Characteristics and Associated Risks of Binary Options (CARBO)

Binary Options on Key Performance Indicators (KPI Binary Options)

Options Disclosure Document for products issued and cleared by Cboe Clear U.S., LLC ("CCUS")

October 2026

20261111-6107751-19446200

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This document, titled *Characteristics and Associated Risks of Binary Options (the "CARBO")*, is the options disclosure document for binary options based on Key Performance Indicators ("**KPI Binary Options**") that are issued and cleared by **Cboe Clear U.S., LLC** ("**CCUS**"). In addition to describing the characteristics and associated risks of KPI Binary Options, the CARBO contains certain information on binary options that are based solely on the trading price of the underlying security or the value of the underlying index ("**underlying price binary options**"). Any information contained in the CARBO about types of binary options that are not issued and cleared by CCUS is provided for context as background information only, and the CARBO should not be construed as the options disclosure document for such products.

As of the date of the CARBO, the KPI Binary Options described in this document are expected to be the only type of securities options issued and cleared by CCUS and will be listed on Cboe Exchange, Inc. ("**Cboe Options Exchange**"). Additional options exchanges may take the steps necessary to list these KPI Binary Options in the future, and CCUS may provide clearance and settlement services for such options exchanges in the future. The description of the characteristics and risks of KPI Binary Options contained in the CARBO applies only to KPI Binary Options issued and cleared by CCUS. CCUS may issue and clear additional securities options in the future and will provide information about any additional types of securities options subsequently issued and cleared by CCUS in this document or a separate options disclosure document.

CCUS is a registered clearing agency that is subject to regulation by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 ("Securities Exchange Act"). A U.S. options market (an "**options exchange**"), such as Cboe Options Exchange, is a national securities exchange that is subject to regulation by the SEC under the Securities Exchange Act.

The products described in this document might not be available for trading on an option exchange at all times.

Chapter 1: Overview

As a type of derivative product, an option is a financial instrument with value determined by or derived from the value of an underlying security or other interest, such as an index or Key Performance Indicator ("KPI") value or measure. **A binary option** is a type of option that is cash-settled and has only two possible payoff outcomes: either a fixed amount, referred to as the **exercise payout amount** (also known as the **cash settlement amount** or **exercise settlement amount**) or nothing at all. The purchaser of a binary option (also known as the **buyer** or **holder**) has the right to receive the **exercise payout amount** if the **exercise criterion** (defined below) of the binary option is met when the option expires, resulting in the automatic exercise of the option. The seller of the option (also known as the **writer**) has the obligation to pay the exercise payout amount if the **exercise criterion** of the binary option is met and the option is exercised.

As an option contract, a binary option is traded on an option exchange (also referred to as an **options market**) where option buyers (**holders**) and sellers (**writers**) can agree to buy and sell this type of product for a **premium**. The **premium** is the price (or cost) the purchaser (buyer or holder) of a binary option pays and the seller (writer) of the binary option receives for the rights conveyed by the binary option. The premium for a transaction is the price set by the holder and writer, or their brokers, for the option on an options exchange where the option is traded. In exchange for receiving the premium, the writer is obligated to pay the **exercise payout amount** of the option if the option is exercised, and the option holder will receive the **exercise payout amount** if the option is exercised. The premium is neither a standardized term of the option nor a "down-payment" for the option. It is simply a nonrefundable payment in full from the holder to the writer for the rights conveyed by the option.

The binary options described in this document are cash-settled, **European-style** options that are subject to automatic exercise. A **cash-settled** binary option gives the holder of the binary option the right to receive a cash payment equal to the **exercise payout amount** if the **exercise criterion** of the binary option is met. The **exercise payout amount** is established by the listing options exchange. The exercise payout amount, which may be established through use of a multiplier, is fixed and does not vary (except under certain circumstances when alternative settlement procedures are used as described in Chapter 4), regardless of the amount by which the **settlement value** is greater than (in the case of a call binary option) or is less than (in the case of a put binary option) the **exercise price**. (The **exercise price** of a binary option is the number that is compared against the price of the underlying security, the settlement value of the underlying index, or the KPI value or measure, depending on the type of binary option, to determine if the exercise payout amount will be paid out.) **European-style** refers to an option's settlement style and means that a **European-style** option may be exercised only during a specific period before an option's expiration. A **European-style** binary option is automatically exercised only on the option's expiration date. However, under certain circumstances a KPI Binary Option may be settled outside of the option's expiration date as described in Chapter 5.

A binary option is either a **call** or a **put** and, depending on the type of binary option, will use the price of the underlying security, the value of the underlying index, or the KPI value or measure (each a "**settlement value**") to determine if the option should be exercised. A **call** binary option pays out the exercise payout amount if the price of the underlying security or the value of the underlying index (for underlying price binary options) or KPI value or measure (for KPI Binary Options) equals or is above the **exercise price** (as defined above) at expiration. A **put** binary option pays out the exercise payout amount if the price of the underlying security or the value of the underlying index (for underlying price binary options) or the KPI value or measure (for KPI Binary Options) is below the exercise price at expiration. Other types of binary options introduced in the future may have different payoff conditions.

An underlying price binary option compares the exercise price of the option to the price of the underlying security or the value of the underlying index, as applicable. A KPI Binary Option compares the exercise price of the option to the measure, condition, or metric associated with the underlying KPI. A binary option is based on the question of whether the underlying security price or underlying index value (for an underlying price binary option) or the KPI value or measure (for a KPI Binary Option) equals or is above (for a call binary option) or is below (for a put binary option) the exercise price of the binary option, as established by the listing options exchange (referred to as the "**exercise criterion**"). The holder of a binary option has the right to receive (and the writer of a binary option has the obligation to pay) the exercise payout amount for the binary option if the price of the underlying security or value of the underlying index (for underlying price binary options) or KPI value or measure (for KPI Binary Options) as of the time specified by the applicable listing options market meets the criterion for automatic exercise of the option, as specified in the rules of the listing options market. If that criterion is not met, the binary option will expire worthless. In other words, if the **exercise criterion** is met, the option holder will receive the exercise payout amount, and the option writer will pay the exercise payout amount. If the **exercise criterion** is not met, the option will expire unexercised and worthless to the holder.

Binary options based on the price of the underlying security or the value of the underlying index are a different type of option and separate from other options that are not binary options on the same underlying security or index,

respectively. Similarly, KPI Binary Options are a different type of option and separate from other options that are not binary options on the same issuer for the underlying KPI, underlying price binary options on the same issuer as the underlying KPI, or other KPI Binary Options on the same issuer but based on a different KPI.

Binary options have *standardized terms* that are established by the options exchange that lists the product for trading and include the following:

- **Exercise criterion**: Each binary option will have one exercise criterion that is the underlying security price or the underlying index value (for underlying price binary options) or the measure, condition, or metric (for KPI Binary Options) used to determine if the option is exercised. Examples of an exercise criterion for a binary option are:
  - For an underlying price binary option that is a call, is the price of the underlying security equal to or greater than the exercise price at expiration?
  - For a KPI Binary Option that is a call, is the number of units produced by company WXYZ greater than or equal to the unit production exercise price?
- **Exercise payout amount:** Also known as the **exercise settlement amount**, this is the cash amount paid by the option writer and received by the option holder upon the automatic exercise of a binary option. For KPI Binary Options, this is a fixed payment amount set by the listing options exchange at $1. The exercise payout amount generally does not change (except in certain situations described in Chapter 4). Other types of binary options may have larger exercise payout amounts as determined by the listing options exchange.
- **Contract multiplier:** The contract multiplier for KPI Binary Options is 1. The contract multiplier for underlying price binary options is defined by the listing options exchange.
- **Exercise price** (also known as **strike price**): The exercise price is the term of an option contract that establishes a number, value, or measure that is compared against the settlement price of the underlying security or the settlement value of the underlying index for underlying price binary options, or the settlement KPI measure or value for KPI Binary Options (each a settlement value of a binary option) to determine if the exercise payout amount will be paid out. In other words, binary options will have a threshold number used to determine if the **exercise criterion** of the binary option has been met and the option will be exercised. For underlying price binary options, the exercise price will be a number that is compared to the trading price of the underlying security or index value at expiration. For KPI Binary Options, the exercise price will be a number that is compared to the value or measure of the underlying KPI at expiration. (For more details, see Chapter 4 on KPI Binary Options.)
- **Expiration date:** The expiration date is the date on which an option expires. If an option expires unexercised (unless settlement processing of the option is delayed, as further described in Chapter 4 on KPI Binary Options), it ceases to exist — that is, the option holder no longer has any rights, the option writer no longer has any obligations, and the option no longer has any value. The exchange that lists a binary option may designate the expiration date pursuant to its exchange rules. For KPI Binary Options, series expiration dates may be designated between one day and 12 months from the time they are listed. For KPI Binary Options, the expiration date is the date that the information needed to determine if the **exercise criterion** of the binary option has been met becomes available ("**event disclosure date**"). This is typically the date when the issuer for the KPI releases such information. The exact **event disclosure date** will generally not be known when a KPI Binary Option is first listed for trading, and as a result, such option contract has a **placeholder expiration date** for a portion of the time between when the option is first listed and when it expires. Once the event disclosure date is available, the event disclosure date will be attached to the KPI Binary Option as the expiration date. The expiration dates for other types of binary options are determined at the time such options are initially listed for trading and will not change.
- **Settlement style:** Binary options are European-style only, which means that they may be exercised only during a specified period of time before the option expires. Binary options described in this document are exercisable only on their expiration date. (This is different from other types of options that are American-style, meaning that such options can be exercised any time prior to their expiration date.)
- **Settlement type:** For binary options that are dependent on an underlying price or index value, the option exchange listing the binary option will establish if a binary option is exercised based on the opening price or value of the underlying security or index, respectively (this is also referred to as "**settle on open**" or "**a.m.-settlement**"), or the closing price or value of the underlying security or index, respectively (this is also referred to as "**settle on close**" or "**p.m.-settlement**"). KPI Binary Options based on an issuer's earnings or other events that are announced before the regular market open are considered **settle on open** KPI Binary Options. KPI Binary Options based on an issuer's earnings or other events that are announced after the regular market close are considered **settle on close** KPI Binary Options.
- **Payout determination:** The rules of the option exchange that lists a binary option will determine when an option will be exercised and the exercise payout amount (if any) paid to the option holder based on whether the option is in-the-money ("ITM"), at-the-money ("ATM"), or out-of-the-money ("OTM") when the option contract expires. (For details on how CCUS determines if a KPI Binary Option will be automatically exercised, see Chapters 4 and 5.)

