

January 24, 2014

**VIA E-MAIL**

Ms. Melissa Jurgens  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**Re: CFTC Regulation 40.6(a) Certification. Notification of Amendments to CBOT Standard Options on U.S. Treasury Note and Bond Futures Contracts  
CBOT Submission No. 14-032**

Dear Ms. Jurgens:

The Board of Trade of the City of Chicago, Inc. (“CBOT” or the “Exchange”) is notifying the Commission that it is self-certifying amendments to terms and conditions for Standard Options on U.S. Treasury Bond futures, Standard Options on Long-Term U.S. Treasury Note Futures, Standard Options on Medium-Term U.S. Treasury Note Futures, Standard Options on Short-Term U.S. Treasury Note Futures, and Standard Options on Long-Term U.S. Treasury Bond Futures (collectively, “CBOT Treasury Options”), effective on Sunday, February 9, 2014 for trade date Monday, February 10, 2014.

Chiefly for the benefit of general users of the Exchange’s interest rate option product offerings, the primary objective of these revisions is to sharpen the parallels between declarations of contract terms for CBOT Treasury Options and those for options on Three-Month Eurodollar futures listed for trading on Chicago Mercantile Exchange Inc. (“CME”). For example, for each CBOT Treasury Option product the amendments certified herein will consolidate two existing rules -- one pertaining to option expiration dates (Rules XXA01.A.),<sup>1</sup> the other concerning trading hours (Rules XXA01.D.) – into new rules (Rules XXA01.A.) that are similar in structure to CME Rule 452A01.A. In the same spirit, the revisions certified herein will, for each CBOT Treasury Option product, split an existing rule (Rules XXA01.I.) into two new rules – one to codify definition of the underlying futures contract for a given option (Rules XXA01.D.), the other to govern termination of trade in expiring option contracts (Rules XXA01.I.).

A secondary objective is to elucidate provisions that CBOT Treasury Option contract terms and conditions, in their current form, establish elliptically or by implication. Examples include the addition of explicit mention that times of day referenced in the rules are Chicago time (Rules XXA00.), clarification of the operational definition of “at-the-money” exercise price levels (Rules XXA01.E.), explicit allowance of dynamic listings of options with exercise prices that are not included within standard exercise price arrays (Rules XXA01.E.),<sup>2</sup> and clear statement of standards by which an expiring option is deemed to be in the money or out of the money (Rules XXA02.A.).

A third objective is to replace language that is obsolete or potentially confusing from Rules XXA01.A. for listings of option expiration dates and from Rules XXA01.I.1. for termination of trading.

---

<sup>1</sup> Throughout, “XX” signifies a placeholder for CBOT Rulebook chapter numbers – 18A, 19A, 20A, 21A, or 40A -- as indicated in the summary of appendices appearing on page 2 of this submission.

<sup>2</sup> Dynamic listings of CBOT Treasury Options are deemed permissible under the rules in their current form.

The Exchange's Research Department and Legal Department have reviewed the Core Principles for Designated Contract Markets ("Core Principles"), as set forth in the Commodity Exchange Act as amended ("CEA" or "Act"), and have determined that the rule amendments certified herein bear upon on the following Core Principle:

Availability of General Information: In order to ensure that market participants are apprised of the amendments, CBOT will issue a Special Executive Report to the marketplace notifying them of the aforementioned amendments. The issuance of the Special Executive Report notifies the marketplace of the pending revisions in compliance with this Core Principle.

Each of the five appendixes to this submission sets forth amendments, in both mark-up and clean form, to the respective CBOT Rulebook chapter, as follows:

Appendix A -- Chapter 18A, Standard Options on U.S. Treasury Bond Futures  
Appendix B -- Chapter 19A, Standard Options on Long-Term U.S. Treasury Note Futures  
Appendix C -- Chapter 20A, Standard Options on Medium-Term U.S. Treasury Note Futures  
Appendix D -- Chapter 21A, Standard Options on Short-Term U.S. Treasury Note Futures  
Appendix E -- Chapter 40A, Standard Options on Long-Term U.S. Treasury Bond Futures

The Exchange certifies that these rule amendments comply with the Act and rules thereunder, with no substantive opposing views to this proposal. The Exchange certifies that this submission has been concurrently posted on the Exchange's website at: <http://www.cmegroup.com/market-regulation/rule-fillings.html>

If you require additional information regarding this action, please do not hesitate to contact Frederick Sturm at 312.930.1282 or [frederick.sturm@cmegroup.com](mailto:frederick.sturm@cmegroup.com). Alternatively, you may contact me at 212.299.2200 or [christopher.bowen@cmegroup.com](mailto:christopher.bowen@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: Revisions to CBOT Rule Chapter 18A  
Appendix B: Revisions to CBOT Rule Chapter 19A  
Appendix C: Revisions to CBOT Rule Chapter 20A  
Appendix D: Revisions to CBOT Rule Chapter 21A  
Appendix E: Revisions to CBOT Rule Chapter 40A

## Appendix A Revisions to CBOT Rule 18A

(additions are underlined; deletions are ~~overstruck~~)

### 18A00. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on U.S. Treasury Bond futures. In addition to the rules of this chapter, transactions in such options on U.S. Treasury Bond futures shall be subject to the general rules of the Exchange insofar as applicable.

For purposes of this chapter, unless otherwise specified, times of day shall refer to and indicate Chicago time.

### 18A01. OPTIONS CHARACTERISTICS

#### 18A01.A. ~~Contract Months~~ Expiration Dates and Trading Hours

~~Trading may be conducted in options for expiry within a thirty-six month period extending from the nearby futures delivery month, provided however, that the Exchange may determine not to list a futures contract delivery month. Options may be listed to expire into either nearby or deferred futures, as determined by the Exchange.~~

Options shall be listed for expiration on such dates as may be determined by the Exchange, subject to Rules 18A01.D. and Rules 18A01.I.

Options shall be scheduled for trading during such hours as may be determined by the Exchange. Without limitation to the foregoing, markets in all standard options on U.S. Treasury Bond futures generally shall be opened or closed simultaneously.

On its last day of trading, an expiring option shall cease trading at the same time as the close of trading on that day in such option's Underlying Futures Contract (in accord with Rules 18A01.I.).

#### 18A01.B. Trading Unit

~~One \$100,000 face value U.S. Treasury Bond futures contract of a specified contract month.~~

The trading unit shall be an option to buy in the case of a call, or to sell in the case of a put, one U.S. Treasury Bond futures contract for a given delivery month (Chapter 18).

#### 18A01.C. Minimum Fluctuations

~~The premium for U.S. Treasury Bond futures options shall be in multiples of one sixty-fourth (1/64) of one percent (1%) of a \$100,000 U.S. Treasury Bond futures contract which shall equal \$15.625 per 1/64 and \$1,000 per full point.~~

~~However, a position may be initiated or liquidated in U.S. Treasury Bond futures options at a premium ranging from \$1.00 to \$15.00 in \$1.00 increments per option contract.~~

The price of an option shall be in price points of such option's Underlying Futures Contract (Rule 18A01.D.), such that for each Underlying Futures Contract par is on the basis of 100 points, and each point is equal to \$1,000 per Underlying Futures Contract (Rule 18102.C.).

The minimum price fluctuation for such option shall be one sixty-fourth (1/64<sup>th</sup>) of one point (equal to \$15.625 per option contract), *provided that* a position in such option may be initiated or liquidated at a price per option contract ranging from \$1.00 to \$15.00, in \$1.00 increments.

~~If options are quoted in volatility terms, the minimum fluctuation shall be .10 percent (i.e. 10.0%, 10.1%, 10.2%, etc.).~~

Where the price of such option is quoted in volatility terms, the minimum price fluctuation shall be one tenth (1/10<sup>th</sup>) of one percent per annum (e.g., 9.9 percent, 10.0 percent, 10.1 percent, 10.2 percent).

#### **18A01.D. Trading Hours Underlying Futures Contracts**

~~The hours of trading for options on U.S. Treasury Bond futures contracts shall be determined by the Exchange. U.S. Treasury Bond futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.~~

~~On its last day of trading, an expiring U.S. Treasury Bond futures option shall cease trading at the same time as the close of trading for the corresponding futures contract on that trading day.~~

##### 1. Options in the March Quarterly Cycle ("Quarterly Options")

For any option for which the named month of expiration is in the March quarterly cycle (i.e., March, June, September, or December), the Underlying Futures Contract shall be U.S. Treasury Bond futures for delivery in the same month as such option's named month of expiration. For example, for a given year, U.S. Treasury bond futures for delivery in March shall be the Underlying Futures Contract for a March option.

##### 2. Options Not in the March Quarterly Cycle ("Serial Options")

For any option for which the named month of expiration is not in the March quarterly cycle, (i.e., January, February, April, May, July, August, October, or November), the Underlying Futures Contract shall be U.S. Treasury Bond futures for delivery in the March quarterly cycle month next following such option's named month of expiration. For example, for a given year, U.S. Treasury Bond futures for delivery in March shall be the Underlying Futures Contract for a January option and for a February option.

##### 3. Weekly Options

A weekly option shall be designated to expire on a given Friday, provided that no weekly option shall expire on any Friday that is also the scheduled last day of trading in a quarterly option (Rule 18A01.D.1.) or a serial option (Rule 18A01.D.2.). For any weekly option, the Underlying Futures Contract shall be U.S. Treasury Bond futures for delivery in a March quarterly cycle month following such option's date of expiration, as designated by the Exchange when such weekly option is listed for trading.

For an Underlying Futures Contract for a given delivery month, all weekly options shall expire prior to the expiration of quarterly options (Rule 18A01.D.1. and Rule 18A01.I.1.).

