

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 141

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549  
 Form 19b-4

File No.\* SR - 2019 - \* 069

Amendment No. (req. for Amendments \*)

Filing by Cboe Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial \*



Amendment \*



Withdrawal



Section 19(b)(2) \*



Section 19(b)(3)(A) \*



Section 19(b)(3)(B) \*



Rule

Pilot



Extension of Time Period  
for Commission Action \*



Date Expires \*

☐ 19b-4(f)(1)

☐ 19b-4(f)(4)

☐ 19b-4(f)(2)

☐ 19b-4(f)(5)

☐ 19b-4(f)(3)

☒ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) \*



Section 806(e)(2) \*



Security-Based Swap Submission pursuant  
to the Securities Exchange Act of 1934

Section 3C(b)(2) \*



Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



## Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

The Exchange proposes to move the Rules in Chapter XII, which governs margin requirements, of the currently effective Rulebook to proposed Chapter 10 of the shell structure for the Exchange's Rulebook that will become effective upon migration.

## Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Rebecca

Last Name \* Tenuta

Title \* Counsel

E-mail \* rtenuta@cboe.com

Telephone \* (312) 786-7068

Fax

## Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 09/30/2019

By Rebecca Tenuta

(Name \*)

Counsel

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

rtenuta@cboe.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFT website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**Item 1.        Text of the Proposed Rule Change**

(a)        Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to move the Rules in Chapter XII, which governs margin requirements, of the currently effective Rulebook (“current Rulebook”) to proposed Chapter 10 of the shell structure for the Exchange’s Rulebook that will become effective upon the migration of the Exchange’s trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) (“shell Rulebook”). The text of the proposed rule change is provided in Exhibit 5.

(b)        Not applicable.

(c)        Not applicable.

**Item 2.        Procedures of the Self-Regulatory Organization**

(a)        The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on September XX, 2019. The proposed rule change would become operative on the date on which Cboe Options completes the migration of its trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below), which is expected to occur on October 7, 2019.

(b)        Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Rebecca Tenuta, (312) 786-7068, Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

**Item 3.        Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a)        Purpose

In 2016, the Exchange’s parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) (“Cboe Global”), which is also the parent company of Cboe C2

Exchange, Inc. (“C2”), acquired Cboe EDGA Exchange, Inc. (“EDGA”), Cboe EDGX Exchange, Inc. (“EDGX” or “EDGX Options”), Cboe BZX Exchange, Inc. (“BZX” or “BZX Options”), and Cboe BYX Exchange, Inc. (“BYX” and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the “Cboe Affiliated Exchanges”). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences, between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

The Exchange proposes to relocate current Chapter XII which governs margin requirements, as well as current Rule 21.25 which governs margin requirements specifically for Government security options, to proposed Chapter 10 in the shell Rulebook. The Exchange notes that in addition to relocating the margin requirement rules to proposed shell Chapter 10, the proposed rule change deletes the rules from the current Rulebook. The proposed rule change relocates the rules as follows:

<b>Shell Rule</b>	<b>Current Rule</b>
10.1 Margin	12.1 General Rule
10.2 Time Margin Must be Obtained	12.2 Time Margin Must be Obtained
10.3 Margin Requirements	12.3 Margin Requirements
10.4 Portfolio Margin	12.4 Portfolio Margin

10.5 Determination of Value for Margin Purposes	12.5 Determination of Value for Margin Purposes <sup>1</sup>
10.6 “When Issued” and “When Distributed” Securities	12.7 “When Issued” and “When Distributed” Securities
10.7 Guaranteed Accounts	12.8 Guaranteed Accounts
10.8 Meeting Margin Calls by Liquidation Prohibited	12.9 Meeting Margin Calls by Liquidation Prohibited
10.9 Margin Required is Minimum	12.10 Margin Required is Minimum
10.10 Compliance with Margin Requirements of NYSE	12.11 Compliance with Margin Requirements of NYSE
10.11 Daily Margin Records	12.12 Daily Margin Records
10.12 Government Security Options Margin Requirements	21.25 Margin Requirements

The proposed changes are of a non-substantive nature and will not amend the relocated rules other than to update their numbers, conform paragraph structure and number/lettering format to that of the shell Rulebook, and make cross-reference changes to shell rules. The Exchange changes only the heading of shell Rule 10.12, as it believes that without such change, shell Chapter 10 would be exceedingly confusing to investors because shell Rule 10.2 could be easily conflated with shell Rule 10.3.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>2</sup> Specifically,

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<sup>1</sup> The Exchange notes that Rule 12.6 was deleted January 15, 1975.

