

Chapter 40A

Options on Ultra U.S. Treasury Bond Futures

40A00. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on Ultra U.S. Treasury Bond futures. In addition to the rules of this chapter, transactions in such options 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 Expiration Dates and Trading Hours

Options shall be listed for expiration on such dates as may be determined by the Exchange, subject to Rule 40A01.D. and Rule 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 options on Ultra U.S. Treasury Bond futures generally shall be opened or closed simultaneously.

1. Quarterly Options, Serial Options and Friday Weekly Options

On its last day of trading, expiring Quarterly Options, Serial Options and Friday Weekly options 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 Rule 40A01.I.).

2. Monday Weekly Options

On its last day of trading, an expiring Monday Weekly option shall cease trading at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract (in accord with Rule 40A01.I.).

3. Tuesday Weekly Options

On its last day of trading, an expiring Tuesday Weekly option shall cease trading at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract (in accord with Rule 40A01.I.).

4. Wednesday Weekly Options

On its last day of trading, an expiring Wednesday Weekly option shall cease trading at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract (in accord with Rule 40A01.I.).

5. Thursday Weekly Options

On its last day of trading, an expiring Thursday Weekly option shall cease trading at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract (in accord with Rule 40A01.I.).

40A01.B. Trading Unit

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 Ultra U.S. Treasury Bond futures contract for a given delivery month (Chapter 40).

40A01.C. Minimum Fluctuations

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 ($1/64^{\text{th}}$) of one point (equal to \$15.625 per option contract), *provided that* a position in such option may be initiated or liquidated at any price level ranging from \$1.00 to \$15.00 per option contract, in \$1.00 increments, unless otherwise specified in the current CBOT Market Regulation Advisory Notice entitled Cabinet Transactions in Options Products.

Where the price of such option is quoted in volatility terms, the minimum price fluctuation shall be one tenth ($1/10^{\text{th}}$) of one percent per annum (e.g., 9.9 percent, 10.0 percent, 10.1 percent, 10.2 percent).

40A01.D. Underlying Futures Contracts

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 Ultra 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, Ultra 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 Ultra 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, Ultra 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. Friday Weekly Options

A Friday 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 Ultra 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.).

4. Monday Weekly Options

For any Monday Weekly option, the Underlying Futures Contract shall be Ultra 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 Monday Weekly option is listed for trading. For an Underlying Futures Contract for a given delivery month, all Monday Weekly options shall expire prior to the expiration of quarterly options (Rule 40A01.D.1. and Rule 40A01.I.1.).

5. Tuesday Weekly Options

For any Tuesday Weekly option, the Underlying Futures Contract shall be Ultra 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 Tuesday Weekly option is listed for trading. For an Underlying Futures Contract for a given delivery month, all Tuesday Weekly options shall expire prior to the expiration of quarterly options (Rule 40A01.D.1. and Rule 40A01.I.1.).

6. Wednesday Weekly Options

For any Wednesday Weekly option, the Underlying Futures Contract shall be Ultra 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 Wednesday Weekly option is listed for trading. For an Underlying Futures Contract for a given delivery month, all Wednesday Weekly options shall expire prior to the expiration of quarterly options (Rule 40A01.D.1. and Rule 40A01.I.1.).

7. Thursday Weekly Options

For any Thursday Weekly option, the Underlying Futures Contract shall be Ultra 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 Thursday Weekly option is listed for trading. For an Underlying Futures Contract for a given delivery month, all Thursday Weekly options shall expire prior to the expiration of quarterly options (Rule 40A01.D.1. and Rule 40A01.I.1.).

40A01.E. Exercise Prices

1. One (1) Point Exercise Prices

Option exercise prices shall be in terms of Ultra 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 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 Quarterly put and call options and Serial put and call options for trading 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, and shall list Weekly put and call options, Monday Weekly put and call options, and Wednesday Weekly put and call options for trading at all eligible exercise price levels in a range of 20 points above and 20

points below (i.e., 20 exercise price levels above and 20 exercise price levels below) the ATM exercise price.

Thereafter, the Exchange shall add new put and call options to ensure that such Quarterly and Serial 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, and that such Weekly, Monday Weekly, and Wednesday Weekly options are listed for trading at all eligible exercise prices in a range of at least 20 points above and at least 20 points 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.

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.