#### **18A01.E. Exercise Prices**

~~Trading shall be conducted for put and call options with striking prices in integral multiples of one point per U.S. Treasury Bond futures contract as follows:~~

Option exercise prices shall be in terms of U.S. Treasury Bond futures price points (Rule 18102.C.) and shall be in integer multiples of one (1) point (Rule 18A01.C.).

~~At the commencement of trading for such option contracts, the following striking prices shall be listed: one with a striking price closest to the U.S. Treasury Bond futures contract's previous day's settlement price and the next thirty consecutive higher and the next thirty consecutive lower striking prices closest to the previous day's settlement price. If the previous day's settlement price is midway between two striking prices, the closest price shall be the larger of the two. Over time, new striking prices will be added to ensure that at least thirty striking prices always exist above and below the previous day's settlement price on the underlying futures. All new striking prices will be added prior to the opening of trading on the following business day.~~

At the commencement of trading in option contracts for a given expiration date, the Exchange shall list put and call options at the exercise price that is nearest the previous day's settlement price of the respective Underlying Futures Contract ("at-the-money price" or "ATM price"). If the previous day's Underlying Futures Contract settlement price is midway between two eligible option exercise price levels, then the ATM price shall be set as the higher of the two eligible exercise price levels. The Exchange also shall list for trading put and call options at all eligible exercise price levels in a range of 30 points above and 30 points below (i.e., 30 exercise price levels above and 30 exercise price levels below) the ATM exercise price.

Thereafter, the Exchange shall add new put and call options to ensure that such options are listed for trading at all eligible exercise prices in a range of at least 30 points above and at least 30 points below (i.e., 30 exercise price levels above and 30 exercise price levels below) the ATM exercise price level that is set with reference to the most recent Underlying Futures Contract settlement price. New options may be listed for trading up to and including the termination of trading in such options.

~~The Exchange may modify the procedure for the introduction of striking prices as it deems appropriate in order to respond to market conditions.~~

Upon demand and at the discretion of the Exchange, a new option contract with an out-of-current-range exercise price may be added, on an as-soon-as-possible basis, provided that the exercise price of such newly added option contract must be an integer multiple of one (1) price point (Rule 18A01.C.).

The Exchange may modify the procedure for the introduction of exercise prices as it deems appropriate.

#### **18A01.F. Reserved**

#### **18A01.G. Nature of Options on U.S. Treasury Bond Futures**

~~The buyer of one U.S. Treasury Bond futures put option may exercise his option at any time prior to expiration (subject to Rule 18A02.A.) to assume a short position in one U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one U.S. Treasury Bond futures put option incurs the obligation of assuming a long position in one U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a put option buyer.~~

The buyer of a put option may exercise such option at any time prior to expiration (subject to Rule 18A02.A.) to assume a short position in one Underlying Futures Contract (Rule 18A01.D.) at such option's exercise price (Rule 18A01.E.). Upon exercise by a put option buyer, the seller of such option shall incur the obligation to assume a long position in one Underlying Futures Contract at such option's exercise price.

~~The buyer of one U.S. Treasury Bond futures call option may exercise his option at any time prior to expiration (subject to Rule 18A02.A.) to assume a long position in one U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one U.S. Treasury Bond futures call option incurs the obligation of assuming a short position in one U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a call option buyer.~~

The buyer of a call option may exercise such option at any time prior to expiration (subject to Rule 18A02.A.) to assume a long position in one Underlying Futures Contract (Rule 18A01.D.) at such option's exercise price (Rule 18A01.E.). Upon exercise by a call option buyer, the seller of such option shall incur the obligation to assume a short position in one Underlying Futures Contract at such option's exercise price.

#### **18A01.H. Reserved**

#### **18A01.I. Termination of Trading**

For any expiring option, if the market in such option's Underlying Futures Contract (Rule 18A01.D.) does not open on the scheduled last day of trading in such option, then the termination of trading in such option shall occur on the next following day on which the market in such option's Underlying Futures Contract is open for trading.

##### 18A01.I.1 Monthly Serial and Quarterly Options

~~The last day of trading in any monthly serial or quarterly option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month next preceding such option's named expiry month. If such Friday is not a business day, or if there is a Friday which is not a business day that precedes by one business day the last business day of the~~

~~calendar month next preceding such option's named expiry month, then the last day of trading in such option shall be the business day prior to such Friday.~~

~~On their last day of trading, expiring monthly serial or quarterly options shall cease trading at the close of trading in the corresponding U.S. Treasury Bond futures contract, subject to the provisions of Rule 18A01.D.~~

#### 1. Quarterly Options and Serial Options

For a given expiring quarterly option contract (Rule 18A01.D.1.) or serial option contract (Rule 18A01.D.2.), if the Friday that precedes by one business day the last business day of the calendar month preceding such option's named month of expiration is not a business day, then the last day of trading shall be the first business day prior to such Friday.

Otherwise, the last day of trading in such option shall be the last Friday that precedes by at least two business days the last business day of the calendar month preceding such option's named month of expiration.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 18A01.I.2. Weekly Options

~~Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a monthly serial or quarterly option (Rule 18A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the next preceding Exchange business day.~~

~~On its last day of trading, an expiring weekly option shall cease trading at the close of trading in the corresponding U.S. Treasury Bond futures contract, subject to the provisions of Rule 18A01.D.~~

#### 2. Weekly Options

For a given weekly option contract, the last day of trading shall be the Friday on which such option is designated to expire (Rule 18A01.D.3.). If such Friday is not a business day, then the last day of trading in such option shall be the business day next preceding such Friday.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 18A01.I.3. Trading in Underlying Futures

~~In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.~~

#### **18A01.J. Contract Modification**

~~Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.~~

Contract terms for any option shall be fixed when such option is initially listed for trading, *provided that* any such option must conform to government regulations that are in force at such time as such option may be exercised. If the U.S. government, or an agency or duly constituted body thereof, issues an order, ruling, directive, or law inconsistent with these rules, then such order, ruling, directive, or law shall be construed to become part of the rules, and all open and new option contracts shall be subject to such order, ruling, directive, or law.

## **18A02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements in Chapter 7, the following shall apply to the exercise and assignment of U.S. Treasury Bond options.

### **18A02.A. Exercise of Option Exercise**

~~The buyer of a U.S. Treasury Bond futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on such day.~~

~~After the close on the last day of trading, all in the money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing House. Notice to cancel automatic exercise shall be given to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on the last day of trading.~~

~~Unexercised U.S. Treasury Bond futures options shall expire at 7:00 p.m. on the last day of trading. An option may be exercised by the buyer on any business day that such option is traded. To exercise such option, the clearing member representing the option buyer shall present an exercise notice to the Clearing House by 6:00 p.m., or by such other time as the Exchange may designate, on the day of exercise.~~

~~An unexercised option shall expire at 7:00 p.m. on the last day of trading in such option (Rule 18A01.I).~~

~~An option that is in the money, and that has not been liquidated or exercised prior to its termination of trading, shall be exercised automatically upon expiration, in the absence of contrary instructions. Such contrary instructions must be delivered to the Clearing House, by the clearing member representing the buyer of such option, no later than 6:00 p.m. (or such other time as may be designated by the Exchange) on the last day of trading in such option (Rule 18A01.I).~~

~~A call option shall be in the money if the daily settlement price of the Underlying Futures Contract (Rules 18A01.D.) on the last day of trading in such option (Rules 18A01.I.) lies strictly above such option's exercise price, and shall be out of the money if such daily settlement price is at or below such option's exercise price.~~

~~A put option shall be in the money if the daily settlement price of the Underlying Futures Contract on the last day of trading in such option lies strictly below such option's exercise price, and shall be out of the money if such daily settlement price is at or above such option's exercise price.~~

### **18A02.B. Assignment**

~~Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.~~

~~For any given option contract, an exercise notice accepted by the Clearing House (in accord with Rule 18A02.A.) shall be assigned by the Clearing House through a process of random selection of clearing members carrying open short positions in such option contract. A clearing member to whom such exercise notice has been assigned shall be notified thereof as soon as practicable following such assignment.~~

~~The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.~~

~~The clearing member to whom such exercise notice has been assigned shall be assigned a short position in such option's Underlying Futures Contract (Rules 18A01.D.) if such option is a call, or a long position in such option's Underlying Futures Contract if such option is a put. The clearing member representing the~~

option buyer making exercise shall be assigned a long position in such option's Underlying Futures Contract if such option is a call, or a short position in such option's Underlying Futures Contract if such option is a put.

~~All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.~~

Such futures positions shall be assigned at a price equal to the exercise price of such option contract, and shall be marked to market (in accordance with Rule 814) on the day on which the Clearing House accepts such exercise notice.

### **18A03. [RESERVED]**

### **18A04. CORRECTIONS TO OPTIONS EXERCISES**

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after ~~the 6:00 p.m. and no later than 7:00 p.m. (in accord with Rule 18A02.A.),~~ ~~deadline and up to the beginning of final option expiration processing~~ *provided that* such corrections are necessary due to: (1) a bona fide clerical error, (2) ~~an~~ un-reconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to 6:00 p.m. the deadline. The decision as to whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

### **18A05. PAYMENT OF OPTION PREMIUM**

~~The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.~~

In respect of the purchase of an option, the corresponding option premium shall be paid in full to the Clearing House by the option purchaser's clearing member, and shall be paid in full to the option purchaser's futures commission merchant by the option purchaser, at the time that such option is purchased, or within a reasonable time after such option is purchased.

## Appendix B Revisions to CBOT Rule 19A

### Chapter 19A -- Standard Options on Long-Term U.S. Treasury Note Futures

#### 19A00. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on Long-Term U.S. Treasury Note futures. In addition to the rules of this chapter, transactions in such options on Long-Term U.S. Treasury Note futures shall be subject to the general rules of the Exchange insofar as applicable.