<sup>2</sup> 15 U.S.C. 78f(b).

the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>3</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>4</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

As stated, the proposed rule change makes no substantive changes to the rules. The proposed rule change is merely intended to relocate the Exchange's rules to the shell Rulebook and update their numbers, paragraph structure, including number and lettering format, and cross-references to conform to the shell Rulebook as a whole in anticipation of the technology migration on October 7, 2019. It also changes one rule heading so as to prevent investor confusion that would result from having the same rule headings for multiple rules under a single chapter. As such, the proposed rule change is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by improving the way the Exchange's Rulebook is organized, making it easier to read, and, particularly, helping market participants better

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<sup>3</sup> 15 U.S.C. 78f(b)(5).

<sup>4</sup> Id.

understand the rules of the Exchange, which will also result in less burdensome and more efficient regulatory compliance.

**Item 4. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended as a competitive change, but rather, seeks to make non-substantive rule changes in relocating the rules and updating cross-references to shell rules in anticipation of the October 7, 2019 technology migration, as well as updating one rule heading as to prevent investor confusion that would result from having rules with the same headings under a single chapter. The Exchange also does not believe that the proposed rule change will impose any undue burden on competition because the relocated rule text is exactly the same as the Exchange's current rules, all of which have all been previously filed with the Commission.

**Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

The Exchange neither solicited nor received comments on the proposed rule change.

**Item 6. Extension of Time Period for Commission Action**

Not applicable.

**Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act<sup>5</sup> and Rule 19b-4(f)(6)<sup>6</sup> thereunder.

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<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>6</sup> 17 CFR 240.19b-4(f)(6).

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

The proposed rule change will not significantly affect the protection of investors and the public interest because it does not make any substantive changes to the Exchange Rules, but merely relocates the margin requirement rules to the shell Rulebook and updates update their numbers, paragraph structure, including number and lettering format, and cross-references to conform to the shell Rulebook as a whole upon the October 7, 2019 technology migration, as well as updates one rule heading as to prevent investor confusion that would result from having the same rule heading for multiple rules under a single chapter. The proposed non-substantive changes will make the Exchange Rules easier to read and understand for all investors, benefiting investors and the public interest by resulting in less burdensome and more efficient regulatory compliance upon migration. The proposed rule change will not impose any significant burden on competition because it is merely relocating the current Exchange Rules, all of which have been previously filed with the Commission, and makes no substantive changes to the current rules. As stated, the proposed rule change is not intended as a competitive filing but is instead intended to



provide an organized and uniform shell Rulebook to the benefit of all market participants upon migration.

For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

The Exchange respectfully requests that the Commission waive the five-day pre-filing requirement and the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective so that the Exchange can restructure its Rulebook as already approved by the Commission. As described above, the proposed rule change merely relocates current rules into Chapter 10 of the shell Rulebook, which will be effective upon migration on October 7, 2019, as well as updates one rule heading as to prevent investor confusion that would result in having two rules with the same heading under a single chapter. The proposed rule change makes no substantive changes to any of the rules, thus, the proposed rule changes will have no impact on trading on the Exchange, the operation of the Exchange, or any participant requirements. The Exchange also notes that its participants have been notified of and preparing for the October 7, 2019 migration,

and resulting Rulebook restructuring, since April 5, 2018.<sup>7</sup> Finally, the Exchange notes that other Exchanges have relocated their rules in a similar manner.<sup>8</sup> The Exchange believes that relocating the rules regarding margin requirements, which currently remain in the current Rulebook, to proposed Chapter 10 of the shell Rulebook, as well as updating their numbers, paragraph structure, including number and lettering format, and cross-references to conform to the shell Rulebook will provide investors with a holistic Exchange Rulebook upon migration. Therefore, the Exchange respectfully requests that the Commission waive the five-day pre-filing requirement and the 30-day operative delay so that the proposed rule change promptly becomes effective October 7, 2019 and avoids any potential confusion by providing investors with a complete Exchange Rulebook upon the completion of migration.

