



# Exchange Bulletin

September 21, 2012 Volume 40, Number 38

The Bylaws and Rules of Chicago Board Options Exchange, Incorporated ("Exchange"), in certain specific instances, require the Exchange to provide notice to Exchange Trading Permit Holders. To satisfy this requirement, a copy of the Exchange Bulletin, including the Regulatory Bulletin, is delivered by e-mail or by hard copy free of charge to all effective Trading Permit Holders on a weekly basis.

Trading Permit Holders are encouraged to receive the Exchange and Regulatory Bulletin and Information Circulars via e-mail. E-mail subscriptions may be obtained by Trading Permit Holders by submitting your name, firm if applicable, e-mail address, and phone number, to [registration@cboe.com](mailto:registration@cboe.com). If you do sign up for e-mail delivery, please remember to inform the Registration Services Department of e-mail address changes. Subscriptions by Trading Permit Holders for hard copy delivery may be obtained by submitting your name, firm if any, mailing address and telephone number to: Chicago Board Options Exchange, Registration Services Department, 400 South LaSalle, Chicago, Illinois 60605, Attention: Bulletin Subscriptions.

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## TRADING PERMIT INFORMATION FOR 09/13/2012 THROUGH 09/19/2012

### TRADING PERMIT APPLICATIONS RECEIVED FOR WHICH BULLETIN PUBLICATION IS REQUIRED

**Sanjay Tolia**  
**Bengal Capital Trading LLC**  
440 S. LaSalle St., Suite 2121  
Chicago, IL 60605

**Cameron M. Marantz**  
**Susquehanna Securities**  
175 W. Jackson Blvd., Suite 1700  
Chicago, IL 60604

**Ali Ozler**  
**Susquehanna Securities**  
175 W. Jackson Blvd., Suite 1700  
Chicago, IL 60604

**Derek D. Jia**  
**Susquehanna Securities**  
175 W. Jackson Blvd., Suite 1700  
Chicago, IL 60604

**Kevin P. Kuang**  
**Susquehanna Securities**  
175 W. Jackson Blvd., Suite 1700  
Chicago, IL 60604

**Ryan Standifer**  
**Susquehanna Securities**  
175 W. Jackson Blvd., Suite 1700  
Chicago, IL 60604

**Srinivas R. Gopalan**  
**Susquehanna Securities**  
175 W. Jackson Blvd., Suite 1700  
Chicago, IL 60604

### TERMINATIONS

#### Individuals

Nominees:	Termination Date
<b>Jason Dell (JXD)</b> Cardinal Capital Management LLC	9/13/12
<b>William E. Fitzgerald (WEF)</b> Essex Radez, LLC	9/13/12
<b>Michael H. Godwin (MHG)</b> Ronin Capital LLC	9/17/12

\*\*\*\*\*Addendum to Bulletin Dated 9/7/12\*\*\*\*\*

<b>Daniel J. Walsh (DJW)</b> MNR Executions LLC	9/4/12
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#### TPH Organization

<b>Jefferies Execution Services, Inc.</b>	9/14/12
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### EFFECTIVE TRADING PERMIT HOLDERS

#### Individuals

Nominees:	Effective Date
<b>Peter J. Heinz</b> <b>Essex Radez, LLC</b> Type of Business to be Conducted: Proprietary Trading Permit Holder	9/13/12
<b>Daniel S. Glotzbach (GLZ)</b> <b>CTC LLC</b> Type of Business to be Conducted: Market Maker	9/17/12
<b>Karol M. Kocemba (KRX)</b> <b>CTC LLC</b> Type of Business to be Conducted: Market Maker	9/19/12

**RESEARCH CIRCULARS**

The following Research Circulars were distributed between September 18 and September 20, 2012. If you wish to read the entire document, please refer to the CBOE website at [www.cboe.com](http://www.cboe.com) and click on the "Trading Tools" Tab. New listings and series information is also available in the Trading Tools section of the website. For questions regarding information discussed in a Research Circular, please call The Options Clearing Corporation at 1-888-OPTIONS.