For purposes of this chapter, unless otherwise specified, times of day shall refer to and indicate Chicago time.

#### 19A01. OPTIONS CHARACTERISTICS

##### 19A01.A. Contract ~~Months~~ Expiration Dates and Trading Hours

~~Trading may be conducted in options for expiry within a thirty-six month period extending from the nearby futures delivery month, provided however, that the Exchange may determine not to list a futures contract delivery month. Options may be listed to expire into either nearby or deferred futures, as determined by the Exchange.~~

Options shall be listed for expiration on such dates as may be determined by the Exchange, subject to Rules 19A01.D. and Rules 19A01.I.

Options shall be scheduled for trading during such hours as may be determined by the Exchange. Without limitation to the foregoing, markets in all standard options on Long-Term U.S. Treasury Note futures generally shall be opened or closed simultaneously.

On its last day of trading, an expiring option shall cease trading at the same time as the close of trading on that day in such option's Underlying Futures Contract (in accord with Rules 19A01.I.).

##### 19A01.B. Trading Unit

~~One \$100,000 face value Long-Term U.S. Treasury Note futures contract of a specified contract month. The trading unit shall be an option to buy in the case of a call, or to sell in the case of a put, one Long-Term U.S. Treasury Note futures contract for a given delivery month (Chapter 19).~~

##### 19A01.C. Minimum Fluctuations

~~The premium for Long-Term U.S. Treasury Note futures options shall be in multiples of one sixty-fourth (1/64) of one percent (1%) of a \$100,000 Long-Term U.S. Treasury Note futures contract which shall equal \$15.625 per 1/64 and \$1,000 per full point.~~

~~However, a position may be initiated or liquidated in Long-Term U.S. Treasury Note futures options at a premium ranging from \$1.00 to \$15.00 in \$1.00 increments per option contract.~~

The price of an option shall be in price points of such option's Underlying Futures Contract (Rule 19A01.D.), such that for each Underlying Futures Contract par is on the basis of 100 points, and each point is equal to \$1,000 per Underlying Futures Contract (Rule 19102.C.).

The minimum price fluctuation for such option shall be one sixty-fourth (1/64<sup>th</sup>) of one point (equal to \$15.625 per option contract), *provided that* a position in such option may be initiated or liquidated at a price per option contract ranging from \$1.00 to \$15.00, in \$1.00 increments.

~~If options are quoted in volatility terms, the minimum fluctuation shall be .10 percent (i.e. 10.0%, 10.1%, 10.2%, etc.).~~

Where the price of such option is quoted in volatility terms, the minimum price fluctuation shall be one tenth (1/10<sup>th</sup>) of one percent per annum (e.g., 9.9 percent, 10.0 percent, 10.1 percent, 10.2 percent).

#### **19A01.D. Trading Hours Underlying Futures Contracts**

The hours of trading for options on Long-Term U.S. Treasury Note futures contracts shall be determined by the Exchange. Long-Term U.S. Treasury Note futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On its last day of trading, an expiring Long-Term U.S. Treasury Note futures option shall cease trading at the same time as the close of trading for the corresponding futures contract on that trading day.

##### 1. Options in the March Quarterly Cycle ("Quarterly Options")

For any option for which the named month of expiration is in the March quarterly cycle (i.e., March, June, September, or December), the Underlying Futures Contract shall be Long-Term U.S. Treasury Note futures for delivery in the same month as such option's named month of expiration. For example, for a given year, Long-Term U.S. Treasury Note futures for delivery in March shall be the Underlying Futures Contract for a March option.

##### 2. Options Not in the March Quarterly Cycle ("Serial Options")

For any option for which the named month of expiration is not in the March quarterly cycle, (i.e., January, February, April, May, July, August, October, or November), the Underlying Futures Contract shall be Long-Term U.S. Treasury Note futures for delivery in the March quarterly cycle month next following such option's named month of expiration. For example, for a given year, Long-Term U.S. Treasury Note futures for delivery in March shall be the Underlying Futures Contract for a January option and for a February option.

##### 3. Weekly Options

A weekly option shall be designated to expire on a given Friday, provided that no weekly option shall expire on any Friday that is also the scheduled last day of trading in a quarterly option (Rule 19A01.D.1.) or a serial option (Rule 19A01.D.2.). For any weekly option, the Underlying Futures Contract shall be Long-Term U.S. Treasury Note futures for delivery in a March quarterly cycle month following such option's date of expiration, as designated by the Exchange when such weekly option is listed for trading.

For an Underlying Futures Contract for a given delivery month, all weekly options shall expire prior to the expiration of quarterly options (Rule 19A01.D.1. and Rule 19A01.I.1.).

#### **19A01.E. Exercise Prices**

~~Trading shall be conducted for put and call options with striking prices in integral multiples of one-half (1/2) point per Long-Term U.S. Treasury Note futures contract as follows:~~

Option exercise prices shall be in terms of Long-Term U.S. Treasury Note futures price points (Rule 19102.C.) and shall be in integer multiples of one half (1/2) of one (1) point (Rule 19A01.C.).

~~At the commencement of trading for such option contracts, the following striking prices shall be listed: one with a striking price closest to the Long-Term U.S. Treasury Note futures contract's previous day's settlement price and the next thirty consecutive higher and the next thirty consecutive lower striking prices closest to the previous day's settlement price. If the previous day's settlement price is midway between two striking prices, the closest price shall be the larger of the two. Over time, new striking prices will be added to ensure that at least fifty striking prices always exist above and below the previous day's settlement price on the underlying futures. All new striking prices will be added prior to the opening of trading on the following business day.~~

At the commencement of trading in option contracts for a given expiration date, the Exchange shall list put and call options at the exercise price that is nearest the previous day's settlement price of the respective Underlying Futures Contract ("at-the-money price" or "ATM price"). If the previous day's Underlying Futures Contract settlement price is midway between two eligible option exercise price levels, then the ATM price shall be set as the higher of the two eligible exercise price levels. The Exchange also shall list for trading put and call options at all eligible exercise price levels in a range of 25 points above

and 25 points below (i.e., 50 exercise price levels above and 50 exercise price levels below) the ATM exercise price.

Thereafter, the Exchange shall add new put and call options to ensure that such options are listed for trading at all eligible exercise prices in a range of at least 25 points above and at least 25 points below (i.e., at least 50 exercise price levels above and at least 50 exercise price levels below) the ATM exercise price level that is set with reference to the most recent Underlying Futures Contract settlement price. New options may be listed for trading up to and including the termination of trading in such options.

~~The Exchange may modify the procedure for the introduction of striking prices as it deems appropriate in order to respond to market conditions.~~

Upon demand and at the discretion of the Exchange, a new option contract with an out-of-current-range exercise price may be added, on an as-soon-as-possible basis, *provided that* the exercise price of such newly added option contract must be an integer multiple of one half (1/2) of one (1) price point (Rule 19A01.C.).

The Exchange may modify the procedure for the introduction of exercise prices as it deems appropriate.

#### **19A01.F. Reserved**

#### **19A01.G. Nature of Options on Long-Term U.S. Treasury Note Futures**

~~The buyer of one Long-Term U.S. Treasury Note futures put option may exercise his option at any time prior to expiration (subject to Rule 19A02.A.) to assume a short position in one Long-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Long-Term U.S. Treasury Note futures put option incurs the obligation of assuming a long position in one Long-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a put option buyer.~~  
The buyer of a put option may exercise such option at any time prior to expiration (subject to Rule 19A02.A.) to assume a short position in one Underlying Futures Contract (Rule 19A01.D.) at such option's exercise price (Rule 19A01.E.). Upon exercise by a put option buyer, the seller of such option shall incur the obligation to assume a long position in one Underlying Futures Contract at such option's exercise price.

~~The buyer of one Long-Term U.S. Treasury Note futures call option may exercise his option at any time prior to expiration (subject to Rule 19A02.A.) to assume a long position in one Long-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Long-Term U.S. Treasury Note futures call option incurs the obligation of assuming a short position in one Long-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a call option buyer.~~  
The buyer of a call option may exercise such option at any time prior to expiration (subject to Rule 19A02.A.) to assume a long position in one Underlying Futures Contract (Rule 19A01.D.) at such option's exercise price (Rule 19A01.E.). Upon exercise by a call option buyer, the seller of such option shall incur the obligation to assume a short position in one Underlying Futures Contract at such option's exercise price.

#### **19A01.H. Reserved**

#### **19A01.I. Termination of Trading**

For any expiring option, if the market in such option's Underlying Futures Contract (Rule 19A01.D.) does not open on the scheduled last day of trading in such option, then the termination of trading in such option shall occur on the next following day on which the market in such option's Underlying Futures Contract is open for trading.

##### **19A01.I.1 Monthly Serial and Quarterly Options**

The last day of trading in any monthly serial or quarterly option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month

~~next preceding such option's named expiry month. If such Friday is not a business day, or if there is a Friday which is not a business day that precedes by one business day the last business day of the calendar month next preceding such option's named expiry month, then the last day of trading in such option shall be the business day prior to such Friday.~~

~~On their last day of trading, expiring monthly serial or quarterly options shall cease trading at the close of trading in the corresponding Long-Term U.S. Treasury Note futures contract, subject to the provisions of Rule 19A01.D.~~

#### 1. Quarterly Options and Serial Options

For a given expiring quarterly option contract (Rule 19A01.D.1.) or serial option contract (Rule 19A01.D.2.), if the Friday that precedes by one business day the last business day of the calendar month preceding such option's named month of expiration is not a business day, then the last day of trading shall be the first business day prior to such Friday.