(c) Not applicable.

(d) Not applicable.

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<sup>7</sup> See Cboe Global Markets News Release (April 5, 2018), available at <http://ir.cboe.com/~media/Files/C/CBOE-IR-V2/press-release/2018/pr-04-05-2018.pdf>; see also Securities Exchange Act Release No. 84739 (December 6, 2018), 83 FR 63952 (December 12, 2018) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating To Adopt a Shell Structure for the Cboe Options Rulebook in Connection With the Migration of the Exchange to Bats Technology) (SR-CBOE-2018-074).

<sup>8</sup> See e.g. Securities and Exchange Act Release No. 82505 (January 16, 2018), 83 FR 3037 (January 22, 2018) (Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate Price Improvement XL Rule) (SR-Phlx-2018-06); and Securities and Exchange Act Release No. 84659 (November 27, 2018), 83 FR 62391 (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate the Exchange's Options Exercise and Delivery Rules) (SR-BX-2018-056).

**Item 8.        Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on a rule either of another self-regulatory organization of the Commission.

**Item 9.        Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**Item 10.      Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**Item 11.      Exhibits**

Exhibit 1.      Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5A.    Proposed rule text – current Rulebook.

Exhibit 5B.    Proposed rule text – shell Rulebook.

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-       ; File No. SR-CBOE-2019-069]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Move the Rules in Chapter XII, Which Governs Margin Requirements, of the Currently Effective Rulebook (“Current Rulebook”) to Proposed Chapter 10 of the Shell Structure for the Exchange’s Rulebook that will Become Effective Upon the Migration of the Exchange’s Trading Platform to the Same System Used by the Cboe Affiliated Exchanges (as Defined Below) (“Shell Rulebook”)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on [insert date], Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to move the Rules in Chapter XII, which governs margin requirements, of the currently effective Rulebook (“current Rulebook”) to proposed Chapter 10 of the shell structure for the

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

Exchange's Rulebook that will become effective upon the migration of the Exchange's trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) ("shell Rulebook"). The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

## **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

### **A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

#### **1. Purpose**

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe C2 Exchange, Inc. ("C2"), acquired Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX" or "EDGX Options"), Cboe BZX Exchange, Inc. ("BZX" or "BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences, between the Cboe Affiliated Exchanges, in the context of a technology

migration. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

The Exchange proposes to relocate current Chapter XII which governs margin requirements, as well as current Rule 21.25 which governs margin requirements specifically for Government security options, to proposed Chapter 10 in the shell Rulebook. The Exchange notes that in addition to relocating the margin requirement rules to proposed shell Chapter 10, the proposed rule change deletes the rules from the current Rulebook. The proposed rule change relocates the rules as follows:

<b>Shell Rule</b>	<b>Current Rule</b>
10.1 Margin	12.1 General Rule
10.2 Time Margin Must be Obtained	12.2 Time Margin Must be Obtained
10.3 Margin Requirements	12.3 Margin Requirements
10.4 Portfolio Margin	12.4 Portfolio Margin
10.5 Determination of Value for Margin Purposes	12.5 Determination of Value for Margin Purposes <sup>5</sup>
10.6 “When Issued” and “When Distributed” Securities	12.7 “When Issued” and “When Distributed” Securities
10.7 Guaranteed Accounts	12.8 Guaranteed Accounts
10.8 Meeting Margin Calls by Liquidation Prohibited	12.9 Meeting Margin Calls by Liquidation Prohibited
10.9 Margin Required is Minimum	12.10 Margin Required is Minimum

<sup>5</sup> The Exchange notes that Rule 12.6 was deleted January 15, 1975.

