Regulatory Circular RG05-37

To:	Member Organizations	
From:	Division of Regulatory Services	
Date:	April 6, 2005	
Subject:	Margin Requirements for Certain Complex Spreads	
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KEY POINTS

- Certain complex option spreads (specified below) are the equivalent of combining two or more spreads that are currently recognized in the margin rules of the Chicago Board Options Exchange (the “Exchange” or “CBOE”).
- Because these complex spreads can be shown to equate to aggregations of two or more currently recognized spreads, current margin rules are deemed to provide a margin requirement for each complex spread in that the rules provide a margin requirement for each spread in the equivalent aggregation.
- Member organizations may require margin for these complex spreads of not less than the sum of the margin required on each spread in the equivalent aggregation.
- The margin requirements set forth in this Regulatory Circular will be in effect as a pilot until February 7, 2006 or until such time as the Securities and Exchange Commission ("Commission") has approved permanent implementation of these margin requirements, whichever occurs sooner.

DISCUSSION

It is known that certain complex spread configurations are the net result of combining two or more spread strategies that are currently recognized in the Exchange’s margin rules. Specific complex spread configurations are listed below, along with the currently recognized spreads to which they can be traced. The expiration months, exercise prices, interval between exercise prices, and option premiums used in each configuration are for illustration only. However, as illustrated, the expiration months and sequence of the exercise prices must fit the same pattern, and the intervals between the exercise prices must be equal. Note that netting of contracts in option series common to each of the currently recognized spreads in an aggregation reduces it to the complex spread.

	PUTS			CALLS					
	Feb 45 @ .5	Feb 50 @ 1	Feb 55 @ 2	Feb 45 @ 16.5	Feb 50 @ 12	Feb 55 @ 8	Feb 60 @ 6	Feb 65 @ 5	Apr 60 @ 7
Long Butterfly					1	-2	1		
Long Butterfly						1	-2	1	
Net – **Configuration I**					**1**	**-1**	**-1**	**1**	
Long Butterfly					1	-2	1		
Short Box		1	-1		-1	1			
Net – **Configuration II**		**1**	**-1**			**-1**	**1**		
Long Butterfly					1	-2	1		
Long Butterfly						1	-2	1	
Short Box		1	-1		-1	1			
Net – **Configuration III**		**1**	**-1**				**-1**	**1**	
Long Time Spread							-1		1
Long Butterfly					1	-2	1		
Net – **Configuration IV**					**1**	**-2**			**1**
Long Time Spread							-1		1
Long Butterfly					1	-2	1		
Long Butterfly				1	-2	1			
Net – **Configuration V**				**1**	**-1**	**-1**			**1**
Long Time Spread							-1		1
Long Butterfly					1	-2	1		
Short Box		1	-1		-1	1			
Net – **Configuration VI**		**1**	**-1**			**-1**			**1**
Long Time Spread							-1		1
Long Butterfly					1	-2	1		
Long Butterfly				1	-2	1			
Short Box	1	-1		-1	1				
Net – **Configuration VII**	**1**	**-1**				**-1**			**1**

As illustrated above, the complex spread configurations equate to aggregations of currently recognized spreads. Therefore, for complex spreads fitting the above configurations, whether established outright or through netting, member firms must require initial and maintenance margin of not less than the sum of the margin required on each of the currently recognized spreads in the applicable aggregation subject to the following limitations:

- the complex spread must be carried in a margin account,

- European style options are not permitted for the configurations involving time spreads (IV through VII),

- the intervals between exercise prices must be equal, and

- each complex spread must comprise four option series, except for Configuration IV, which must comprise three option series.

Summing the margin required on each currently recognized spread in each of the applicable aggregations renders a margin requirement for the subject complex spread configurations as follows:

Configuration	Margin Requirement
I	Pay for the net debit in full
II	Exercise price interval (aggregate), net credit may be applied
III	Exercise price interval (aggregate), net credit may be applied
IV	Pay for the net debit in full
V	Pay for the net debit in full
VI	Exercise price interval (aggregate), net credit may be applied
VII	Exercise price interval (aggregate), net credit may be applied

Using Configuration III as an example, the margin requirement and SMA debit or margin call would be as follows:

	PUTS		**CALLS**			
	Feb 50 @ 1	Feb 55 @ 2	Feb 50 @ 12	Feb 55 @ 8	Feb 60 @ 6	Feb 65 @ 5
Long Butterfly #1			1	-2	1	
Long Butterfly #2				1	-2	1
Short Box #1	1	-1	-1	1		
Net – **Configuration III**	**1**	**-1**			**-1**	**1**

Margin Calculation:	$5.00 x 1 contract x 100 shares =	$500.00
Margin Requirement:		$500.00
SMA Debit or Margin Call:	$500.00 - $200.00 =	$300.00

Explanation: The initial and maintenance margin requirement is the exercise price interval (aggregate). Establishing this complex spread results in a net credit of $200.00 that may be applied to the margin requirement.

As shown in the table below, the same margin requirement, and SMA debit or margin call, would result by taking the sum of the margin required on each spread in the equivalent aggregation.

	Net dr or cr	Margin Req.	Deposit
Long Butterfly	$200 dr	0	$200
Long Butterfly	$100 dr	0	$100
Short Box #1	$500 cr	$500	$0
Total	$200 cr	$500	$300

The margin requirements set forth in this Regulatory Circular will be in effect as a pilot until February 7, 2006 or until such time as the Commission has approved permanent implementation of these margin requirements, whichever occurs sooner.

Questions regarding margin requirements should be directed to James Adams at (312) 786–7718.

Regulatory Circular RG04-90 (Revised)