Otherwise, the last day of trading in such option shall be the last Friday that precedes by at least two business days the last business day of the calendar month preceding such option's named month of expiration.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 19A01.I.2. Weekly Options

~~Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a monthly serial or quarterly option (Rule 19A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the next preceding Exchange business day.~~

~~On its last day of trading, an expiring weekly option shall cease trading at the close of trading in the corresponding Long-Term U.S. Treasury Note futures contract, subject to the provisions of Rule 19A01.D.~~

#### 2. Weekly Options

For a given weekly option contract, the last day of trading shall be the Friday on which such option is designated to expire (Rule 19A01.D.3.). If such Friday is not a business day, then the last day of trading in such option shall be the business day next preceding such Friday.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 19A01.I.3. Trading in Underlying Futures

~~In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.~~

#### **19A01.J. Contract Modification**

~~Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.~~

Contract terms for any option shall be fixed when such option is initially listed for trading, *provided that* any such option must conform to government regulations that are in force at such time as such option may be exercised. If the U.S. government, or an agency or duly constituted body thereof, issues an order, ruling, directive, or law inconsistent with these rules, then such order, ruling, directive, or law shall

be construed to become part of the rules, and all open and new option contracts shall be subject to such order, ruling, directive, or law.

## **19A02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements in Chapter 7, the following shall apply to the exercise and assignment of ~~Long-Term U.S. Treasury Note~~ options.

### **19A02.A. Exercise of Option Exercise**

~~The buyer of a Long-Term U.S. Treasury Note futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on such day.~~

~~After the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing House. Notice to cancel automatic exercise shall be given to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on the last day of trading.~~

~~Unexercised Long-Term U.S. Treasury Note futures options shall expire at 7:00 p.m. on the last day of trading.~~

An option may be exercised by the buyer on any business day that such option is traded. To exercise such option, the clearing member representing the option buyer shall present an exercise notice to the Clearing House by 6:00 p.m., or by such other time as the Exchange may designate, on the day of exercise.

An unexercised option shall expire at 7:00 p.m. on the last day of trading in such option (Rule 19A01.I).

An option that is in the money, and that has not been liquidated or exercised prior to its termination of trading, shall be exercised automatically upon expiration, in the absence of contrary instructions. Such contrary instructions must be delivered to the Clearing House, by the clearing member representing the buyer of such option, no later than 6:00 p.m. (or such other time as may be designated by the Exchange) on the last day of trading in such option (Rule 19A01.I).

A call option shall be in the money if the daily settlement price of the Underlying Futures Contract (Rules 19A01.D.) on the last day of trading in such option (Rules 19A01.I.) lies strictly above such option's exercise price, and shall be out of the money if such daily settlement price is at or below such option's exercise price.

A put option shall be in the money if the daily settlement price of the Underlying Futures Contract on the last day of trading in such option lies strictly below such option's exercise price, and shall be out of the money if such daily settlement price is at or above such option's exercise price.

### **19A02.B. Assignment**

~~Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.~~

For any given option contract, an exercise notice accepted by the Clearing House (in accord with Rule 19A02.A.) shall be assigned by the Clearing House through a process of random selection of clearing members carrying open short positions in such option contract. A clearing member to whom such exercise notice has been assigned shall be notified thereof as soon as practicable following such assignment.

~~The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member~~

~~representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.~~

The clearing member to whom such exercise notice has been assigned shall be assigned a short position in such option's Underlying Futures Contract (Rules 19A01.D.) if such option is a call, or a long position in such option's Underlying Futures Contract if such option is a put. The clearing member representing the option buyer making exercise shall be assigned a long position in such option's Underlying Futures Contract if such option is a call, or a short position in such option's Underlying Futures Contract if such option is a put.

~~All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.~~

Such futures positions shall be assigned at a price equal to the exercise price of such option contract, and shall be marked to market (in accordance with Rule 814) on the day on which the Clearing House accepts such exercise notice.

### **19A03. [RESERVED]**

### **19A04. CORRECTIONS TO OPTIONS EXERCISES**

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after ~~the 6:00 p.m. and no later than 7:00 p.m. (in accord with Rule 19A02.A.), deadline and up to the beginning of final option expiration processing~~ provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) ~~an~~ un-reconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to ~~6:00 p.m. the deadline~~. The decision as to whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

### **19A05. PAYMENT OF OPTION PREMIUM**

~~The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.~~

In respect of the purchase of an option, the corresponding option premium shall be paid in full to the Clearing House by the option purchaser's clearing member, and shall be paid in full to the option purchaser's futures commission merchant by the option purchaser, at the time that such option is purchased, or within a reasonable time after such option is purchased.

**Appendix C**  
**Revisions to CBOT Rule 20A**

**Chapter 20A -- Standard Options on Medium-Term U.S. Treasury Note Futures**

**20A00. SCOPE OF CHAPTER**

This chapter is limited in application to put and call options on Medium-Term U.S. Treasury Note futures. In addition to the rules of this chapter, transactions in such options on Medium-Term U.S. Treasury Note futures shall be subject to the general rules of the Exchange insofar as applicable.

For purposes of this chapter, unless otherwise specified, times of day shall refer to and indicate Chicago time.

**20A01. OPTIONS CHARACTERISTICS**

**20A01.A. Contract ~~Months~~ Expiration Dates and Trading Hours**

~~Trading may be conducted in options for expiry within a thirty-six month period extending from the nearby futures delivery month, provided however, that the Exchange may determine not to list a futures contract delivery month. Options may be listed to expire into either nearby or deferred futures, as determined by the Exchange.~~

Options shall be listed for expiration on such dates as may be determined by the Exchange, subject to Rules 20A01.D. and Rules 20A01.I.

Options shall be scheduled for trading during such hours as may be determined by the Exchange. Without limitation to the foregoing, markets in all standard options on Medium-Term U.S. Treasury Note futures generally shall be opened or closed simultaneously.

On its last day of trading, an expiring option shall cease trading at the same time as the close of trading on that day in such option's Underlying Futures Contract (in accord with Rules 20A01.I.).

**20A01.B. Trading Unit**

~~One \$100,000 face value Medium-Term U.S. Treasury Note futures contract of a specified contract month.~~

The trading unit shall be an option to buy in the case of a call, or to sell in the case of a put, one Medium-Term U.S. Treasury Note futures contract for a given delivery month (Chapter 20).

**20A01.C. Minimum Fluctuations**

~~The premium for Medium-Term U.S. Treasury Note futures options shall be in multiples of one half of one sixty-fourth of one percent (1%) of a \$100,000 Medium-Term U.S. Treasury Note futures contract which shall equal \$7.8125 per one half of one sixty-fourth and \$1,000 per full point.~~

~~However, a position may be initiated or liquidated in Medium-Term U.S. Treasury Note futures options at a premium ranging from \$1.00 to \$7.00 in \$1.00 increments per option contract.~~

The price of an option shall be in price points of such option's Underlying Futures Contract (Rule 20A01.D.), such that for each Underlying Futures Contract par is on the basis of 100 points, and each point is equal to \$1,000 per Underlying Futures Contract (Rule 20102.C.).

The minimum price fluctuation for such option shall be one half (1/2) of one sixty-fourth (1/64<sup>th</sup>) of one point (equal to \$7.8125 per option contract), *provided that* a position in such option may be initiated or liquidated at a price per option contract ranging from \$1.00 to \$7.00, in \$1.00 increments.

If options are quoted in volatility terms, the minimum fluctuation shall be .10 percent (i.e. 10.0%, 10.1%, 10.2%, etc.).

Where the price of such option is quoted in volatility terms, the minimum price fluctuation shall be one tenth (1/10<sup>th</sup>) of one percent per annum (e.g., 9.9 percent, 10.0 percent, 10.1 percent, 10.2 percent).

#### 20A01.D. Trading Hours Underlying Futures Contracts

The hours of trading for options on Medium-Term U.S. Treasury Note futures contracts shall be determined by the Exchange. Medium-Term U.S. Treasury Note futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On its last day of trading, an expiring Medium-Term U.S. Treasury Note futures option shall cease trading at the same time as the close of trading for the corresponding futures contract on that trading day.

##### 1. Options in the March Quarterly Cycle ("Quarterly Options")

For any option for which the named month of expiration is in the March quarterly cycle (i.e., March, June, September, or December), the Underlying Futures Contract shall be Medium-Term U.S. Treasury Note futures for delivery in the same month as such option's named month of expiration. For example, for a given year, Medium-Term U.S. Treasury Note futures for delivery in March shall be the Underlying Futures Contract for a March option.

##### 2. Options Not in the March Quarterly Cycle ("Serial Options")

For any option for which the named month of expiration is not in the March quarterly cycle, (i.e., January, February, April, May, July, August, October, or November), the Underlying Futures Contract shall be Medium-Term U.S. Treasury Note futures for delivery in the March quarterly cycle month next following such option's named month of expiration. For example, for a given year, Medium-Term U.S. Treasury Note futures for delivery in March shall be the Underlying Futures Contract for a January option and for a February option.

##### 3. Weekly Options

A weekly option shall be designated to expire on a given Friday, *provided that* no weekly option shall expire on any Friday that is also the scheduled last day of trading in a quarterly option (Rule 20A01.D.1.) or a serial option (Rule 20A01.D.2.). For any weekly option, the Underlying Futures Contract shall be Medium-Term U.S. Treasury Note futures for delivery in a March quarterly cycle month following such option's date of expiration, as designated by the Exchange when such weekly option is listed for trading.

For an Underlying Futures Contract for a given delivery month, all weekly options shall expire prior to the expiration of quarterly options (Rule 20A01.D.1. and Rule 20A01.I.1.).

#### **20A01.E. Exercise Prices**

Trading shall be conducted for put and call options with striking prices in integral multiples of one-quarter (1/4) point per Medium-Term U.S. Treasury Note futures contract as follows:

Option exercise prices shall be in terms of Medium-Term U.S. Treasury Note futures price points (Rule 20102.C.) and shall be in integer multiples of one quarter (1/4) of one (1) point (Rule 20A01.C.).

