

## CHAPTER V

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### SECURITIES DEALT IN (5.1 – 5.8)

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**Rule 5.1 – 5.2**            No change

#### **Rule 5.3 – Criteria for Underlying Securities**

(a) – (b)                No change

#### *. . . Interpretations and Policies:*

.01 - .09                No change

.10    Securities deemed appropriate for initial listing shall include a Corporate Debt Security, as defined under Rule 28.1, that satisfies all of the following criteria:

- (a) The original public sale of a Corporate Debt Security shall be at least a \$250,000,000 principal amount.
- (b) Trading volume (in all markets in which the underlying Corporate Debt Security is traded) has been at least \$100,000,000 in notional value over the preceding six months.
- (c) There is a minimum aggregate par value or “float” of \$200,000,000 of the Corporate Debt Security outstanding.
- (d) There is a minimum number of 320 holders of the Corporate Debt Security.
- (e) The issuer of the Corporate Debt Security or the issuer's parent, if the issuer is a wholly-owned subsidiary, has at least one class of common or preferred equity securities registered under Section 12(b) of the Securities Exchange Act of 1934.
- (f) The equity securities issued by the issuer of the Corporate Debt Security are "covered securities" as defined under Section 18(b)(1)(A) of the Securities Act of 1933.
- (g) The equity securities issued by the issuer of the Corporate Debt Security satisfy the requirements for options trading on the Exchange pursuant to Exchange Rule 5.4.
- (h) The Corporate Debt Security on which options transactions will be effected on the Exchange has a credit rating issued by Moody's Investors Service that is Caa or higher and a credit rating issued by Standard and Poor's that is CC or higher.

- (i) The issuer of the Corporate Debt Security has registered the offer and sale of such securities under the Securities Act of 1933.
- (j) The transfer agent of the Corporate Debt Security is registered under Section 17A of the Securities Exchange Act of 1934.
- (k) The trust indenture for the Corporate Debt Security is qualified under the Trust Indenture Act of 1939.

#### **Rule 5.4 – Withdrawal of Approval of Underlying Securities**

No change

*... Interpretations and Policies:*

**.01 - .13** No change

**.14** A Corporate Debt Security, as defined in Rule 28.1, that was initially approved for options trading pursuant to Interpretation and Policy .10 under Rule 5.3 shall be deemed not to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Corporate Debt Security and therefore the Exchange may prohibit any opening purchase transactions in series of options of that class previously opened at any time the Exchange determines on the basis of information made publicly available that the following circumstances may have occurred:

- (a) Trading volume (in all markets in which the Corporate Debt Security is traded) is less than \$75,000,000 in notional value over the preceding six months.
- (b) Any of the requirements set forth in subparagraphs (c) – (h) of Exchange Rule 5.3.10 are not satisfied.

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#### IV. Chapter VI

#### **Doing Business on the Exchange Floor (Rules 6.1 – 6.85)**

##### **Rule 6.1. Days and Hours of Business**

No change

*... Interpretations and Policies:*

**.01** No change

**.02** The hours of trading for securities other than options are as set forth in the Rules listed below:

Corporate Debt Security Options --Rule 28.9.

Government Securities Options --Rule 21.10, Interpretation and Policy .01.

Index Options --Rule 24.6.

Stocks, Warrants and Other Securities --Rule 30.4.

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V. Chapter XII

**Margins (Rules 12.1 – 12.2)**

Rule 12.1 – 12.2      **No change**

VI.

VII. Rule 12.3 – Margin Requirements

Rule 12.3 (a) Definitions. For purposes of this Rule, the following terms shall have the meanings specified below.

(1) – (14)      No change

(15) The term "Investment Grade" in respect of any Corporate Debt Security, as that term is defined in Rule 28.1, means, if rated by only one nationally recognized statistical rating organization ("NRSRO"), is rated in one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated in one of the four highest generic rating categories by all or a majority of such NRSROs; provided that if the NRSROs assign ratings that are evenly divided between (i) the four highest generic ratings and (ii) ratings lower than the four highest generic ratings, the Exchange will classify the Corporate Debt Security as Non-Investment Grade.

(16) The term "Non-Investment Grade" in respect of any Corporate Debt Security, as that term is defined in Rule 28.1, means, if rated by only one NRSRO (as defined in Rule 12.3(a)(15)), is rated lower than one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated lower than one of the four highest generic rating categories by all or a majority of such NRSROs.