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Investors should be certain of the standardized terms for the specific binary options they trade. This information can be obtained from the option exchange listing the specific binary option.

KPI Binary Options may trade during regular trading hours ("RTH"), while binary index options may trade during RTH as well as pre-RTH market sessions and post-RTH market sessions. Investors should refer to the exchange listing the binary option for the definitive market sessions and trading hours of each session that binary options may trade in.

Binary options may be used in different types of investment strategies or combinations, such as spreads and straddles, among others. Investors should be aware that the use of strategies or combinations can add complexity to options transactions.

Binary options are subject to position limits that are established in options exchanges' rules. Position limits are the maximum number of contracts on the same side of the market with respect to a specific underlying or KPI that an individual investor or, in some cases, a group of investors, may own in a binary option on a specific underlying or KPI.

Investors should be aware of the following **limitations** of this options disclosure document.

- The CARBO does not address all possible risk scenarios associated with binary options, and this will be especially true if unforeseen or novel market developments or trends arise that may impact binary options.
- The CARBO does not address the potential benefits of binary options, and no content in the CARBO should be construed as providing investment advice or as being a recommendation, solicitation, or offer to buy or sell any binary option or any other security.
- The CARBO does not describe the complete framework of rules and regulations of the SEC or any other government agency, or self-regulatory organization ("SRO") regulated by the SEC, such as an options exchange or clearing organization regulated by the SEC, that may govern or impact the binary options market or the market of the underlying security, index, KPI, or other interest.
- The CARBO does not address the handling of customer accounts or the execution of orders in those accounts. Investors should contact their brokerage firms for information on this topic.
- All examples contained in the CARBO are hypothetical and for illustrative purposes only, and they do not take into account tax implications, commissions, margin costs, or other transaction costs or fees that may impact the profitability of an options position. Market activity can vary, and transactions may not follow the examples provided in all cases.
- The CARBO does not address the risks that investors may experience as the result of options pricing theories.

The CARBO is being provided as required by an SEC rule (SEC Rule 9b-1 under the Securities Exchange Act). Brokerage firms are required to distribute (1) the CARBO to each investor that is their customer prior to the investor trading KPI Binary Options described in the CARBO, and (2) any subsequent amendment(s) to the CARBO that may become available. The CARBO applies **only** to the KPI Binary Options issued and cleared by CCUS and provides investors with a description of KPI Binary Options and risks associated with them. Each individual investor is solely responsible for reviewing this information in its entirety and determining if buying and/or selling KPI Binary Options is an appropriate investment for them. Not all products described in this document will trade or be offered for trading on an option exchange at all times. Any information contained in the CARBO about types of binary options that are not issued and cleared by CCUS is provided for context as background information only, and the CARBO should not be construed as the options disclosure document for such products.

Chapter 2: Market Structure and Clearing

As of the date of this document, the specific KPI Binary Options described in this document are **issued and cleared** by CCUS only and are intended to trade on Cboe Options Exchange, although KPI Binary Options may trade on other U.S. option exchanges in the future. The rules of the options exchange listing KPI Binary Options establish the standardized terms of these option contracts. Individual investors cannot directly interact with an options exchange and instead can only trade these products through a brokerage firm that has access to the exchange. Once a trade in a KPI Binary Option is executed on an options exchange, the transaction is submitted to CCUS as the central counterparty clearing organization for these types of options, and an option position results once the trade is submitted to CCUS from the exchange and the trade is accepted by and processed in the CCUS system. Investors do not have access to the CCUS system and instead view their options activity and positions in their brokerage account with their brokerage firm.

Option contracts issued and cleared by CCUS are governed by the rules of CCUS. CCUS is connected to the options industry through a group of firms that are its clearing members ("CCUS Clearing Members"). Not all brokerage firms are CCUS Clearing Members, and those firms that are not CCUS Clearing Members may have an arrangement with other brokerage firms that are CCUS Clearing Members to participate in the KPI Binary Options markets cleared by CCUS. CCUS Clearing Members must follow CCUS rules and must meet the requirements and obligations of all options contracts in their accounts at CCUS.

As the central counterparty for the KPI Binary Options that CCUS issues and clears, CCUS becomes the buyer to every seller and the seller to every buyer for transactions that CCUS accepts for processing from an exchange. This means that if a KPI Binary Option is exercised so that the exercise payout amount must be paid by the option writer and received by the option holder, CCUS will receive the exercise payout amount from the writer and will deliver the exercise payout amount to the holder of such KPI Binary Option. In this way, CCUS becomes the counterparty to each transaction, and by doing so, CCUS helps limit the risk to the option holder in the unlikely event that an option writer does not fulfill its obligations under an options contract that is exercised.

To help ensure that CCUS can fulfill the obligations of an options contract in the event that a CCUS Clearing Member cannot, CCUS has structures in place to help manage systemic risks and risks associated with individual CCUS Clearing Members. This structure requires that CCUS Clearing Members provide collateral (in the form of cash, but other types of collateral may be accepted in the future) to CCUS. CCUS may then use that collateral to fulfill the obligations of CCUS Clearing Members with respect to KPI Binary Option contracts in the unlikely event that an option writer does not fulfill its obligation to deliver cash if an option is exercised. As part of the structure to manage risk, CCUS holds an amount of cash in a fund that consists of contributions from all CCUS Clearing Members that can be used in the event that a CCUS Clearing Member defaults.

Chapter 3: Underlying Price Binary Options

Although underlying price binary options are not issued and cleared by CCUS as of the date of this document, certain CCUS rules are applicable to underlying price binary options, and such rules may also be applicable to KPI Binary Options in certain circumstances. Additionally, underlying price binary options may be issued and cleared by other clearing agencies, and investors should review the applicable options disclosure document for such products. Any information contained in the CARBO about types of binary options that are not issued and cleared by CCUS is provided for context as background information only, and the CARBO should not be construed as the options disclosure document for such products.

The determination as to whether or not an underlying price binary option is automatically exercised is based solely on the trading price of the underlying security or underlying index value. For purposes of this document, "security" includes any stock, exchange traded fund ("ETF"), or other type of equity interest that trades on a national securities exchange and meets the listing criteria of the listing option exchange, and "index" is a measurement that tracks the performance of stocks, market sectors, market volatility, or other market attributes.

The payout determination for underlying price binary options is dependent on the type of underlying security (individual security or securities index) and whether the option is a call or a put. Investors in binary options should understand the concepts of ITM, ATM, and OTM and that these may have different implications depending on whether a binary option is a call or a put.

Example payout determination for underlying price binary options on a security

- A call binary option will be paid out if the **settlement price** of the underlying security *equals or is greater than* the exercise price of the call binary option (the **exercise criterion**). For this type of binary option, the option is ITM if the settlement price of the underlying security is above the exercise price. If the settlement price is equal to the exercise price, the option is ATM. A call binary option on a security that is ITM or ATM at expiration will have met the **exercise criterion** of the binary option and will be automatically exercised, meaning that the option writer will be required to pay the exercise payout amount and the option holder will receive the exercise payout amount.
- A put binary option will be paid out if the **settlement price** of the underlying security is *less than* the exercise price of the put binary option (the **exercise criterion**). For this type of binary option, the option is ITM if the settlement price of the underlying security is below the exercise price. A put binary option on a security that is ITM at expiration will have met the **exercise criterion** of the binary option and will be automatically exercised, meaning that the option writer will be required to pay the exercise payout amount and the option holder will receive the exercise payout amount. For this type of binary option, the option will not be exercised if the settlement price is equal to the exercise price (meaning it is ATM), because ATM is not part of the **exercise criterion** for put binary options.

A binary option on a security will be OTM at expiration if, for a call option, the underlying price is less than the exercise price and, for a put option, the underlying price is greater than the exercise price. A call binary option on a security will expire unexercised and worthless if it is OTM at expiration. A put binary option will expire unexercised and worthless if it is ATM or OTM at expiration.

The **settlement price** is the price of the underlying security used to determine if an option is ITM, ATM, or OTM, and depending on the terms of the option, the specific settlement price of a binary option may be the opening price or closing price of the underlying security.

Example payout determination for underlying price binary options on an index

- A call binary option will be paid out if the **settlement value** of the underlying index *equals or is greater than* the exercise price of the call binary option (the **exercise criterion**). For this type of binary option, the option is ITM if the settlement value of the underlying index is above the exercise price. If the settlement value is equal to the exercise price, the option is ATM. A call binary option on an index that is ITM or ATM at expiration will have met the **exercise criterion** of the binary option and will be automatically exercised, meaning that the option writer will be required to pay the exercise payout amount and the option holder will receive the exercise payout amount.
- A put binary option will be paid out if the **settlement value** of the underlying index is *less than* the exercise price of the put binary option (the **exercise criterion**). For this type of binary option, the option is ITM if the settlement value of the underlying index is below the exercise price. A put binary option on an index that is ITM at expiration will have met the **exercise criterion** of the binary option and will be automatically exercised, meaning that the option writer will be required to pay the exercise payout amount and the option holder will receive the exercise payout amount. For this type of binary option, the option will not be exercised if the settlement value is equal to the exercise price (meaning it is ATM), because ATM is not part of the **exercise criterion** for put binary options.

