

# SPX pm – It's Here !!

## CBOE:C2<sup>SM</sup>

**CBOE** : THE OPTIONS  
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**Presented by:**

**The Options Institute at CBOE**

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# SPX pm – What is it?

SPX Options (options on the S&P 500®) have been the most actively traded Index and (very often) the busiest option in US markets for years.

SPXpm<sup>SM</sup> options are different (but the same as) SPX options.

Follow along with us as we explain the newly launched and exciting SPMpm options

**SPXpm** Ticker Symbol **SPXPM**

# Presentation Outline

SPXpm – What is it?

Index Options – What are They?

How Does SPXpm Compare to the SPY?

Features of SPX pm

All Electronic Exchange – C2

60-40 Tax Treatment

Possible Commission Savings vs. SPY

Protecting a Diversified Portfolio – an Example

Links & Resources

# SPXpm

## **SPXpm Options– What are they?**

The same as SPX except settle at the close of trading on the last day.

Cash Settled

European Style

Broad Based Index

1256 Contract

All-Electronic Exchange – Point and Click

# Presentation Outline

SPXpm – What is it?

**Index Options – What are They?**

# Index Options vs. ETF Options

ETF Options are like stock options

- The underlying is 100 shares
- Exercise/Assignment: Buy/Sell Shares
- SPY options are ETF options

**Index Options** are different

- The underlying is a cash value
- Exercise/Assignment: Receive/Pay Cash
- SPXpm options are Index options

# Index Options vs. ETF Options

Many underlying indexes are the same.

<u>Index</u>	<u>ETF</u>	<u>Index Options</u>
DJIA <sup>®</sup>	DIA	DJX
S&P 500 <sup>®</sup>	SPY	SPX & SPXpm
S&P 100 <sup>®</sup>	OEF	OEX & XEO
NASDAQ 100 <sup>®</sup>	QQQQ	NDX & MNX
Russell 2000 <sup>®</sup>	IWM	RUT



# Index Options vs. ETF Options

Index & ETF options often have different relationships.

–  $SPY = 1/10 \times S\&P\ 500$

(S&P 500 = 1,100; SPY = 110)

– SPXpm Index = full size S&P 500

(S&P 500 = 1,100; SPXpm = 1,100)

# Index Options – \$100 Multiplier

The dollar cost of an index option is:  
\$100 *times* the stated option price.

“SPXpm 1220 Call @ 8.00”

Price of Option =  $\$100 \times 8 = \$800$

# The Cash Settlement Process

Example: at expiration SPX Index is 1187.31

Cash Value of a SPXpm 1180 Call?

Index Value	1187.31
Less Strike Price	1180.00
Difference	7.31
x Multiplier	<u>x \$100</u>
Cash from Seller to Buyer	\$731.00

# Exercise Style

## American-Style Exercise

- Stock and ETF (including SPY) options
- Can be exercised on any business day.

## European-Style Exercise

- SPXpm, SPX, XSP, DJX, NDX, MNX, RUT, XEO, etc.
- SPXpm may only be exercised on the last day.

# PM Settlement & AM Settlement

PM Settlement – based on closing prices.

- The index is calculated after the market close (typically on Friday) when closing prices are available. Examples: OEX, XEO, SPXpm

AM Settlement – based on opening prices.

- The last trading day is typically a Thursday.
- Settlement is calculated from Friday opening prices.  
Examples: SPX, DJX, NDX, MNX, RUT

SPXpm and SPY options are both PM Settlement

# 60-40 Tax Treatment

ETF's and ETF options are treated like  
stock and stock options\*

Broad-Based Index Options  
receive "60-40" treatment\*

- According to Taxes and Investing, available from <http://www.optionsclearing.com/about/publications/character-risks.jsp>
- Note: Investors should consult with their tax advisors to determine how the profit and loss on any particular option strategy will be taxed. Tax laws and regulations change from time to time and may be subject to varying interpretations.