10.10 Compliance with Margin Requirements of NYSE	12.11 Compliance with Margin Requirements of NYSE
10.11 Daily Margin Records	12.12 Daily Margin Records
10.12 Government Security Options Margin Requirements	21.25 Margin Requirements

The proposed changes are of a non-substantive nature and will not amend the relocated rules other than to update their numbers, conform paragraph structure and number/lettering format to that of the shell Rulebook, and make cross-reference changes to shell rules. The Exchange changes only the heading of shell Rule 10.12, as it believes that without such change, shell Chapter 10 would be exceedingly confusing to investors because shell Rule 10.2 could be easily conflated with shell Rule 10.3.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>6</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

As stated, the proposed rule change makes no substantive changes to the rules. The proposed rule change is merely intended to relocate the Exchange's rules to the shell Rulebook and update their numbers, paragraph structure, including number and lettering format, and cross-references to conform to the shell Rulebook as a whole in anticipation of the technology migration on October 7, 2019. It also changes one rule heading so as to prevent investor confusion that would result from having the same rule headings for multiple rules under a single chapter. As such, the proposed rule change is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by improving the way the Exchange's Rulebook is organized, making it easier to read, and, particularly, helping market participants better understand the rules of the Exchange, which will also result in less burdensome and more efficient regulatory compliance.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended as a competitive change, but rather, seeks to make non-substantive rule changes in relocating the rules and updating cross-references to shell rules in anticipation of the October 7, 2019 technology migration, as

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<sup>8</sup> Id.



well as updating one rule heading as to prevent investor confusion that would result from having rules with the same headings under a single chapter. The Exchange also does not believe that the proposed rule change will impose any undue burden on competition because the relocated rule text is exactly the same as the Exchange's current rules, all of which have all been previously filed with the Commission.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>9</sup> and Rule 19b-4(f)(6)<sup>10</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action,

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f)(6).

the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2019-069 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2019-069. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2019-069 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).

## EXHIBIT 5A

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

Rules of Cboe Exchange, Inc.

(currently effective)

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**[CHAPTER XII. MARGINS]**

**[Rule 12.1. General Rule**

No TPH organization may effect a transaction or carry an account for a customer, whether a Trading Permit Holder or non-Trading Permit Holder, without proper and adequate margin in accordance with this Chapter XII, all other applicable rules of the Exchange, and Regulation T of the Federal Reserve Board.]

**[Rule 12.2. Time Margin Must Be Obtained**

(a) Securities Other Than Security Futures Contracts. The amount of initial margin, or payment in respect of cash account transactions, required by this Rule shall be obtained as promptly as possible and in any event within one payment period as defined in Section 220.2 of Regulation T of the Board of Governors of the Federal Reserve System. The amount of maintenance margin required by this Rule shall be obtained as promptly as possible and in any event within 15 business days.]

**[Rule 12.3. Margin Requirements**

(a) Definitions. For purposes of this Rule, the following terms shall have the meanings specified below.

(1) The term “bank” means a U.S. bank or trust company (but not a bank holding company) supervised and examined by state or federal authority.

(2) The term “current market value” is as defined in Section 220.3 of Regulation T of the Board of Governors of the Federal Reserve System. At any other time, in the case of options, stock index warrants, currency index warrants and currency warrants, it shall mean the closing price of that series of options or warrants on the Exchange on any day with respect to which a determination of current market value is made. In the case of other securities, it shall mean the preceding business day’s closing price as shown by any regularly published reporting or quotation service. If there is no closing price on the option or on another security, a TPH organization may use a reasonable estimate of the current

market value of the security as of the close of business on the preceding business day.

(3) The term “escrow agreement”, when used in connection with non cash settled call or put options carried short, means any agreement issued in a form acceptable to the Exchange under which a bank holding the underlying security (in the case of a call option) or required cash, cash equivalents or a combination thereof (in the case of a put option), is obligated to deliver to the creditor (in the case of a call option) or accept from the creditor (in the case of a put option) the underlying security against payment of the exercise price in the event the call or put is assigned an exercise notice.