(17) The term "Convertible" in respect of any Corporate Debt Security, as that term is defined in Rule 28.1, means, notwithstanding the classification of a Corporate Debt Security as Investment Grade or Non-Investment Grade, means any Corporate Debt Security that may be exchanged for shares of the issuer's common or preferred stock.

(b)      No change

(c)      *Customer Margin Account – Exception.* The foregoing requirements are subject to the following exceptions. Nothing in this paragraph (c) shall prevent a broker-dealer

from requiring margin from any account in excess of the amounts specified in these provisions.

(1) – (4) No change

(5) *Initial and Maintenance Requirements on Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.*

(A) *Listed. General Rule.* The initial and maintenance margin required on any listed put, call, stock index warrant, currency index warrant or currency warrant carried “short” in a customer’s account shall be 100% of the current market value of the option or warrant plus the percentage of the current “underlying component value” (as described in Column IV of the table below) specified in column II of the table below reduced by any “out-of-the-money” amount as defined in this subparagraph (c)(5)(A) below.

Notwithstanding the margin required above, the minimum margin for each such call option or call warrant shall not be less than 100% of the current market value of the option or warrant plus the percentage of the current market value of the underlying component specified in column III of the table below, and for each such put option or put warrant, shall not be less than 100% of the current market value of the option or warrant plus the percentage of the option or warrant’s aggregate exercise price amount specified in column III of the table below.

<b>I. Type of Option</b>	<b>II. Initial and/or Maintenance Margin Required</b>	<b>III. Minimum Margin Required</b>	<b>IV. Underlying Component Value</b>
1. Stock	20%	10%	The equivalent number of shares at current market prices.
2. Narrow based index as defined in Rule 24.1 and Micro Narrow-Based Index as defined in Rule 24.2(d)	20%	10%	The product of the current index group value and the applicable index multiplier.
3. Broad-based index (including Capped-style options (CAPS & QCAPS) Packaged Vertical Spreads and Packaged Butterfly Spreads)	15% <sup>1</sup>	10% <sup>2</sup>	The product of the current index group value and the applicable index multiplier.

as defined in Rule 24.1 15%			
<u>4. Corporate Debt Security, as defined in Rule 28.1</u>	<u>Investment Grade: 10%</u> <u>Non-Investment Grade: 15%</u> <u>Convertible: 20%</u>	<u>Investment Grade: 5%</u> <u>Non-Investment Grade: 10%</u> <u>Convertible: 10%</u>	<u>The aggregate contract value.</u>
[4.] <u>5. Interest Rate Contracts</u>	10%	5%	The product of the index value and the applicable index multiplier.
[5.] <u>6. U.S. Treasury bills - 95 days or less to maturity</u>	10%	5%	The underlying principal amount.
[6.] <u>7. U.S. Treasury notes</u>	3%	½%	The underlying principal amount.
[7.] <u>8. U.S. Treasury bonds</u>	3.5%	½%	The underlying principal amount.
[8.] <u>9. Foreign Currency Options Warrants</u>			The product of units per foreign currency contract and the closing spot price. <sup>3</sup>
Australian Dollar	4%	¾%	
British Pound	4%	¾%	
Canadian Dollar	4%	¾%	
German Mark	4%	¾%	
European Currency Unit	4%	¾%	
French Franc	4%	¾%	
Japanese Yen	4%	¾%	
Swiss Franc	4%	¾%	
[9.] <u>10. Currency Index Warrants</u>	3%	A percentage of the aggregate exercise price as specified by the exchange and approved by the SEC.	The product of the index value and the applicable index multiplier.
[10.] <u>11. Stock Index Warrants (broad-based)</u>	15%	10%	The product of the index value and the applicable index multiplier.
[11.] <u>12. Stock Index Warrants (narrow-based)</u>	20%	10%	The product of the index value and the applicable index multiplier.
[12.] <u>13. Registered investment companies based on</u>	15%	10%	The equivalent number of shares at current market

a broad-based index or portfolio of securities.			prices.
[13]14. Registered investment companies based on a narrow-based index or portfolio of securities.	20%	10%	The equivalent number of shares at current market prices.

