

Regulatory Circular RG96-46

Date: May 15, 1996  
To: The Membership  
From: Modified Trading System (MTS) Appointment Committee  
Re: DPM Product Concentration and Equity Requirement Guidelines

Pursuant to Exchange Rule 8.80, the Modified Trading System (MTS) Appointment Committee (the "Committee") adopted the following guidelines regarding DPM product concentration and associated equity requirements. The Committee has adopted these guidelines for DPMs in order to prudently administer the DPM Program. This circular amends and replaces Regulatory Circular RG96-31.

1. At the time of application, all DPM candidates must demonstrate the ability to commit a minimum of \$1,000,000 to the operation of the DPM and at the time the DPM begins operation, the DPM must have at least \$500,000 of unencumbered equity in a segregated DPM trading account.
2. In order for a DPM to apply for allocation of product, the DPM must have in its DPM account \$350,000 plus \$25,000 in excess equity for each class or product that the Allocation Committee or Special Product Assignment Committee has allocated to the DPM in excess of the initial eight products.
3. In the event a DPM account falls below an equity level of \$350,000, the DPM must notify the MTS Committee of its deficient equity level and must immediately submit a business plan for raising its equity to the appropriate level.

**The equity requirements in excess of \$350,000 may be met in part or in whole by the present value of any CBOE memberships owned by the DPM, provided such memberships are registered in the name of the DPM organization. This membership value, however, cannot be applied when calculating compliance with Securities and Exchange Commission ("SEC") Rule 15c3-1.**

4. Notwithstanding the above minimum equity standards, the MTS Committee must relieve a DPM of its appointment if the Department of Financial Compliance presents a report indicating that the DPM's net capital is less than the minimum required by SEC Rule 15c3-1.
5. The MTS Committee will conduct a detailed financial and operational review whenever a DPM has been allocated 10 classes, then again at the 20 class level and again after each additional five products have been allocated to the DPM. Notwithstanding the reviews which are precipitated by the allocation of product,

under the rules pertaining to DPMs, each DPM will be reviewed at least once each year regardless of the number of products allocated to the DPM. These reviews are intended to ensure that all DPMs are operationally sound and that no DPM is allocated a disproportionate number of classes so as to interfere with the operation of CBOE markets in the event that the DPM is unable to meet its obligations.

6. In order for a DPM to apply for allocation of more than 5% of the total number of option classes traded on CBOE, that DPM must have undergone a review as stipulated in #5 above.
7. The MTS Committee may communicate the results of such reviews to the Allocation Committee or the Special Product Assignment Committee in the form of a written recommendation stating whether or not the DPM should be allocated additional product.

These guidelines will be periodically reviewed by the MTS Committee and may be modified accordingly. Any questions regarding this policy may be directed to the attention of Daniel R. Hustad at (312) 786-7715.