A binary option on an index will be OTM at expiration if, for a call option, the underlying index value is less than the exercise price and, for a put option, more than the exercise price. A call binary option on an index will expire unexercised and worthless if it is OTM at expiration. A put binary option on an index will expire unexercised and worthless if it is ATM or OTM.

The **settlement value** is the value of the underlying index used to determine if an option is ITM, ATM, or OTM, and depending on the terms of the option, the specific settlement value for a binary option may be the opening value or closing value of the underlying index.

Contract Adjustments

The terms of an underlying price binary option may only change if certain events on the underlying security or index occur. The following provides a general description of the types of contract adjustments that may be made to underlying price binary options. **However, the contract adjustment descriptions and examples below are for illustrative purposes only to show how underlying price binary options may be adjusted (any such adjustments will be made in accordance with the rules of the clearing organization that issues and clears those options, not the CARBO).** CCUS has sole authority to make contract adjustment determinations for the KPI Binary Options it issues and clears, and it is possible that the contract adjustments described below may be made to certain KPI Binary Options (see Chapter 4 for additional information). Any adjustment determinations made for KPI Binary Options in accordance with the guidelines below will be published on the CCUS website.

Corporate Action Types

Stock Splits (such as 2-for-1, 3-for-2, etc.): If the underlying security to an underlying price binary option is subject to a (forward) split, the exercise price of the binary options will be reduced by the split factor, rounded to the nearest penny, on the ex-distribution date ("ex-date") of the split. For example, if a 2-for-1 stock split is announced on the underlying security to a binary option, all exercise prices for that option will be divided by two on the ex-date, meaning that a 50.00 exercise price will be reduced to 25.00 on the ex-date and option investors owning that binary option would see the exercise price of their option reduced by a factor of 2 on that date. Similarly, if the stock split was instead a 3-for-2 stock split, an investor with a binary option with a 50.00 exercise price would see the exercise price reduced to 33.33. No changes will be made to the terms of the options contract other than the reduction of the exercise price.

Reverse Stock Split (such as a 1-for-2): If the underlying security to an underlying price binary option undergoes a reverse split, the exercise price of the binary options on that security will be increased by the split factor, rounded to the nearest penny, on the ex-date of the stock split. For example, if a 1-for-2 reverse stock split is announced on the underlying security to a binary option, all exercise prices for that option will be multiplied by two on the ex-date, meaning that a 5.00 exercise price will be increased to 10.00 on the ex-date and option investors owning that binary option would see the exercise price of their option increased by a factor of 2 on that date. Similarly, if the stock split was instead a 1-for-2.5 reverse stock split, an investor with a 5.00 exercise price in that binary option would see the exercise price increased to 12.50. No changes will be made to the terms of the options contract other than increasing the exercise price.

Stock Dividends (such as a 5% dividend): If the underlying security to an underlying price binary option undergoes a stock dividend, the exercise prices of the binary options on that security will be reduced by the percentage of the dividend, rounded to the nearest penny, on the ex-date. For example, if a 5% stock dividend is announced on the underlying security to a binary option, all exercise prices for that option will be reduced by 5% on the ex-date, meaning that a 50.00 exercise price will be reduced to 47.50 on the ex-date and option investors with that binary option would see the exercise price of their option reduced by 5% on that date. No changes will be made to the terms of the options contract other than the reduction of the exercise price.

Merger (all cash) and Similar Events: If the underlying security to an underlying price binary option is subject to a merger or other event (such as a liquidation) that will cause each underlying share of that stock to be converted into cash, the settlement price of the binary option will be the amount of cash received per share by underlying shareholders as a result of the all cash merger or similar event. The contract adjustment will be effective when the merger or other event is effective and the underlying security has ceased trading and has been converted to cash. Once the settlement price has been set to a fixed amount of cash, the option's expiration processing will be accelerated.

Merger, Reorganization, or Similar Event (stock or stock and cash): If the underlying security to an underlying price binary option is subject to a merger, reorganization, or similar event, the settlement price of the binary option will be calculated by using the amount of stock or stock and cash received by shareholders of the underlying security once the event is effective. This means that instead of determining if a binary option is ITM, ATM, or OTM by using the price of the underlying security (which will no longer exist following the merger or similar event), the amount of stock (or stock and cash as the case may be) that a shareholder of the underlying security receives as a result of the merger will be used to determine that settlement price. For example, if company DCBA purchases company WXYZ, and WXYZ shareholders will receive .25 DCBA shares and $10.00 for each WXYZ share held, underlying price binary options on WXYZ will be adjusted on the effective date so that the settlement price will be valued (as of the effective date of the merger and thereafter) and determined (on expiration for expiration processing) using the following formula on a per share basis: 0.25(market value of 1 DCBA share) +10.00. As part of the

contract adjustment, the option symbol may change to signify that the options have been adjusted, but no changes will be made to the terms of the options contract other than the manner in which the settlement price is calculated.

Spinoffs and Other Distributions: If the underlying security to an underlying price binary option will distribute another company (a spinoff) or any other type of right or property (each of these referred to as "distributed property"), the binary option may be adjusted on the ex-date in one of two ways. The exercise price of such binary options may either (1) be reduced by the value of the distributed property on a per share or unit basis or (2) the settlement price will be determined using a formula that adds the value of the distributed property to the value of the original underlying security. For example, if company DCBA distributes company WXYZ as a spinoff with a distribution ratio of 0.10 WXYZ shares for each DCBA share held and the value of WXYZ is determined to be $10.00, DCBA exercise prices may be reduced by 1.00 on the ex-date ($10.00 x 0.10). As an alternative method of adjustment, DCBA strikes would remain the same and the settlement price of DCBA binary options will be valued (as of the ex-date and thereafter) and determined (on expiration for expiration processing) using the following formula on a per share basis: DCBA + 0.10(WXYZ). As part of this method of contract adjustment, the option symbol may change to signify that the option had been adjusted. Although this section does not apply to cash distributions and dividends, cash paid in lieu of fractional distributed property may be included in a contract adjustment made for distributed property.

Special Cash Dividends and Distributions: If the underlying security of an underlying price binary option will distribute cash as a special cash dividend or distribution, the exercise price of binary options on that security will be reduced by the amount of the special dividend on the ex-date. For example, if a $1.00 special dividend is announced on the underlying security to a binary option, all exercise prices for that option will be reduced by $1.00 on the ex-date, meaning that a 50.00 exercise price will be reduced to 49.00 on the ex-date and option investors owning that binary option would see the exercise price of their option reduced by 1.00 on that date. As part of the contract adjustment, the option symbol may change to signify that the options have been adjusted, but no changes will be made to the terms of the options contract other than the reduction of the exercise price, unless strike prices cannot be reduced because the amount of the dividend is greater than the lowest existing strike. In such a scenario, the settlement price will be calculated by adding the dividend amount to the value of the underlying security.

Note: In general, no adjustments will be made for regular cash dividends. For adjustment purposes, capital gains distributions will be considered as special cash distributions. No adjustment will be made for a special cash dividend or distribution that is less than $0.125 per share.

Bankruptcies: If the underlying security to an underlying price binary option is subject to bankruptcy, the binary options on that security will be adjusted to reflect the terms of the bankruptcy once the bankruptcy is effective pursuant to a court order. If, as a result of the bankruptcy, the underlying security is cancelled and no distribution of any kind is made to existing shareholders, the settlement price for the binary options on that underlying security will be $0.00 once the bankruptcy is effective. If, instead, a distribution of transferable property is made to shareholders as a result of the bankruptcy, the binary option may be adjusted as described in "*Spinoffs and Other Distributions*" above.

Other: *There are other categories of corporate actions or similar events that will not result in contract adjustments. These other events include, but are not limited to,* the issuance of poison pills, distributions of non-transferable property, or changes in the capital structure. Contract adjustments will not be made in response to tender or exchange offers; however, contract adjustments may occur as the result of a merger or similar event that may result from a completed tender offer or exchange offer.

Adjustments to underlying price binary options are subject to the rules of the clearing organization that issues and clears those options.

If CCUS issues and clears underlying price binary options, additional considerations may apply.

Chapter 4: KPI Binary Options

KPI Binary Options are a type of cash-settled binary option with a settlement value or measure tied to a specific KPI — including but not limited to earnings per share, net income, segment net sales, net interest income, provision for credit losses, or an expense metric — as reported by an issuer of the security (which is referred to in this document as the "**reference entity**") in its earnings-related filings submitted to the SEC (for example, Forms 8-K, 10-Q, or 10-K), and each KPI Binary Option will have a specific KPI (referred to as a "**KPI event**") that will determine if the binary option will be automatically exercised when it expires. The listing option exchange designates the specific **KPI event** of a binary option. Each **KPI event** will relate to a reporting period identified at the time an option contract is first listed, but the exact expiration date of the binary option will generally not be known until several weeks prior to the actual expiration date (the **event disclosure date**) in most cases.

The **event disclosure date** (which will be used as a KPI Binary Option's **expiration date**) will be the date on which the reference entity discloses (through submission of a periodic or current report as required by the Securities Exchange Act) the information needed to determine if the **exercise criterion** of the **KPI event** has been met. Until the **event disclosure date** becomes known and is assigned as a binary option's expiration date, the binary option will be assigned a **placeholder expiration date** that is intended to be on or near when the **event disclosure date** is expected to be. The **event disclosure date** is dependent on the type of **KPI event** and will generally be the reference entity's earnings disclosure date for the then-current reporting period (such as calendar quarter).