<sup>1</sup> In any event, the maximum margin required on a capped style index option (CAPS and Q-CAPS), Packaged Vertical Spread and Packaged Butterfly Spread as defined in Rule 24.1 need not exceed the aggregate cap interval, vertical spread interval and butterfly spread interval, respectively. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

<sup>2</sup> In respect of a capped-style index option, Packaged Vertical Spread and Packaged Butterfly Spread as defined in Rule 24.1 which is out-of-the-money, the minimum margin required is as follows: CALLS - the lesser of a) 100% of the current market value of the option plus 10% of the underlying index value or b) the aggregate cap, vertical spread or butterfly spread interval, respectively, PUTS - the lesser of a) 100% of the current market value of the option plus 10% of the aggregate put exercise price or b) the aggregate cap, vertical spread or butterfly spread interval, respectively. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

<sup>3</sup> The term “spot price” in respect of a currency warrant on a particular business day means the noon buying rate in U.S. dollars on such day in New York City for cable transfers of the particular underlying currency as certified for customs purposes by the Federal Reserve Bank of New York.

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For purposes of this subparagraph (c)(5)(A), “out-of-the-money” amounts are determined as follows:

<i>Option or Warrant Issue</i>	<i>VIII. Call</i>	<i>IX. Put</i>
Stock Options, Registered Investment Company Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.

U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
<u>Corporate Debt Security Options</u>	<u>Any excess of the aggregate exercise price of the option over the current market value of the equivalent quantity of the underlying security.</u>	<u>Any excess of the current market value of the equivalent quantity of the underlying security over the aggregate exercise price of the option.</u>
Index stock options, currency index warrants and stock index warrants	Any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable multiplier.	Any excess of the product of the current index value and the applicable multiplier over the aggregate exercise price of the option or warrant.
Foreign currency options and warrants	Any excess of the aggregate exercise price of the option or warrant over the product of units per foreign currency contract and the closing spot prices.	Any excess of the product of units per foreign currency contract and the closing spot prices over the aggregate price of the option or warrant.
Interest rate options	Any excess of the aggregate exercise price of the option over the product of the current interest rate measure value and the applicable multiplier.	Any excess of the product of the current interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.

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**X. (B) – (C) No changes**

(d) *Customer Cash Accounts – Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.*

(1) – (2) No change

(3) Corporate Debt Security Options

(A) Calls. A call option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is applicable:

(1) an equal or greater quantity of the underlying security specified by the option contract is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the underlying security is received, or

(2) in lieu of the underlying security, an escrow agreement is either held in the account at the time the call is written or is received in the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement, the underlying security (or, in the event the bond is called, cash equal to any aggregate in-the-money amount based upon the exercise settlement price of the bond as set by The Options Clearing Corporation) and that the bank will promptly deliver to the member organization the underlying security, or any aggregate in-the-money amount if the bond has been called, in the event the account is assigned an exercise notice.

(B) Puts. A put option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is either held in the account at the time the put is written or is received into the account promptly thereafter:

(1) cash or cash equivalents in an amount not less than the aggregate exercise price, or

(2) an escrow agreement.

The escrow agreement must certify that (1) the bank holds for the account of the customer as security for the agreement cash, cash equivalents or a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and (2) that the bank will promptly pay the member organization the aggregate exercise price in the event the account is assigned an exercise notice.

([3]4) Capped-Style Index Option (CAPS & Q-CAPS), Packaged Vertical Spread or Packaged Butterfly Spread As Defined in Rule 24.1. A CAPS, Q-CAPS or Packaged Vertical Spread put or call option contract, or Packaged Butterfly Spread option contract, carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following is either held in the account at the time the CAPS, Q-CAPS, Packaged Vertical Spread or Packaged Butterfly Spread option contract is written or received into the account promptly thereafter:



(A) cash or cash equivalents of not less than the amount of the aggregate cap, vertical spread or butterfly spread interval (as applicable) as defined in Rule 24.1 or

(B) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents or 3) a combination thereof having an aggregate market value at the time the positions are established of not less than the aggregate cap interval, vertical spread interval or butterfly spread interval (as applicable) and that the bank will promptly pay the member organization such amount in the event the account is assigned an exercise notice. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

~~(4)~~<sup>(5)</sup> *Stock Index Warrants and Currency Index Warrants.*

(A) *Calls.* A call warrant on a market index carried in a short position is deemed a covered position and eligible for the cash account provided an escrow agreement is either held in the account at the time the call warrant is sold or received into the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents, 3) one or more qualified equity securities, or 4) a combination thereof having an aggregate market value at the time the warrant is sold of not less than 100% of the aggregate current index value; and that the bank will promptly pay the member organization funds sufficient to purchase the warrant sold short in the event of a buy-in.

