Regulatory Circular RG92-61

DATE: December 9, 1992

TO: The Membership

FROM: Department of Financial Compliance

RE: Capital and Margin Requirements for Russell 2000 Index Options

On November 11, 1992 the CBOE began trading options on the Russell 2000 Index ("Russell"). The Russell is a capitalization-weighted index composed of the bottom 2000 of the 3000 largest U.S. equities in terms of domestic capitalization. The Russell options are cash- settled and European-style. The purpose of this circular is to explain the Exchange margin and capital treatment for Russell options.[1]

MARGIN

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

- 75% of the current market value with a minimum haircut of $75 per contract for market maker positions.

[1]Exchange 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.

- 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.

- 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.

Questions regarding the margin and capital treatment of Russell 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.