For example, KPI Binary Options are listed on the earnings per share for Company WXYZ. If, *before* KPI Binary Options on Company WXYZ expiring in the first quarter ("Q1") are listed for trading, Company WXYZ announces that earnings per share for Q1 will be released on April 25, April 25 will be the event disclosure date for such KPI Binary Options, meaning that those KPI Binary Options will expire on that date. However, if the event disclosure date for the KPI Binary Options on Company WXYZ earnings per share is *not yet announced* as of the date that these KPI Binary Options are listed for trading (which will often be the case), a placeholder expiration date of May 6 (as an example) would be attached to these KPI Binary Options. Once Company WXYZ announces that Q1 earnings will be released on April 25, the placeholder expiration date of May 6 will be updated to finalize the expiration date as April 25. Once a placeholder expiration date for a KPI Binary Option is updated to a final expiration date (when the event disclosure date has been announced by the issuer), the final expiration date will be published on the listing exchange's website. Although unlikely, it is possible that the event disclosure date may not be announced in advance, and in such a situation, the placeholder expiration date may not be updated to the finalized expiration date until the finalized expiration date. In such a scenario, expiration processing of the option will occur on the day after the expiration date, unless alternative settlement procedures (as specified below) are needed.

KPI Binary Options are either **a.m.-settled** or **p.m.-settled**, as designated by the listing exchange. This designation will depend on whether the reference entity announces earnings results before the market open or after the market close of regular trading hours, with the settlement value or measure determined by the information disclosed in the reference entity's earnings-related filing submitted to the SEC. This information will be used to determine if the KPI Binary Option will be exercised. The listing exchange may only list KPI Binary Options on reference entities that meet listing criteria established in exchange rules or as explicitly named in exchange rules.

Example payout determinations for a KPI Binary Option

Call KPI Binary Option Example: An exchange lists a call KPI Binary Option with the following exercise criterion: will the GAAP revenue attributable to Company WXYZ (the **reference entity** for this KPI Binary Option) for the fourth quarter be equal to or greater than the exercise price. In this case, the settlement value would be the GAAP revenue of Company WXYZ (the **KPI event** for this KPI Binary Option), expressed in millions of U.S. dollars, reported by Company WXYZ in its quarterly earnings results submitted to the SEC in the Company's Form 8-K, 10-Q, or 10-K. If the GAAP revenue is reported as $10,500,000 and the exercise price of the call binary option is $10,000,000 (actual exercise prices will be scaled down in accordance with the listing exchange's rules), the call KPI Binary Option would be ITM and exercised since the amount of the KPI is equal to or greater than the exercise price, meaning that the exercise criterion has been met. As a result, option writers will be required to pay the exercise payout amount, and option holders will receive the exercise payout amount.

For the example above, if the GAAP revenue were instead reported at $9,500,000 for the **KPI event**, the **exercise criterion** would not have been met since the reported amount of the **KPI event** would have been less than the exercise price. As a result, the call KPI Binary Option would expire unexercised and worthless, meaning that the option holder would not receive the exercise payout amount and the option writer would not pay the exercise payout amount.

Put KPI Binary Option Example: An exchange lists a put KPI Binary Option with the following exercise criterion: will the GAAP revenue attributable to Company DCBA (the **reference entity** for this KPI Binary Option) for the fourth quarter be less than the exercise price. In this case, the settlement value would be the GAAP revenue of Company DCBA (the

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KPI event for this KPI Binary Option), expressed in millions of U.S. dollars, reported by Company DCBA in its quarterly earnings results submitted to the SEC in the Company's Form 8-K, 10-Q, or 10-K. If the GAAP revenue is reported as $19,500,000 and the exercise price of the put binary option is $20,000,000 (the exercise price will be scaled down in accordance with the listing exchange's rules), the put KPI Binary Option would be ITM and exercised since the reported amount of the **KPI event** is less than the exercise price, meaning that the exercise criterion has been met. As a result, option writers will be required to pay the exercise payout amount, and option holders will receive the exercise payout amount.

For the example above, if the GAAP revenue were instead reported at $20,500,000 for the **KPI event**, the **exercise criterion** would not have been met since the reported amount of the **KPI event** would have been greater than the exercise price. As a result, the put KPI Binary Option would expire unexercised and worthless, meaning that the option holder would not receive the exercise payout amount and the option writer would not pay the exercise payout amount.

Additional KPI Binary Option Examples: The following provides an illustration of how multiple call KPI Binary Options on the same **KPI event** may trade with different exercise prices. Each hypothetical KPI **exercise criterion** is based on Company WXYZ's Q1 revenue.

- Will Company WXYZ's Q1 revenue equal or exceed $30.00B?
- Will Company WXYZ's Q1 revenue equal or exceed $40.00B?
- Will Company WXYZ's Q1 revenue equal or exceed $50.00B?
- Will Company WXYZ's Q1 revenue equal or exceed $60.00B?
- Will Company WXYZ's Q1 revenue equal or exceed $70.00B?

Investors wishing to purchase or sell a call KPI Binary Option would select the exercise price amount (the strike price in the table below, which depicts call options) when executing a trade. The **KPI event** with a specific threshold equates to a strike price in the CCUS system:

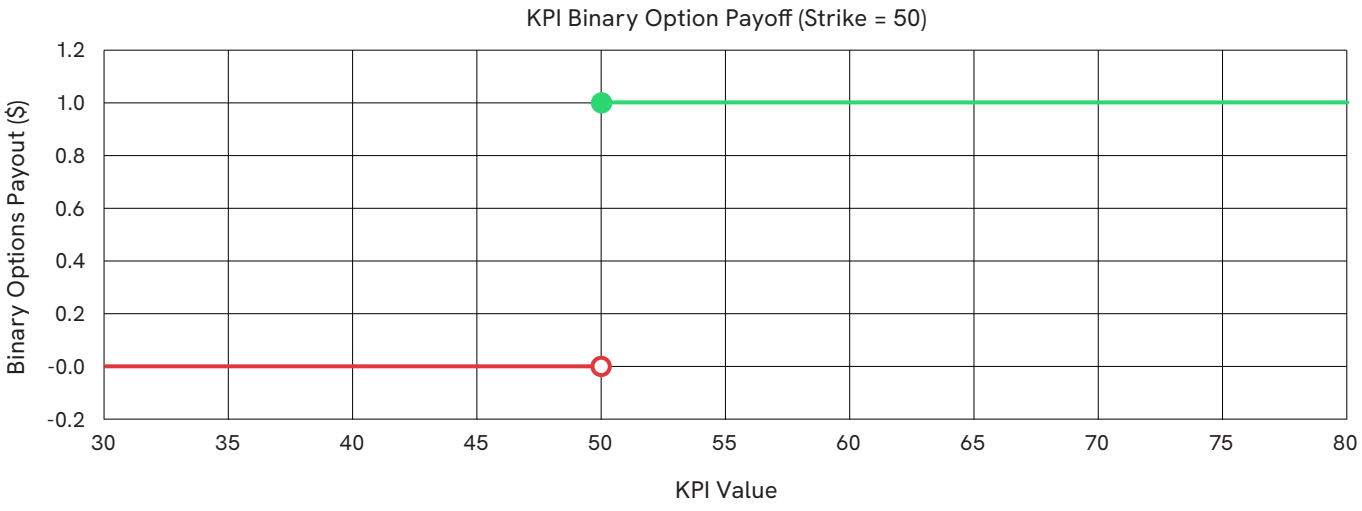
KPI Event Question	Expiration Date	Put/ Call	Strike Price
Will WXYZ's Q1 revenue equal or exceed $30.0B?	4/29/2026	Call	30.00
Will WXYZ's Q1 revenue equal or exceed $40.0B?	4/29/2026	Call	40.00
Will WXYZ's Q1 revenue equal or exceed $50.0B?	4/29/2026	Call	50.00
Will WXYZ's Q1 revenue equal or exceed $60.0B?	4/29/2026	Call	60.00
Will WXYZ's Q1 revenue equal or exceed $70.0B?	4/29/2026	Call	70.00

Strike Prices

Scaling

Strike prices for KPI Binary Options may be scaled to meet industry system requirements. This means that expiration prices and settlement values or amounts that are large may be divided by the same number to uniformly reduce the KPI amount or value on all KPI Binary Options associated with that KPI. In the examples above, the KPI value will be reported in billions of dollars, and all exercise prices are also in billions of dollars. However, to meet system requirements, the KPI amount or value and all exercise prices will be divided by 1,000,000,000. For example, the exercise price of $50,000,000,000 will be divided by 1,000,000,000 and will be represented as a strike price of 50.00. For expiration processing, if the settlement value for the **KPI event** was disclosed by the issuer as

Payout Profile — Call KPI Binary Option



$50,500,000,000, the settlement value will be divided by 1,000,000,000, and consequently 50.50 ($50,500,000,000 divided by 1,000,000,000) will be used for expiration processing. Since 50.50 is greater than 50.00, the 50 (call) KPI Binary Option would be exercised on expiration. Information on the way in which strikes for KPI Binary Options will be scaled is available on the website of the exchange listing these options. It is possible that brokerage firms will display strikes to their customers that do not show scaling. For example, the example strike for the WXYZ KPI Binary Option in the chart above (Q1 revenue equals or exceeds $30.00B) is scaled to a strike of 30.00. It is possible that a brokerage firm will display the 30.00 as 30 billion (or in a similar manner) to its customers. **Investors should be sure that they know and understand how their brokerage firm will display KPI Binary Options exercise prices that are subject to scaling.**

Negative KPI Values

It is possible that the value or measure of a KPI can be negative. Although a KPI value may be negative, KPI option strike prices will be expressed as positive numbers. For example, if an issuer has recently reported negative earnings, the options exchange may list KPI Binary Options as *Loss per Share* binary options, in addition to any Earnings per Share binary options. A KPI Binary Option that represents a negative KPI value as a positive number, such as a *Loss per Share* binary option, will use a unique symbol to distinguish it from a KPI Binary Option that represents a positive KPI value on the same KPI, such as an *Earnings per Share* binary option with a value greater than zero (meaning that one symbol, for example KAXYZ, may reflect positive strikes for potential earnings while another symbol, for example KZXYZ, represents negative values — expressed as strikes in absolute values — for potential losses). For a call KPI Binary Option on a negative value (such as a loss per share), the exercise criterion requires that the loss per share amount be equal to or greater than the strike price. As a result, a call option will not be exercised at expiration if the reference entity of a KPI Binary Option reports either (1) a loss value that is less than the strike price, or (2) earnings at $0.00 or above (any positive earnings value rather than a loss) because there is no loss per share and therefore there is no possibility that there is a loss per share amount that equals or is greater than the strike. For a put KPI Binary Option on a negative value (such as a loss per share), the exercise criterion requires that the loss per share amount be less than the strike price. As a result, the put option will be exercised at expiration if the reference entity of a KPI Binary Option reports either (1) a loss value that is less than the strike price, or (2) earnings at $0.00 or above (any positive earnings value rather than a loss) because there is no loss per share and a positive earnings value or an earnings value of $0.00 ensures that the put exercise criterion (that the value reported for earnings will be less than the negative (loss) value represented by the strike) has been met.