(B) *Puts.* A put warrant on a market index carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following offsets is either held in the account at the time the put warrant is sold or received into the account promptly thereafter:

(1) cash or cash equivalents in an amount not less than the aggregate exercise price or

(2) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash 2) cash equivalents or 3) a combination thereof having an aggregate market value at the time the warrant is sold of not less than 100% of the aggregate exercise price, and that the bank will promptly pay the member organization funds sufficient to purchase the warrant sold short in the event of a buy-in.

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(e) – (k) No change

*Interpretations and Policies . . .*

.01 – .19 No change

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XI. Chapter XXVIII Corporate Debt Security Options

XII.

**Introduction**

The rules in this Chapter are applicable only to options where the underlying security is a Corporate Debt Security (as defined below). In addition, the rules in Chapters I through XIX are also applicable to options where the underlying security is a Corporate Debt Security, in some cases supplemented by rules in this Chapter, except for rules that have been replaced in respect of Corporate Debt Security options by rules in this Chapter and except where the context otherwise requires. Whenever a rule in this Chapter supplements or, for purposes of this Chapter, replaces rules in Chapters I-XIX, that fact is indicated following the rule in this Chapter.

**Rule 28.1--Definitions**

**RULE 28.1.**

**Corporate Debt Security**

(a) The term "Corporate Debt Security" means a bond or other evidence of indebtedness that is a direct obligation of any corporate entity, including, but not limited to any corporation, partnership, limited liability company, or limited liability partnership and which is either a TRACE-eligible security or is listed on or traded through the facilities of a national securities exchange registered under Section 6 of the Exchange Act.

**Put**

(b) The term "put" means an option under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the principal amount of the underlying Corporate Debt Security covered by the option.

**Call**

(c) The term "call" means an option under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the principal amount of the underlying Corporate Debt Security covered by the option.

### **Exercise Price**

(d) The term "exercise price" means the specified percentage of the principal amount at which the underlying Corporate Debt Security may be purchased or sold upon the exercise of the option contract.

### **TRACE**

(e) The term "TRACE" means the NASD's reporting vehicle for over-the-counter secondary market transactions in eligible fixed income securities, otherwise known as the Trade Reporting and Compliance Engine.

### **TRACE-Eligible Security**

(f) The term "TRACE-eligible security" means any Corporate Debt Security that is required to be reported to TRACE.

### **TRACE System Hours**

(g) The term "TRACE system hours" means those hours TRACE is open, as set forth in the NASD rules.

### **Rule 28.2--Position Limits**

RULE 28.2. (a) *Establishment of Position Limit.* In determining compliance with Rule 4.11, options contracts on Corporate Debt Securities shall be subject to a contract limitation fixed by the Exchange, of the put type and the call type on the same side of the market, which shall not be larger than the limits provided in the chart below:

<u>Issue Float</u>	<u>Position Limit</u>
<u>\$200,000,000 - \$499,999,000</u>	<u>200 contracts</u>
<u>\$500,000,000 - \$749,999,000</u>	<u>500 contracts</u>
<u>\$750,000,000 - \$999,999,000</u>	<u>750 contracts</u>
<u>\$1,000,000,000 - \$2,499,999,000</u>	<u>1,000 contracts</u>
<u>\$2,500,000,000 and greater</u>	<u>2,500 contracts</u>

### **Rule 28.3--Exercise Limits**

RULE 28.3. In determining compliance with Rule 4.12, exercise limits for options on a Corporate Debt Security shall be equivalent to the position limits prescribed in Rule 28.2.

### **Rule 28.4--Reports Related to Position Limits and Liquidation of Positions**

RULE 28.4. For purposes of Rules 4.13 and 4.14, references to Rule 4.11 in connection with position limits shall be deemed, in the case of Corporate Debt Security options, to be to Rule 28.2. The reference in Rule 4.13(a) to reports required of positions of 200 or more option contracts shall, in the case of Corporate Debt Security options, be revised to positions of 20 option contracts.

Rule 28.4 supplements Rules 4.13 and 4.14.

