![CBOE]

CBOE Regulatory Circular RG11-037

DATE: March 2, 2011

TO: Trading Permit Holders

FROM: CBOE Research and Product Development

SUBJECT: New Product Launch on Tuesday, March 8, 2011:
                  Credit Event Binary Options

OVERVIEW

On Tuesday, March 8, 2011, CBOE plans to commence trading Credit Event Binary Options ("CEBOs"). Listed below are some salient features of the proposed CEBOs:

- Credit Event Binary Options are cash-settled binary options that pay $1,000 upon the confirmation of a Credit Event (e.g., bankruptcy) in a Reference Entity (i.e., debt issuer or guarantor) and $0 if there is no Credit Event prior to the Last Trading Day. CBOE has designated bankruptcy as the Credit Event for the CEBOs that will begin trading in March.
- The Last Trading Day for Credit Event Binary Options if there is no Credit Event will be the 3rd Friday of the month. If there is a Credit Event confirmed prior to that day, the series will cease trading at the time of confirmation of the Credit Event and the Last Trading Day would be accelerated to the confirmation date.
- The Expiration Date for Credit Event Binary Options if there is no Credit Event will be the 4th business day after the Last Trading Day. If there is a Credit Event the Expiration Date will be accelerated to the 2nd business day immediately following the Credit Event confirmation date.
- Up to 41 quarterly expiration months (10.25 years) may be listed at any time. Each calendar year for Credit Event Binary Options will have a unique class symbol.
- Credit Event Binary Options will have unique class symbols, distinct from equity option classes based on the same company.
- Credit Event Binary Options will be *P.M.-settled*.
- Credit Event Binary Options will trade from 8:30 a.m. – 3:00 p.m. (CT).

CREDIT Event Binary Option Product Description

Description:
CBOE Credit Event Binary Options are binary call options that pay $1,000 upon the confirmation of a Credit Event in a Reference Entity and $0 if there is no Credit Event prior to the Last Trading Day. A Reference Entity can be an issuer with securities listed on a U.S. national market. For Credit Event Binary Options, a Reference Entity is said to have a "Credit Event" if the Exchange specifies one or more of the following events and such event(s) occurs between the listing date and the Last Trading Day:

(1) The occurrence of any other Event of Default (e.g., bankruptcy) on the Relevant Obligation(s), with each such "Event of Default" being specified by the Exchange and, if so specified, defined in accordance with the terms of the Relevant Obligation(s); or

(2) A Failure-to-Pay Default on its Reference Obligation (*e.g.*, Company ABC 8.5% July 2033 bond) or on any other debt security obligations of the Reference Entity (the set of these obligations and the Reference Obligation are referred as the "Relevant Obligations"). A "Failure-to-Pay Default" will be defined in accordance with the terms of the Relevant Obligation(s);or

(3) A change in the terms of the Relevant Obligation(s) (a "Restructuring"). The terms of such a Restructuring will be specified by the Exchange and, if so specified, will be defined in accordance with the terms of the Relevant Obligation(s).

Each CBOE Credit Default Option class shall specify (a) the Reference Entity, (b) the specific debt security that serves as the Reference Obligation and (c) the applicable Credit Events. The Exchange anticipates that bankruptcy will typically be specified as the sole Credit Event for Credit Event Binary Options.

Relevant Securities:
The Reference Obligation of the Reference Entity and all its other debt security obligations.

Strike Price:
Not applicable. A dummy strike price of 1.00 will be in the OPRA strike price field.

Exercise Settlement Value:
$1 per unit (equivalent to $2.00 minus the dummy strike price of $1.00) if a Credit Event is confirmed.

Unit/Multiplier:
1,000 per contract.

Cash Settlement Amount:

$1,000 per contract (equal to the exercise settlement value of $1 multiplied by the contract multiplier of 1,000) if there is a Credit Event confirmed; $0 if there is no Credit Event confirmed.

Minimum Price Increment:
$0.01 per unit ($10.00 per contract).

Contract Months:
The Exchange usually will list one to four months for each year up to 10.25 years from the current expiration cycle. Unless a Credit Event has been confirmed, the Last Trading Day in the series will be the 3rd Friday in the March, June, September or December expiration month (however, if that day is not a business day, the Last Trading Day in the series will be on the preceding business day). Standard expiration month codes will be used for Credit Event Binary Options.

Special Contingencies:
Special procedures will apply if one or more of the following events occur on or before the Last Trading Day:

(1) A Succession Event, which will be defined in accordance with the terms of the Relevant Obligation(s).

