

Regulatory Circular RG95-89

DATE: October 24, 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 for **multiply-listed option classes**.¹ To be eligible for one of the additional tiers, the option class must meet certain criteria with respect to shares outstanding and trading volume in the underlying security in the most recent six-month² trading period. **Effective October 24, 1995**, the following classes qualify for increased position and exercise limits as noted below:

20,000 CONTRACT LIMIT³

BHQ	BQN	CQX	DRI
GQW	ICA	RSP	TAR

¹Increased position and exercise limits and expanded hedge exemptions for option classes solely traded on the CBOE were effective on October 16, 1995 (see Regulatory Circular RG95-84).

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

³To 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 LIMIT⁴

ALL	AOQ	ATI	AXP	COL	CUQ
CYQ					
DD	DEC	DIS	ELY	FD	GQD
GTR					
IFQ	IQG	ITQ	MER	MQA	MU*
QAS*					
QDQ	RDQ	RN*	RPQ	TMX	TV
UNH					
UQX	VLQ	VOD	YPF	YRQ	

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

Additionally, please be advised that **effective October 24, 1995**, expanded hedge exemptions are now available for **all** 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. Therefore, 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.

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.

⁴To 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.