

Chapter 22B

Binary Options on the Target Federal Funds Rate

22B00. SCOPE OF CHAPTER

This chapter is limited in application to binary put and call options on the Target Federal Funds Rate. In addition to the rules of this chapter, transactions in Binary Options on the Target Federal Funds Rate (hereafter "Binary Options") shall be subject to the general rules of the Exchange insofar as applicable.

22B01. OPTIONS CHARACTERISTICS

22B01.A. Contract Months

Binary Options may be listed for trading by the Exchange with such contract expiration months as shall be determined by the Exchange. Without limiting the foregoing, the Exchange customarily shall list for trading Binary Options that expire in each of the next four contract expiration months.

At the time that any Binary Option is listed for trading, the Exchange shall define the contract expiration month of such Binary Option with reference to a regularly scheduled meeting of the Federal Open Market Committee (hereafter the FOMC). Regularly scheduled meetings of the FOMC shall be as indicated in the FOMC meeting calendar that is maintained and published by the Board of Governors of the Federal Reserve. For the purpose of this rule, a contract expiration month shall be defined as any calendar month that contains the terminal day of a regularly scheduled meeting of the FOMC.

The contract expiration month for any given Binary Option shall be set by the Exchange on the basis of the most recently published FOMC meeting calendar as of the date that such Binary Options are listed for trading by the Exchange. The contract expiration month for said Binary Option, so determined, shall remain fixed, notwithstanding such changes to the schedule of meetings of the FOMC as may occur after said Binary Option has been listed by the Exchange for trading.

22B01.B. Trading Unit

The unit of trading shall be one thousand dollars (\$1,000.00).

22B01.C. Minimum Fluctuations

The option premium of a Binary Option shall be quoted in points, shall never be less than zero points, and shall never exceed one hundred points. One point shall equal ten dollars (\$10.00). The minimum price fluctuation shall be one point, or ten dollars (\$10.00) per contract. However, a position may be initiated or liquidated in Binary Options at a premium ranging from \$1.00 to \$9.00, in \$1.00 increments per option contract.

22B01.D. Trading Hours

The hours of trading in Binary Options shall be determined by the Exchange. The market shall be opened and closed for all contract expiration months and contract striking levels simultaneously or in such other manner as the Exchange shall direct.

Trading in an expiring contract shall cease at 2:00 p.m. Chicago time on the last day of trading.

22B01.E. Exercise Prices

Trading shall be conducted in Binary Options with contract striking levels expressed in terms of the Contract Grade Index (Rule 22B04.). All contract striking levels shall be listed in integral multiples of one eighth of one unit of the Contract Grade Index (i.e., integral multiples of 0.125 Contract Grade Index units).

At such time that Binary Options, for any given contract expiration month, are listed for trading by the Exchange, the listing shall comprise the following contract striking levels:

One striking level that is closest to the value of the Contract Grade Index (Rule 22B04.) at the time such Binary Option contracts are listed for trading; and

twenty higher contract striking levels; and

twenty lower contract striking levels.

Over time, new contract striking levels will be added to ensure that at least ten consecutive contract striking levels always exist above and below the prevailing value of the Contract Grade Index, subject to the following constraints:

The Exchange will not list for trading any Binary Option that has a contract striking level that is outside the range of values permissible for the Contract Grade Index (Rule 22B04.).

The Exchange will not list for trading any Binary Call Option that has a contract striking level equal to one hundred (100.00)

The Exchange will not list for trading any Binary Put Option that has a contract striking level equal to zero (0.00).

All new contract striking levels shall be added prior to the opening of trading on the following business day.

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

22B01.F. Reserved

22B01.G. Nature of Binary Options on Target Federal Funds Rate

The buyer of one Binary Put Option shall receive one thousand dollars (\$1,000.00) if the outcome applicable to such Binary Put Option is less than the contract striking level set at the time the contract was purchased, and shall receive zero dollars (\$0.00) otherwise. The seller of one Binary Put Option shall incur the obligation of paying one thousand dollars (\$1,000.00) if the outcome applicable to such Binary Put Option is less than the contract striking level set at the time the contract was sold, and the obligation of paying zero dollars (\$0.00) otherwise.

The buyer of one Binary Call Option shall receive one thousand dollars (\$1,000.00) if the outcome applicable to such Binary Call Option is greater than the contract striking level set at the time the contract was purchased, and shall receive zero dollars (\$0.00) otherwise. The seller of one Binary Call Option shall incur the obligation of paying one thousand dollars (\$1,000.00) if the outcome applicable to such Binary Call Option is greater than the contract striking level set at the time the contract was sold, and the obligation of paying zero dollars (\$0.00) otherwise.

22B01.H. Reserved

22B01.I. Termination of Trading

The last day of trading in a Binary Option shall be the business day following the terminal day of the regularly scheduled FOMC meeting that determines the contract expiration month of said Binary Option (Rule 22B01.A.).

