

Regulatory Circular RG91-69

Date: December 13, 1991

To: Selected Clearing Member Organizations

From: Department of Financial Compliance

Subject: OCC/CME Cross-Margin for Market Makers

On November 26, 1991 the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC") approved the expansion of the Options Clearing Corporation ("OCC") and the Chicago Mercantile Exchange ("CME") cross margin program to include the positions of "market professionals". For purposes of OCC clearing members who carry accounts of securities exchange members, including CBOE, market professionals includes any market maker, floor broker or registered trader. Currently, cross margining is only permitted for proprietary accounts of clearing members. The expanded program will benefit clearing members by lowering clearing margin requirements charged by OCC and CME for the positions of market professionals. Additionally, the CME may lower the margin deposit requirement for the individual trading accounts of market professionals on certain futures and futures options positions hedged by securities options.

The cross-margin program may be utilized by OCC clearing members that carry the accounts of market professionals and that are also clearing members of the CME or have affiliates that are clearing members of the CME. Market professional cross-margin positions will be cleared in a separate account at OCC. Clearing members must obtain the consent of each cross-margin market professional to permit the commingling of the market professional's assets with those of other participants. Clearing members must also obtain an acknowledgement that the positions will not be deemed "customer property" for purposes of the Securities Investors Protection Act ("SIPA"), and that the cross-margin positions will be subordinated to the claims of the clearing member's non-cross-margin customers in the event of liquidation or bankruptcy. Additionally, the market professionals cross-margin positions and related equity will be required to be segregated pursuant to CFTC regulations.

The expanded CME/OCC cross-margin program can be utilized by clearing members starting on December 13, 1991. Any clearing member wishing to participate in this program should contact the Department of Financial Compliance to discuss the applicable capital and accounting treatment. If you have any questions regarding the cross-margin program contact Diane Malley at (312) 786-7924.

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