Adjustment for Succession: Once CBOE has confirmed a Succession Event, each Credit Default Option contract will be replaced by one or more Credit Event Binary Options derived from Successor Reference Entities that have succeeded the original Reference Entity as a result of the Succession based on the share of each Successor Reference Entity (as further described in Rule 29.4). If CBOE determines that a Credit Event in the underlying Relevant Obligation(s) of the Successor Reference Entity has occurred prior to 10:59 p.m. (CT) on the Last Trading Day, the cash settlement amount will be $1,000 multiplied by the applicable successor share. Otherwise the cash settlement amount will be $0.

(2) A Redemption Event, which will be defined in accordance with the terms of the Relevant Obligation(s) and will include the redemption or maturity of the Reference Obligation and of all other Relevant Obligations. (If the Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain, a new Reference Obligation will be specified from among the remaining Relevant Obligation(s).)

Adjustment for Redemption: Once CBOE has confirmed a Redemption Event, each Credit Default Option contract will be settled early at a price of $0 if no Credit Event has been confirmed to have occurred prior to the Redemption Date. If a Credit Event in the underlying Reference Entity has been confirmed to have occurred prior to the Redemption Date, the cash settlement amount will be $1,000.

Confirmation of Credit Event and Special Contingencies:
CBOE will confirm Credit Events and Special Contingencies based on at least two of the following sources of publicly available information: (1) announcements published by newswire

services or information services companies, the names of which will be announced to the membership via Regulatory Circular; and/or (2) information submitted to or filed with the courts, the SEC, an exchange or association, the OCC, or another regulatory agency or similar authority. Every determination made by the Exchange shall be within its sole discretion and shall be conclusive and binding on all investors and not subject to review.

The confirmation period will begin when the Credit Default Option contract is listed and will extend to 3:00 p.m. (CT) on the Expiration Date.

Settlement:
CBOE Credit Event Binary Options settle in cash. If CBOE determines that a Credit Event in the underlying Reference Entity has occurred prior to 10:59 p.m. (CT) on the Last Trading Day, the cash settlement amount will be $1,000. Otherwise the cash settlement amount will be $0.

Last Trading Day:
The 3rd Friday of the expiration month (or, if that day is not a business day, the preceding business day); provided, however, if a Credit Event is confirmed prior to that day, the series will cease trading at the time of confirmation of the Credit Event and the Last Trading Day would be accelerated to the confirmation date.

Expiration Date:
The 4th business day after the 3rd Friday of the expiration month (or, if that day is not a business day, the 4th business day after the preceding business day); provided, however, if a Credit Event is confirmed by the Exchange to members and the OCC, the Expiration Date will be accelerated to the 2nd business day immediately following the confirmation date.

Final Settlement Date:
The day following the Expiration Date.

Trading Hours:
8:30 a.m. – 3:00 p.m. (CT).

Trading Platform:
CBOE*direct*

Position Limit:
500,000 contracts.

Margin:
As described in Rule 12.3(l).

Initially the contract months listed for Credit Event Binary Options will be June 2011, September 2011 and December 2011. Following are the initial Reference Entities, symbols and Reference Obligations for the Credit Event Binary Options:

	Company Name	Equity Ticker	Reference Obligation	CEBO Ticker	Ref. Ob. CUSIP	Equity CUSIP	Credit Event(s)
1	AK Steel Holding Corporation	AKS	AKS 7.75% 2012 Sr. Notes	AKSC	014962026	001547108	Bankruptcy
2	Advanced Micro Devices, Inc.	AMD	AMD 6% 2015 Conv Sr. Notes	AMDC	031331897	007903107	Bankruptcy
3	Arvinmeritor, Inc.	ARM	ARM 4% 2027 Conv Sr. Notes	ARMD	041113375	043353101	Bankruptcy
4	American Axle & Manufacturing Holdings, Inc.	AXL	AXL 9.25% 2017 Sr. Sec. Notes	AXLC	U02436AB6	024061103	Bankruptcy
5	Hovnanian Enterprises, Inc.	HOV	HOV 6.25% 2016 Sr. Notes	HOVC	442488AY8	442487203	Bankruptcy
6	Huntsman Corporation	HUN	HUN 5.5% 2016 Sr. Notes	HUNC	44701QAV4	447011107	Bankruptcy
7	MBIA Inc.	MBI	MBI 5.7% 2034 Sr. Notes	MBID	55262CAJ9	55262C100	Bankruptcy
8	The PMI Group, Inc.	PMI	PMI 6.625% 2036 Sr. Notes	PMID	69344MAJ0	69344M101	Bankruptcy
9	Smithfield Foods, Inc.	SFD	SFD 7.75% 2017 Sr. Notes	SFDC	832248AQ1	832248108	Bankruptcy
10	Tenet Healthcare Corporation	THC	THC 8.875% 2019 Sr. Sec Notes	THCC	88033GBJ8	88033G100	Bankruptcy

Contact Information

Any questions about this Regulatory Circular may be directed to Dennis O'Callahan at (312) 786-7508.