



Regulatory Circular RG09-132

To: Members, Member Organizations

From: Division of Member and Regulatory Services

Date: November 20, 2009

Subject: Update of RG09-097,
Margin Requirements for Leveraged ETFs
and Uncovered Options on Leveraged ETFs

Exchange
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KEY POINTS

- CBOE Regulatory Circular RG09-097 announced margin requirement increases effective December 1, 2009, for leveraged ETFs, uncovered options overlying leveraged ETFs, and day trading involving leveraged ETFs or uncovered options overlying leveraged ETFs.
- The effective date of increased margin requirements for positions in leveraged ETFs remains December 1, 2009, as originally set in RG09-097.
- However, due to the necessity that members concentrate systems programming efforts on the Options Symbolology Initiative in order to meet industry deadlines, as well as other systems-related issues, the effective date for the margin requirement increases pertaining to uncovered options on ETFs, and day trading involving leveraged ETFs or uncovered options on leveraged ETFs, is being delayed until April 30, 2010.

DISCUSSION

Pursuant to its authority under CBOE Rules 12.3(g) and 12.10 (Margin Required is Minimum), the Exchange announced higher margin requirements for leveraged ETFs and uncovered options on leveraged ETFs in Regulatory Circular RG09-097, in view of the increased volatility inherent in leveraged ETFs relative to their non-leveraged counterparts.

In short, the margin requirement is increased by a factor commensurate with the leverage of the ETF or underlying ETF in the case of an uncovered option.

CBOE continues to believe that the increases are necessary and prudent, but CBOE is also cognizant that listed options markets are in the final stages of programming a significant change in the way exchange-traded options contracts are symbolized in electronic systems. The Options Symbolology Initiative ("OSI") requires broker-dealers to redesign their systems to accommodate a February 12, 2010, implementation date of the new symbolology. To allow firms to devote the necessary resources to meet this deadline, CBOE, and the Financial Industry

Regulatory Authority (“FINRA”), are deferring the effective date of the increased maintenance margin requirements for uncovered options overlying leveraged ETFs until April 30, 2010.¹ CBOE and FINRA are also deferring the effective date of the day trading margin requirements until April 30, 2010; as such calculations also may incorporate options overlying leveraged ETFs. However, the effective date for the increased maintenance margin requirement for leveraged ETFs will remain December 1, 2009, as originally set.

Members are reminded to review Regulatory Circular RG09-097, which discusses the increased maintenance margin requirements in detail.

Other Leveraged Products

CBOE encourages members to assess the adequacy of house maintenance margin requirements for all other securities that contain inherent leverage or are linked to a leveraged product, and to implement higher requirements where appropriate. In particular, members should be attentive to leveraged mutual funds and security futures that have leveraged ETFs as the underlying security, as well as Exchange Traded Notes (“ETNs”) linked to a leveraged ETF.

Questions concerning this Regulatory Circular may be directed to Jim Adams, (312) 786-7718, in the Exchange’s Department of Member Firm Regulation.

(Updates RG09-097)

¹ See FINRA Regulatory Notice 09-65.