

Chapter 18A

Standard Options on U.S. Treasury Bond Futures

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 options on U.S. Treasury Bond futures shall be subject to the general rules of the Exchange insofar as applicable.

18A01. OPTIONS CHARACTERISTICS

18A01.A. Contract Months

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.

18A01.B. Trading Unit

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

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.

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

18A01.D. Trading Hours

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.

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:

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.

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

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 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.

18A01.H. Reserved

18A01.I. Termination of 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.

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.

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.

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

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.

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.

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.

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.

18A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701.).

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. 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 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.