

DATE: March 1, 2017

TO: Clearing Member Firms

FROM: CME Clearing

ADVISORY #: 17-084

SUBJECT: **New fields in SPAN file and Product Reference File
for Option Expiration Processing**

On March 24, 2017, CME will introduce a change to the expiration behavior of options on FX futures which happen to close exactly at-the-money – an infrequent condition.

Currently, both calls and puts in these options are treated as out-of-the-money if they close precisely at-the-money at expiration. With the change, exactly at-the-money calls will be treated as in-the-money and will be exercised or assigned, while exactly at-the-money puts will be treated as out-of-the-money and will be expired unexercised and unassigned. The change is being introduced at the request of market participants and will allow certain conversion and reversal strategies to remain risk-neutral at option expiration even for a call/put pair that happens to end up exactly at-the-money. It is also expected to increase liquidity and maintain tighter bid/ask spreads.

For more information, please see Clearing Advisory 17-074, published on February 24, 2017, at: <http://www.cmegroup.com/notices/clearing/2017/02/Chadv17-074.pdf> and Special Executive Report S-7851, published on February 27, 2017, at: <http://www.cmegroup.com/notices/ser/2017/02/SER-7851.pdf>

There are no plans at this time to extend this change to options on asset classes other than FX.

To allow clearing firms to automate this different behavior in their bookkeeping systems, two new fields are being added to the PA2-format SPAN file and to both the FIXML-format and CSV-format Product Reference Files (PRF files) for options. The PRF files are published in the late afternoon of every business day, and provide a comprehensive set of reference data for all contracts which are eligible to trade on the next business day. The new fields will be available in the “New Release” version of the files on April 12, and in production on Monday, April 24.

In addition, for a several month period, CME Clearing will publish an alert, via email, on any evening when FX options are expiring exactly at-the-money, listing the affected strike(s).

The first new field is called the “**In The Money Condition**”, and is provided as an attribute **ITMCond** of the **DerivInstrmt** element. For example:

<DerivInstrmt ITMCond="2"/>

The attribute may assume any of four possible values:

0 = At-the-money is out-of-the-money – Exactly at-the-money is treated as out-of-the-money for both calls and puts. **This is the current behavior for all CME-cleared options.**

1 = At-the-money is in-the-money – Exactly at-the-money is treated as in-the-money for both calls and puts.

2 = At-the-money call is in-the-money – An exactly at-the-money call is treated as in-the-money at expiration, while an exactly out-of-the-money put is treated as out-of-the-money. **This is the behavior that will apply to options on FX futures starting on March 24.**

3 = At-the-money put is in-the-money – An exactly at-the-money put is treated as in-the-money at expiration, while an exactly at-the-money call is treated as out-of-the-money.

The second new field is called the “**Contrary Instruction Eligible Indicator**”, and indicates whether contrary instructions (in-the-money abandonments or out-of-the-money exercises) are allowed or disallowed at option expiration. The field is provided as an attribute named **CntraryInstEligInd** of the **DerivInstrmt** element. For example:

<DerivInstrmt CntraryInstEligInd="N"/>

The field will assume either of two allowable values:

Y – Contrary instructions are allowed

N – Contrary instructions are NOT allowed. This is the behavior for all CME options on FX futures.

In the CSV-format PRF files, the two new fields will be added at the end, with column headings of **ITMCond** and **CntraryInstEligInd**, exactly as shown above, and with the values as shown above.

In the PA2-format SPAN file, the new fields will be added to the type “P” records for option products, at the end of the record, in two new fields in bytes 165 and 166, respectively. The layout document for the type “P” record is at:

<http://www.cmegroup.com/confluence/display/pubspan/Type+P+Record+-+Standard+and+Expanded>

For more information and/or to request sample FIXML-format or CSV-format Product Reference files illustrating the upcoming change, please contact CME Clearing at 312-207-2525.