Regulatory Circular CBOE-RG13-037

Date: **March 5, 2013**

To: Trading Permit Holders
From: Business Development Division
RE: Operational Details for Mini-Options Trading on CBOE

Beginning on March 18, 2013, Chicago Board Options Exchange, Incorporated (CBOE) and C2 Options Exchange, Incorporated (C2) will begin trading mini-options on the following five securities:

Security Name	Underlying Symbol	Mini-Option Symbol	Price Increments[1]
APPLE INC COM STK	AAPL	AAPL7	$.01<=$3, $.05>$3
AMAZON.COM INC	AMZN	AMZN7	$.01<=$3, $.05>$3
SPDR GOLD SHARES	GLD	GLD7	$.01<=$3, $.05>$3
GOOGLE INC CLASS A	GOOG	GOOG7	$.05<=$3, $.10>$3
SPDR S&P 500 ETF TRUST	SPY	SPY7	$.01 all levels

Below are operational details regarding mini-options that will be traded on CBOE. A separate circular (C2 RG13-014) is being issued that will set forth the operational details regarding mini-options to be traded on C2. Transaction fees for mini-options will be announced in a separate circular that will be issued prior to launch.

Contract Share Multiplier – Each mini-option contract delivers ten (10) shares of the underlying security.

Premium Multiplier – The total cash price of a mini-option will be the premium amount times the share multiplier of ten. For example, an order to buy 1 mini-option executed at $1 would cost $1 * 10 = $10, not including any fees and commissions.

Symbology – The options symbol for each mini option will be the same symbol that currently exists for the standard options on the same security, **followed by the number seven ("7")**. Specifically, the options symbols for mini-options will be: AAPL7, AMZN7, GLD7, GOOG7, SPY7.

Option Class – Each mini-option will be considered a separate class from the standard option on the same security.[2]

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[1] CBOE has proposed that the minimum price increments for mini-options be the same as standard options on the same security. This proposal is subject to regulatory approval.
[2] For purposes of compliance with position and exercise limits, ten mini-option contracts will equal one standard contract overlying 100 shares.

Market-Maker Class Appointment – Since mini-options are a separate class from standard options on the same security, Market-Maker appointments will be made separately. Market-Makers interested in quoting mini-options must add the mini-option class symbol to their appointments. TPHs will be required to add the mini-option appointment via the appointments website at https://appointments.cboe.com. Appointments may be added the morning of Monday, March 18, 2013. The tier appointment cost for each mini-option will be .001.[3]

Market-Maker Quoting Obligations – Since mini-options are a separate class from the standard options on the same security, Market-Maker quoting obligations will be applied to mini options as a unique class, and mini-options will not be combined with standard options on the same security for determining obligations. For example, a Market-Maker with a mini class appointment will be required to quote 60% of the mini options with an expiration of 9 months or less 99% of the time that the Market-Maker is required to quote.

Price Increments[4] – The minimum trading price increment for mini-options will be the same as permitted for standard options on the same security. Specifically, AAPL7, AMZN7 and GLD7 will trade in penny increments up to $3 and in nickel increments above $3; GOOG7 will trade in nickel increments up to $3 and dime increments above $3; and SPY7 will trade in penny increments at all price levels.

Automated Improvement Mechanism (AIM) – The match order of an AIM paired order for a quantity of 499 or fewer mini contracts must be priced at least $0.01 inside the NBBO or at the market. Such orders of 500 and greater mini contracts may be priced at or inside the NBBO or at the market pending regulatory approval.

Solicitation Auction Mechanism (SAM, also referred to as "AON AIM") – Order quantity must be for a minimum of 5000 mini contracts to be eligible for SAM processing pending regulatory approval (see circular CBOE RG 08-53 for SAM details).

Qualified Contingent Cross (QCC) – Order quantity must be for a minimum of 10,000 mini contracts to be eligible for QCC processing pending regulatory approval (see circular CBOE RG 10-090 for QCC details).

Complex Orders – Complex orders (up to 4 legs) will be accepted and eligible for electronic processing via the Complex Order Auction (COA) and the Complex Order Book (COB), as long as all legs comprise mini-options and the ratio of the quantity on the largest to smallest leg does not exceed 3-to-1. Such orders that exceed this ratio will be accepted and routed for manual handling. Complex orders that include both mini and standard options on the same security will be accepted and routed for manual handling pending regulatory approval.

Complex Orders with A Stock Leg – Complex orders with stock (e.g., buy-writes, conversions, reversals, delta-neutrals, etc.) will be accepted and eligible for electronic processing via COA and COB, as long as the ratio of mini-options to shares does not exceed 80 mini-options-to-100 shares pending regulatory approval. Such orders that exceed this ratio will be accepted and routed for manual handling.

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[3] See CBOE Rule 8.3. The appointment cost for mini-options is subject to the tiered structure set forth in Rule 8.3, which is based on trading volume statistics. As a result, the appointment cost for mini-options may be subject to change.

[4] See note 1.

Product Creation for Orders with Stock – Products will be defined using the following logic:

1) The options-to-share quantity on the order will be reduced to its lowest value; and
2) The number of units per order will be the option order quantity divided by the reduced option portion from #1 above.

Per Unit Pricing for Orders with Stock – Products will be priced using the following logic:
(Stock portion of ratio from above product creation / share multiplier of 10)*(share premium) plus/minus (option portion of ratio from above product creation) *(option premium).

In each example below, assume the mini-option premium is $1 and the stock premium is $20:

Example 1: An order to sell 1 mini-option and buy 10 shares is created as a 1 option-to-10 share product, quantity 1, unit price is $19.

Example 2: An order to sell 2 mini-options and buy 20 shares is created as a 1 option-to-10 share product, quantity 2, unit price is $19.

Example 3: An order to sell 20 mini-options and buy 100 shares is created as a 1 option-to-5 share product, quantity 20, unit price is $9.

Weekend Testing - Production testing of mini-options will take place on Saturday, March 16th. Please contact the Helpdesk at (866) 728-2263, helpdesk@cboe.com, or API at (312) 786-7300, API@cboe.com for testing information.

Additional Information:
For information regarding mini-options please contact the CBOE Help Desk at helpdesk@cboe.com or (866) 728-2263 for additional information.