At the commencement of trading for such option contracts, the following striking prices shall be listed: one with a striking price closest to the Medium-Term U.S. Treasury Note futures contract's previous day's settlement price and the next thirty consecutive higher and the next thirty consecutive lower striking prices closest to the previous day's settlement price. If the previous day's settlement price is midway between two striking prices, the closest price shall be the larger of the two. Over time, new striking prices will be added to ensure that at least thirty striking prices always exist above and below the previous day's settlement price on the underlying futures. All new striking prices will be added prior to the opening of trading on the following business day.

At the commencement of trading in option contracts for a given expiration date, the Exchange shall list put and call options at the exercise price that is nearest the previous day's settlement price of the respective Underlying Futures Contract ("at-the-money price" or "ATM price"). If the previous day's Underlying Futures Contract settlement price is midway between two eligible option exercise price levels,

then the ATM price shall be set as the higher of the two eligible exercise price levels. The Exchange also shall list for trading put and call options at all eligible exercise price levels in a range of 7 ½ points above and 7 ½ points below (i.e., 30 exercise price levels above and 30 exercise price levels below) the ATM exercise price.

Thereafter, the Exchange shall add new put and call options to ensure that such options are listed for trading at all eligible exercise prices in a range of at least 7 ½ points above and at least 7 ½ points below (i.e., at least 30 exercise price levels above and at least 30 exercise price levels below) the ATM exercise price level that is set with reference to the most recent Underlying Futures Contract settlement price. New options may be listed for trading up to and including the termination of trading in such options.

~~The Exchange may modify the procedure for the introduction of striking prices as it deems appropriate in order to respond to market conditions.~~

Upon demand and at the discretion of the Exchange, a new option contract with an out-of-current-range exercise price may be added, on an as-soon-as-possible basis, *provided that* the exercise price of such newly added option contract must be an integer multiple of one quarter (1/4) of one (1) price point (Rule 20A01.C.).

The Exchange may modify the procedure for the introduction of exercise prices as it deems appropriate.

#### **20A01.F. Reserved**

#### **20A01.G. Nature of Options on Medium-Term U.S. Treasury Note Futures**

~~The buyer of one Medium-Term U.S. Treasury Note futures put option may exercise his option at any time prior to expiration (subject to Rule 20A02.A.) to assume a short position in one Medium-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Medium-Term U.S. Treasury Note futures put option incurs the obligation of assuming a long position in one Medium-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a put option buyer.~~

The buyer of a put option may exercise such option at any time prior to expiration (subject to Rule 20A02.A.) to assume a short position in one Underlying Futures Contract (Rule 20A01.D.) at such option's exercise price (Rule 20A01.E.). Upon exercise by a put option buyer, the seller of such option shall incur the obligation to assume a long position in one Underlying Futures Contract at such option's exercise price.

~~The buyer of one Medium-Term U.S. Treasury Note futures call option may exercise his option at any time prior to expiration (subject to Rule 20A02.A.) to assume a long position in one Medium-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Medium-Term U.S. Treasury Note futures call option incurs the obligation of assuming a short position in one Medium-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a call option buyer.~~

The buyer of a call option may exercise such option at any time prior to expiration (subject to Rule 20A02.A.) to assume a long position in one Underlying Futures Contract (Rule 20A01.D.) at such option's exercise price (Rule 20A01.E.). Upon exercise by a call option buyer, the seller of such option shall incur the obligation to assume a short position in one Underlying Futures Contract at such option's exercise price.

#### **20A01.H. Reserved**

#### **20A01.I. Termination of Trading**

For any expiring option, if the market in such option's Underlying Futures Contract (Rule 20A01.D.) does not open on the scheduled last day of trading in such option, then the termination of trading in such option

shall occur on the next following day on which the market in such option's Underlying Futures Contract is open for trading.

#### **20A01.I.1 Monthly Serial and Quarterly Options**

The last day of trading in any monthly serial or quarterly option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month next preceding such option's named expiry month. If such Friday is not a business day, or if there is a Friday which is not a business day that precedes by one business day the last business day of the calendar month next preceding such option's named expiry month, then the last day of trading in such option shall be the business day prior to such Friday.

~~On their last day of trading, expiring monthly serial or quarterly options shall cease trading at the close of trading in the corresponding Medium-Term U.S. Treasury Note futures contract, subject to the provisions of Rule 20A01.D.~~

##### 1. Quarterly Options and Serial Options

For a given expiring quarterly option contract (Rule 20A01.D.1.) or serial option contract (Rule 20A01.D.2.), if the Friday that precedes by one business day the last business day of the calendar month preceding such option's named month of expiration is not a business day, then the last day of trading shall be the first business day prior to such Friday.

Otherwise, the last day of trading in such option shall be the last Friday that precedes by at least two business days the last business day of the calendar month preceding such option's named month of expiration.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### **20A01.I.2. Weekly Options**

Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a monthly serial or quarterly option (Rule 20A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the next preceding Exchange business day.

~~On its last day of trading, an expiring weekly option shall cease trading at the close of trading in the corresponding Medium-Term U.S. Treasury Note futures contract, subject to the provisions of Rule 20A01.D.~~

##### 2. Weekly Options

For a given weekly option contract, the last day of trading shall be the Friday on which such option is designated to expire (Rule 20A01.D.3.). If such Friday is not a business day, then the last day of trading in such option shall be the business day next preceding such Friday.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### **20A01.I.3. Trading in Underlying Futures**

~~In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.~~

#### **20A01.J. Contract Modification**

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order,

~~ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.~~

Contract terms for any option shall be fixed when such option is initially listed for trading, provided that any such option must conform to government regulations that are in force at such time as such option may be exercised. If the U.S. government, or an agency or duly constituted body thereof, issues an order, ruling, directive, or law inconsistent with these rules, then such order, ruling, directive, or law shall be construed to become part of the rules, and all open and new option contracts shall be subject to such order, ruling, directive, or law.

## **20A02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements in Chapter 7, the following shall apply to the exercise and assignment of ~~Medium-Term U.S. Treasury Note~~ options.

### **20A02.A. Exercise of Option Exercise**

~~The buyer of a Medium-Term U.S. Treasury Note futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on such day.~~

~~After the close on the last day of trading, all in the money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing House. Notice to cancel automatic exercise shall be given to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on the last day of trading.~~

~~Unexercised Medium-Term U.S. Treasury Note futures options shall expire at 7:00 p.m. on the last day of trading.~~

An option may be exercised by the buyer on any business day that such option is traded. To exercise such option, the clearing member representing the option buyer shall present an exercise notice to the Clearing House by 6:00 p.m., or by such other time as the Exchange may designate, on the day of exercise.

An unexercised option shall expire at 7:00 p.m. on the last day of trading in such option (Rule 20A01.I).

An option that is in the money, and that has not been liquidated or exercised prior to its termination of trading, shall be exercised automatically upon expiration, in the absence of contrary instructions. Such contrary instructions must be delivered to the Clearing House, by the clearing member representing the buyer of such option, no later than 6:00 p.m. (or such other time as may be designated by the Exchange) on the last day of trading in such option (Rule 20A01.I).

A call option shall be in the money if the daily settlement price of the Underlying Futures Contract (Rules 20A01.D.) on the last day of trading in such option (Rules 20A01.I.) lies strictly above such option's exercise price, and shall be out of the money if such daily settlement price is at or below such option's exercise price.

A put option shall be in the money if the daily settlement price of the Underlying Futures Contract on the last day of trading in such option lies strictly below such option's exercise price, and shall be out of the money if such daily settlement price is at or above such option's exercise price.

### **20A02.B. Assignment**

~~Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.~~

For any given option contract, an exercise notice accepted by the Clearing House (in accord with Rule 20A02.A.) shall be assigned by the Clearing House through a process of random selection of clearing members carrying open short positions in such option contract. A clearing member to whom such

exercise notice has been assigned shall be notified thereof as soon as practicable following such assignment.

~~The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.~~

The clearing member to whom such exercise notice has been assigned shall be assigned a short position in such option's Underlying Futures Contract (Rules 20A01.D.) if such option is a call, or a long position in such option's Underlying Futures Contract if such option is a put. The clearing member representing the option buyer making exercise shall be assigned a long position in such option's Underlying Futures Contract if such option is a call, or a short position in such option's Underlying Futures Contract if such option is a put.

~~All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.~~

Such futures positions shall be assigned at a price equal to the exercise price of such option contract, and shall be marked to market (in accordance with Rule 814) on the day on which the Clearing House accepts such exercise notice.

### **20A03. [RESERVED]**

### **20A04. CORRECTIONS TO OPTIONS EXERCISES**

~~Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after the 6:00 p.m. and no later than 7:00 p.m. (in accord with Rule 20A02.A.), deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an un-reconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to 6:00 p.m. the deadline. The decision as to whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.~~

### **20A05. PAYMENT OF OPTION PREMIUM**

~~The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.~~

In respect of the purchase of an option, the corresponding option premium shall be paid in full to the Clearing House by the option purchaser's clearing member, and shall be paid in full to the option purchaser's futures commission merchant by the option purchaser, at the time that such option is purchased, or within a reasonable time after such option is purchased.

**Appendix D**  
**Revisions to CBOT Rule 21A**

**Chapter 21A -- Standard Options on Short-Term U.S. Treasury Note Futures**

**21A00. SCOPE OF CHAPTER**

This chapter is limited in application to put and call options on Short-Term U.S. Treasury Note futures. In addition to the rules of this chapter, transactions in such options on Short-Term U.S. Treasury Note futures shall be subject to the general rules of the Exchange insofar as applicable.