### **Rule 28.5--Designation of Corporate Debt Security Options**

RULE 28.5. Corporate Debt Security options dealt in on the Exchange are designated by reference to the issuer of the underlying Corporate Debt Security, principal amount, expiration month and year, exercise price or nominal exercise price, type (put or call), stated or nominal rate of interest and stated date of maturity or nominal term to maturity.

Rule 28.5 replaces, for purposes of Chapter XVIII, Rule 5.1.

### **Rule 28.6--Approval of Underlying Corporate Debt Securities**

RULE 28.6. Approval of Corporate Debt Security options shall be determined in accordance with the provisions set forth in Rule 5.3.10. Withdrawal of approval of Corporate Debt Security options shall be determined in accordance with the provisions set forth in Rule 5.4.14.

### **Rule 28.7--Terms of Corporate Debt Security Options**

RULE 28.7. (a) *General.* A single Corporate Debt Security option covers \$100,000 principal amount of the underlying security. The expiration month and exercise price of Corporate Debt Security options of each series shall be determined by the Exchange at the time each series of options is first opened for trading.

(b) *Expiration Months.* Unless the Exchange otherwise provides, Corporate Debt Security options may expire at two-month intervals or in sequential monthly expiration. There may be up to five expiration months (with up to 10 initial strikes per month), none further out than fifteen months; provided that additional expiration months further out than fifteen months may be listed where a reasonably active secondary market exists.

(c) *Exercise Price.* The exercise price intervals of each series of Corporate Debt Security options shall be fixed at a percentage of principal amount (based on a par quote basis of \$100) as follows:

- (i) 0.5% (\$0.50) or greater, provided that the series to be listed is no more than five percent above or below the current market price of the Corporate Debt Security as determined by the transaction prices reported on TRACE during TRACE system hours or effected on or

- through the facilities of a national securities exchange registered under Section 6 of the Exchange Act;
- (ii) 1.0% (\$1.00) or greater, provided that the series to be listed is no more than ten percent above or below the current market price of the Corporate Debt Security as determined by the transaction prices reported on TRACE during TRACE system hours or effected on or through the facilities of a national securities exchange registered under Section 6 of the Exchange Act; and
  - (iii) 2.5% (\$2.00) or greater, provided that the series to be listed is greater than ten percent above or below the current market price of the Corporate Debt Security as determined by the transaction prices reported on TRACE during TRACE system hours or effected on or through the facilities of a national securities exchange registered under Section 6 of the Exchange Act.

The Exchange will notify its members of any additional series opened for trading in a regulatory circular. Rule 28.7 supplements Rule 5.5.

### **Rule 28.8--Series of Corporate Debt Security Options Open for Trading**

RULE 28.8. (a) *Initial Series of Corporate Debt Security Options.* The Exchange may open for trading Corporate Debt Security options at any time following the issuance of the underlying Corporate Debt Security, subject to the satisfaction of the initial listing standards set forth in Exchange Rule 5.3.10.

(b) *Additional Series of Options to Reflect Price Changes.* After a class of Corporate Debt Security options has been opened for trading in accordance with paragraph (a) of this Rule, additional series of options of the same class may be opened to reflect substantial changes in prices of the Corporate Debt Securities.

### **Rule 28.9--Days and Hours of Business**

RULE 28.9. The Exchange has resolved that except under unusual conditions as may be determined by the Exchange, hours during which Corporate Debt Security options transactions may be made on the Exchange shall be from 8:30 a.m. to 3:00 p.m. Chicago time.

Rule 28.9 replaces, for purposes of Chapter XVIII, Interpretation and Policy .01 to Rule 6.1.

### **Rule 28.10--Trading Halts and Suspension of Trading**

RULE 28.10. Floor Officials may consider the following factors in addition to those set forth in Rule 6.3 in connection with the institution of trading halts in Corporate Debt Security options:

- (a) with respect to the Corporate Debt Securities that are reported on the NASD's TRACE reporting system, the TRACE reporting system is inoperative or is not available for viewing by market participants because of systems problems occurring on the TRACE reporting system; and
- (b) the issuer or trustee, as applicable under the agreements governing the Corporate Debt Security, provides notification to holders of the Corporate Debt Security that such Corporate Debt Security is to be redeemed in whole or part.

Rule 28.10 supplements Rule 6.3.

