

Regulatory Circular RG97-89

Date: July 9, 1997
To: Membership
From: Department of Financial Compliance
Subject: Changes to Option SRO Margin Rules

On June 2, 1997 the Securities and Exchange Commission approved changes to the Chicago Board Option Exchange's margin rules (Rule Chapters 12, 23, 24 and 30). The rule amendment established, among other changes, a new minimum requirement for short put options. The margin requirement for a short put option is the greater of 100% of the option premium plus 15%/20% of the underlying market-based index/stock or narrow-based index value less the out-of-the-money amount, if any, to a minimum of 100% of the option premium plus 10% of the put strike price. The new requirement will cap the margin requirement for out-of-the-money put options. Under the previous rule the minimum margin requirement was determined using 10% of the underlying market value. As the underlying price increased above the strike price of the put option (the put option became further out-of-the-money), the margin on the position would continue to increase. The new minimum requirement will eliminate this inconsistency as the requirement is now based on a constant figure (the put strike price).

The amendment also established margin relief for market maker permitted offset positions. For a further explanation of this change, see CBOE Regulatory Circular RG97-74.

Questions and comments regarding the above may be directed to Richard Lewandowski, (312) 786-7183 or Diane Malley, (312) 786-7924.