

Regulatory Circular RG92-55

Date: October 15, 1992
To: The Membership
From: Department of Financial Compliance
Re: Capital and Margin Requirements for FT-SE 100 Index Options

On October 15, 1992 the CBOE will begin to trade options on the FT- SE 100 Index ("FT-SE"). The FT-SE is a capitalization-weighted index of the 100 largest United Kingdom stocks traded on the London Stock Exchange. The FT-SE options will be cash-settled and European-style. The value of one U.S. dollar will be assigned to one index point, therefore, the option premium will change in U.S. dollar terms. The purpose of this circular is to explain the Exchange margin and capital treatment for FT-SE options.¹

MARGIN

The FT-SE is a market index and, therefore, options on the index are subject to the margin requirements specified in CBOE Rule 24.11(b)(i). A long option position must be paid for in full. The margin requirement for a short put or call is 100% of the current market value plus 15% of the current index value times the index multiplier (100), less the out-of-the-money amount, if any, to a minimum of 100% of the current market value plus 10% of the product of the current index value times the index multiplier. Spreads and straddles are permitted for options covering equivalent units of the same underlying index.

CAPITAL

Because the FT-SE is a market index, the haircuts associated with broad-based index options are generally applicable. For example, the haircut on a short FT-SE option position is:

- 75% of the current market value with a minimum haircut of \$75 per contract for market maker positions.
- 100% of the current market value with a minimum of \$150 per contract for firms utilizing the proprietary haircuts described in the SEC October 23, 1985 no action letter to the Securities Industry Association Capital Committee.

¹Exchange options margin requirements are applicable to all public customer positions and the non-market maker positions of non-clearing broker-dealers. Capital requirements ("haircuts") are applicable to the positions of all broker-dealers as described herein.

- 10% of the underlying index value, less the out-of-the-money amount, plus the prescribed net worth adjustment which is an add back equal to the time value of the short contract, for firms computing haircuts under Appendix A of SEC Rule 15c3-1. The minimum haircut is \$250 per contract less the aforementioned net worth adjustment.

Additionally, at the request of the Exchange the SEC has agreed that cross index haircut treatment is available between FT-SE options traded on CBOE and FT-SE futures and options on futures traded on the Chicago Mercantile Exchange.²

Questions regarding the margin and capital treatment of FT-SE options should be directed to Diane Malley at 312-786-7924 or Rich Lewandowski at 312-786-7183 in the Exchange's Department of Financial Compliance.

²See cross index treatment provided in a letter dated October 4, 1988 from Mary Bender of the CBOE to Michael Macchiaroli of the SEC.