Research Circular #RS12-475  
September 17, 2012  
American Eagle Outfitters, Inc. ("AEO")  
CONTRACT ADJUSTMENT FOR SPECIAL CASH  
DIVIDEND  
Ex-Date: September 24, 2012

Research Circular #RS12-476  
September 17, 2012  
HollyFrontier Corporation ("HFC")  
CONTRACT ADJUSTMENT FOR SPECIAL CASH  
DIVIDEND  
Ex-Date: September 21, 2012

Research Circular #RS12-477  
September 17, 2012  
RailAmerica, Inc. ("RA") Proposed Merger  
with Genesee & Wyoming Inc.

Research Circular #RS12-478  
September 17, 2012  
Kenneth Cole Productions, Inc. Class A ("KCP")  
Proposed Merger  
with KCP Holdco, Inc.

Research Circular #RS12-479  
September 17, 2012  
DSW Inc. ("DSW")  
CONTRACT ADJUSTMENT FOR SPECIAL CASH  
DIVIDEND  
Ex-Date: October 12, 2012

Research Circular #RS12-480  
September 18, 2012  
Quest Software, Inc. ("QSFT") Proposed Merger  
with Dell Inc. ("DELL")

Research Circular #RS12-481  
September 18, 2012  
Direxion Daily Mid Cap Bull 3X Shares ("MIDU")  
Capital Gains Distribution  
Ex-Distribution Date: September 19, 2012

Research Circular #RS12-482  
September 18, 2012  
RDA Microelectronics ("RDA")  
CONTRACT ADJUSTMENT FOR SPECIAL CASH  
DIVIDEND  
Ex-Date: September 27, 2012

Research Circular #RS12-483  
September 19, 2012  
Par Pharmaceutical Companies, Inc. ("PRX") Proposed  
Merger  
with Sky Growth Holdings Corporation

Research Circular #RS12-484  
September 20, 2012



September 21, 2012

# Regulatory Bulletin

Volume RB23, Number 38

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## REGULATORY CIRCULARS

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### **Regulatory Circular RG12-126**

**Date: September 17, 2012**

**From: Department of Market Regulation**

**To: CBSX Trading Permit Holders**

**Re: CBSX Record of Written Complaints**

#### **CBSX Record of Written Complaints**

CBSX recently adopted Rule 53.7 – CBSX Record of Written Complaints. The new rule requires CBSX Trading Permit Holders (TPH) to keep and preserve written customer complaints and records of the actions taken by the TPH due to the complaint for at least five years. For the first two years, TPHs shall keep these files readily accessible for examination or spot checks. Upon request by CBOE Regulatory Staff, a TPH shall forward such records in a manner as prescribed by Exchange Staff.

A complaint includes any written statement of a customer or any person acting on behalf of a customer alleging a grievance involving the activities of a TPH or person under the control of the TPH in connection with either the solicitation or execution of any transaction conducted through the facilities of the CBSX.

Questions concerning this memo can be addressed to Stephanie Marrin, Department of Regulatory Services, at [marrin@CBOE.com](mailto:marrin@CBOE.com) or 312-786-8801.

