

Regulatory Circular RG91-59

Date: November 6, 1991

To: CBOE Members and Member Organizations

From: Department of Financial Compliance

Subject: Market Maker Haircuts for CAPSTM

Question: What is the haircut for CAPS positions?

Answer: In general, CAPS will be haircut as index options, this includes haircut offset with other index products. However, due to the automatic exercise feature of CAPS, a long CAPS contract is unable to provide a hedge beyond the cap price. Therefore, long CAPS with the exception of long straddles, will not be recognized as haircut offsets for any position other than CAPS contracts. Additionally, box spread haircut treatment will not be available for boxes which utilize CAPS contracts.

Question: What is the haircut for long CAPS positions?

Answer: The haircut for a long CAPS position will be 50% of the CAPS market value.

Question: What is the haircut for short CAPS positions?

Answer: Since it is possible to define the maximum risk of short CAPS, the haircut will be the lesser of a) 75% of the current CAPS market value or b) the cap interval less the current CAPS market value. The minimum haircut on short positions will be equal to \$37.50 per contract.

Question: Can CAPS be used to offset index options for spread haircut treatment?

Answer: Yes, spreads where the CAPS contract is the short leg would be entitled to spread haircut treatment. The haircut for a spread will be 50%/75% of the net long/short market value. The minimum haircut will be \$25/\$37.50 per long/short contract.

Question: Can CAPS be used to offset index options for straddle haircut treatment.

Answer: Yes, long and short CAPS can offset index options for straddle haircut treatment. The haircut is equal to the greater of the haircut on the put or call with a minimum for a short straddle of \$37.50 per contract.

Question: Can CAPS be used to offset stock baskets?

Answer: Yes, short CAPS can offset a stock basket for conversion, reversal or covered haircut treatment. The haircut for a stock basket is the greater of the a) standard market maker haircut, b) 45% of the unhedged portion of stock basket or c) 5% of the market value of the stock basket, up to the value of the underlying index.

Question: Can CAPS be used to offset futures positions?

Answer: Yes, short CAPS can offset index futures that have a high degree of correlation to S&P 100 and S&P 500 indexes. Future offset positions (conversions, reversals and covered shorts) are haircut under cross-index haircut methodology which permits various derivative products that have a high degree of correlation to be haircut together. The derivative products are equalized to a common contract size and then haircut according to standard market maker haircuts with a small surcharge.

Questions regarding CAPS haircuts should be directed to your clearing firm or the Department of Financial Compliance at (312) 786-7924.