralInfo/ContraryExerciseAdvice/ContraryExerciseAdvice.aspx>
(2) submits its instructions via email to exerciseadvices@cboe.com, (3) uses OCC's electronic communications system, (4) uses the EED form of any other national securities exchange—at which the TPH also has membership or participant privileges and where the option is listed—and submits it to that exchange, or (5) uses such other method as the Exchange may prescribe.

¹ Formerly known as Contrary Exercise Advices ("CEA").

² "Exercise by exception" is a procedure between OCC and its clearing members and is not intended to obviate the need for customers to communicate exercise instructions to their brokers. C2 makes no representation as to whether a TPH may have parallel "exercise by exception" procedures for its customers.

- (d) (i) Option holders have until 4:30 p.m. Central Time (“CT”) on the business day immediately prior to the expiration date to make a final decision to exercise or not exercise an expiring option. At any time up to 4:30 p.m., an option holder may resubmit an EED or may cancel an EED by filing an EED cancel with the Exchange. TPHs may not accept exercise instructions after 4:30 p.m.

In the event the Exchange provides advance notice (on or before 4:30 p.m. CT on the business day immediately prior to the last business day before the expiration date) indicating that a modified time for close of trading in noncash-settled equity options on the last business day before expiration will occur, the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day.

(ii) As an operational convenience, TPHs have until 6:30 p.m. CT to submit an EED for: (1) customer accounts, and (2) non-customer accounts **if** the TPH records the options holders’ time of submission with a secure electronic time stamp.³ In connection with the use of electronic submission methods, TPHs must establish a fixed procedure to ensure that the electronic time stamp for EEDs and EED Cancels are secure. It is important to note that this submission deadline does not change the substantive requirement that option holders must make a final exercise decision by 4:30 p.m. CT on the business day immediately prior to the expiration date.

- (e) TPHs may make final decisions after 4:30 p.m. CT, but prior to expiration, without having submitted an EED: (1) in order to remedy mistakes made in good faith; (2) to take appropriate action as the result of a failure to reconcile unmatched Exchange option transactions; or (3) where exceptional circumstances have restricted an option holder’s ability to inform a TPH of a decision regarding exercise, or a TPH’s ability to receive an option holder’s decision by the cutoff time. **The burden of establishing any of the above exceptions rests solely on the TPH seeking to rely on such exceptions.**
- (f) In the event a TPH makes a final exercise decision after the exercise cutoff time pursuant to paragraph (e), the TPH shall maintain a memorandum setting forth the circumstances regarding such exception and shall file a copy of the memorandum with the Exchange in a manner and form prescribed by the Exchange no later than 11:00 a.m. CT on the first business day following the respective expiration.

³ As of September 2010, the rule change has extended by one hour (from 5:30 p.m. to 6:30 p.m. CT) the time by which TPHs can submit an EED if they use an electronic submission procedure with time stamp.

SUMMARY OF EED SUBMISSION STEPS

Please be advised that EEDs must be submitted to the Exchange through the TPH site or via e-mail. The TPH site link is:

<https://www.cboe.org/C2/members/GeneralInfo/ContraryExerciseAdvice/ContraryExerciseAdvice.aspx>

EEDs submitted via e-mail should be addressed to: ExerciseAdvices@cboe.com.

The official time-stamp of the exercise instruction notice is: (1) the time the instructions are submitted on the TPH site, or (2) the time the e-mail is RECEIVED by the Exchange System. It is the responsibility of the TPH to ensure that the Exchange receives e-mail instruction(s) by the cut-off time. As such, please allow sufficient time for the e-mail to be received by the Exchange's e-mail system. Waiting until the last minute to send your exercise instruction(s) may result in non-compliance with the time requirement noted below.

E-mail exercise instructions, by free form, MUST include the same information that is listed on the EED forms:

1. Firm name
2. Form prepared by (name of individual)
3. Clearing firm no.
4. Account
5. Account type: MM, Firm, or Customer
6. Type of instruction to be effected: Exercise, Do Not Exercise, or Amendment
7. Quantity (number of contracts)
8. Symbol
9. Month
10. Strike
11. Put or Call

The same cut-off time applies to instructions submitted through the TPH site or via e-mail (EEDs must be submitted to the Exchange by 4:30:00 p.m. CST). Please refer to C2 Rule 11.1 for further information regarding exercise procedures.

A failure to comply with the provisions of C2 Rule 11.1.06, or the improper submission of an exercise instruction, may result in disciplinary action.

Any questions regarding this memorandum may be directed to the Department of Market Regulation at (312) 786-8460 or (312) 786-7730.