

**EXAMPLE:** Assume a series of XYZ range options has a specified range length from 1000 to 1100. If the current level of XYZ index is either below 1000 or above 1100, the series of XYZ range options would be out of the money.

**INTRINSIC VALUE and TIME VALUE** — It is sometimes useful to consider the premium of an option as consisting of two components: intrinsic value and time value.

In the case of an option other than a binary option, the intrinsic value reflects the amount, if any, by which the option is in the money. An option that is out of the money would have an intrinsic value of zero. Delayed start options, other than series whose exercise prices are to be set in the money, have no intrinsic value before the exercise price is set. Thereafter, as in the case of any other option, whether a delayed start option has intrinsic value depends on the level of the underlying index at the time. A binary option (other than a credit default option) that is in the money has an intrinsic value equal to the fixed cash settlement amount of the option. Where the listing exchange has specified that a binary call will return a cash settlement amount if the exercise settlement value of the underlying is exactly equal to the exercise price, the call will have an intrinsic value equal to the cash settlement amount if it is either in the money or at the money. As is further discussed under the heading "Credit Default Options and Credit Default Basket Options" in Chapter V, credit default options have no intrinsic value.

Time value is whatever the premium of the option is in addition to its intrinsic value. Time value is that part of the premium that reflects the time remaining before expiration. An American-style option may ordinarily be expected to trade for no less than its intrinsic value prior to its expiration, although occasionally an American-style option will trade at less than its intrinsic value. Because European-style options (including binary options and range options) and capped options are not exercisable at all times, they are more likely than American-style options to trade at less than their intrinsic value when they are not exercisable.

*The following new paragraphs are added at the end of Chapter II, on page 17 of the Booklet:*

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A delayed start option is an option that does not have an exercise price when first introduced for trading but instead has an exercise price setting formula pursuant to which the exercise price will be fixed on a specified