

## Chapter 27A

### CBOT<sup>®</sup> Dow Jones Industrial Average<sup>SM</sup> Index<sup>1</sup> (\$5 Multiplier) Futures Options

#### 27A00. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on CBOT Dow Jones Industrial Average<sup>SM</sup> (DJIA<sup>SM</sup>) Index (\$5 Multiplier) futures. Hereafter in this chapter, CBOT DJIA Index (\$5 Multiplier) futures shall be referenced as "CBOT \$5 Dow<sup>SM</sup> futures" or "mini-sized Dow<sup>SM</sup> futures." The DJIA is a price-weighted composite index of 30 of the largest and most liquid U.S. stocks. In addition to the rules of this chapter, transactions in options on mini-sized Dow<sup>SM</sup> futures shall be subject to the general rules of the Exchange insofar as applicable.

#### 27A01. OPTIONS CHARACTERISTICS

##### 27A01.A. Contract Months

The months listed for trading are January through December, provided however, that the Exchange may determine not to list a contract month. For options that are traded in months in which mini-sized Dow futures are not traded, the underlying futures contract is the next futures contract that is nearest to the expiration of the option. For example, the underlying futures contract for the October or November option contract is the December futures contract.

##### 27A01.B. Trading Unit

One mini-sized Dow futures contract of a specified contract month.

##### 27A01.C. Minimum Fluctuations

The premium for options on mini-sized Dow futures shall be in multiples of one index point of a mini-sized Dow futures contract which shall equal \$5.

However, a position may be initiated or liquidated in mini-sized Dow futures options at a premium ranging from \$1.00 to \$4.00, in \$1.00 increments per option contract.

##### 27A01.D. Trading Hours

The hours for trading of options on mini-sized Dow futures shall be determined by the Exchange. Options on mini-sized Dow futures shall be opened and closed for all months and strike prices simultaneously, or in such other manner as determined by the Exchange.

On the last day of trading in an expiring option, the closing time for such option shall be the same as the closing time of the underlying futures contract.

##### 27A01.E. Exercise Prices<sup>2</sup>

###### 1. Options in the March Quarterly Cycle

The exercise prices shall be stated in terms of the Dow Jones Industrial Average Stock Index (\$10 multiplier) futures contract.

A referencing index shall be determined each quarter on the day prior to the expiration of the March Quarterly futures contract and shall equal the daily settlement price of the nearest expiring Dow Jones Industrial Average Stock Index (\$10 multiplier) futures contract. The chosen referencing index will then be used to determine the strike listing range for all listed contract months. The index points are rounded down to the nearest integer.

At the commencement of trading for each contract month, the Exchange shall list all exercise prices in a range of 50 percent of the referencing index above and below the previous day's settlement price of the underlying futures contract that are integers divisible by 500 without remainder, e.g. 10,000, 10,500, 11,000, etc. The Exchange shall list all exercise prices in a range of 20 percent of the referencing index above and below the previous day's settlement price of the underlying futures contract that are integers divisible by 100 without remainder, e.g. 12,300, 12,400, 12,500, etc.

For the two nearest expiring option in the March Quarterly Cycle, exercise prices that are integers divisible by 50 without remainder shall be added, if they have not already been listed,

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<sup>2</sup> Revised June 2008; October 2010.

within a range of 10 percent of the referencing index above and below the previous day's settlement price of the underlying futures contract.

Thereafter, when a settlement price in the underlying futures contract occurs at, or passes through, any exercise price, the Exchange shall add on the next trading day, all eligible exercise prices in the corresponding ranges. New options may be listed for trading up to and including the termination of trading.

## 2. Options Not in the March Quarterly Cycle

Exercise prices for options not in the March quarterly cycle listed for trading shall be identical to the exercise prices that are listed for the March quarterly options on the same underlying futures contract. For example, the exercise prices listed for the January contract shall be identical to those listed for the March contract.

### **27A01.F. Position Limits**

In accordance with Rule 559., Position Limits and Exemptions, no person shall own or control positions in excess of 50,000 contracts net long or short in all months combined.

The aggregate position limit in DJIA Index (\$25 multiplier) futures, mini-sized Dow futures (\$5 multiplier) and options, and DJIA Index (\$10 multiplier) futures and options is 50,000 DJIA Index futures contracts, net long or net short in all contract months combined. For the purposes of this rule:

- One DJIA Index (\$10 multiplier) futures contract shall be deemed to be equivalent to two mini-sized Dow (\$5 multiplier) contracts.
- One DJIA Index (\$25 multiplier) futures contract shall be deemed to be equivalent to five mini-sized Dow (\$5 multiplier) contracts.
- Two DJIA Index (\$25 multiplier) futures contracts shall be deemed to be equivalent to five DJIA Index (\$10 multiplier) futures contracts.