For purposes of this chapter, unless otherwise specified, times of day shall refer to and indicate Chicago time.

**21A01. OPTIONS CHARACTERISTICS**

**21A01.A. Contract ~~Months-Expiration Dates and Trading Hours~~**

~~Trading may be conducted in options for expiry within a thirty-six month period extending from the nearby futures delivery month, provided however, that the Exchange may determine not to list a futures contract delivery month. Options may be listed to expire into either nearby or deferred futures, as determined by the Exchange.~~

Options shall be listed for expiration on such dates as may be determined by the Exchange, subject to Rules 21A01.D. and Rules 21A01.I.

Options shall be scheduled for trading during such hours as may be determined by the Exchange. Without limitation to the foregoing, markets in all standard options on Short-Term U.S. Treasury Note futures generally shall be opened or closed simultaneously.

On its last day of trading, an expiring option shall cease trading at the same time as the close of trading on that day in such option's Underlying Futures Contract (in accord with Rules 21A01.I.).

**21A01.B. Trading Unit**

~~One \$100,000 face value Short-Term U.S. Treasury Note futures contract of a specified contract month. The trading unit shall be an option to buy in the case of a call, or to sell in the case of a put, one Short-Term U.S. Treasury Note futures contract for a given delivery month (Chapter 20).~~

**21A01.C. Minimum Fluctuations**

~~The premium for Short-Term U.S. Treasury Note futures options shall be in multiples of one half of one sixty-fourth of one percent (1%) of a \$200,000 Short-Term U.S. Treasury Note futures contract which shall equal \$15.625 per one half of one sixty-fourth and \$2,000 per full point.~~

~~However, a position may be initiated or liquidated in Short-Term U.S. Treasury Note futures options at a premium ranging from \$1.00 to \$15.00 in \$1.00 increments per option contract.~~

The price of an option shall be in price points of such option's Underlying Futures Contract (Rule 21A01.D.), such that for each Underlying Futures Contract par is on the basis of 100 points, and each point is equal to \$2,000 per Underlying Futures Contract (Rule 21102.C.).

The minimum price fluctuation for such option shall be one half (1/2) of one sixty-fourth (1/64<sup>th</sup>) of one point (equal to \$15.625 per option contract), *provided that* a position in such option may be initiated or liquidated at a price per option contract ranging from \$1.00 to \$15.00, in \$1.00 increments.

~~If options are quoted in volatility terms, the minimum fluctuation shall be .10 percent (i.e. 10.0%, 10.1%, 10.2%, etc.).~~

Where the price of such option is quoted in volatility terms, the minimum price fluctuation shall be one tenth (1/10<sup>th</sup>) of one percent per annum (e.g., 9.9 percent, 10.0 percent, 10.1 percent, 10.2 percent).

#### **21A01.D. Trading Hours Underlying Futures Contracts**

~~The hours of trading for options on Short-Term U.S. Treasury Note futures contracts shall be determined by the Exchange. Short-Term U.S. Treasury Note futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.~~

~~On its last day of trading, an expiring Short-Term U.S. Treasury Note futures option shall cease trading at the same time as the close of trading for the corresponding futures contract on that trading day.~~

##### 1. Options in the March Quarterly Cycle ("Quarterly Options")

For any option for which the named month of expiration is in the March quarterly cycle (i.e., March, June, September, or December), the Underlying Futures Contract shall be Short-Term U.S. Treasury Note futures for delivery in the same month as such option's named month of expiration. For example, for a given year, Short-Term U.S. Treasury Note futures for delivery in March shall be the Underlying Futures Contract for a March option.

##### 2. Options Not in the March Quarterly Cycle ("Serial Options")

For any option for which the named month of expiration is not in the March quarterly cycle, (i.e., January, February, April, May, July, August, October, or November), the Underlying Futures Contract shall be Short-Term U.S. Treasury Note futures for delivery in the March quarterly cycle month next following such option's named month of expiration. For example, for a given year, Short-Term U.S. Treasury Note futures for delivery in March shall be the Underlying Futures Contract for a January option and for a February option.

##### 3. Weekly Options

A weekly option shall be designated to expire on a given Friday, *provided that* no weekly option shall expire on any Friday that is also the scheduled last day of trading in a quarterly option (Rule 21A01.D.1.) or a serial option (Rule 21A01.D.2.). For any weekly option, the Underlying Futures Contract shall be Short-Term U.S. Treasury Note futures for delivery in a March quarterly cycle month following such option's date of expiration, as designated by the Exchange when such weekly option is listed for trading.

For an Underlying Futures Contract for a given delivery month, all weekly options shall expire prior to the expiration of quarterly options (Rule 21A01.D.1. and Rule 21A01.I.1.).

#### **21A01.E. Exercise Prices**

~~Trading shall be conducted for put and call options with striking prices in integral multiples of one-eighth (1/8) point per Short-Term U.S. Treasury Note futures contract as follows:~~

Option exercise prices shall be in terms of Short-Term U.S. Treasury Note futures price points (Rule 21102.C.) and shall be in integer multiples of one eighth (1/8) of one (1) point (Rule 21A01.C.).

~~At the commencement of trading for such option contracts, the following striking prices shall be listed: one with a striking price closest to the Short-Term U.S. Treasury Note futures contract's previous day's settlement price and the next thirty consecutive higher and the next thirty consecutive lower striking prices closest to the previous day's settlement price. If the previous day's settlement price is midway between two striking prices, the closest price shall be the larger of the two. Over time, new striking prices will be added to ensure that at least thirty striking prices always exist above and below the previous day's settlement price on the underlying futures. All new striking prices will be added prior to the opening of trading on the following business day.~~

At the commencement of trading in option contracts for a given expiration date, the Exchange shall list put and call options at the exercise price that is nearest the previous day's settlement price of the respective Underlying Futures Contract ("at-the-money price" or "ATM price"). If the previous day's Underlying Futures Contract settlement price is midway between two eligible option exercise price levels, then the ATM price shall be set as the higher of the two eligible exercise price levels. The Exchange also

shall list for trading put and call options at all eligible exercise price levels in a range of 3 ¾ points above and 3 ¾ points below (i.e., 30 exercise price levels above and 30 exercise price levels below) the ATM exercise price.

Thereafter, the Exchange shall add new put and call options to ensure that such options are listed for trading at all eligible exercise prices in a range of at least 3 ¾ points above and at least 3 ¾ points below (i.e., at least 30 exercise price levels above and at least 30 exercise price levels below) the ATM exercise price level that is set with reference to the most recent Underlying Futures Contract settlement price. New options may be listed for trading up to and including the termination of trading in such options.

~~The Exchange may modify the procedure for the introduction of striking prices as it deems appropriate in order to respond to market conditions.~~

Upon demand and at the discretion of the Exchange, a new option contract with an out-of-current-range exercise price may be added, on an as-soon-as-possible basis, *provided that* the exercise price of such newly added option contract must be an integer multiple of one eighth (1/8) of one (1) price point (Rule 21A01.C.).

The Exchange may modify the procedure for the introduction of exercise prices as it deems appropriate.

#### **21A01.F. Reserved**

#### **21A01.G. Nature of Options on Short-Term U.S. Treasury Note Futures**

~~The buyer of one Short-Term U.S. Treasury Note futures put option may exercise his option at any time prior to expiration (subject to Rule 21A02.A.) to assume a short position in one Short-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Short-Term U.S. Treasury Note futures put option incurs the obligation of assuming a long position in one Short-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a put option buyer. The buyer of a put option may exercise such option at any time prior to expiration (subject to Rule 21A02.A.) to assume a short position in one Underlying Futures Contract (Rule 21A01.D.) at such option's exercise price (Rule 21A01.E.). Upon exercise by a put option buyer, the seller of such option shall incur the obligation to assume a long position in one Underlying Futures Contract at such option's exercise price.~~

~~The buyer of one Short-Term U.S. Treasury Note futures call option may exercise his option at any time prior to expiration (subject to Rule 21A02.A.) to assume a long position in one Short-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Short-Term U.S. Treasury Note futures call option incurs the obligation of assuming a short position in one Short-Term U.S. Treasury Note futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a call option buyer. The buyer of a call option may exercise such option at any time prior to expiration (subject to Rule 21A02.A.) to assume a long position in one Underlying Futures Contract (Rule 21A01.D.) at such option's exercise price (Rule 21A01.E.). Upon exercise by a call option buyer, the seller of such option shall incur the obligation to assume a short position in one Underlying Futures Contract at such option's exercise price.~~

#### **21A01.H. Reserved**

#### **21A01.I. Termination of Trading**

For any expiring option, if the market in such option's Underlying Futures Contract (Rule 21A01.D.) does not open on the scheduled last day of trading in such option, then the termination of trading in such option shall occur on the next following day on which the market in such option's Underlying Futures Contract is open for trading.

##### **21A01.I.1 Monthly Serial and Quarterly Options**

~~The last day of trading in any monthly serial or quarterly option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month next preceding such option's named expiry month. If such Friday is not a business day, or if there is a Friday which is not a business day that precedes by one business day the last business day of the calendar month next preceding such option's named expiry month, then the last day of trading in such option shall be the business day prior to such Friday.~~

~~On their last day of trading, expiring monthly serial or quarterly options shall cease trading at the close of trading in the corresponding Short-Term U.S. Treasury Note futures contract, subject to the provisions of Rule 21A01.D.~~

#### 1. Quarterly Options and Serial Options

For a given expiring quarterly option contract (Rule 21A01.D.1.) or serial option contract (Rule 21A01.D.2.), if the Friday that precedes by one business day the last business day of the calendar month preceding such option's named month of expiration is not a business day, then the last day of trading shall be the first business day prior to such Friday.