## Regulatory Circular RG12-127

**Date:** September 19, 2012

**To:** Trading Permit Holders  
Trading Permit Holder Organizations

**From:** Division of Regulatory Services

**Subject:** Vanguard S&P 500 ETF (VOO)  
Vanguard Russell 2000 ETF (VTWO)

**Margin Accounts - Writing Index Options on a Covered Basis and Eligibility for Covered Writing Approval Level**

### KEY POINTS

- In a margin account, S&P 500 index options may be written on a “covered” basis against an equivalent offsetting position in the Vanguard S&P 500 ETF (“VOO”).
- In a margin account, Russell 2000 index options may be written on a “covered” basis against an equivalent offsetting position in the Vanguard Russell 2000 ETF (“VTWO”).
- The writing of cash settled index options in a cash account against an equivalent offsetting position in an ETF that tracks the same underlying index is not currently permitted.
- A firm can consider a customer margin account that is approved for “covered call writing” to also be approved for writing S&P 500 index options and Russell 2000 index options calls versus the VOO and VTWO, respectively, on a covered basis provided the firm’s written procedures so specify.
- As a reminder, it is important to understand that due to the cash settlement feature of S&P 500 index options and Russell 2000 index options and the “timing risk” involved, there is an inherent limitation on the ability of writers of S&P 500 index options and Russell 2000 index options to cover their risk exposure by holding a position in an ETF that tracks the same underlying index.

### BACKGROUND

The Exchange is hereby approving the VOO (Vanguard S&P 500 ETF) and the VTWO (Vanguard Russell 2000 ETF) as instruments against which S&P 500 index options and Russell 2000 index options (the “corresponding index options”), respectively, may be written on a covered basis in a margin account.<sup>1, 2</sup>

Shares of the VOO and VTWO, while not deliverable upon exercise / assignment of the corresponding index options, will for margin purposes, be considered an underlying security for the corresponding index options.

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<sup>1</sup> See Exchange Rule 12.3(c)(5)(C)(2).

<sup>2</sup> For margin purposes, the writing of cash settled index options on a covered basis against the S&P 500 Depository Receipts and DIAMONDS Trust; iShares S&P 100 Index Fund; NASDAQ-100 Index Tracking Shares; and iShares S&P 500 Index Fund has been approved. See Regulatory Circulars RG99-09, 00-171, 01-119 and 02-110, respectively. For margin purposes, the writing of cash settled index options on a covered basis against the iShares Russell 2000 Index Fund (“IWM”) has been approved. See Regulatory Circular RG07-126.

Currently, 1 S&P 500 index option contract is equivalent to 2,178 shares of the VOO, and 1 Russell 2000 index option is equivalent to 1,269 shares of the VTWO.

Therefore, in a margin account, no margin is required on an S&P 500 index call option or Russell 2000 index call option carried short if they are offset, or “covered”, by an equivalent long position in the VOO or VTWO, respectively. Similarly, no margin is required on an S&P 500 index put option or Russell 2000 index put option carried short when they are offset, or “covered” by an equivalent short position in the VOO or VTWO, respectively.

In respect of short calls, the offsetting long position must be valued at current market value or the call exercise price, whichever is lower. In the case of short puts, any amount (aggregated) by which the exercise price of the put exceeds the current market value of the offsetting short position must be added to the margin requirement on the offsetting short position.

The VOO and VTWO are not approved at this time as instruments against which, in a cash account, the corresponding index options may be written and considered covered under the Exchange’s margin rules.

### Risk Considerations

While short options on a broad-based market index offset with an equivalent position in an exchange traded fund or open-end mutual fund (“Funds”) that replicate the same index may be treated as “covered” for margin purposes,<sup>3</sup> the Funds cannot be delivered (received) to meet an assignment obligation. Therefore, short index options offset with equivalent positions in the Funds are not covered in the same sense as the writing of a covered call or put on an individual stock. Exchange traded index options are cash-settled. An assignment on a short index option results in a cash debit to an account for the in-the-money amount. The in-the-money amount is determined based upon an index value (the “exercise settlement value”), which is calculated at a set point in time. In respect of a short call option, the respective long Fund must be salable at a price equal to or greater than the exercise settlement value in order to properly offset the debit.<sup>4</sup> Following the point in time at which an exercise settlement value is determined and prior to the time at which an assignment notice is received for a short, in-the-money index call option, the market price of the corresponding Fund, may decline. This “timing risk” is an inherent limitation on the ability of writers of cash settled index options to cover their risk exposure by holding positions in the underlying interest.

