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Informational Circular IC10-48

Date: February 9, 2010
To: CBOE Members
From: CBOE Systems and Trading Operations
Re: OSI - Options Symbology Initiative

1 OSI Overview

1.1 What's new with Options Symbology

The Options Symbol – The new option symbol can be up to Five (5) characters long and may contain a number. In most cases, the symbol will be the same as the underlying product for the option - SPX will be SPX and MSQ will be MSFT. There will no longer be separate symbols for LEAPS, weeklies, quarterlies and roll-over products. Corporate action symbols will contain a number such as IBM1. There will be exceptions to the naming conventions. For example, if an underlying product has more than 5 characters or if the option product has unique characteristics such as a binary option.

Strike Prices – Strike prices will be expressed decimally down to 3 places to accommodate existing option series ($1/8 = .125$, $3/8 = .375$, etc). All newly listed series will be listed to the penny or 2 decimal places.

Expiration Date – Full expiration dates will be used. This will eliminate the need for separate symbols to represent LEAPS, Quarterly and Weekly options. Please note that the expiration date for standard options is the Saturday following the 3rd Friday of the month.

1.2 OSI Implementation Phases

OSI will be implemented in multiple phases. The first phase is the OSI conversion and the next phases are referred to as the OSI consolidation events.

The **OSI conversion** will take place for start of business Friday, February 12, 2010. On this date all listed option market participants (OCC, Exchanges, Members, Customers, Vendors, Service Providers, OPRA, etc.) will begin using and validating the OSI compliant data elements for all data interfaces in production.

The **OSI consolidation** events will be phased in over a period of three months. The first consolidation event is aimed at standardizing the Flex symbology by removing the expiration day from the symbol. The second consolidation event is aimed at standardizing the strike price representation into an explicit decimal format for all index and world currency options. The remaining consolidation events are aimed at reducing the number of symbols used to represent the same instrument that may have varying strike price intervals and expiration dates. During these consolidation events the use of unique symbols to represent LEAPS, wraps, etc will be eliminated and the underlying security will be used to represent the option symbol.

2 OSI Conversions

2.1 OSI Conversion Timeline

The OSI conversion is effective for start of business Friday, February 12, 2010. As of market open on this date, the use and validation of the explicit OSI data will become mandatory. All options activity for the business date of Friday, February 12, 2010 will utilize the explicit OSI data. Strike prices will be represented in decimal format and OPRA Ticker Symbols, which represent the expiration month code and strike price codes, will no longer be recognized. Industry participants are encouraged to implement their changes and begin using the OSI data in advance of this date.

As a reminder, the OSI conversion implements the use and validation of explicit OSI data but continues to carry the unique OPRA Root Symbols that represent standard, LEAP, wrap and adjusted symbols.

2.2 CBOE API OSI Conversion Details

On Friday, February 12, 2010, FIX Tag 205 will become a mandatory field on all standard orders executed with the Exchanges. In addition, FIX tag 611 will become mandatory on all complex spread orders.

For additional information on CBOE API changes please refer to the CBOE Symbology Page:

<https://systems.cboe.com/OptionSymbologyLandingPage.aspx>

2.3 CBOE GTC Order Handling During OSI Conversion

During the OSI Conversion, GTC (Good Till Cancel) orders will remain on the books.

No additional actions need to be taken against GTC orders during the OSI conversion.

Firms are encouraged to evaluate their internal process with respect to GTC orders to determine if any additional steps need to be taken.

For information regarding GTC orders during the consolidation events, please reference section 3.3.

3 OSI Consolidations

3.1 Overview

After the February 12, 2010 conversion has been completed, the options industry will be in a position to begin the process of consolidating option symbols that share the same underlying. In nearly all cases, the resulting symbol will be the same as the primary underlying deliverable. For example, all Microsoft LEAPs, wraps and short dated symbols will be converted to MSFT. Furthermore, the standard MSQ series will also be converted to MSFT. The consolidation process has seven key events that will take place between February 26, 2010 and May 14, 2010. The first two events are preparatory events that ensure all products are expressed in explicit and economic terms (Flex consolidation and ½ point strike consolidation). The remaining five events are the actual class consolidation events.

