The ChicagoBoard Options Exchange

REGULATORY CIRCULAR NO. 98-112
October 16, 1998

TO: Members and Member Organizations

ATTENTION: Chief Executive Officers/Managing Partners/
Compliance Officers/Senior Registered Options Principals

FROM: Capital Markets Division

SUBJECT: Salomon Smith Barney Holdings Inc.
Principal-Protected Equity Linked Notes based upon
the S&P 500® Index, due __*__ , 2005

The aforementioned Notes are the subject of a Preliminary Prospectus Supplement and will commence trading at a date to be announced (Trading Symbol: KSB; CUSIP NO. 79549B743).

KSB are senior unsecured debt obligations of Salomon Smith Barney Holdings Inc. and will be issued in denominations of $10, and integral multiples thereof. KSB does not provide for any payments prior to maturity nor is it subject to early redemption. At maturity, Holders will be entitled to receive, with respect to each Note, the principal amount ($10) **plus** a "Supplemental Redemption Amount", if any, based on the percentage increase in the S&P 500® Index **, reduced by an Adjustment Factor ***. In no event will the Supplemental Redemption Amount be less than zero.

The Preliminary Prospectus Supplement sets forth the following formula for calculating the Supplemental Redemption Amount:

$$\$10 \quad \text{times} \quad \left[\frac{\text{Adjusted Ending Value minus Starting Value*}}{\text{Starting Value*}}\right]$$

As more fully described in the Preliminary Prospectus Supplement, the Starting Value will equal the closing value of the Index on the date the Securities are priced for initial sale to the public (the "Pricing Date"). The Starting Value will be announced on the Pricing Date and set forth in the final Prospectus Supplement. The Adjusted Ending Value will equal the average of the values of the S&P 500® Index reduced by an Adjustment Factor, to be set forth in the final Prospectus Supplement (see footnotes below).

The purpose of this circular is to provide basic information to Members and Member Organizations regarding a proposed new issue of Equity Linked Notes and to advise of certain compliance responsibilities when handling transactions in these securities. This is not a sales document and is not intended to be distributed to customers.

* To be announced.

** The percentage increase will be calculated using an average value of the Index during a period that is expected to be between 24 and 48 months prior to maturity (the "Calculation Period").

*** The Adjustment Factor is expected to be between 1.25% and 1.75% per annum and will result in a total reduction in the adjusted value of the S&P 500® Index used to determine the Supplemental Redemption Amount at maturity of between 8.42% and 11.63%.

THE S&P 500 ® INDEX:

The Index is published by Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and is intended to provide an indication of the pattern of common stock price movement. As of August 31, 1998, the 500 companies included in the Index represented approximately 81% of the aggregate Market Value of the common stocks traded on the New York Stock Exchange (the "NYSE"); however, these 500 companies are not the 500 largest companies listed on the NYSE and not all of these 500 companies are listed on such exchange. As of August 31, 1998, the aggregate Market Value of the 500 companies included in the Index represented approximately 73% of the aggregate market value of the United States domestic, public companies.

CERTAIN RISK FACTORS:

- If the Adjusted Ending Value does not exceed the Starting Value, Holders of KSB will only receive the principal amount ($10 per Security) at maturity, and no Supplemental Redemption Amount. This may be true even if the value of the S&P 500® Index, as reduced by the Adjustment Factor, exceeds the Starting Value at some point during the life of the Notes.

- Because the Adjusted Ending Value will be based upon the average closing values of the Index on a certain day of each month during the __*__month Calculation Period prior to maturity, as reduced by the Adjustment Factor, a significant increase in the Index subsequent to issuance may be substantially or entirely offset by subsequent decreases in the value of the Index during or prior to the Calculation Period. In addition, a high Index value at the close of one or more months during the Calculation Period may be substantially or entirely offset by a low Index value at the close of one or more months during such Period.

- The use of an average over the Calculation Period, rather than one closing Index value at maturity, to calculate the Adjusted Ending Value could result in a lower or higher payment at maturity then would otherwise be the result.

- Because the Adjusted Ending Index Value of the S&P 500® Index may be less than, equal to or only slightly greater than the Starting Index Value, the effective yield to maturity on the Notes (which are linked to the amount by which such Adjusted Ending Value exceeds such Starting Value) may be less than that which would be payable on a conventional fixed-rate debt security of the Issuer. In addition, the return of only $10 in respect of each Note held at maturity may not compensate the Holder for any opportunity cost implied by inflation and other factors relating to the time value of money.

- Any return on the Notes will be based on the appreciation of the S&P 500® Index, as reduced by the Adjustment Factor, and not on dividends paid on the stocks underlying the Index. Therefore, a return on the Notes, if any, will not be the same as the return that could have been earned if Holders owned each of the stocks underlying the Index and received dividends.

- Because the actual values of the S&P500 Index during the Calculation Period will be reduced by the Adjustment Factor, the actual return on the Notes will be less than the return on a similar indexed instrument that was directly linked to the Index.

- The trading value of KSB may be affected by a number of interrelated factors including, among other things, changes in the level of interest rates, the volatility of the Index, the time remaining to maturity, dividend rates on the stocks comprising the Index, real or anticipated changes in the credit ratings or financial condition of the companies whose common stock are included in the Index, the creditworthiness of the Issuer, as well as political, economic and other developments affecting the stocks included in the Index.

OTHER IMPORTANT INFORMATION:

- Investors should consider the tax consequences of investing in KSB. See "Certain United States Federal Income Tax Considerations" in the Preliminary Prospectus Supplement.

- The Notes are backed only by Salomon Smith Barney Holdings Inc. and do not give Holders of KSB the right to receive any of the stocks comprising the Index.

- Ownership of KSB will be maintained in book-entry form by or through The Depository Trust Company ("DTC"). Beneficial owners will not have the right to receive physical certificates evidencing their ownership except under certain limited circumstances described in the Preliminary Prospectus Supplement.

The foregoing information has been excerpted from the Preliminary Prospectus Supplement, and the Exchange assumes no responsibility for the accuracy or completeness of such information. Members and associated persons of member Organizations are advised to read both the Prospectus and the Preliminary Prospectus Supplement.

REGULATORY CONSIDERATIONS:

<u>MARGIN AND CAPITAL REQUIREMENTS</u>

For margin and capital purposes KSB will be considered an equity security. A long KSB position will have an initial/maintenance margin requirement equal to 50%/25% of market value, respectively. For capital purposes KSB positions will be subject to a haircut equal to 15% of market value. At this time, there are no haircut offsets for related derivative securities. Therefore, members should be aware that making markets in or trading KSB, or any structured product that does not qualify as an options hedge, will subject the member to the provisions of SEC Rule 15c3-1 (the "Net Capital Rule"). Members should refer to Regulatory Circular RG 97-40 for further information regarding capital requirements and structured products.

<u>SALES PRACTICES</u>

KSB is considered an equity security and is subject to the provisions of Rule 30.50. A customer's account is not required to be options approved. Members and associated persons of Member Organizations should take such steps as may be reasonably necessary to assure that prospective purchasers of KSB reach an investment decision only after carefully considering the suitability of KSB in light of their particular financial circumstances and objectives.

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Questions regarding suitability of customers transactions in these securities should be directed to Barry Szurgot (312) 786-7756 and questions regarding marginability should be directed to Jim Adams (312) 786-7718. General product questions should be directed to Nick Parcharidis of the Capital Markets Division (212) 803-1411.