



EXECUTE SUCCESSSM

CBOE Regulatory Circular RG13-139 C2 Regulatory Circular RG13-054

Date: November 8, 2013

To: Trading Permit Holders

From: Regulatory Services Division

RE: Time at Which Expiring AM-Settled Index Options are Considered Exercised, Assigned, or Purged

Key Points

- The fact that AM-settled index options technically expire at 10:59 PM central time on their expiration date, whether a Friday or a Saturday, does not necessitate that such options be deemed in existence until their expiration time is reached.¹
- Expiring AM-settled index options effectively cease to exist once the securities that compose the index open for trading on the business day on which the Exercise Settlement Value is determined.
- Expiring AM-settled index options should be considered exercised, assigned or purged at the point the securities that compose the index open for trading on the business day on which the Exercise Settlement Value is determined.

Discussion

For a typical expiration week,² expiring AM-settled (European style) index options cease trading at the close on Thursday. The value of the index for purposes of settling expiring AM-settled index options is determined on Friday based upon the opening prices of the securities that compose the index.³

Expiring AM-settled index options carried short are considered assigned on Friday at the point in time the securities that compose the index open for trading, if the options are in-the-money by .01 of a point or more in relation to an index value derived by using the opening prices. Such index options effectively convert to a cash debit at Friday's opening since it is the opening prices that render the final index value (i.e., the "Exercise Settlement Value") against which the options are compared.⁴

¹ According to OCC By-Laws, the expiration date of an option expiring on or after February 1, 2015, is the third Friday of the option's expiration month. (If such Friday is not a business day, the expiration date is the preceding business day). The expiration date for certain options expiring on or after February 1, 2015, which are designated by OCC as grandfathered is the Saturday immediately following the third Friday of the expiration month.

² "Typical" means the Exchange is not closed on the Thursday or Friday of the expiration week.

³ CBOE Rule 24.9(a)(4).

⁴ Out-of-the-money options carried short pose no risk and are inconsequential. They cannot become in-the-money options because the Exercise Settlement Value is final. Pursuant to OCC rules, long options are automatically exercised if in-the-money by .01 of a point or more and, in effect, convert to a cash credit.

For example, assume the securities that compose an index have opened for trading on the Friday on which an Exercise Settlement Value is calculated for expiring AM-settled index options. Assume that using the opening prices to calculate the Exercise Settlement Value for expiring AM-settled index options produces a value of 1150. Assume that at Friday's opening, an account is short an expiring AM-settled index call option that has an exercise price of 1100 (in-the-money). The account is considered assigned and to have incurred a debit of \$5,000 $[(1150 - 1100) \times 100]$. Effectively, the option then ceases to exist.

To further demonstrate the point in time at which expiring AM-settled index options reach a final disposition, consider the case of a protective put strategy. Assume that at Friday's opening, an account is long an expiring AM-settled index put option and long a basket of securities that matches the index composition. The expiring put will not protect against declines in the value of the index once the securities composing the index have opened for trading. The expiring put ceases to have any protective capability because an index value for final settlement purposes is then fixed and will not change, but the market will continue to change. A new long put position would have to be established immediately after the opening of the securities composing the index on Friday, in order to continue protection on the basket of securities carried long.

An expiring AM-settled index option is, effectively, assigned or exercised or of no further consequence once the securities composing the index open for trading on the business day on which the Exercise Settlement Value is determined.

In the case of an expiring AM-settled index option carried short and treated as "covered", the writing of a new index option on Friday after the opening to replace the assigned or expiring (out-of-the money) option will not be deemed by the Exchange to constitute an "uncovered" transaction.

Additional Information:

Please contact the Regulatory Interpretations and Guidance team at RegInterps@cboe.com or (312) 786-8141 for additional information.

(CBOE Regulatory Circular RG02-46, Revised)