CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG10-33

To:	Members and Member Organizations
From:	Division of Member and Regulatory Services
Date:	March 1, 2010
Subject:	Product Description & Margin and Net Capital Requirements - S&P 500 Dividend Index Options

Exchange Contacts:	Bill Speth (Product Description)	(312) 786-7141
	James Adams (Margin)	(312) 786-7718
	Robert Gardner (Net Capital)	(312) 786-7937

KEY POINTS

- The Chicago Board Options Exchange plans to list and trade options on the S&P 500 Dividend Index beginning March 5, 2010. Options will trade under the ticker symbol "**DVS**" and will be based on ten (10) times the value of the S&P 500 Dividend Index as reported by Standard & Poor's.

- The S&P 500 Dividend Index represents the ordinary cash dividends of S&P 500 Index components accumulated over a quarterly "accrual period." The index resets to zero following the end of each accrual period.

- Strategy-based customer margin requirements for S&P 500 Dividend Index Options match the requirements applicable to broad-based index options, **except** that the current price of the front month futures contract is to be used to compute the requirement, rather than the "cash" S&P 500 Dividend Index. In the event futures contracts are not trading at the time of launch, an Indicative Value (front month) published by the CBOE is to be used until futures trading has commenced.

- For net capital purposes, S&P 500 Dividend Index Options will be treated similarly to equity options. Margin and net capital requirements are described in detail below.

PRODUCT DESCRIPTION

S&P 500 Dividend Index options are standard option contracts on the S&P 500 Dividend Index. The S&P 500 Dividend Index represents the ordinary cash dividends of S&P 500 Index components accumulated over a quarterly "accrual period." Each accrual period runs from the business day after the third Friday of a quarterly expiration month (i.e., March, June, September or December) through the third Friday of the next quarterly expiration month. The S&P 500

Dividend Index is expressed in S&P 500 Index points and is reset to zero following the end of each quarterly accrual period.

The underlying for S&P 500 Dividend Index Options will be ten (10) times the S&P 500 Dividend Index as reported by Standard & Poor's. CBOE will disseminate the underlying value for S&P 500 Dividend Index Options under the ticker symbol "**DVS**."

Initially, CBOE will list in-, at- and out-of-the-money strike prices, based on the expected forward level of DVS at expiration. New strikes may be added as the expected forward value moves and upon request. Strike prices may be listed with a minimum interval of 1 point, if the strike price is equal to or less than 200. When the strike price exceeds 200, strike price intervals will be no less than 2.5 points.

CBOE will disseminate a series of "Indicative Values" reflecting estimates of forward expected dividends. These values, each tied to a particular DVS option expiration, are intended for informational purposes only:

DVMR - Implied Forward DVS Indicator - March
DVJN - Implied Forward DVS Indicator - June
DVST - Implied Forward DVS Indicator - September
DVDE - Implied Forward DVS Indicator - December

Option premiums will be stated in decimals; one point equals $100. The minimum tick for options trading below 3.00 is 0.05 ($5.00) and for all other series, 0.10 ($10.00).

S&P 500 Dividend Index Options are cash-settled with European style expiration. CBOE plans to list 4 quarterly contracts (March, June, September & December) with standard "third Friday" expiration dates. Quarterly LEAPS may also be available. Trading hours will run from 8:30 a.m. to 3:15 p.m. Central Time (Chicago time).

The exercise-settlement value for S&P 500 Dividend Index Options is ten (10) times the level of the S&P 500 Dividend Index as reported by Standard & Poor's on the last business day (usually a Friday) before the Expiration Date. The exercise-settlement amount is equal to the difference between the exercise settlement value and the exercise price of the option, multiplied by $100. Exercise will result in delivery of cash on the business day following expiration. The last trading day for expiring S&P 500 Dividend Index Options will ordinarily be the Thursday prior to the option expiration date.

No position and exercise limits are in effect for S&P 500 Dividend Index Options. Each member (other than a market-maker) or member organization that maintains an end of day position in excess of 100,000 contracts per side of the market in S&P 500 Dividend Index Options for its proprietary account or for the account of a customer, shall report a description of the position and certain other information, including related hedge positions, to the Department of Market Regulation. If the position is maintained at or above 100,000 contracts, a subsequent report is required on the Monday following expiration and when any change to a hedge results in the position being either unhedged or only partially hedged. Please see Regulatory Circular RG10-10 for further details regarding what information must be contained in the reports. Reductions in an option position do not need to be reported.