Strikes Representing Negative Values Examples: If a loss per share KPI Binary Option (trading with symbol KZXYZ, for example) with a strike price of 3.50 is listed, it would represent an expected loss of $3.50 per share (or, in other words, expected earnings per share of -$3.50).

- For a call loss per share KPI Binary Option with a strike of 3.50 (representing a negative value), if the earnings per share reported by the issuer was -$2.50 per share, the call option would not be exercised because, even though the earnings per share was reported as a loss amount, the loss per share amount (when expressed as a positive value) was less than the strike price, meaning that the exercise criterion for the option was not met since the loss per share was not greater than or equal to $3.50 per share (represented by the strike of 3.50 under trading symbol KZXYZ). Similarly, if the earnings per share reported by the issuer was $0.00 per share (or any positive value), the call option would not be exercised because the earnings per share was not a loss at all, meaning that the exercise criterion for the option was not met since the loss per share was not greater than or equal to $3.50 per share (represented by the strike of 3.50 under trading symbol KZXYZ). However, if the earnings per share reported by the issuer was -$4.00 per share, the call option would be exercised because the earnings per share was reported as a loss amount that (when expressed as a positive value) was greater than the strike price, meaning that the exercise criterion for the option was met.
- For a put loss per share KPI Binary Option with a strike of 3.50 (representing a negative value), if the earnings per share reported by the issuer was -$2.50 per share, the put option would be exercised because the earnings per share was reported as a loss amount that (when expressed as a positive value) was less than the strike price, meaning that the exercise criterion for the option was met. Similarly, if the earnings per share reported by the issuer was $0.00 per share (or any positive value), the put option would be exercised because the earnings per share was not reported as a loss, meaning that the exercise criterion for the option was met.

Investors should understand that a positive strike price may correspond to a negative KPI value or measure and should review the applicable symbols and exercise prices before trading KPI Binary Options. **Investors should be certain they understand that positive strike prices may represent a negative amount and should be certain they know the symbols that represent negative KPI measures or values and associated exercise prices before trading KPI Binary Options.**

Contract Adjustments

CCUS has sole authority to make contract adjustment determinations for the options that it issues and clears, consistent with applicable regulatory standards, and will make contract adjustment determinations in a manner it deems appropriate for the protection of the holders and writers of such contracts.

The terms of a KPI Binary Option will generally not be adjusted to reflect a corporate action on the **reference entity** if the KPI exercise criterion will not be directly impacted by the corporate action on the reference entity, meaning that the corporate action will not be a factor in determining if the **exercise criterion** has been met. A corporate action may result in a contract adjustment for one KPI Binary Option for an issuer but not other KPI Binary Options on different KPIs for the same issuer because of the type of KPI event. The determination as to whether and how an adjustment will be made will be dependent on the facts and circumstances of the corporate action or other event. If an adjustment will be made to a KPI Binary Option in response to a corporate action, CCUS may adjust a KPI Binary Option in the manner described for underlying price binary options in Chapter 3 and as consistent with applicable regulatory standards. However, corporate actions or similar events affecting a **reference entity** may impact a KPI differently than underlying price binary options. For example, if a **KPI event** is based on the net cash provided by operating activities of a specific division of a company, and that division of the company is spun off before the expiration of existing KPI Binary Options on that **KPI event**, the adjustment methodology for underlying price binary options may not be appropriate. CCUS may instead consider this type of event a **successor event**, which requires an alternate method of adjustment. A **successor event** is an event on the **reference entity** that impacts the KPI Binary Option in such a way that the **KPI event** is no longer relevant or applicable to the KPI Binary Option. If CCUS has determined that a successor event has occurred on an existing KPI Binary Option, CCUS may adjust the KPI Binary Option to change the **reference entity** to a new **reference entity** (for example, a new **reference entity** may be a spun off company) and/or may adjust the exercise price and/or **exercise criterion** determination as it deems appropriate for the protection of option holders and writers.

A successor event may also occur if the **reference entity** discloses KPI information differently than in previous reporting periods. For example, if a **reference entity** that typically reports segment revenue as U.S. revenue and non-U.S. revenue subsequently reports revenue as U.S. revenue, Asia-Pacific (APAC) revenue, Europe, Middle East, and Africa (EMEA) revenue, and other revenue segments, CCUS may consider this type of event a **successor event** for a KPI Binary Option on revenue segments. In response, CCUS may modify the **exercise criterion** or **KPI event** to address the reporting change, or, if such modification is not possible, CCUS may utilize alternative settlement procedures, as described below.

Adjustment determinations, including any determination involving a successor event and any determination of value needed to adjust the terms of a KPI Binary Option, are in the sole discretion of CCUS and are not subject to change or review. CCUS may convene a Determinations Committee when making adjustment decisions.

If CCUS determines to adjust KPI Binary Option contracts in response to a corporate action in any of the ways described above or in Chapter 3, adjustments will be made in accordance with CCUS rules, and CCUS may convene a Determinations Committee pursuant to CCUS rules in making contract adjustment determinations. Contract adjustment decisions will be made based on the specific details of an individual corporate action. CCUS has the authority to make adjustment determinations that do not align with CCUS rules to address unique or novel corporate actions, consistent with applicable regulatory standards. All contract adjustment determinations apply uniformly to all series of a KPI Binary Option (on a class basis) and are not subject to change or review. All adjustments are made on a per contract basis. CCUS has the authority to determine the value of distributed property for contract adjustment purposes, if necessary. All adjustment determinations will be published on the CCUS website.

Unavailability of KPI Reporting and Alternative Settlement Procedures

It is possible that the KPI value or measure needed to determine if the **exercise criterion** of a KPI Binary Option has been met may be delayed, may not be reported as expected (and an adjustment to the **KPI event** or **exercise criterion** referenced above is not possible or appropriate), or may not be reported at all. If the KPI value or measure is not available on the expiration date of the KPI Binary Option, CCUS may delay expiration processing of the KPI Binary Option until the KPI value or measure is reported or the listing option exchange may obtain the information through other means. When the KPI value or measure is disclosed, expiration processing typically will occur the trading day after disclosure. In the event that (1) CCUS determines that a KPI value or measure will not be available, (2) an adjustment to the KPI Binary Option is not possible or appropriate, and (3) there is no reliable alternative way to obtain the KPI amount, CCUS may utilize alternative settlement procedures. When alternative settlement procedures are necessary, CCUS may use the last available closing price of the KPI Binary Option to set an alternate exercise payout amount equal to that price. This means that the alternate exercise payout amount may be between $0.01 and $1.00, rather than the expected $0.00 or $1.00. This alternative settlement procedure utilizes the option's market valuation of the **KPI event** to settle the KPI Binary Option contract at a potentially reduced exercise payout amount when the option expires. In the event that an option closing price is not available or is deemed by CCUS to be unreliable (such as because the KPI Binary Option has not recently traded or traded with sufficient liquidity), the **exercise criterion** for KPI Binary Option contracts on that **KPI event** will be deemed to have not been met and the KPI Binary Options will expire unexercised and worthless.

Alternative Settlement Procedure Example

The KPI event for a KPI Binary Option is for the number of units produced by Company WXYZ (the reference entity) during the first quarter of the year. On the expiration date of the KPI Binary Option, information on the number of units produced in Q1 is not included in the earnings-related filing submitted by Company WXYZ to the SEC. As a result, expiration processing does not occur on the expiration date and remains delayed until CCUS, through the Determinations Committee, determines that information on the KPI event will not be available for Q1 and utilizes alternative settlement procedures. The last traded price of the KPI Binary Option was $0.51. (Trading of the option ceased on the expiration date.) CCUS will proceed with expiration processing of the option by exercising the option, but instead of requiring payment of $1.00 per contract by the option writer and payment of $1.00 per contract to the option holder, the option writer will be obligated to pay $0.51 per contract and the option holder will receive $0.51 per contract in full settlement of the exercise of the KPI Binary Option. In the event that the last trading price of the KPI Binary Option is not available or is deemed by CCUS to be unreliable, the **KPI event** will be deemed to have not been met and the KPI Binary Options will expire unexercised and worthless.

Determinations regarding the delay of expiration processing, the unavailability of the KPI value or measure, and the use of alternative settlement procedures are within CCUS's sole discretion and are not subject to change or review.

