Regulatory Circular RG08-92

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To: Members and Member Organizations

From: Division of Member and Regulatory Services

Subject: Portfolio Margining,
- Rule Status Now Permanent
- Amendments to Rules

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Portfolio Margin Rules Now Permanent

On July 8, 2008, the Chicago Board Options Exchange (the "CBOE" or "Exchange") filed, for immediate effectiveness, a proposed rule change with the Securities and Exchange Commission to make the Exchange's customer portfolio margin rules permanent. The customer portfolio margin program was approved by the SEC on a pilot basis on July 14, 2005 (broad-based index options only), and December 12, 2006 (making equities and equity options eligible).[1] The pilot, as extended by the SEC on July 19, 2007, was due to expire on July 31, 2008.

On July 29, 2008, the SEC issued notice of the Exchange's July 8, 2008, filing and its immediate effectiveness.[2] Therefore, the Exchange's rules pertaining to portfolio margining (CBOE Rules 9.15(c) - Delivery of Current Options Disclosure Documents, 12.4 – Portfolio Margin, 13.5 – Customer Portfolio Margin Accounts, and 15.8A – Risk Analysis of Portfolio Margin Accounts) have permanent status and no longer operate under a temporary pilot program.

The Financial Industry Regulatory Authority ("FINRA") filed a similar proposed rule change. The SEC has issued notice of that filing and its immediate effectiveness. [3]

[1] The rules making equities and equity options eligible actually became effective on April 2, 2007.
[2] File number SR-CBOE-2008-73. See Exchange Act Release No. 58243 (July 29, 2008), 73 FR 45505 (August 5, 2008).
[3] File number SR-FINRA-2008-41. See Exchange Act Release No. 58251 (July 30, 2008), 73 FR 45506 (August 5, 2008).

<u>Amendments to Portfolio Margin Rules</u>

On July 24, 2008, the CBOE filed, for immediate effectiveness, a proposed rule change with the SEC to amend:

1) Rule 12.4(i)(5) to specify that a portfolio margin account has three days to meet a requisite margin call incurred as a result of a day trade and

2) Rule 15.8A(c) to specify that a member organization shall monitor the credit exposure resulting form concentrated positions within both individual portfolio margin accounts and across all portfolio margin accounts.

Both of the above amendments add provisions that are contained in a "Frequently Asked Questions" document maintained by FINRA. This document is available at: http://www.finra.org/RulesRegulation/PublicationsGuidance/p038849

On July 30, 2008, the SEC issued notice of the Exchange's July 24, 2008, filing and its immediate effectiveness.[4]

FINRA filed a similar proposed rule change. The SEC has issued notice of that filing and its immediate effectiveness.[5]

Questions concerning portfolio margining may be directed to James Adams (312) 786-7718 or Lawrence Bresnahan (312) 786-7713 in the Exchange's Department of Member Firm Regulation.

[4] File number SR-CBOE-2008-74. See Exchange Act Release No. 58262 (July 30, 2008), 73 FR 46105 (August 7, 2008).

[5] File number SR-FINRA-2008-42. See Exchange Act Release No. 58263 (July 30, 2008), 73 FR 46111 (August 7, 2008).