2. Special Listings of One Half (1/2) of One Point Exercise Prices

At any given time, the Exchange shall ensure that options are listed for trading at exercise prices that are in terms of Ultra U.S. Treasury Bond futures price points (Rule 40102.C.) and shall be in integer multiples of one half (1/2) of one (1) point for (i) all Weekly Options and (ii) the nearest expiring Serial or Quarterly Options (Rule 40A01.C.). For any Weekly, Serial or Quarterly Options with exercise price levels in integer multiples of one half (1/2) of one (1) point, the Exchange shall add new put and call options in integer multiples of one half (1/2) of one (1) price point in a range of at least 3 points above and at least 3 points below (i.e. 3 additional exercise price levels above and 3 additional exercise prices below) the ATM exercise price level that is set with reference to the most recent Underlying Futures Contract settlement price.

40A01.F. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

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

40A01.F. [Reserved]

40A01.G. Nature of Options

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 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. Special Price Fluctuation Limits

At the commencement of each trading day, the contract shall be subject to special price fluctuation limits as set forth in Rule 589 and in the Special Price Fluctuation Limits and Daily Price Limits Table in the Interpretations & Special Notices Section of Chapter 5.

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. No weekly option shall be designated to expire on any day that is also the last day of trading in a Friday, quarterly or serial option.

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.

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

3. Monday Weekly Options

For a given Monday Weekly option contract, the last day of trading shall be the Monday on which such option is designated to expire (Rule 40A01.D.4.). If such Monday is an Exchange holiday, the weekly option shall not be listed for trading. On its last day of trading, trading in such options shall terminate at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract.

4. Tuesday Weekly Options

For a given Tuesday Weekly option contract, the last day of trading shall be the Tuesday on which such option is designated to expire (Rule 40A01.D.5.). If such Tuesday is an Exchange holiday, the weekly option shall not be listed for trading. On its last day of trading, trading in such options shall terminate at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract.

5. Wednesday Weekly Options

For a given Wednesday Weekly option contract, the last day of trading shall be the Wednesday on which such option is designated to expire (Rule 40A01.D.6.). If such Wednesday is an Exchange holiday, the weekly option shall not be listed for trading. On its last day of trading, trading in such options shall terminate at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract.

6. Thursday Weekly Options

For a given Thursday Weekly option contract, the last day of trading shall be the Thursday on which such option is designated to expire (Rule 40A01.D.7.). If such Thursday is an Exchange holiday, the weekly option shall not be listed for trading. On its last day of trading, trading in such options shall terminate at the same time at which the Exchange determines the settlement price for that day for such option's Underlying Futures Contract.

40A01.J. Contract Modification

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 options.

40A02.A. Exercise

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 5:30 p.m., or by such other time as the Exchange may designate, on the day of exercise.

1. Quarterly Options, Serial Options and Friday Weekly Options

An unexercised option shall expire at 5:30 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 5:30 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 (Rule 40A01.D.) on the last day of trading in such option (Rule 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.

2. Monday Weekly Options

An option that has not been liquidated or exercised prior to its termination of trading (according to Rule 40A01.I.3.) shall be exercised automatically by the Clearing House if such option expires in the money. Such option shall be abandoned automatically by the Clearing House if it expires out of the money. For the avoidance of doubt, no such option that expires in the money shall be abandoned, and no such option that expires out of the money shall be exercised.

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

3. Tuesday Weekly Options

An option that has not been liquidated or exercised prior to its termination of trading (according to Rule 40A01.I.4.) shall be exercised automatically by the Clearing House if such option expires in the money. Such option shall be abandoned automatically by the Clearing House if it expires out of the money. For the avoidance of doubt, no such option that expires in the money shall be abandoned, and no such option that expires out of the money shall be exercised.

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

4. Wednesday Weekly Options

An option that has not been liquidated or exercised prior to its termination of trading (according to Rule 40A01.I.5.) shall be exercised automatically by the Clearing House if such option expires in the money. Such option shall be abandoned automatically by the Clearing House if it expires out of the money. For the avoidance of doubt, no such option that expires in the money shall be abandoned, and no such option that expires out of the money shall be exercised.

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

5. Thursday Weekly Options

An option that has not been liquidated or exercised prior to its termination of trading (according to Rule 40A01.I.6.) shall be exercised automatically by the Clearing House if such option expires in the money. Such option shall be abandoned automatically by the Clearing House if it expires out of the money. For the avoidance of doubt, no such option that expires in the money shall be abandoned, and no such option that expires out of the money shall be exercised.

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

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 to whom such exercise notice has been assigned shall be assigned a short position in such option's Underlying Futures Contract (Rule 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.

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. [RESERVED]

40A05. PAYMENT OF OPTION PREMIUM

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.