Otherwise, the last day of trading in such option shall be the last Friday that precedes by at least two business days the last business day of the calendar month preceding such option's named month of expiration.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 21A01.I.2. Weekly Options

~~Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a monthly serial or quarterly option (Rule 21A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the next preceding Exchange business day.~~

~~On its last day of trading, an expiring weekly option shall cease trading at the close of trading in the corresponding Short-Term U.S. Treasury Note futures contract, subject to the provisions of Rule 21A01.D.~~

#### 2. Weekly Options

For a given weekly option contract, the last day of trading shall be the Friday on which such option is designated to expire (Rule 21A01.D.3.). If such Friday is not a business day, then the last day of trading in such option shall be the business day next preceding such Friday.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 21A01.I.3. Trading in Underlying Futures

~~In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.~~

#### **21A01.J. Contract Modification**

~~Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.~~

Contract terms for any option shall be fixed when such option is initially listed for trading, *provided that* any such option must conform to government regulations that are in force at such time as such option may be exercised. If the U.S. government, or an agency or duly constituted body thereof, issues an

order, ruling, directive, or law inconsistent with these rules, then such order, ruling, directive, or law shall be construed to become part of the rules, and all open and new option contracts shall be subject to such order, ruling, directive, or law.

## **21A02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements in Chapter 7, the following shall apply to the exercise and assignment of ~~Short Term U.S. Treasury Note~~ options.

### **21A02.A. ~~Exercise of Option Exercise~~**

~~The buyer of a Short Term U.S. Treasury Note futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on such day.~~

~~After the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing House. Notice to cancel automatic exercise shall be given to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on the last day of trading.~~

~~Unexercised Short Term U.S. Treasury Note futures options shall expire at 7:00 p.m. on the last day of trading.~~

~~An option may be exercised by the buyer on any business day that such option is traded. To exercise such option, the clearing member representing the option buyer shall present an exercise notice to the Clearing House by 6:00 p.m., or by such other time as the Exchange may designate, on the day of exercise.~~

~~An unexercised option shall expire at 7:00 p.m. on the last day of trading in such option (Rule 21A01.I).~~

~~An option that is in the money, and that has not been liquidated or exercised prior to its termination of trading, shall be exercised automatically upon expiration, in the absence of contrary instructions. Such contrary instructions must be delivered to the Clearing House, by the clearing member representing the buyer of such option, no later than 6:00 p.m. (or such other time as may be designated by the Exchange) on the last day of trading in such option (Rule 21A01.I).~~

~~A call option shall be in the money if the daily settlement price of the Underlying Futures Contract (Rules 21A01.D.) on the last day of trading in such option (Rules 21A01.I.) lies strictly above such option's exercise price, and shall be out of the money if such daily settlement price is at or below such option's exercise price.~~

~~A put option shall be in the money if the daily settlement price of the Underlying Futures Contract on the last day of trading in such option lies strictly below such option's exercise price, and shall be out of the money if such daily settlement price is at or above such option's exercise price.~~

### **21A02.B. Assignment**

~~Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.~~

~~For any given option contract, an exercise notice accepted by the Clearing House (in accord with Rule 21A02.A.) shall be assigned by the Clearing House through a process of random selection of clearing members carrying open short positions in such option contract. A clearing member to whom such exercise notice has been assigned shall be notified thereof as soon as practicable following such assignment.~~

~~The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member~~

~~representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.~~

The clearing member to whom such exercise notice has been assigned shall be assigned a short position in such option's Underlying Futures Contract (Rules 21A01.D.) if such option is a call, or a long position in such option's Underlying Futures Contract if such option is a put. The clearing member representing the option buyer making exercise shall be assigned a long position in such option's Underlying Futures Contract if such option is a call, or a short position in such option's Underlying Futures Contract if such option is a put.

~~All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.~~

Such futures positions shall be assigned at a price equal to the exercise price of such option contract, and shall be marked to market (in accordance with Rule 814) on the day on which the Clearing House accepts such exercise notice.

### **21A03. [RESERVED]**

### **21A04. CORRECTIONS TO OPTIONS EXERCISES**

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after ~~the 6:00 p.m. and no later than 7:00 p.m. (in accord with Rule 21A02.A.), deadline and up to the beginning of final option expiration processing~~ *provided that* such corrections are necessary due to: (1) a bona fide clerical error, (2) ~~an~~ un-reconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to 6:00 p.m. the deadline. The decision as to whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

### **21A05. PAYMENT OF OPTION PREMIUM**

~~The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.~~

In respect of the purchase of an option, the corresponding option premium shall be paid in full to the Clearing House by the option purchaser's clearing member, and shall be paid in full to the option purchaser's futures commission merchant by the option purchaser, at the time that such option is purchased, or within a reasonable time after such option is purchased.

**Appendix E**  
**Revisions to CBOT Rule 40A**

**Chapter 40A -- Standard Options on Long-Term U.S. Treasury Bond Futures**

**40A00. SCOPE OF CHAPTER**

This chapter is limited in application to put and call options on Long-Term U.S. Treasury Bond futures. In addition to the rules of this chapter, transactions in such options on Long-Term U.S. Treasury Bond futures shall be subject to the general rules of the Exchange insofar as applicable.

For purposes of this chapter, unless otherwise specified, times of day shall refer to and indicate Chicago time.

**40A01. OPTIONS CHARACTERISTICS**

**40A01.A. Contract ~~Months~~ Expiration Dates and Trading Hours**

~~Trading may be conducted in options for expiry within a thirty-six month period extending from the nearby futures delivery month, provided however, that the Exchange may determine not to list a futures contract delivery month. Options may be listed to expire into either nearby or deferred futures, as determined by the Exchange.~~

Options shall be listed for expiration on such dates as may be determined by the Exchange, subject to Rules 40A01.D. and Rules 40A01.I.

Options shall be scheduled for trading during such hours as may be determined by the Exchange. Without limitation to the foregoing, markets in all standard options on Long-Term U.S. Treasury Bond futures generally shall be opened or closed simultaneously.

On its last day of trading, an expiring option shall cease trading at the same time as the close of trading on that day in such option's Underlying Futures Contract (in accord with Rules 40A01.I.).

**40A01.B. Trading Unit**

~~One \$100,000 face value Long-Term U.S. Treasury Bond futures contract of a specified contract month. The trading unit shall be an option to buy in the case of a call, or to sell in the case of a put, one Long-Term U.S. Treasury Bond futures contract for a given delivery month (Chapter 40).~~

**40A01.C. Minimum Fluctuations**

~~The premium for Long-Term U.S. Treasury Bond futures options shall be in multiples of one sixty-fourth (1/64) of one percent (1%) of a \$100,000 Long-Term U.S. Treasury Bond futures contract which shall equal \$15.625 per 1/64 and \$1,000 per full point.~~

~~However, a position may be initiated or liquidated in Long-Term U.S. Treasury Bond futures options at a premium ranging from \$1.00 to \$15.00 in \$1.00 increments per option contract.~~

The price of an option shall be in price points of such option's Underlying Futures Contract (Rule 40A01.D.), such that for each Underlying Futures Contract par is on the basis of 100 points, and each point is equal to \$1,000 per Underlying Futures Contract (Rule 40102.C.).

The minimum price fluctuation for such option shall be one sixty-fourth (1/64<sup>th</sup>) of one point (equal to \$15.625 per option contract), *provided that* a position in such option may be initiated or liquidated at a price per option contract ranging from \$1.00 to \$15.00, in \$1.00 increments.

~~If options are quoted in volatility terms, the minimum fluctuation shall be .10 percent (i.e. 10.0%, 10.1%, 10.2%, etc.).~~

Where the price of such option is quoted in volatility terms, the minimum price fluctuation shall be one tenth (1/10<sup>th</sup>) of one percent per annum (e.g., 9.9 percent, 10.0 percent, 10.1 percent, 10.2 percent).

#### **40A01.D. Trading Hours Underlying Futures Contracts**

The hours of trading for options on Long-Term U.S. Treasury Bond futures contracts shall be determined by the Exchange. Long-Term U.S. Treasury Bond futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On its last day of trading, an expiring Long-Term U.S. Treasury Bond futures option shall cease trading at the same time as the close of trading for the corresponding futures contract on that trading day.

##### 1. Options in the March Quarterly Cycle ("Quarterly Options")

For any option for which the named month of expiration is in the March quarterly cycle (i.e., March, June, September, or December), the Underlying Futures Contract shall be Long-Term U.S. Treasury Bond futures for delivery in the same month as such option's named month of expiration. For example, for a given year, Long-Term U.S. Treasury Bond futures for delivery in March shall be the Underlying Futures Contract for a March option.

##### 2. Options Not in the March Quarterly Cycle ("Serial Options")

For any option for which the named month of expiration is not in the March quarterly cycle, (i.e., January, February, April, May, July, August, October, or November), the Underlying Futures Contract shall be Long-Term U.S. Treasury Bond futures for delivery in the March quarterly cycle month next following such option's named month of expiration. For example, for a given year, Long-Term U.S. Treasury Bond futures for delivery in March shall be the Underlying Futures Contract for a January option and for a February option.

##### 3. Weekly Options

A weekly option shall be designated to expire on a given Friday, provided that no weekly option shall expire on any Friday that is also the scheduled last day of trading in a quarterly option (Rule 40A01.D.1.) or a serial option (Rule 40A01.D.2.). For any weekly option, the Underlying Futures Contract shall be Long-Term U.S. Treasury Bond futures for delivery in a March quarterly cycle month following such option's date of expiration, as designated by the Exchange when such weekly option is listed for trading.

For an Underlying Futures Contract for a given delivery month, all weekly options shall expire prior to the expiration of quarterly options (Rule 40A01.D.1. and Rule 40A01.I.1.).