The term “escrow agreement”, when used in connection with cash settled call or put options, stock index warrants, currency index warrants or currency warrants carried short, means any agreement issued in a form acceptable to the Exchange under which a bank holding cash, cash equivalents, one or more qualified equity securities or a combination thereof in the case of a call option or warrant; or cash, cash equivalents or a combination thereof in the case of a put option or warrant; is obligated (in the case of an option) to pay the creditor the exercise settlement amount in the event an option is assigned an exercise notice or (in the case of a warrant) the funds sufficient to purchase a warrant sold short in the event of a buy-in.

(4) The term “exempted security” or “exempted securities” has the same meaning as in Section 3(a)(12) of the Securities Exchange Act of 1934.

(5) For the purpose of this rule, the term “spread” means an equivalent long and short position in different call option series, different put option series, or combinations thereof, that collectively have a limited risk / reward profile, and meet the following conditions 1) all options must have the same underlying security or instrument, 2) all options must be either all American style or all European style, 3) all options must be either all listed or all OTC, 4) within option type(s), the long and short options must have equal aggregate underlying contract values and 5) the short option(s) must expire on or before the expiration date of the long option(s).

(6) The term “box spread” means an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same underlying component or index and time of expiration, and are based on the same aggregate current underlying value, and are structured as either: A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price.

(7) The term “underlying stock basket” means a group of securities which includes each of the component securities of the applicable index and which meets the following conditions (i) the quantity of each stock in the basket is

proportional to its representation in the index, (ii) the total market value of the basket is equal to the underlying index value of the index options or warrants to be covered, (iii) the securities in the basket cannot be used to cover more than the number of index options or warrants represented by that value and (iv) the securities in the basket shall be unavailable to support any other option or warrant transaction in the account.

(8) The term “cash equivalent” is as defined in Section 220.2 of Regulation T of the Board of Governors of the Federal Reserve System.

(9) The term “listed” for purposes of this Chapter 12 means a security traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(10) The term “OTC margin bond” for purposes of this Chapter 12 means (1) any debt securities not traded on a national securities exchange that meet all of the following requirements (a) at the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding; (b) the issue was registered under Section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to the Act or is an insurance company under Section 12(g)(2)(G) of the Act; or (c) at the time of the extension of credit the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; or (2) any private pass-through securities (not guaranteed by a U.S. government agency) that meet all of the following requirements: (a) an aggregate principal amount of not less than \$25,000,000 was issued pursuant to a registration statement filed with the Commission; and (b) current reports relating to the issue have been filed with the Commission; and (c) at the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

(11) The term “Investment Grade” in respect of any Corporate Debt Security, as that term is defined in Rule 28.1, means, if rated by only one nationally recognized statistical rating organization (“NRSRO”), is rated in one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated in one of the four highest generic rating categories by all or a majority of such NRSROs; provided that if the NRSROs assign ratings that are evenly divided between (i) the four highest generic ratings and (ii) ratings lower than the four highest generic ratings, the Exchange will classify the Corporate Debt Security as Non-Investment Grade.

(12) The term “Non-Investment Grade” in respect of any Corporate Debt Security, as that term is defined in Rule 28.1, means, if rated by only one NRSRO (as defined in Rule 12.3(a)(15)), is rated lower than one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated

lower than one of the four highest generic rating categories by all or a majority of such NRSROs.

(13) The term “Convertible” in respect of any Corporate Debt Security, as that term is defined in Rule 28.1, means, notwithstanding the classification of a Corporate Debt Security as Investment Grade or Non-Investment Grade, means any Corporate Debt Security that may be exchanged for shares of the issuer’s common or preferred stock.

(14) The term “OTC option” as used with reference to a call or put option contract in this Chapter 12 means an over-the-counter option contract that is issued and guaranteed by the carrying broker-dealer and not traded on a national securities exchange or issued and guaranteed by the Clearing Corporation.

(b) Customer Margin Accounts—General Rule. Subject to the exceptions set forth in parts (c) and (k) hereof, the minimum amount of margin which must be maintained in margin accounts of customers having positions in securities shall be as follows:

(1) Long Positions. 25% of the current market value of all “long” in the account; plus

(2) Short Positions.