Options with an American-style exercise feature (e.g., OEX) can be exercised at any time prior to their expiration.<sup>5</sup> Options with a European-style exercise feature, such as S&P 500 index options and Russell 2000 index options, can be exercised only during the exercise period, which begins on the business day just prior to the expiration date. Thus, except for the day on which they become exercisable, assignment risk is not as great a concern for European-style options as it is with American-style options.

Writers of index options are advised to review Chapter 10 - Principal Risks of Options Positions of the booklet Characteristics and Risks of Standardized Options (the options disclosure document) for an explanation of other risk factors.

### Approved Strategy Level

For account approval purposes, margin accounts approved for covered call and/or put writing on individual stocks will be deemed by the Exchange as approved to write call and/or put options on a broad-based market index versus

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<sup>3</sup> Provided there is specific Exchange approval.

<sup>4</sup> In the case of a short put option, the investor must be able to purchase the respective Fund for delivery against the short position at a price which is less than or equal to the exercise settlement value.

<sup>5</sup> In Regulatory Circular RG00-171, dated Nov. 8, 2000, the Exchange approved the iShares S&P 100 Fund as an instrument against which short OEX options may be written on a covered basis in a margin account. OEX options are American-style exercise. Therefore, short positions are capable of being assigned at any time prior to expiration.

an equivalent position in a corresponding Fund<sup>6</sup> provided that a firm's written supervisory procedures specify that the covered equity call writing approval category encompasses approval for writing index call options on a covered basis against a Fund replicating the same index. A firm may also establish a dedicated approval item.

Pursuant to Exchange Rule 9.9, no Trading Permit Holder, Registered Options Principal or Registered Representative shall recommend to a customer the purchase or sale (writing) of any option contract unless the person making the recommendation has a reasonable basis for believing at the time of the recommendation that the customer has such knowledge and experience in financial matters that he/she may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

Questions regarding this Regulatory Circular 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>6</sup> The Fund must be specifically approved by the Exchange.

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## RULE CHANGES

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### **EFFECTIVE-ON-FILING RULE CHANGE(S)**

The following rule filing(s) was submitted to the Securities Exchange Commission (“SEC”) “effective on filing,” and may have taken effect pursuant to Section 19(b)(3) of the Securities Exchange Act of 1934 (the “Act”). The rule filing(s) will remain in effect barring further action by the SEC within 60 days after publication in the Federal Register. Below, any additions to rule text are underlined and any deletions are [bracketed]. Copies are available on the CBOE public website at [www.cboe.org/legal/effectivefiling.aspx](http://www.cboe.org/legal/effectivefiling.aspx).

#### **SR-CBOE-2012-090 Fees Schedule**

On September 14, 2012, the Exchange filed Rule Change File No. SR-CBOE-2012-090, which filing proposes to codify a fee schedule for the sale of a data product by Market Data Express, LLC, an affiliate of CBOE. Any questions regarding the rule change may be directed to Jaime Galvan, Legal Division, at 312-786-7058. The rule filing is available at <http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2012-090.pdf>.

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#### **SR-CBOE-2012-091 Position Limits**

On September 12, 2012, the Exchange filed Rule Change File No. SR-CBOE-2012-091, which filing proposes to establish a 14-month pilot program to eliminate position and exercise limits for physically settled SPY options. Any questions regarding the rule change may be directed to Jenny Klebes-Golding, Legal Division, at 312-786-7466. The rule text is shown below and the rule filing is available at <http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2012-091.pdf>.

##### **Rule 4.11—Position Limits**

RULE 4.11

No change.

...*Interpretations and Policies:*

.01 – .06 No change.

.07 The position limits under Rule 4.11 applicable to options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Interpretation and Policy .06 under Rule 5.3 shall be the same as the position limits applicable to equity options under Rule 4.11 applicable to option contracts on the securities listed in the below chart are as follows:

Security Underlying Option	Position Limit
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor’s Depository Receipts Trust (SPY)	[900,000 contracts] <u>None</u>
The iShares Russell 2000 Index Fund (IWM)	500,000 contracts
The PowerShares QQQ Trust (QQQQ)	900,000 contracts

Position limits for SPY options are subject to a pilot program through [fourteen months from start of pilot program].

