

Regulatory Circular RG96-09

Date: January 16, 1995
To: Members and Member Organizations
From: Regulatory Services Division Compliance
Subject: Covered Index Calls

The Chicago Board Options Exchange ("CBOE") recently received two (2) no-action letters¹ from the Division of Market Regulation of the Securities and Exchange Commission ("SEC") permitting broker-dealers to treat as "covered", short call positions in certain index options² when the following conditions are satisfied:

1. For each short index call option, the customer's account has a long position in each of the component stocks of the applicable index, in the same proportion that each stock represents in that index;
2. The total market value of the component stocks equals the aggregate index value of the respective index options written;
3. The stocks serving as "cover" are identified, isolated or segregated in a manner that allows the broker-dealer to ensure that they remain in the account during the period that the option position is open;
4. The securities in the basket cannot be used to cover more than the number of index options represented by its market value and shall be unavailable to support any other option transaction in the account;

¹ See letters dated February 23, 1995 and October 6, 1995 from Sharon Lawson (SEC) to Mary Bender (CBOE).

² Approved index call options are Standard & Poors ("S&P") 100, S&P 500, CBOE's Biotechnology, CBOE Emerging Market Index, CBOE Emerging Asian Market Index, CBOE Technology Index, S&P Barra Growth Index, S&P Barra Value Index, CBOE Global Telecommunications Index, CBOE Latin 15 Index, National Association of Securities Dealers Automated Quotation System National Market Index, Real Estate Investment Trust Index, CBOE Mexico Index, CBOE Israeli Index, S&P SmallCap Index, S&P Chemical Index, S&P Health Care Index, S&P Retail Index, S&P Transportation Index, S&P Bank Index, S&P Insurance Index, CBOE Environmental Index, CBOE Computer Index, CBOE Gaming Index and CBOE Telecommunications Index.

5. The stocks serving as "cover" are valued, in aggregate, at no greater than the exercise price of the option times the index multiplier;
6. If the preceding conditions are no longer satisfied at any time while the option position is open, the broker-dealer must immediately request and obtain margin for the customer's option position, treating such position as an uncovered short option position; and
7. The firm must notify, in writing, its Designated Options Examining Authority that it intends to utilize this no-action position and will abide by the stated conditions.

Questions regarding this memorandum should be directed to Diane Malley in the Department of Financial Compliance at (312) 786-7924 or Larry Bresnahan in the Compliance Department at (312) 786-7713.