Regulatory Circular RG92-45

Date: July 30, 1992

To: Selected Member Organizations

From: Department of Financial Compliance

Re: NSX/SPX Spreads

This Regulatory Circular concerns spread and straddle margin treatment for offsetting positions in NSX and SPX index options contracts. This Regulatory Circular supersedes any previous memoranda concerning this matter.

Exchange Rules and Regulation T of the Board of Governors of the Federal Reserve System ("FRB") allow for spread margin treatment for offsetting positions in NSX and SPX options contracts.[1] However, due to the different times at which the expiration settlement values are determined for these two classes (i.e., "a.m." versus "p.m." settlement),[2] the Options Clearing Corporation ("OCC") Rules provide that spread margin treatment will no longer be extended to expiring a.m. settled index options contracts offset by other broad-based index options contracts as of the close of trading on the Wednesday prior to expiration. As of the close on the Wednesday prior to expiration, OCC margins the a.m. settled expiring options contracts independently from other broad-based index options contracts.

Pursuant to Exchange Rule 12.10, the Exchange has determined that offsetting positions in NSX and SPX options contracts may be margined as spreads or straddles as appropriate with the following exception:

> -a.m. settled expiring options contracts based on the S & P 500 index may not receive spread or straddle margin treatment when offset against **non-expiring** a.m. settled S&P 500 index options contracts or **any** p.m. settled S&P 500 index options contracts, whether denoted by the symbol NSX or SPX, as of the opening of trading the Wednesday prior to expiration.

Questions concerning this Circular may be directed to Diane Malley at (312) 786-7924 or to Richard Lewandowski at (312) 786-7183 in the Exchange's Department of Financial Compliance.

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[1]Exchange Rule 24.11(c)(1) provides that spread margin may be applied to "accounts carrying positions in long call index options (or long put index options) for the same underlying index with the same index multiplier, provided that the expiration date of the long calls (or long puts) is the same as or subsequent to the expiration date of the offsetting short calls (short puts)." FRB Regulation T Section 220.5 paragraph (c)(3)(iv) also provides for such spread margin treatment.

[2]The expiration settlement value for NSX index options contracts has been calculated based upon the opening prices of the index component stocks on the last business day prior to expiration ("a.m. settled"). The expiration settlement value for SPX index options contracts has been calculated based upon the closing prices of the index component stocks on the last business day prior to expiration ("p.m. settled"). As of August 24, 1992, all NSX a.m. settled contracts will be renamed SPX, and all p.m. settled SPX contracts will be renamed NSX. Refer to Regulatory Circular RG92- 46 for further details.