

Regulatory Circular RG95-84

DATE: October 16, 1995
TO: All Members
FROM: Department of Market Regulation
RE: Position and Exercise Limit Increases and Expanded Equity Hedge Exemption Policy

The Securities and Exchange Commission ("SEC") has approved revisions to Exchange Rules 4.11 and 4.12 regarding equity option position and exercise limits and expanded equity hedge exemptions. **Please be advised that increased position and exercise limits and expanded hedge exemptions will only apply to option classes that are solely traded on the CBOE at this time. Multiply-listed option classes will not be eligible for increased position and exercise limits or expanded equity hedge exemptions until such time that the other Exchanges obtain SEC approval for similar rule filings.**

POSITION AND EXERCISE LIMIT INCREASES

Two additional position and exercise limit tiers have been added for those equity option classes that meet certain criteria with respect to shares outstanding and trading volume in the underlying security in the most recent six-month¹ trading period. **Effective October 16, 1995**, the position and exercise limits for the below noted option classes will be as follows:

20,000 CONTRACT LIMIT²

AIG	AIT	BK	BLQ	BMG	BS
CA*	CCL	HNZ	SHX	SQX	STK

¹Based on trading volume and shares outstanding for the underlying security during the period of January 2 through June 30, 1995.

²To be eligible for this tier, either the most recent six-month trading volume of the underlying security must have totalled at least 80 million shares OR the most recent six-month trading volume of the underlying security must have totalled at least 60 million shares with at least 240 million shares currently outstanding.

25,000 CONTRACT LIMIT³

AN	AQT	BA	BAC	BIQ	BMV	C
CCI	COQ	DOW	EK	EMC	EZQ	F
FQC	GE	GM	HAN	HM	HUM	HWP
IBM	JNJ	KKQ	KM	KO	LTD	MCD
MCQ	MMM	MOB	MQN	MRK	NQB	NSM
ORQ*	OXY	PEP	PWQ	QAQ	S	SO
T	TOY	TXN	WMT	XON		

*Position and exercise limits for these classes are calculated in shares due to a stock split

EQUITY OPTION HEDGE EXEMPTION

Revisions to Exchange Rule 4.11.04 allows for expanded hedge exemptions in equity option classes. This expansion provides a maximum allowable position, after exempting positions where the option contract is hedged by 100 shares of the underlying security or securities readily convertible into stock to be three times the standard base limit. **Effective October 16, 1995**, members may establish positions up to three times the standard base limit provided that each option contract in excess of the standard base limit is hedged with 100 shares of the underlying security or securities readily convertible into such security for the following strategies: i) long call and short stock, ii) short call and long stock, iii) long put and long stock, iv) short put and short stock.

As an example, a member or customer maintaining a short position of 5,000,000 shares of IBM common stock may establish a **maximum** long call, short put position of 75,000 IBM option contracts as two-thirds or 50,000 option contracts are hedged as described above. Members should also be reminded that the hedge must be established **prior** to exceeding the standard base limit and generally must be held in the same account as the option positions. A list of option classes which qualify for an expanded equity hedge exemption at this time is attached.

Questions pertaining to position and exercise limits and equity hedge exemptions may be directed to Patricia Cerny at (312) 786-7722 or Karen Charleston at (312) 786-7724.

³To be eligible for this tier either the most recent six-month trading volume of the underlying security must have totalled at least 100 million shares OR the most recent six-month trading volume of the underlying security must have totalled at least 75 million shares with at least 300 million shares currently outstanding.