### **Rule 28.11--Meaning of Premium Bids and Offers**

RULE 28.11. Bids and offers for Corporate Debt Security options shall be expressed in points where one point equals \$1,000 and the minimum tick is .05 (\$50), unless a different trading increment shall have been approved for this purpose by the Exchange for all Corporate Debt Security options or a Corporate Debt Security option contract of a particular series.

Rule 28.11 replaces, for purposes of Chapter XVIII, Rules 6.41 and 6.42.

### **Rule 28.12--Accommodation Trading**

RULE 28.12. Accommodation trading under the applicable terms and conditions of Rule 6.54 shall be available in each series of Corporate Debt Security option contracts open for trading on the Exchange. However, bids or offers for opening transactions at a price of \$1 per option contract may be executed only with closing transactions that cannot at that time in open outcry be executed with another closing transaction.

Rule 28.12 supplements Rule 6.54.

### **Rule 28.13--Doing Business with the Public**

RULE 28.13. The rules in Chapter IX have a parallel application to Corporate Debt Security options.

### **Rule 28.14--Allocation of Exercise Assignment Notices**

RULE 28.14. In the case of Corporate Debt Security options, the method of allocation of exercise notices established pursuant to Rule 11.2 may provide that an exercise notice of a round lot shall be allocated to a customer or customers having an open short position of a round lot and that an exercise notice of less than a round lot shall not be allocated, to the extent feasible, to a customer having a short position of a round lot; and provided further that, the Member or Member Organization shall allocate an exercise notice pertaining to a call option contract to a customer who has made a specific deposit of the underlying security if it is directed to do so by the Clearing Corporation. For the purposes

of this Rule, an exercise notice or a short position in a series of options of 10 contracts shall be deemed to be a "round lot."

Rule 28.14 supplements Rule 11.2.

### **Rule 28.15--Delivery and Payment**

RULE 28.15. Payment of the exercise price shall be accompanied by payment of accrued interest on the underlying Corporate Debt Security from but not including the last interest payment date to and including the exercise settlement date as specified in the Rules of the Clearing Corporation.

#### **. . . Interpretations and Policies:**

.01 Calculations of accrued interest on any particular Corporate Debt Security shall be made in accordance with the practice currently employed for that security in the underlying cash market.

.02 The rules of the Clearing Corporation provide for special exercise settlement procedures in the event that delivery of the applicable Corporate Debt Security is not possible.

Rule 28.15 and Interpretations and Policies .01 and .02 to Rule 28.15 supplement Rule 11.3.

### **Rule 28.16--Furnishing of Books, Records and Other Information**

RULE 28.16. No Market-Maker in Corporate Debt Security options shall fail to make available to the Exchange such books, records or other information maintained by or in the possession of such member or any corporate affiliate of such member pertaining to transactions by such member or any such affiliate for its own account in Corporate Debt Securities or in Corporate Debt Security options as may be called for under the Rules or as may be requested in the course of any investigation, any inspection or other official inquiry by the Exchange. In addition, the provisions of Rule 8.9 governing identification of accounts and reports of orders shall, in the case of Market-Makers in Corporate Debt Security options, apply to (i) accounts for Corporate Debt Securities deliverable under the terms of the option contracts involved and Corporate Debt Security options trading; and (ii) orders entered by the Market-Maker for the purchase or sale of Corporate Debt Securities deliverable under the terms of the options contracts involved and options on Corporate Debt Securities and opening and closing positions therein.

#### **. . . Interpretations and Policies:**

.01 Any corporate affiliate of a Market-Maker in Corporate Debt Security options shall maintain and preserve such books, records or other information as may be necessary to comply with Rule 28.16.

Rule 28.16 and Interpretation and Policy .01 to Rule 28.16 supplement Rules 8.9 and 15.1 and the Interpretations and Policies thereunder.