Refer to Rule 559. for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

### **27A01.G. [Reserved]**

### **27A01.H. Nature of Options**

The buyer of one mini-sized Dow futures put option may exercise his option at any time prior to expiration (subject to Rule 27A02.A ), to assume a short position of one mini-sized Dow futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one mini-sized Dow futures put option incurs the obligation of assuming a long position of one mini-sized Dow 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 one mini-sized Dow futures call option may exercise his option at any time prior to expiration (subject to Rule 27A02.A), to assume a long position of one mini-sized Dow futures contract of a specified contract month at a striking price set at the time the option was purchased. The seller of one mini-sized Dow futures call option incurs the obligation of assuming a short position of one mini-sized Dow 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.

### **27A01.I. Termination of Trading**

For options expiring on the quarterly cycle, trading shall terminate on the same date and at the same time as the underlying futures contract. For options that expire in months other than those in the quarterly cycle, options trading shall terminate on the third Friday of the option contract month, at the end of the trading session. If that day is not an Exchange business day, options trading shall terminate on the first preceding business day.

### **27A01.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 in consistent 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.

## **27A02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise and assignment of mini-sized Dow futures options.

#### **27A02.A. Exercise of Option**

The buyer of a mini-sized Dow 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.

Notwithstanding the provisions of the preceding paragraph, for options with quarterly expirations, all in-the-money options shall be automatically exercised after 6:00 p.m. on the business day following the last day of trading, or such other time designated by the Exchange, unless notice to cancel automatic exercise is given to the Clearing House. For options with non-quarterly expirations, all in-the-money options shall be automatically exercised after 6:00 p.m. on the last day of trading, or such other time designated by the Exchange, unless notice to cancel automatic exercise is given to the Clearing House.

For options with quarterly expirations, 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 business day following the last day of trading. For options with non-quarterly expirations, 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.

An option is in-the-money if the settlement price of the underlying futures contract is less in the case of a put, or greater in the case of a call, than the exercise price for the option.

Unexercised mini-sized Dow futures options with quarterly expirations shall expire at 7:00 p.m. on the business day following the last day of trading.

Unexercised mini-sized Dow futures options with non-quarterly expirations shall expire at 7:00 p.m. on the last day of trading.

#### **27A02.B. Corrections to Options Exercises**

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after the 6:00 p.m. 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 unreconciled 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 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.

#### **27A02.C. 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 of the assignment as soon as practicable after such notice is assigned by the Clearing House.

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 in the underlying futures contract 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 or a short position in the underlying futures contract if a put is exercised. 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.

### **27A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES**

(Refer to Rule 701.).

### **27A04. OPTION PREMIUM LIMITS**

Option premium limits for the mini-sized Dow futures options shall correspond to the daily trading limit in effect at that time for the underlying futures contract as specified in Chapter 27. There shall be no trading in any option contract during a period in which trading in the underlying future is halted as specified in Chapter 27.

When the electronic trading platform is open for trading during non-regular trading hours, there shall be no trading in any option contract when the CBOT DJIA underlying futures contract is limit bid or limit offered.

**27A05. 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.

**27A06. DISCLAIMER**

CBOT mini-sized Dow futures and futures options contracts are not sponsored, endorsed, sold or promoted by Dow Jones. Dow Jones makes no representation or warranty, express or implied, to the owners of CBOT mini-sized Dow futures and futures options contracts or any member of the public regarding the advisability of trading in mini-sized Dow futures and futures options contracts. Dow Jones' only relationship to the Exchange is the licensing of certain trademarks and trade names of Dow Jones and of the DJIA which is determined, composed and calculated by Dow Jones without regard to the Chicago Board of Trade or CBOT mini-sized futures and futures options contracts. Dow Jones has no obligation to take the needs of the Chicago Board of Trade or the owners of CBOT mini-sized Dow futures and futures options contracts into consideration in determining, composing or calculating the DJIA. Dow Jones is not responsible for and has not participated in the determination of the timing of, prices of, or quantities of CBOT mini-sized Dow futures and futures options contracts to be listed or in the determination or calculation of the equation by which CBOT mini-sized Dow futures and futures options contracts are to be converted into cash. Dow Jones has no obligation or liability in connection with the administration, marketing or trading of the CBOT mini-sized Dow futures and futures options contracts.

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