

Regulatory Circular RG97- 123

Date: September 25, 1997

To: Members and Member Firms

From: Department of Market Regulation

Re: Equity FLEX Position Limits

The Securities and Exchange Commission (SEC) has approved a significant revision to Exchange Rule 24A.7.(b) regarding position and exercise limits for equity FLEX option contracts. The SEC has approved the elimination of position and exercise limits for all equity FLEX option contracts, effective September 9, 1997, for a two (2) year pilot program. Pursuant to this approval and continuing through the pilot program, member organizations shall be subject to the following reporting requirements:

Reporting Requirement:

A member organization (other than a Market-Maker or a DPM) that maintains an equity FLEX option position in excess of three (3) times the standard non-FLEX position limit, on behalf of its proprietary account or for the account of a non-member customer, shall report information on the FLEX option position. The member organization must report (i) a description of the option strategy employed (ii) whether such FLEX position is hedged and (iii) the account's position in any related instruments. This report must be filed initially when the account meets the reporting threshold and thereafter, when a 25% increase in the option positions occurs. In addition, a report must be filed when a significant change in the hedge occurs (i.e. 25% of the option position becomes unhedged). Copies of the reporting form can be obtained in the Department of Market Regulation.

Margin and Clearing Firm Requirements:

Whenever the Exchange determines that a non-member customer account has established sizeable FLEX option positions that may not be suitable for the customer, the Exchange may require that the firm impose additional margin on the subject account or commit to additional capital charges.

Please be advised that this rule change does not affect non-FLEX equity options which remain subject to standard position and exercise limits. In addition, FLEX equity options remain subject certain to reporting requirements prescribed under Exchange Rule 4.13 (a).¹ Questions pertaining to this circular can be directed to Patricia L. Cerny at (312) 786-7722.

¹ Exchange Rule 4.13(a) sets forth clearing member reporting obligations with respect to reporting customer option positions that exceed 200 contracts.