#### **40A01.E. Exercise Prices**

~~Trading shall be conducted for put and call options with striking prices in integral multiples of one point per Long-Term U.S. Treasury Bond futures contract as follows:~~

Option exercise prices shall be in terms of Long-Term U.S. Treasury Bond futures price points (Rule 40102.C.) and shall be in integer multiples of one (1) point (Rule 40A01.C.).

~~At the commencement of trading for such option contracts, the following striking prices shall be listed: one with a striking price closest to the Long-Term U.S. Treasury Bond futures contract's previous day's settlement price and the next thirty consecutive higher and the next thirty consecutive lower striking prices closest to the previous day's settlement price. If the previous day's settlement price is midway between two striking prices, the closest price shall be the larger of the two. Over time, new striking prices will be added to ensure that at least thirty striking prices always exist above and below the previous day's settlement price on the underlying futures. All new striking prices will be added prior to the opening of trading on the following business day.~~

At the commencement of trading in option contracts for a given expiration date, the Exchange shall list put and call options at the exercise price that is nearest the previous day's settlement price of the respective Underlying Futures Contract ("at-the-money price" or "ATM price"). If the previous day's Underlying Futures Contract settlement price is midway between two eligible option exercise price levels, then the ATM price shall be set as the higher of the two eligible exercise price levels. The Exchange also shall list for trading put and call options at all eligible exercise price levels in a range of 30 points above and 30 points below (i.e., 30 exercise price levels above and 30 exercise price levels below) the ATM exercise price.

Thereafter, the Exchange shall add new put and call options to ensure that such options are listed for trading at all eligible exercise prices in a range of at least 30 points above and at least 30 points below (i.e., 30 exercise price levels above and 30 exercise price levels below) the ATM exercise price level that is set with reference to the most recent Underlying Futures Contract settlement price. New options may be listed for trading up to and including the termination of trading in such options.

~~The Exchange may modify the procedure for the introduction of striking prices as it deems appropriate in order to respond to market conditions.~~

Upon demand and at the discretion of the Exchange, a new option contract with an out-of-current-range exercise price may be added, on an as-soon-as-possible basis, provided that the exercise price of such newly added option contract must be an integer multiple of one (1) price point (Rule 40A01.C.).

The Exchange may modify the procedure for the introduction of exercise prices as it deems appropriate.

#### **40A01.F. Reserved**

#### **40A01.G. Nature of Options on Long-Term U.S. Treasury Bond Futures**

~~The buyer of one Long-Term U.S. Treasury Bond futures put option may exercise his option at any time prior to expiration (subject to Rule 40A02.A.) to assume a short position in one Long-Term U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Long-Term U.S. Treasury Bond futures put option incurs the obligation of assuming a long position in one Long-Term U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a put option buyer.~~

The buyer of a put option may exercise such option at any time prior to expiration (subject to Rule 40A02.A.) to assume a short position in one Underlying Futures Contract (Rule 40A01.D.) at such option's exercise price (Rule 40A01.E.). Upon exercise by a put option buyer, the seller of such option shall incur the obligation to assume a long position in one Underlying Futures Contract at such option's exercise price.

~~The buyer of one Long-Term U.S. Treasury Bond futures call option may exercise his option at any time prior to expiration (subject to Rule 40A02.A.) to assume a long position in one Long-Term U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one Long-Term U.S. Treasury Bond futures call option incurs the obligation of assuming a short position in one Long-Term U.S. Treasury Bond futures contract of a specified contract month at a striking price set at the time the option was sold, upon exercise by a call option buyer.~~

The buyer of a call option may exercise such option at any time prior to expiration (subject to Rule 40A02.A.) to assume a long position in one Underlying Futures Contract (Rule 40A01.D.) at such option's exercise price (Rule 40A01.E.). Upon exercise by a call option buyer, the seller of such option shall incur the obligation to assume a short position in one Underlying Futures Contract at such option's exercise price.

#### **40A01.H. Reserved**

#### **40A01.I. Termination of Trading**

For any expiring option, if the market in such option's Underlying Futures Contract (Rule 40A01.D.) does not open on the scheduled last day of trading in such option, then the termination of trading in such option shall occur on the next following day on which the market in such option's Underlying Futures Contract is open for trading.

##### **40A01.I.1 Monthly Serial and Quarterly Options**

~~The last day of trading in any monthly serial or quarterly option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month next preceding such option's named expiry month. If such Friday is not a business day, or if there is a Friday which is not a business day that precedes by one business day the last business day of the~~

~~calendar month next preceding such option's named expiry month, then the last day of trading in such option shall be the business day prior to such Friday.~~

~~On their last day of trading, expiring monthly serial or quarterly options shall cease trading at the close of trading in the corresponding Long Term U.S. Treasury Bond futures contract, subject to the provisions of Rule 40A01.D.~~

#### 1. Quarterly Options and Serial Options

For a given expiring quarterly option contract (Rule 40A01.D.1.) or serial option contract (Rule 40A01.D.2.), if the Friday that precedes by one business day the last business day of the calendar month preceding such option's named month of expiration is not a business day, then the last day of trading shall be the first business day prior to such Friday.

Otherwise, the last day of trading in such option shall be the last Friday that precedes by at least two business days the last business day of the calendar month preceding such option's named month of expiration.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 40A01.I.2. Weekly Options

~~Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a monthly serial or quarterly option (Rule 40A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the next preceding Exchange business day.~~

~~On its last day of trading, an expiring weekly option shall cease trading at the close of trading in the corresponding Long Term U.S. Treasury Bond futures contract, subject to the provisions of Rule 40A01.D.~~

#### 2. Weekly Options

For a given weekly option contract, the last day of trading shall be the Friday on which such option is designated to expire (Rule 40A01.D.3.). If such Friday is not a business day, then the last day of trading in such option shall be the business day next preceding such Friday.

On its last day of trading, trading in such option shall terminate at the close of trading in such option's Underlying Futures Contract.

#### 40A01.I.3. Trading in Underlying Futures

~~In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.~~

#### **40A01.J. Contract Modification**

~~Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.~~

Contract terms for any option shall be fixed when such option is initially listed for trading, *provided that* any such option must conform to government regulations that are in force at such time as such option may be exercised. If the U.S. government, or an agency or duly constituted body thereof, issues an order, ruling, directive, or law inconsistent with these rules, then such order, ruling, directive, or law shall be construed to become part of the rules, and all open and new option contracts shall be subject to such order, ruling, directive, or law.

## **40A02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements in Chapter 7, the following shall apply to the exercise and assignment of ~~Long-Term U.S. Treasury Bond~~ options.

### **40A02.A. Exercise of Option Exercise**

~~The buyer of a Long-Term U.S. Treasury Bond futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on such day.~~

~~After the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing House. Notice to cancel automatic exercise shall be given to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on the last day of trading.~~

~~Unexercised Long-Term U.S. Treasury Bond futures options shall expire at 7:00 p.m. on the last day of trading.~~

An option may be exercised by the buyer on any business day that such option is traded. To exercise such option, the clearing member representing the option buyer shall present an exercise notice to the Clearing House by 6:00 p.m., or by such other time as the Exchange may designate, on the day of exercise.

An unexercised option shall expire at 7:00 p.m. on the last day of trading in such option (Rule 40A01.I).

An option that is in the money, and that has not been liquidated or exercised prior to its termination of trading, shall be exercised automatically upon expiration, in the absence of contrary instructions. Such contrary instructions must be delivered to the Clearing House, by the clearing member representing the buyer of such option, no later than 6:00 p.m. (or such other time as may be designated by the Exchange) on the last day of trading in such option (Rule 40A01.I).

A call option shall be in the money if the daily settlement price of the Underlying Futures Contract (Rules 40A01.D.) on the last day of trading in such option (Rules 40A01.I.) lies strictly above such option's exercise price, and shall be out of the money if such daily settlement price is at or below such option's exercise price.

A put option shall be in the money if the daily settlement price of the Underlying Futures Contract on the last day of trading in such option lies strictly below such option's exercise price, and shall be out of the money if such daily settlement price is at or above such option's exercise price.

### **40A02.B. Assignment**

~~Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.~~

For any given option contract, an exercise notice accepted by the Clearing House (in accord with Rule 40A02.A.) shall be assigned by the Clearing House through a process of random selection of clearing members carrying open short positions in such option contract. A clearing member to whom such exercise notice has been assigned shall be notified thereof as soon as practicable following such assignment.

~~The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.~~

The clearing member to whom such exercise notice has been assigned shall be assigned a short position in such option's Underlying Futures Contract (Rules 40A01.D.) if such option is a call, or a long position in such option's Underlying Futures Contract if such option is a put. The clearing member representing the option buyer making exercise shall be assigned a long position in such option's Underlying Futures Contract if such option is a call, or a short position in such option's Underlying Futures Contract if such option is a put.

~~All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.~~

Such futures positions shall be assigned at a price equal to the exercise price of such option contract, and shall be marked to market (in accordance with Rule 814) on the day on which the Clearing House accepts such exercise notice.

#### **40A03. [RESERVED]**

#### **40A04. CORRECTIONS TO OPTIONS EXERCISES**

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after ~~the 6:00 p.m. and no later than 7:00 p.m. (in accord with Rule 40A02.A.), deadline and up to the beginning of final option expiration processing~~ *provided that* such corrections are necessary due to: (1) a bona fide clerical error, (2) ~~an~~ un-reconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to 6:00 p.m. the deadline. The decision as to whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

#### **40A05. PAYMENT OF OPTION PREMIUM**

~~The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.~~

In respect of the purchase of an option, the corresponding option premium shall be paid in full to the Clearing House by the option purchaser's clearing member, and shall be paid in full to the option purchaser's futures commission merchant by the option purchaser, at the time that such option is purchased, or within a reasonable time after such option is purchased.