Chapter 5:
Mechanics of Exercising a Binary Option

All products described in the CARBO are subject to automatic exercise by product design. This means that any binary option position that exists when the option expires and meets its **exercise criterion** will be automatically exercised because the CCUS Clearing Member with such binary option position will be deemed to have exercised the binary option contract.

Automatic Exercise of KPI Binary Options

In the case of KPI Binary Options, CCUS Clearing Members will be considered to have automatically exercised their KPI Binary Option positions that meet the **exercise criterion** for the **KPI event**. This means, for a call KPI Binary Option, the value or measure of the **KPI event** of a KPI Binary Option is equal to or greater than the exercise price of the option, and for a put KPI Binary Option, the measure or value needed for the **KPI event** of a KPI Binary Option is less than the exercise price of the option. The expiration date for a KPI Binary Option is the event disclosure date of the **KPI event**, and it is expected that the information necessary to determine if the exercise criterion has been met will be available on the event disclosure date (the KPI Binary Option's expiration date). However, it is possible that the information may not be confirmed until after the expiration date. In such event, expiration processing of the option will be delayed until information on the **KPI event** required to determine if the **exercise criterion** has been met is available. When the information becomes available, expiration processing typically will occur the trading day after disclosure. If the information on the KPI event required to determine if the **exercise criterion** has been met is not disclosed or alternative settlement procedures are not triggered within 90 days after the event disclosure date, expiration processing will not occur, the **exercise criterion** will be deemed to have not been met, and the option will expire unexercised and worthless.

In unusual cases, the value or measure of a **KPI event** may be disclosed before the expiration date. If the value or measure is disclosed by the **reference entity** (KPI issuer), trading will cease and the expiration of KPI Binary Options on that **KPI event** will be accelerated to the date on or shortly after the date the value or measure of the KPI is disclosed, with expiration processing typically accelerated to the next trading day after disclosure. If the value or measure is made available through a source other than the **reference entity**, the listing options exchange may halt trading of the option. CCUS will convene the Determinations Committee to assess if such value or measure may be used for expiration processing. If CCUS determines the value or measure is reliable, the expiration of KPI Binary Options on that **KPI event** will be accelerated to the date on or shortly after the date the information was verified and trading will cease. If the value or measure is deemed inaccurate or unreliable, the listing options exchange may determine to resume trading of the option, and the expiration date will not be accelerated.

It is also possible that a **reference entity** may announce in advance of the disclosure date that a KPI will no longer be reported. If the **reference entity** states that it will no longer report a KPI or will not make KPI information available as expected prior to the expiration of existing KPI Binary Options on that KPI, the listing options exchange may halt trading of the KPI Binary Options, and CCUS may convene the Determinations Committee to determine if (1) a contract adjustment to the KPI Binary Options is possible or appropriate, or (2) the KPI Binary Options should be subject to alternative settlement procedures, as described in Chapter 4, and the expiration date of the options should be accelerated.

There may be instances where a **reference entity** publishes conflicting KPI information. These instances may take various forms, including, but not limited to, where the relevant KPI information (1) while not substantively inconsistent, may be presented in different forms (e.g., one is presented as an unrounded figure while another is presented as a rounded figure), or (2) is presented in a manner that is substantively inconsistent (e.g., the KPI is presented in two or more places as substantively different figures not otherwise explained through rounding differences).

In instances where there is conflicting KPI information, the following protocols shall apply: (1) as between KPI information presented in an earnings-related filing submitted to the SEC and KPI information presented in a document not filed with the SEC, the information in the SEC filing shall control; (2) as between KPI information that is presented as a rounded figure and KPI information that is presented as an unrounded figure, the unrounded figure shall control, provided that figure is contained in an earnings-related filing submitted to the SEC; and (3) in instances where KPI information presented in one or more filings submitted to the SEC appears substantively inconsistent, the Determinations Committee will seek to resolve the inconsistency through commercially reasonable means.

Please note that the foregoing only applies to instances where there is an immediate inconsistency in KPI information that is otherwise presented simultaneously. It does not cover instances in which an issuer subsequently corrects previously issued KPI information that did not, at the time of presentation, raise any question regarding consistency. In contrast, if a KPI Binary Option is settled based on reported information from the issuer that is later corrected, settlement of such option exercises will be considered final and will not change.

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Assignment

Because all KPI Binary Options that meet their **exercise criterion** will be automatically exercised on the expiration date of such options (unless subject to delayed settlement), all option writers of those binary options will be assigned and required to pay the exercise payout amount. CCUS will follow its established procedures for confirming assignments of exercised options in the accounts of CCUS Clearing Members, who in turn will follow their procedures to notify their customers of assignments of their binary options.

Settlement

Exercises and assignments of KPI Binary Option positions are settled when the exercise payout amount is paid by the assigned CCUS Clearing Member to CCUS and CCUS has paid the exercise payout amount to the CCUS Clearing Member that exercised the option. CCUS Clearing Members or other brokerage firms with an exercised or assigned position will settle with their own customers.

Payment will be made by the business day following the exercise of the binary option; however, CCUS may postpone settlement in accordance with CCUS rules if CCUS determines that such action is necessary for the protection of the markets and investors.

Chapter 6: Risks of Binary Options

Investors should understand that options involve risks and are not suitable for all investors. Binary options have certain risks that are also applicable to other types of options, but binary options also have unique risks. The following describes many but not all of the risks associated with binary options.

Risks to Option Writers (All binary options, including KPI Binary Options)

I. The writer of a binary option has the potential loss of the exercise payout amount of the binary option less the premium amount received for selling the option. This means that no matter how little a binary option is ITM or if the option is ATM (for a call), the option writer will be required to pay the full exercise payout amount if the option is exercised.

II. The option writer may be required to deposit the full exercise payout amount with the writer's brokerage firm once the writer makes the trade to write the option. Even though binary options are cash-settled and the potential loss is limited, a writer of a binary option must have sufficient liquid assets to pay the fixed cash payout amount and the financial capacity to bear that potential loss.

III. Binary options have a unique payout structure compared to traditional equity options that are physically settled. For physically settled options, writers may reduce their risk by purchasing the underlying security or by purchasing other types of positions for hedging purposes in a spread position. Writers of binary options cannot manage or reduce risk in this way because binary options do not require physical delivery of the underlying security or interest.

IV. If an options market for a binary option is unavailable for any reason, or if an option writer of a binary option is unable to enter into a transaction to close out the writer's existing position prior to the option's expiration by purchasing the option position on an options exchange, the option writer will remain obligated to pay the exercise payout amount if the binary option is exercised.

Risks to Option Holders (All binary options, including KPI Binary Options)

1. Since a binary option is European-style and may only be exercised on its expiration date (unless expiration processing is delayed or accelerated), the holder of a binary option cannot realize value on the binary option position prior to the expiration date unless the holder can sell the option position on an options exchange at a price that is greater than the premium the holder paid for the option (to close out the position). There is no guarantee that a market will exist to facilitate such a transaction, and holders may be unable to close out their positions at favorable prices or at all. Additionally, if CCUS must delay expiration processing, holders of such options will be unable to trade binary options on (for a.m.-settled options) or after the expiration date since there will be no trading in the binary option after the expiration date. Investors with binary option positions will be unable to close out of their option positions between the expiration date and when CCUS completes expiration processing of the binary option.

2. Since an option holder pays a premium to the option writer for an option contract, the option holder has the risk of losing the entire premium amount paid for the option if the **exercise criterion** of a binary option is not met and the option expires unexercised and worthless.

3. Exercise restrictions may be imposed on binary options by courts, the SEC, other regulatory authorities, CCUS, or options exchanges under special or unusual circumstances. In the event that an exercise restriction coincides with a trading halt on a binary option, holders of such option will be unable to act on their positions until trading resumes or the exercise restriction is lifted. **Investors should be aware that if an exercise restriction is in effect at the time a binary option expires, the option will expire worthless and the holder will lose the entire premium paid for the option.** There is no guarantee that an exercise restriction will be removed prior to expiration. Investors should carefully consider this risk before purchasing binary options.

4. Purchasing binary options does not convey ownership of the underlying stock, any other interest, or any of the rights of ownership of the underlying security to the option holder. Additionally, holders of binary options will not receive any gain in excess of the fixed exercise payout amount of the options.

General Risks (All binary options, including KPI Binary Options)

A. A binary option that has an exercise price at or near the current price or value of the underlying as the expiration date approaches may be more volatile and therefore involve more risk than a non-binary option.

B. If trading in a binary option were to become unavailable on an option exchange, investors would be locked into their existing positions until a market becomes available or the option expires.

C. Disruptions in the markets may occur, and options markets generally halt trading in options when trading in all underlying stocks has been halted through "market-wide circuit breakers" by an equity exchange. Trading in KPI Binary Options will also be halted in response to market-wide circuit breakers. When trading in an option is halted or suspended, options may substantially decrease or fluctuate in value.

D. Strategies that combine buying and selling (writing) multiple options and other types of securities can be complex. Investors should understand the risks and potential rewards of engaging in these strategies and how the risks and potential rewards may change as market conditions change.

E. It is possible that CCUS may not become aware of a corporate action that would normally result in a contract adjustment to an option in time to determine and process the adjustment by the ex-date or effective date of the corporate action. In such a situation, no adjustment will be made to the binary option, and investors have no recourse if their option positions lose value.

F. Although unlikely, it is possible that CCUS may not be able to meet its obligations as the central counterparty to all transactions it clears. This is an extreme situation that, if it were to occur, could prevent settlement of option exercises.

G. A brokerage firm may go out of business, which will result in risks to the investors with accounts at the brokerage firm. A CCUS Clearing Member could also go out of business. If a brokerage firm or CCUS Clearing Member becomes insolvent, investors may face delays or other problems in accessing their accounts or attempting to close their positions.