The last day of trading for any given Binary Option shall be set by the Exchange on the basis of the most recently published FOMC meeting calendar as of the date that such Binary Option is listed for trading by the Exchange.

The last day of trading for said Binary Option, so determined, shall remain fixed, notwithstanding such changes to the schedule of meetings of the FOMC as may occur after said Binary Option has been listed by the Exchange for trading.

22B01.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 rules 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.

22B02. LIQUIDATION AT CONTRACT EXPIRATION

After trading has ceased in expiring Binary Options (Rule 22B01.I), outstanding option contracts shall be liquidated by cash settlement through the Clearing House (Rules 22B01.G. and 22B04.).

22B03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701.).

22B04. STANDARDS

The contract grade for a Binary Option on the Target Federal Funds Rate shall be the following Contract Grade Index:

$$100 \text{ minus } r$$

where r is the Target Federal Funds Rate.

For any arbitrary date, the Target Federal Funds Rate shall be as determined at the latest meeting of the FOMC and as most recently published by the Board of Governors of the Federal Reserve.

Example: If the Target Federal Funds Rate established at the latest meeting of the FOMC is 8.25%, the Contract Grade Index will represent this rate as ninety-one and three-quarters (91.75) Contract Grade Index points.

Such "latest meeting of the FOMC" is not required to be a regularly scheduled meeting of the FOMC, as defined in Rule 22B01.A..

Notwithstanding the foregoing, the Contract Grade Index shall not take any value less than zero (0.00) Index points nor any value exceeding one hundred (100.00) Index points.

The outcome applicable to an expiring Binary Option shall be defined as the Contract Grade Index representation of the latest Target Federal Funds Rate to have been announced by the Board of Governors of the Federal Reserve prior to 4:00 p.m. Chicago time (5:00 p.m. Eastern time) on the last day of trading in said Binary Option (Rule 22B01.1.).

If, on the last day of trading in an expiring Binary Option, the Board of Governors of the Federal Reserve has failed to publish prior to 4:00 p.m. Chicago time (5:00 p.m. Eastern time), the Target Federal Funds Rate as determined at the latest meeting of the FOMC, then the outcome applicable to such expiring Binary Option shall be based upon such determination of the Target Federal Funds Rate as published by the Federal Reserve Bank of New York.

If, on the last day of trading in an expiring Binary Option, neither the Board of Governors of the Federal Reserve nor the Federal Reserve Bank of New York has published prior to 4:00 p.m. Chicago time (5:00 p.m. Eastern time) the Target Federal Funds Rate as determined at the latest meeting of the FOMC, then the outcome applicable to such expiring Binary Option shall be based upon such determination of the Target Federal Funds Rate as published by any Federal Reserve District Bank.

If, on the last day of trading in an expiring Binary Option, neither the Board of Governors of the Federal Reserve nor any Federal Reserve District Bank has published prior to 4:00 p.m. Chicago time (5:00 p.m. Eastern time) the Target Federal Funds Rate as determined at the latest meeting of the FOMC, then the Exchange shall defer computation of the outcome applicable to such expiring Binary Option, and shall defer the corresponding liquidation of outstanding option contracts, until 4:00 p.m. Chicago time (5:00 p.m. Eastern time) on the third business day following the scheduled last day of trading in the expiring Binary Option.

In the event that computation of the outcome applicable to an expiring Binary Option, and the liquidation of such outstanding option contracts, is deferred, then such deferred outcome shall be based upon a determination of the Target Federal Funds Rate, as published between the last day of trading in the expiring option and 4:00 p.m. Chicago time (5:00 p.m. Eastern time) on the third business day thereafter:

Such deferred outcome shall be based upon the Target Federal Funds Rate as published by the Board of Governors of the Federal Reserve during the three-business-day interval defined in the previous paragraph.

In the absence of such publication by the Board of Governors of the Federal Reserve, the deferred outcome shall be based upon the Target Federal Funds Rate as published by the Federal Reserve Bank of New York during the previously defined three-business-day interval.

In the absence of such publication by either the Board of Governors of the Federal Reserve or the Federal Reserve Bank of New York, the deferred outcome shall be based upon the Target Federal Funds Rate as published by any Federal Reserve District Bank during the previously defined three-business-day interval.

In the absence of such publication by either the Board of Governors of the Federal Reserve or any Federal Reserve District Bank, the deferred outcome shall be based upon the Target Federal Funds Rate as published in *The Wall Street Journal* (Central Edition) during the previously defined three-business-day interval.

In the absence of such publication by the Board of Governors of the Federal Reserve, or any Federal Reserve District Bank, or *The Wall Street Journal* (Central Edition) during the previously defined three-business-day interval, then the deferred outcome shall be based upon the Target Federal Funds Rate as published for the meeting of the FOMC that immediately preceded the latest meeting of the FOMC.