Questions regarding product specifications should be directed to Bill Speth, Research Department, at (312) 786–7141.

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

www.cboe.com/DVS

CUSTOMER MARGIN

The margin requirements for S&P 500 Dividend Index Options match the requirements applicable to broad-based index options [CBOE Rule 12.3(c)(5)], except that the current ("cash") S&P 500 Dividend Index is **not** used to compute the requirements for short options.

Purchases of options must be paid for in full. For purchases of options with more than 9 months until expiration, Exchange rules permit a minimum margin requirement of 75% of the total cost(option current market value) to be deposited(maintained). When time to expiration reaches 9 months, the option no longer has value for margin purposes.

The initial and maintenance margin requirement for a short put or call is 100% of the option proceeds* plus 15% of the aggregate contract value (current price of the front month futures contract 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 current market value instead of option proceeds.) **Note that the margin requirement is a percentage of the current price of the front month futures contract and not the current (or "cash") S&P 500 Dividend Index.**

In the event futures contracts are not trading at the time of launch, an Indicative Value (front month) published by the CBOE is to be used to compute aggregate contract value until futures trading has commenced. See the "Product Description" section of this Regulatory Circular for information about Indicative Values.

Spreads and straddles are permitted for S&P 500 Dividend Index Options having equivalent aggregate underlying values. In respect of calendar spreads, member organizations are reminded that S&P 500 Dividend Index Options are European style. It is possible that the spread margin requirement could be, or become, insufficient to cover the assignment obligation on the short option if the long option cannot be exercised and it is trading at less than its intrinsic value in relation to price of the futures contract (or Indicative Value) that determines the intrinsic value of the short option. (The long option is expected to price in relation to the price of the futures contract (or Indicative Value) with a settlement date that coincides with the expiration of the long option.) Therefore, member organizations must apply "house" margin requirement policies and procedures for calendar spreads with European style options in order to insure that sufficient margin is held to cover the risk.

Where a short option contract is covered by an "escrow agreement" meeting the requirements of CBOE Rule 12.3(d)(2), no margin need be required.

S&P 500 Dividend Index Options are eligible for portfolio margining. A new Product Group will be created (Dividend Index). At this time, no offsets with other classes are allowed. The portfolio margin requirement will be equal to the maximum potential loss over a range of market movements covering +/–15%. The front month futures contract price or, in the event futures contracts are not trading at the time of launch, an Indicative Value (front month) published by the Exchange, will be utilized to compute theoretical option prices in lieu of the cash index.[1] 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. These requirements are Exchange minimums. House portfolio margin requirements may be greater.

OPTION MARKET–MAKER MARGIN REQUIREMENTS

Pursuant to CBOE Rule 12.3(f), S&P 500 Dividend Index Options may be margined on a basis that is satisfactory to the market-maker and carrying broker-dealer.

S&P 500 Dividend Index Options are eligible for market professional cross-margin accounts if and when trading in futures contracts commences. The SPAN file will handle the margin computation, providing for a reduction in the full margin requirement on futures contracts carried in a cross-margin account with offsetting S&P 500 Dividend Index (securities) Options.

Questions regarding the margin treatment of options should be directed to James Adams, Department of Member Firm Regulation, at (312) 786–7718.

NET CAPITAL REQUIREMENTS

For risk-based haircuts, a new Product Group will be created for the S&P 500 Dividend Index Options.[2] The risk–based haircut will be equal to the maximum potential loss calculated over a range of market movements covering +/-15%, for options market-makers and all other broker–dealers. The front month futures contract price or, in the event futures contracts are not trading at the time of launch, an Indicative Value (front month) published by the Exchange, will be utilized to compute theoretical option prices in lieu of the cash index.[1] 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. Futures based on the S&P 500 Dividend Index would be included in the same Product Group with a 100% offset.

For those firms not utilizing risk–based haircuts, the haircut will be calculated pursuant to SEC Rule 15c3–1(c)(2)(vi)(J).

Questions regarding the net capital treatment of S&P 500 Dividend Index Options should be directed to Robert Gardner, Department of Member Firm Regulation, at (312) 786–7937.

Footnote

[1] Programming changes are pending that will result in utilization of the price of the futures contract (or Indicative Value) that corresponds to the particular DVS option expiration to compute the theoretical price of the option.

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