H. Holders and writers of binary options face heightened manipulation risk. Because a binary option that is ITM by even the smallest amount pays the full exercise payout amount, there may be an incentive to influence trading prices or KPI measures or values, if possible. While market manipulation is unlawful under federal securities laws and SEC regulations, there is no assurance that manipulation affecting binary options will not occur. If manipulation occurs, KPI measures or values may be based on manipulated prices, amounts, or improper disclosure, and investors may have no adequate remedy.

I. Binary options may be more difficult to hedge, or to use as hedges, than non-binary options. Because of the exercise payout amount, investors cannot create a perfect hedge — if the underlying rises only slightly above the exercise price, the option payout may exceed the gain in the underlying value; if the underlying rises substantially, the payout may be less than the gain in the underlying value.

Special Risks of KPI Binary Options

a. As stated above, if trading in a binary option were to become unavailable on an option exchange, investors would be locked into their existing positions until a market becomes available or the option expires. Additionally, for a KPI Binary Option, it is possible that the information needed to determine if the **exercise criterion** is met is released by the **reference entity** or other source prior to the event disclosure date (the option's expiration date). If this occurs and the disclosed information is deemed accurate, trading in the KPI Binary Option will cease, and the expiration of such options will be accelerated in accordance with the rules of CCUS. However, it is possible that trading in such options will be halted until the disclosed information is verified. While the option is halted, investors would be locked into their existing positions and unable to enter into trades to close out such positions unless trading resumes. If the released information is deemed verified, trading may not resume, and investors would not have the opportunity to close out such positions.

b. Information needed to confirm a **KPI event** may not be disclosed as anticipated. This may result in a delay of expiration processing or the use of alternative settlement procedures, which may result in the option expiring unexercised and worthless because CCUS has determined that the **exercise criterion** has not been met. If expiration processing of a KPI Binary Option is delayed, option investors with positions in such KPI Binary Options will be unable to close out of their positions after the expiration date since all trading in the KPI Binary Option will cease as of the expiration date.

c. If information needed to confirm a **KPI event** is significantly delayed or not reported at all, CCUS will convene a Determinations Committee and utilize alternative settlement procedures, which may result in either (1) the use of the last available KPI Binary Option trading price to determine an alternative exercise payout amount that may be less than the original exercise payout amount of the contract, or (2) if a trading price of the KPI Binary Option is not available or reliable, the **exercise criterion** for the KPI Binary Option will be deemed not met and the option will expire unexercised and worthless. These are attributes of KPI Binary Options that are risks to both holders and writers since the rights and obligations of both will change if alternative settlement procedures are utilized.

d. The terms or other details of a KPI Binary Option, such as company and associated **KPI event**, cannot be inferred from the option symbol alone. **Investors should carefully review the symbols, strikes, and other option terms.** Different symbols may be used for the same **KPI event** to represent different option details (for example, one symbol may reflect positive values while another represents negative values — expressed as strikes in absolute values — for potential negative earnings, or stated differently, as representing losses per share), and such details may not be evident from the symbol alone. **Investors should be certain they know the specific terms and details of the KPI Binary Options they intend to trade.**

e. Exercise prices for KPI Binary Options may be subject to scaling as previously discussed, and investors should ensure they know the scaling divisor (if any) of the options they intend to trade. Additionally, exercise prices may

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represent a negative value (e.g., a loss) but appear as a positive value in industry systems. The trading symbol of a KPI Binary Option indicates if exercise prices represent negative values (exercise prices for KPI option symbols representing negative values appear as the absolute value of the negative amount, and such symbols will have exercise prices that represent only negative values). Investors should be certain they know if the KPI Binary Option they intend to trade represents negative or positive exercise prices and the manner in which their brokerage firms will display exercise prices representing negative values.

f. The KPI value or measure of a **KPI event** may vary significantly from one expiration to the next, and strikes listed months in advance of an option's expiration date may not reflect the actual KPI value or measure of a **KPI event** for a specific expiration. The initial exercise prices listed for a KPI Binary Option for the next expiration cycle (company reporting period) of the option may be listed near the end of the current reporting period. As a result, the initially listed exercise prices for the next expiration cycle may vary significantly from the actual KPI value or measure for the **KPI event**. Additional series for the current expiration cycle may subsequently be listed. Series for the next expiration cycle may be listed once the current cycle's KPI value or measure is released. These exercise prices may also vary significantly from the actual KPI value or measure for the **KPI event**.

g. Trading in the security of a reference entity may be halted on an equities exchange and result in trading halts on types of options other than KPI Binary Options (such as physically settled equity options on the security of the reference entity). Investors should not assume that a trading halt on other types of options will also apply to KPI Binary Options in all cases.

h. The KPI measures or values used for expiration processing are final, and no changes to settlement will be made once expiration processing is complete. For purposes of determining the KPI value or measure used for settlement, the value or measure released in the issuer's earnings-related filing submitted to the SEC will be used, even if such amount differs from other information published by the issuer.

Additional Risks

The following are additional market and systemic risks of which investors should be aware. This document notes such risks but does not provide an in-depth review or discussion of each or the causes of each, which is beyond the scope of this document.

- Trading may be conducted in various ways on an options exchange or in any market for an underlying interest. The reader should not assume that either the options exchanges or the markets for underlying interests will be orderly, available, or liquid at all times. The performance of market-makers cannot be guaranteed at all times, particularly in times of unusual or increased market activity.
- There may be inherent risks associated with investing in the underlying interest or reference entity for the underlying KPI of a binary option.
- There are systemic risks that could affect the options markets and the investors in those markets. The options markets are connected with other aspects of national and international market systems and economies. Any disturbance or crisis in any part of the national or international market system, or other national or world event (including but not limited to geopolitical events, natural disasters, sudden and extreme market movements, and economic crises) could severely disrupt or harm the proper functioning of an options exchange or CCUS. It is possible that certain events could limit the liquidity of a market and jeopardize the solvency of market participants.
- It is also possible that options exchanges or the market for underlying interests may fail or may not function correctly at all times. In addition to other factors that may disrupt the markets that have already been mentioned in this document, any market participant may be susceptible to a cyber or other attack.

Chapter 7: Transaction Costs, Margin Requirements, and Tax Consequences of Binary Options Trading

The profitability of a binary option can be reduced by tax considerations, transaction costs, and margin required on an option position. Investors should take these factors into consideration when making investment decisions.

Transaction Costs

Options transactions generally have transaction costs (including but not limited to brokerage firm commissions, margin, and interest), and there can be varying costs to an option between the time a trade is executed to create the option position until the option expires or the position is closed out. This means transaction costs may be associated with the trade that establishes (or opens) an option position, the trade that closes an existing option position, and the exercise and assignment of an existing option position. These costs can lessen the profitability of an option. Option strategies that involve multiple transactions may result in transaction costs on each part (or leg) of the strategy. Investors should obtain information on transaction costs from their brokerage firms before investing in binary options.

Margin Requirements

For options, margin means an amount of cash or other assets (known as collateral) that must be deposited (or pledged) by an option writer to its brokerage firm to be used if the investor's options are exercised.

CCUS Clearing Members also pledge collateral to CCUS for the same purpose. For binary options cleared by CCUS, only cash may be pledged for the exercise payout amount to meet margin requirements, although other types of collateral may be accepted in the future and margin models may vary in the future. Brokerage firms may require that option writers deposit the full exercise payout amount for each binary option the investor has in their accounts (for those option writers who would need to deliver cash if their option is exercised). In general, margin requirements for investors may be affected by the account terms and conditions of an investor's brokerage firm, the margin requirements of the exchange on which the binary options trade, and CCUS rules on margin requirements, and each of these types of margin requirements may change from time to time. Investors should refer to the current rules of the exchange on which binary options trade and CCUS rules for current margin requirement information. Investors should also see the terms and conditions for their account at their brokerage firm.

Margin requirements are different for other types of options that are not binary options. Investors should be certain to identify and understand the margin requirements that are specific to binary options. Investors should be aware that margin requirements are part of trading options and must be taken into consideration when investing in options.

Tax Consequences

Investing in binary options may result in tax consequences for investors. Tax implications for investors are dependent on the individual tax situation of the investor. Investors should consult with a tax adviser to determine how option transactions can affect an individual's taxes and how tax implications will affect the value of an option position.

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Chapter 8: Additional Legal Considerations

As a type of standardized option, binary options are exempt from the registration requirements of the Securities Act of 1933, as amended. This disclosure document is not a prospectus.

The options exchange(s) trading the KPI Binary Option products described in the CARBO are responsible for the contents of the CARBO.

The CARBO is an independent document that may not be included in, incorporated by reference, or associated with any other document published by any other entity.

In situations or circumstances of unusual market activity, an exchange may take certain actions for the protection of investors and market integrity. Such actions include but are not limited to halting trading, restricting orders, or changing or eliminating market-maker obligations and/or market-maker entitlement programs.

As SROs, exchanges and clearing organizations have authority to interpret their rules, and investors should not assume that exchanges or clearing organizations will interpret their rules in a specific way or take a specific action (or no action). SROs do not interpret or have a responsibility to enforce the rules of other SROs.

Glossary of Terms

A.M.-Settlement
See settle on open.

Assigned Writer
An option writer who has been assigned an exercise and is therefore obligated to perform according to the terms of the option (i.e., to pay the exercise payout amount).

Assignment/Assigned
Process by which option writers will fulfill their obligations under option contracts and are required to pay the exercise payout amount following the automatic exercise of the option.

At-the-Money ("ATM")
A binary option is at-the-money if the current price of the underlying security or value of the underlying index (for an underlying price binary option) or KPI value or measure (for a KPI Binary Option) is the same as the exercise price of the option. A call binary option will be automatically exercised if it is determined to be ATM when it expires.