OSI Implementation / Consolidation Events Process Date	Action to Take Place	Effective Date
Friday, February 12, 2010	Processing absent OPRA codes Convert all equity strikes to decimal format Mandatory use and validation of OSI Information	Friday, February 12, 2010
Friday, February 26, 2010	Consolidate FLEX options with open interest (See 3.4 Below) First Weekly Expiration	Monday, March 1, 2010
Friday, March 5, 2010	Convert all ½ point Index strike prices and Cash Settled WCO's	Monday, March 8, 2010
Friday, March 12, 2010	Initial group of <u>options representing array of product scenarios to be consolidated</u>	Monday, March 15, 2010
Friday, April 9, 2010	All options associated with underlying securities beginning with the letter "A" including adjusted and non-standard symbols.	Monday, April 12, 2010
Friday, April 23, 2010	All options associated with underlying securities beginning with the letters "B" through "G" including adjusted and non-standard symbols.	Monday, April 26, 2010
Friday, May 7, 2010	All options associated with underlying securities beginning with the letters "H" through "O" including adjusted and non-standard symbols.	Monday, May 10, 2010
Friday, May 14, 2010	All options associated with underlying securities beginning with the letters "P" through "Z" including adjusted and non-standard symbols.	Monday, May 17, 2010

3.2 The Process

The consolidation events will be executed as next day corporate actions. This means that the events and processes necessary to effect the consolidation will be executed on a designated date (Friday) effective for the next business date (Monday).

OCC and the Exchanges will monitor the designated class consolidations and scheduled contract adjustments to ensure that a class does not go through the consolidation process and a contract adjustment on the same day. If a class that is slated for consolidation has a pending corporate action that would take effect on the Thursday, Friday or Monday surrounding the consolidation, the class would be removed from the consolidation event and be moved to the next event. The list of classes will be finalized on the Wednesday prior to each scheduled consolidation event and be available in a spreadsheet on the OCC website.

3.3 CBOE GTC Order Handling During OSI Consolidation

During the scheduled OSI consolidation events, GTC orders will need to be cancelled by the firm for the classes that are scheduled to consolidate. CBOE will accept cancel requests until 4:00 p.m. Central Time on the Friday of the scheduled consolidation. If GTC orders have not been cancelled by members, the Exchange will cancel the orders prior to applying the consolidation. Firms will receive cancel reports on all canceled orders. The cancel reports will remain on the firm queues until read by the firms.

Members can re-enter these orders on the business day following the consolidation utilizing the post consolidated symbol.

3.4 Class Consolidation Exceptions

Flex Consolidation Event

The initial change of Flex symbols will take place on Friday, February 26, 2010 effective for the start of business on Monday, March 1, 2010. This consolidation will remove the two digits reflecting expiration day that is currently appended to every Flex symbol. Following this consolidation, Flex symbols will follow the regular consolidation schedule. For example, 1MSQ01, 1MSQ22 and 1MSQ31 will all become 1MSQ during the initial Flex consolidation event. Subsequently, when the Microsoft class is consolidated, 1MSQ options will become 1MSFT.

Index and World Currency ½ Point Strike Consolidation Event

Currently, specific index options and world currency products are held at OCC with a strike price that is overstated by a value of 10 (commonly referred to as a half-point strike). A strike price multiplier of .1 is used align the strike price at OCC with the manner in which the product is traded and quoted. The ½ point strike consolidation event does not change any symbols, it only changes the strike prices to be in their true decimal format and the strike price multiplier will become 1.0.

For example, a strike price of 1255 before conversion would represent an actual strike price of 125.50. After the conversion the strike price would be reported as 125.50. In this case, 125 is the integer field and 50 is the actual decimal value.

The ½ point strike consolidation event will take place on Friday, March 5, 2010 effective for market open on Monday, March 8, 2010. The series level strike price changes will be published on the DDS messages distributed on Friday, March 5, 2010 effective for market open on Monday, March 8, 2010. The new strike price multiplier will be included in the DDS messages on Monday, March 8, 2010.

Binary Options

Due to the unique nature of these products the Exchanges have agreed that these products will continue to have non-standard symbols and will consolidate to the base non-standard symbol.

Five Character Underlying Symbols

Due to the OPRA standard message formats, adjusted options that have a five character underlying will need to utilize a non-standard symbol. The strategy that will be adopted will be to replace the fifth character with a numeric when possible. For example, if the underlying symbol for a previously adjusted option is CHINA the results of the consolidation would be CHIN1. This strategy is applicable for classes that rely on the standard OPRA formats for price quoting purposes. Since Flex options do not utilize the standard OPRA formats the potential does exist for a Flex symbol to consolidate to a six character symbol.

Contacts

For questions concerning Order Handling contact the CBOE Helpdesk at 312-786-7100.

For questions concerning FIX messaging, please contact API services at API@CBOE.COM