# “60-40” Tax Treatment

Section 1256 Contracts: regardless of holding period, profits and losses are treated as 60% long-term and 40% short-term capital gain or loss.

Reported on Form 6781 and Schedule D

Positions are “marked to market” at year end and taxed as if closed. Year-end prices become basis for next year.

# Some Broad-Based Index Options

DJX – Dow Jones Industrial Average

OEX – S&P 100 Index Options – American

XEO – S&P 100 Index Options – European

SPX – S&P 500 Index Options

**SPXpm** – S&P 500 Index Options

XSP – Mini-S&P 500 Index Options

MNX – CBOE Mini-NDX Index Options

RUT – Russell 2000 Index Options



# Protecting a Diversified Portfolio

- You own a \$1,000,000 portfolio that closely follows the S&P 500 (now at 1,250)
- You are worried about a ~15% market decline in the next 6 months.
- You want to limit downside risk to less than 5% and keep the upside.

# Buying Index vs. ETF Puts

## SPX at 1250

Buy **8** SPXpm 1210 Puts @ \$20.00

Cost = \$16,000

or

Buy **80** SPY 121 Puts at \$2.00

Cost = \$16,000

# How the Protection Works

Assume SPX at 1,060 at expiration.

Market is down 15%, so portfolio is down 15%.

\$1m stock portfolio on now worth \$850,000

With SPXpm @ 1060, 1210 Puts @ 150.00

Value of puts = \$120,000

Total Portfolio = \$954,000\*

\*  $\$850k + \$120k - \$16k$  (cost of puts) =  $\$954k$

# Some SPXpm & SPY Differences

- SPY commission 80 contracts in and out  
SPXpm 8 commissions in and out

Tax consequences on put gain

SPXpm 1256 (60/40)

SPY tax status uncertain

SPY position turns into SPY shares if not closed, SPXpm settle in cash

If SPY options were sold in a strategy, risk of early assignment (SPXpm European Style)

# SPXpm Summary

- SPXpm symbol is **SPXPM**
- All electronic point and click at C2 exchange
- C2 electronic market-maker network
- Settle in cash
- Commissions and risk of early assignment with popular investor strategies like credit spreads a big factor with SPXpm versus SPY Options.

# Landscape: S&P 500 Options

Description	CBOE S&P 500 Index Options	C2 S&P 500 Index Options - SPXpm	Multiple List SPDR ETF Options
Tickers	SPX, SPXQ, SPXW	SPXPM	SPY
Trading Account Needed	Securities	Securities	Securities
Exercise-Style	European	European	American
Settlement Type	Cash	Cash	Physical ETF
Settlement	Regular, 3rd Friday SPX options are AM-settled. SPX Weeklys and Quarterlys are PM-settled	PM-settled	PM-settled
Primary Market Model	Regular, 3rd Friday SPX options and SPX Quarterlys are traded primarily in open outcry. SPX Weeklys are traded on CBOE Hybrid.	Electronic	Hybrid
Contract Size (times S&P 500 Index)	\$100	\$100	\$10
Average Daily Volume (ADV), 2011 YTD Through June 2011	670,039	(not yet listed)	2,304,940
ADV Adjusted to SPX Contract Size (rounded to nearest thousand)	670,000	(not yet listed)	230,000
Tax Treatment for Taxable Public Customers	Blended 60%/40% long-term/short-term rates may apply	Blended 60%/40% long-term /short-term rates <u>may apply</u>	Taxation is uncertain
Public Customer Margins	Choice of strategy and portfolio-based margins	Choice of strategy and portfolio-based margins	Choice of strategy and portfolio-based margins
Position Limits <sup>1</sup>	None	TBD	900,000 contracts on either side of the market

Footnotes:

1. No SPX and SPXpm position limits but reporting rules may apply for positions over 100,000 contracts
2. Investors should consult with their tax advisors to determine how the profit and loss on any particular option strategy will be taxed. Tax laws and regulations change from time to time and may be subject to varying interpretations.

# Trading Index Options

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