

## Regulatory Circular RG14-040

**Date:** March 28, 2014

**To:** Trading Permit Holders and Clearing Trading Permit Holders

**From:** Division of Regulatory Services

**RE:** Margin Requirements for Options on the CBOE Short-Term Volatility Index (VXST)

Chicago Board Options Exchange, Inc. (CBOE or the Exchange) recently received approval to list and trade options on the CBOE Short-Term Volatility Index (VXST).<sup>1</sup> CBOE plans to list VXST options for trading beginning on April 10, 2014. Pursuant to the authority provided under CBOE Rules 12.3(h) and 12.10 and prior to the launch of trading in VXST options, the Exchange, after further review and analysis, is imposing a higher initial and maintenance margin requirement for short, uncovered VXST options than previously described in the rule filing made with the Securities and Exchange Commission.<sup>2</sup>

Specifically, the initial and maintenance margin requirement for short, uncovered VXST options shall be the option premium<sup>3</sup> plus 40% of the current (spot or cash) underlying index value, less any out-of-the-money amount; to a minimum of the option premium<sup>3</sup> plus 20% of the current (spot or cash) underlying index value for short calls, option premium<sup>3</sup> plus 20% of a put's exercise price for short puts. Thus, the margin requirement for short, uncovered VXST options will be calculated similar to the margin requirement for short, uncovered options on a leveraged exchange-traded fund (ETF) that is narrow-based and has a leverage factor of two times.<sup>4</sup>

### Additional Information:

Questions regarding this Regulatory Circular should be directed to CBOE's Regulatory Interpretations and Guidance team at (312) 786 - 8141 or [reginterps@cboe.com](mailto:reginterps@cboe.com).

<sup>1</sup> See SR-CBOE-2014-003, which was approved by the Securities and Exchange Commission on March 24, 2014.

<sup>2</sup> CBOE Rule 12.3(h) (Margin Requirements) provides that "the Exchange may at any time impose higher margin requirements in respect of positions in any security (including any series of options dealt in on an exchange) when it deems such higher margin requirements to be advisable in light of the price of the security or in light of existing market conditions pertaining generally or with respect to such security." CBOE Rule 12.10 (Margin Required is Minimum) provides that "[t]he Exchange may at any time impose higher margin requirements in respect of such positions when it deems such higher margin requirements to be advisable."

<sup>3</sup> Use the option's current market value in the case of a maintenance margin calculation.

<sup>4</sup> For a short option on such a leveraged ETF, a 40% basic and 20% minimum margin requirement is, in effect, imposed.