



Special Executive Report

S-7778

November 2, 2016

Amendments to Daily Option Settlement Procedure Document

Effective on trade date Monday, November 14, 2016, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. ("CME"), The Board of Trade of the City of Chicago, Inc. ("CBOT"), New York Mercantile Exchange, Inc. ("NYMEX") and Commodity Exchange, Inc. ("COMEX") (collectively, the "Exchanges") will amend the Daily Option Settlement Procedure document to clarify that daily settlements for out-of-the-money options are determined based on market activity throughout the trading day and on all venues including the trading floor, as applicable. Additionally, the amendments codify that for all NYMEX and COMEX options products, the interest rate used is derived from the point on the Overnight Index Swap (OIS) curve corresponding to the expiration date of the option contract.

The amendments to the Daily Option Settlement Procedure document appear below with additions underscored.

Questions regarding this Special Executive Report may be directed to the CME Global Command Center at 800.438.8616, in Europe at 44.800.898.013, or in Asia at 65.6532.5010.

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or news@cmegroup.com.

CME/CBOT/NYMEX/COMEX- Daily Option Settlement Procedures

(additions underscored)

Daily option settlements

CME Group staff determines the daily settlements for the out of the money options based on market activity throughout the day, on all venues (including, but not limited to, CME Globex, CME ClearPort, CME Direct and the trading floor as applicable). Once the underlying futures have been settled the implied volatility skews will be used in conjunction with the futures settlement price to derive settlement prices for the options.

In-The-Money Options Put-Call Parity Equation

In-the-money options are settled automatically by the Exchange in accordance with the put-call parity equation, taking into account the appropriate cost of carry.

In-the-money options settlement = (Out-of-the-money settlement + Intrinsic Value) – (Cost of Carry + Early Risk)

Cost of carry = Intrinsic Value x (1 - e^{- (Interest Rate x Days to Expiration/365)})

The cost of carry is rounded to the nearest minimum increment of the underlying futures contract. For all products (excluding NYMEX/COMEX), the interest rate used will be a weighted average of the rates implied by the daily settlements of the Eurodollar futures contracts up to (but not including) the options expiration.

For all NYMEX and COMEX products, the interest rate used will be the rate on the Overnight Index Swap (OIS) curve corresponding with the expiration date for each contract.

Eurodollar Options Settlement Guidelines

Orders Eligible for Settlement Consideration:

1. Outright Orders (OTM only)
2. Straddles (ATM only, no contingent futures)
3. Strangles (equidistant from ATM only)
4. Call and Put Spreads (OTM/ATM only)
5. Butterflies/Iron Butterflies/Ratios (1X2 only)
6. Condors/Christmas Trees
7. Outright Options vs. Futures (market delta only)
8. Intermont Straddle (ATM only) and Call/Put Spreads (OTM only)

Notes:

- Orders not part of these Settlement Guidelines will not be considered in the daily settlement process.
- Globe markets will be considered for settlement purposes.
- No spreads with 2 or more legs that are in-the-money will be considered.
- No spreads that include a leg that is CAB offered will be considered.
- Put/call parity will not be violated nor will the cost of carry be adjusted.
- Traders are reminded that orders must be openly bid or offered at least two minutes prior to the close to be eligible for consideration in the settlement process.
- Settlements should reflect mid-market prices whenever possible
- In-the-money options will continue to be settled automatically*

*In-the-money options are settled automatically by CME Group in accordance with the put/call parity equation taking into account the appropriate cost of carry.