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## SR-CBOE-2012-092 Weekly Options Series

On September 17, 2012, the Exchange filed Rule Change File No. SR-CBOE-2012-092, which filing proposes to modify the Weekly options Program to allow CBOE to initiate strike prices in more granular intervals for Weekly options in the same manner as two other option exchanges. Also, during the expiration week of a non-Weekly option, non-Weekly options on classes that are selected to participate in the Weekly Program may have the same strike price interval setting parameters as Weekly options. Any questions regarding the rule change may be directed to Jenny Klebes-Golding, Legal Division, at 312-786-7466. The rule text is shown below and the rule filing is available at <http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2012-092.pdf>.

### Rule 5.5. Series of Option Contracts Open for Trading

(a) – (c) No change.

(d) Short Term Option Series Program. After an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day (“Short Term Option Opening Date”) series of options on that class that expire on the Friday of the following business week that is a business day (“Short Term Option Expiration Date”). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(1) – (4) No change.

(5) Strike Interval. The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same option class that expire in accordance with the normal monthly expiration cycle. During the expiration week of an option class that is selected for the Short Term Option Series Program pursuant to this rule (“Short Term Option”), the strike price intervals for the related non-Short Term Option (“Related non-Short Term Option”) shall be the same as the strike price intervals for the Short Term Option.

(e) No change.

...*Interpretations and Policies:*

.01 The interval between strike prices of series of options on individual stocks may be:

(a) – (f) No change.

(g) Notwithstanding any other provision regarding strike prices in this rule:

(1) For option classes that trade in one dollar increments and are in the Short Term Option Series Program, the Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration date at \$0.50 strike price intervals. No additional series, including additional series of the Related non-Short Term Option, may be opened during expiration week in classes that are listed pursuant to this Interpretation and Policy .01(g)(1); and

(2) The Exchange may open for trading Short Term Option Series with intervals of \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150.

.02 - .21 No change.

\* \* \* \* \*

### Rule 24.9. Terms of Index Option Contracts

(a) General.

(1) *Exercise Prices.* The Exchange shall determine fixed-point intervals of exercise prices for call and put options.

(2) *Expiration Months.* Index option contracts may expire at three-month intervals or in consecutive months. The Exchange may list up to six expiration months at any one time, but will not list index options that expire more than twelve months out. Notwithstanding the preceding restriction, the Exchange may list up to twelve expiration months at any one time for any broad-based security index option contracts, including reduced-value and jumbo option contracts, ( e.g., DJX, NDX, RUT and SPX) upon which the Exchange calculates a volatility index and for CBOE S&P 500 AM/PM Basis options.

(A) Short Term Option Series Program. Notwithstanding the preceding restriction, after an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day (“Short Term Option Opening Date”) series of options on that class that expire on the Friday of the following business week that is a business day (“Short Term Option Expiration Date”). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(i) – (iv) No change.

(v) Strike Interval. The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same index option class that expire in accordance with the normal monthly expiration cycle. During the expiration week of an index option class that is selected for the Short Term Option Series Program pursuant to this rule (“Short Term Option”), the strike price intervals for the related index non-Short Term Option (“Related non-Short Term Option”) shall be the same as the strike price intervals for the index Short Term Option.

(B) No change.

(3) – (5) No change.

(b) – (e) No change.

...*Interpretations and Policies:*

.01 The interval between strike prices of series of options on individual stocks may be:

(a) – (l) No change.

(m) Notwithstanding any other provision regarding strike prices in this rule:

(i) For index option classes that trade in one dollar increments and are in the Short Term Option Series Program, the Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration date at \$0.50 strike price intervals. No additional series, including additional series of the Related non-Short Term Option, may be opened during expiration week in classes that are listed pursuant to this Interpretation and Policy .01(m)(i); and

(ii) The Exchange may open for trading Short Term Option Series with intervals of \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150.

\* \* \* \* \*