



REGULATORY CIRCULAR RG09-131

DATE: November 19, 2009
TO: Membership
FROM: CBOE Research Department
RE: \$1 Strikes in LEAPs

The SEC has approved CBOE's proposal (see SR-CBOE-2009-68) to expand the \$1 Strike Program ("Program") in a limited fashion to allow CBOE to select 200 option classes on individual stocks in which it can list LEAPS at \$1 strike price intervals up to \$5. Currently, under the Program, CBOE may not list LEAPS at \$1 strike price intervals. CBOE would not list series with \$1.00 intervals within \$0.50 of an existing \$2.50 strike price in the same series.

CBOE believes that this proposal will allow investors to establish option positions that are better tailored to meet their investment objectives, vis-à-vis credit risk, using deep out-of-the-money put options. Deep out-of-the money put options are viewed as a viable, liquid alternative to OTC-traded credit default swaps ("CDS"). Moreover, deep out-of-the money put options and CDS are functionally similar, as there is a high correlation between low-strike put prices and CDS spreads.¹

For more information, please contact Joe Levin at (312) 786-7143, Bill Speth at (312) 786-7141, or Allison Kile at (312) 786-7210.

¹ More information is available on this trading strategy at CBOE's website at <http://www.cboe.com/Institutional/DOOM.aspx>.