



Regulatory Circular RG12-117

To: Trading Permit Holders and  
Clearing Trading Permit Holders

From: Division of Regulatory Services

Date: August 23, 2012

Subject: Product Description, Margin and Net Capital Requirements  
- S&P 500 Range Options (SRO)

### KEY POINTS

- On August 28, 2012, Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) plans to commence trading of S&P 500 Index Range options. Range options will trade under the ticker symbol “SRO.”
- SRO options are cash-settled, European style and have a \$100 multiplier.
- Purchases of SRO options must be paid for in full. The initial and maintenance margin requirement for a short SRO option is \$1,000.00 (premium received may be applied).
- Net capital treatment for SRO options will be similar to SPX options. Net capital requirements are described in more detail below.

### DISCUSSION

#### PRODUCT DESCRIPTION

On August 28, 2012, CBOE will introduce a new type of S&P 500 Index option known as S&P 500 Range Options (“SRO”). Range options are European-style, cash-settled options that have a positive payout if the settlement value of the S&P 500 Index falls within the specified interval – known as the “Range Length” - at expiration. Only SRO call options will be listed.

The Range Length of an SRO is divided into three segments; the “Low Range,” the “Middle Range” and the “High Range.” The maximum exercise settlement amount of an SRO will occur if the settlement value of the S&P 500 Index falls anywhere within the “Middle Range” at expiration. Within the “Low Range” or “High Range”, which equal the “Range Interval,” the exercise settlement amount will vary linearly between zero and the maximum payout, as further described below. If the settlement value falls outside of the Range Length, the exercise settlement amount will be zero.

The contract multiplier for SROs will be \$100, the Range Length will be 70 points, and the Range Interval will be 10 points. Thus, the maximum exercise settlement amount will be \$1,000,

or \$100 times the Range Interval of 10 points. This maximum settlement amount will occur over a 50-point range of S&P 500 Index settlement values (i.e., the Middle Range). There will also be two 10-point ranges of S&P 500 Index settlement values, one below the Middle Range (the Low Range) and one above the Middle Range (the High Range), where the exercise settlement amount will vary from zero to \$1,000 moving up from the beginning of the Low Range to the beginning of the Middle Range, and will vary from \$1,000 to zero moving up from the end of the Middle Range to the end of the High Range.

The strike price of an SRO is the start point of its particular Range Length (e.g., 1380 for a 1380 – 1450). The following table shows the applicable Range Length, Low Range, Middle Range and High Range for a *hypothetical* sample of SRO option strike prices. Initially, SROs will be listed in strike price increments of 30 points covering a range of approximately +10%/-10% in the S&P 500 Index for 3 consecutive near-term expirations.

SRO Strike Price	Range Length	Low Range	Middle Range	High Range
1350	1350 - 1420	1350 -1360	1360 - 1410	1410 - 1420
1380	1380 - 1450	1380 - 1390	1390 - 1440	1440 - 1450
1410	1410 - 1480	1410 - 1420	1420 - 1470	1470 - 1480
1440	1440 - 1510	1440 - 1450	1450 - 1500	1500 - 1510
1470	1470 - 1540	1470 -1480	1480 - 1530	1530 - 1540

No position and exercise limits are in effect. Each member (other than a market-maker) or member organization that maintains an end of day aggregate position in excess of 100,000 contracts in SPX, SRO and Mini-SPX (10 Mini-SPX options equal 1 SPX full value contract) for its proprietary account or for the account of a customer, shall report certain information to the Department of Market Regulation.

Trading hours for SROs are 8:30 a.m. to 3:15 PM Central Time (Chicago time).

Questions regarding product specifications should be directed to John Hiatt, Research Department, at (312) 786-7779.

Detailed product specifications may be found on the CBOE website at the following URL:

[www.cboe.com/SRO](http://www.cboe.com/SRO)

### CUSTOMER MARGIN REQUIREMENTS

Purchases of SRO options must be paid for in full.

The initial and maintenance margin requirement for a short SRO is \$1,000.00. The premium received may be applied.

Spreads involving SROs carried in a strategy-based margin account are not recognized for margin purposes.

A short SRO is permitted in a cash account provided that there is held in the account at the time the SRO is written, or there is received into the account promptly thereafter, either 1) cash or cash equivalents equal to \$1,000.00 or 2) an escrow agreement. An escrow agreement must meet the requirements of CBOE Rule 12.3(n)(2).

SRO options are eligible for portfolio margining. SROs will be placed in Product Group 9 (High Capitalization, Broad Based Indices). The portfolio margin requirement will be equal to the maximum potential loss over a range of market movements covering -8%/+6%. 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. Spread offsets are recognized in a portfolio margin account. These requirements are Exchange minimums. House portfolio margin requirements may be greater.

#### OPTION MARKET-MAKER MARGIN REQUIREMENTS

Pursuant to CBOE Rule 12.3(f), SRO positions of an SRO options market-maker may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

SROs are not eligible for the CBOE / CME / OCC cross-margining program.

#### NET CAPITAL REQUIREMENTS

For risk-based haircuts, SROs will be placed in Product Group 9 (High Capitalization, Broad Based Indices).<sup>1</sup> The risk-based haircut will be equal to the maximum potential loss over a range of market movements covering -8%/+6% for options market-makers and -10%/+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.

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.

Questions regarding margin or net capital requirements may be directed to the Regulatory Service Division's Regulatory Interpretations and Guidance team either by telephone at (312) 786-8141 or by e-mail at [RegInterps@cboe.com](mailto:RegInterps@cboe.com).

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