Binary Option
A cash-settled option having only two possible payoff outcomes: either a fixed amount of cash or $0.00. The holder receives a fixed cash settlement amount (exercise payout amount) if the exercise criterion of the option is met at expiration. Unlike traditional options, the payout does not increase if the value of the underlying interest moves further beyond the strike price. KPI Binary Options are one type of binary option.

Call Binary Option
An option that gives the holder the right to receive the exercise payout amount if the price of the underlying security or the value of the underlying index (for an underlying price binary option) or KPI value or measure (for a KPI Binary Option) equals or exceeds the exercise price at expiration.

Cash Settlement Amount
See Exercise Payout Amount

Closing Transaction
A transaction in which, prior to expiration, the option holder makes an offsetting sale of an identical option, or the option writer makes an offsetting purchase of an identical option to reduce or eliminate the investor's previous position.

Combinations
Positions in more than one option at the same time; spreads and straddles are two types of combination positions. Also referred to as strategies.

Contract Adjustment
A modification made to certain standardized terms of outstanding options upon the occurrence of specified events (such as stock splits, mergers, or distributions) related to the underlying security or interest. For KPI Binary Options, determinations as to whether and how to adjust are made by CCUS in its sole discretion, consistent with applicable regulatory standards, and CCUS may utilize a Determinations Committee when making contract adjustment decisions.

Contract Multiplier
The multiple applied as a fixed value by the listing options exchange used to determine the aggregate payout of an option contract. For underlying price binary options, the multiplier is at minimum one (1). For KPI Binary Options, the multiplier is one (1). If the multiplier of a binary option is one (1), the exercise settlement value for an option will equal the exercise settlement amount.

Determinations Committee
Committee convened by CCUS for the purpose of making settlement and contract-adjustment determinations for binary options issued and cleared by CCUS. The Determinations Committee will be composed of representatives from CCUS and the exchange(s) on which the binary option that is subject to review (for a settlement issue or contract-adjustment determination) trades.

European-Style
An exercise style in which the option may only be exercised on a specific date, generally its expiration date, and not before. All binary options are European-style.

Event Disclosure Date
The date that the information that is needed to determine if the exercise criterion of a KPI Binary Option has been met becomes available. The event disclosure date will be the expiration date for KPI Binary Options.

Exercise
Process by which an option holder will receive the exercise payout amount for a binary option. A binary option will be automatically exercised if the exercise criterion of the option is met at expiration.

Exercise Criterion
The specific question, condition, or criterion associated with the underlying security, index, or other interest that must be met for a binary option to be exercised. A binary option is automatically exercised if the settlement value at expiration meets the criterion established by the listing options market (e.g., the price is at or above the strike for a call, or below the strike for a put). If the criterion is not met, the option expires unexercised and worthless.

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Exercise Payout Amount

The fixed amount of cash that the holder of a binary option is entitled to receive — and the writer is obligated to pay — upon exercise. Also known as the cash settlement amount or exercise settlement amount, it is a set amount equal to the exercise settlement value multiplied by the contract multiplier, meaning that if the multiplier of the contract is one (1), the exercise payout amount will equal the exercise settlement value. This amount is determined by the listing options market prior to trading and will not change except in unusual circumstances when alternative settlement procedures are used.

Exercise Price

The number of a binary option that is compared against the price of the underlying security, the settlement value of the underlying index, or the settlement KPI value or measure to determine if the exercise payout amount will be paid out. Also known as strike price.

Exercise Settlement Amount

See exercise payout amount.

Exercise Settlement Value

The value established for a binary option by the listing exchange that will be multiplied by the multiplier of a binary option contract to arrive at the exercise settlement amount (the exercise payout amount). If the multiplier of a contract is equal to one (1), the exercise settlement value will equal the exercise settlement amount.

Expiration Date (typically synonymous with Event Disclosure Date for KPI Binary Options)

The date on which a binary option expires. If the binary option does not meet the exercise criterion for automatic exercise on this date and is not subject to delayed settlement, it becomes worthless. Binary options are European-style and typically can only be exercised on the expiration date. KPI Binary Options may have a placeholder expiration date for a portion of the time between when the option is first listed and when it expires.

Holder

The person who purchases a binary option contract, buying the right conveyed by the option contract. The holder (also known as the buyer) has the right to receive a fixed amount of cash (the exercise payout amount) if the exercise criterion of a binary option is met at expiration.

In-the-Money ("ITM")

A call binary option is in-the-money if the current price of the underlying security or value of the underlying index (for an underlying price binary option) or KPI value or measure (for a KPI Binary Option) is above the exercise price; a put binary option is in-the-money if the current price of the underlying security or value of the underlying index (for an underlying price binary option) or KPI value or measure (for a KPI Binary Option) is below the exercise price. A binary option will be automatically exercised if it is determined to be ITM when it expires.

KPI Binary Options

A binary option with an exercise criterion tied to a defined KPI event rather than the price of an underlying security or value of an index. The option pays a fixed amount of cash if the KPI event outcome satisfies the specified exercise criterion when the option expires. This type of binary option may also be referred to as Binary KPI Options.

KPI Event

A specific key performance indicator, including but not limited to earnings per share, net income, segment net sales, net interest income, provision for credit losses, or an expense metric — as reported by an issuer (which is typically a company and referred to in this document as the "reference entity") in its earnings-related filings submitted to the SEC (for example, Forms 8-K, 10-Q, or 10-K) that is used to determine if an associated KPI Binary Option will be exercised.

Long

Refers to an investor's position as the holder of an option.

Market-Maker

A financial institution, broker-dealer, or individual trader (designated by an exchange as a "market-maker") with obligations to buy and sell securities, thereby helping to provide liquidity to the marketplace.

Multiplier

See contract multiplier.

Opening Transaction

A purchase or sale transaction by which a person establishes or increases a position as either the holder or the writer of an option.

Option Buyer

See holder.

Option Seller

See writer.

Out-of-the-Money ("OTM")

A call binary option is out-of-the-money if the current price of the underlying security or value of the underlying index (for an underlying price binary option) or the KPI measure or value (for a KPI Binary Option) is below the exercise price; a put binary option is out-of-the-money if the current price of the underlying security or value of the underlying index (for an underlying price binary option) or the KPI measure or value (for a KPI Binary Option) is above the exercise price.

P.M.-Settlement

See settle on close.

Payout Determination

The methodology used to determine if the exercise criterion of a binary option has been met and the binary option will be exercised based on the rules of the listing options exchange.

Placeholder Expiration Date

The temporary expiration date assigned to a KPI Binary Option when the event disclosure date for a KPI has not yet been announced by the issuer of the security associated with the KPI. Once the event disclosure date is announced (which in rare cases may be on the event disclosure date), the placeholder expiration date of the KPI Binary Option will be updated to reflect the event disclosure date as the finalized expiration date of that KPI Binary Option.

Position Limits

Rules of the options markets that limit the maximum number of options on the same side of the market with respect to a single underlying interest that may be carried in the accounts of a single investor or group of investors acting in concert.

Premium

The price that the holder of an option pays and the writer of an option receives for the rights conveyed by the option; it is not a standardized term.

Put Binary Option

An option that gives the holder the right to receive the exercise payout amount if the price of the underlying security or the value of the underlying index (for an underlying price binary option) or KPI value or measure (for a KPI Binary Option) is less than the exercise price at expiration.

Reference Entity

The issuer that reports on a specific KPI in its earnings-related filings submitted to the SEC.

Settle on Close

The settlement type of an option that uses the closing price (as the settlement price) or value (as the settlement value) of the underlying security or index to determine if the option will be exercised upon expiration (for an underlying price binary option) or that is based on a KPI event that is expected to be disclosed after the regular market close on the event disclosure date (for a KPI Binary Option).

Settle on Open

The settlement type of an option that uses the opening price (as the settlement price) or value (as the settlement value) of the underlying security or index to determine if the option will be exercised upon expiration (for an underlying price binary option) or that is based on a KPI event that is expected to be disclosed before the regular market open on the event disclosure date (for a KPI Binary Option).

Settlement Price

The price of the underlying security used to determine whether an underlying price binary option has met its exercise criterion and should be exercised. Settlement price may be used as the settlement value for binary options based on the price of the option's underlying security.

Settlement Style

The term of a binary option that determines when an option may be exercised. Binary options are European-style only, which means that they may only be exercised at a specific date, typically on the option's expiration date.

Settlement Type

The term of a binary option that establishes the time on the expiration date of an option when the option's exercise criterion will be assessed to determine if an option will be exercised. The two primary types are: (1) settle on open or a.m.-settlement; and (2) settle on close or p.m.-settlement.

Settlement Value

The price of the underlying security or the value of the underlying index (for underlying price binary options) or the KPI value or measure (for KPI Binary Options) used to determine if a binary option should be exercised at expiration. For a cash-settled call binary option, the option will be exercised if the settlement value equals or is greater than the exercise price. For a cash-settled put binary option, the option will be exercised if the settlement value is less than the exercise price.

Short

Refers to an investor's position as the writer of an option.

Spread

A combination position involving being both the buyer and writer of the same type of option (puts or calls) on the same underlying interest, with the options having different exercise prices and/or expiration dates.

Strike Price

See exercise price.

Successor Event

An event that results in a change to the reference entity, exercise criterion, or other terms of a KPI Binary Option because the original KPI event is no longer applicable or relevant to the KPI Binary Option.

Underlying Price Binary Options

A binary option that is based solely on, in the case of a binary option on a security, the trading price of the underlying security or, in the case of a binary option on an index, the value of the underlying index.

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Writer

The person who sells an option contract, obligating the writer to perform according to the terms of the option contract. The writer (also known as the seller) has the obligation to pay a fixed cash amount if the exercise criterion of the binary option is met at expiration.

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