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## **EXHIBIT B**

### **PROPOSED CONTRACT SPECIFICATIONS FOR CORPORATE DEBT SECURITY OPTIONS**

- Symbols:** To be determined
- Product Description:** Corporate debt security options are designed to offer investors exposure to the most actively U.S.-traded corporate debt securities with an initial issuance in the amount of outstanding over \$250 billion million.
- Underlying:** \$100,000 face value of the underlying corporate debt security.
- Accrued Interest Calculation:** The Exchange will identify the "accrued interest" calculation to be utilized by the Clearing Corporation on a class-by-class basis according to one of the two accrued interest calculations set forth in Appendix A.
- Expiration Months:** Up to two near-term contract months and three months within a 15-month time horizon.
- Strike Price Intervals:** The exercise price intervals of each series of corporate debt security options shall be fixed at a percentage of principal amount (based on a par quote basis of \$100) as follows:
- 0.5% (\$0.50) or greater, provided that the exercise price is no more than five percent above or below the market price of the corporate debt security at the time of listing;



- 1.0% (\$1.00) or greater, provided that the exercise price is no more than ten percent away from the market price of the corporate debt security at the time of listing; and

- 2.5% (\$2.50) or greater, provided that the exercise price is greater than ten percent away from the market price of the corporate debt security at the time of listing.

**Strike (Exercise) Prices:** Series with in-, at- and out-of-the-money strike prices are initially listed. New series are generally added when the underlying trades through the highest or lowest strike price available.

**Premium Quotation:** Stated in points. One point equals \$1,000. The minimum tick is 0.05 (\$50.00).

**Expiration Date:** Saturday immediately following the third Friday of the expiration month.

**Exercise Style:** European – Corporate debt security options may be exercised only on the last business day before expiration.

**Settlement of Option Exercise:** Exercise notices properly tendered will result in delivery of the underlying corporate bonds on the third business day following exercise.

**Position and Exercise Limits:** The proposed tiered speculative position limit standards will be established that cap positions at 10% of the amount outstanding that is not held by 10% holders of the security.

**Margin:** The proposed margin (both initial and maintenance) for writing uncovered puts and calls is as follows:

- for investment grade corporate debt securities, deposit/maintain 100% of the option proceeds\* plus 10% of the aggregate contract value (current market value 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 5% of the aggregate contract value and a minimum for puts of option proceeds\* plus 5% of the aggregate exercise price amount;

- for non-investment grade corporate debt securities, deposit/maintain 100% of the option proceeds\* plus 15%

of the aggregate contract value 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; and

- for convertible corporate debt securities, deposit/maintain 100% of the option proceeds\* plus 20% of the aggregate contract value 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.

Additional margin may be required pursuant to CBOE Rule 12.10.

\*For calculating maintenance margin, use option current market value instead of option proceeds.

**Last Trading Day:**

Trading in corporate debt security options will ordinarily cease on the business day (usually a Friday) preceding the expiration date.

**Trading Hours:**

8:30 a.m. – 3:00 p.m. Chicago time (Central Time).

## Appendix A

Accrued Interest shall be calculated based on one of two day count methods, "30/360" or "ISMA 30/360".

### **30/360 Accrued Interest Calculation Method:**

$AI = (\$100,000 \times (C) \times (N)) / 360$ , where  
where AI = accrued interest,  
C = the stated annual coupon payment of the bond,  
N = the number of days in the interest accrual period

The number of days, N, from  $M_1/D_1/Y_1$ , the beginning date, to  $M_2/D_2/Y_2$  the ending date, and where M, D and Y denote month, day and year, respectively is computed according to the following procedure:

1. If  $D_1$  is 31, change  $D_1$  to 30.
2. If  $D_2$  is 31 and  $D_1$  is 30 or 31, then change  $D_2$  to 30.
3. If  $M_1$  is 2, and  $D_1$  is 28 (in a non-leap year) or 29, then change  $D_1$  to 30.

Once these steps are applied, the day count, N, used in an accrual period is calculated as:

$$N = 360(Y_2 - Y_1) + 30(M_2 - M_1) + (D_2 - D_1)$$

### **ISMA 30/360 Accrued Interest Calculation Method:**

$AI = (\$100,000 \times (C) \times (N)) / 360$   
where AI = accrued interest,  
C = the stated annual coupon payment of the bond,  
N = the number of days in the interest accrual period

The number of days, N, from  $M_1/D_1/Y_1$ , the beginning date, to  $M_2/D_2/Y_2$  the ending date, and where M, D and Y denote month, day and year, respectively is computed according to the following procedure:

If  $D_1$  or  $D_2$  is 31, change  $D_1$  or  $D_2$ , respectively to 30.

Once this steps is applied, the day count, N, used in an accrual period is calculated as:

$$N = 360(Y_2 - Y_1) + 30(M_2 - M_1) + (D_2 - D_1)$$