(A) \$2.50 per share or 100% of the current market value, whichever amount is greater, of each security “short” in the account which has a current market value of less than \$5.00 per share; plus

(B) \$5.00 per share or 30% of the current market value, whichever amount is greater, of each security “short” in the account which has a current market value of \$5 per share or more.

(C) Short Bonds. 5% of the principal amount or 30% of the current market value, whichever amount is greater, of each bond “short” in the account.

(c) Customer Margin Account—Exception. The foregoing requirements are subject to the following exceptions. Nothing in this paragraph (c) shall prevent a broker-dealer from requiring margin from any account in excess of the amounts specified in these provisions.

(1) Exempted Securities.

(A) Obligations of the United States. On net “long” or net “short” positions in obligations (including zero coupon bonds, i.e., bonds with coupons detached or non-interest bearing bonds) issued or guaranteed as to principal or interest by the United States Government or issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury, the margin to be maintained shall

be the percentage of the current market value of such obligations as specified in the applicable category below:

(i)	Less than one year to maturity	1%
(ii)	One year but less than three years to maturity	2%
(iii)	Three years but less than five years to maturity	3%
(iv)	Five years but less than ten years to maturity	4%
(v)	Ten years but less than twenty years to maturity	5%
(vi)	Twenty years or more to maturity	6%

Notwithstanding the above, on zero coupon bonds with five years or more to maturity the margin to be maintained shall not be less than 3% of the principal amount of the obligation.

When such obligations other than United States Treasury bills are due to mature in thirty calendar days or less, a TPH organization, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation to reduce the margin required on the new obligation, provided the customer has given the TPH organization irrevocable instructions to redeem the maturing obligations.

(B) All Other Exempted Securities. On any long position in an exempted security other than an obligation of the United States, the margin to be maintained shall be 15% of the current market value or 7% of the principal amount of such exempt security, whichever amount is greater.

(2) Non-Convertible Debt Securities. On any long position in a non-convertible debt security that is listed or that qualifies as an “OTC margin bond”, the margin to be maintained shall be 20% of the current market value or 7% of the principal amount, whichever amount is greater.

(3) Security Offset. Listed and OTC.

(A) When a security (with the exception of options) carried in a long position is exchangeable or convertible within ninety days, without restriction other than the payment of money, into a security carried in a short position for the same customer, the minimum margin required on such positions shall be 10% of the current market value of the “long” securities. In determining such margin requirement short positions shall be marked to the market or to the amount of money payable upon such exchange or conversion, whichever is the greater.

(B) When an account has offsetting long and short positions in the same security, the minimum margin shall be 5% of the current market value of the



“long” securities. In determining such margin requirements “short” positions shall be marked to the market.

(4) Initial and Maintenance Margin Requirements on Long Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants. Options and warrants carried “long” in a customer’s account shall be margined as follows:

(A) Listed or OTC Options Expiring in 9 Months or Less. In the case of any put or call option, stock index warrant, currency index warrant or currency warrant which expires in 9 months or less, initial margin must be deposited and maintained equal to at least 100% of the current market value of the option or warrant.

(B) Listed Options and Warrants With An Expiration Exceeding 9 Months. In the case of a listed put or call option on a stock or stock index, and a stock index warrant, expiring in more than 9 months, margin must be deposited and maintained equal to at least 75% of the current market value of the option or warrant.

(C) OTC Options and Warrants With An Expiration Exceeding 9 Months. In the case of an OTC put or call option on a stock or stock index, and a stock index warrant, expiring in more than 9 months, margin must be deposited and maintained equal to at least 75% of the option or warrant’s in-the-money amount plus 100% of the amount, if any, by which the current market value of the option or warrant exceeds its in-the-money amount provided also that the option or warrant:

- (1) is guaranteed by the carrying broker-dealer,
- (2) has an American style exercise provision and

(5) Initial and Maintenance Margin Requirements on Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.

(A) Listed. General Rule. The initial and maintenance margin required on any listed put, call, stock index warrant, currency index warrant or currency warrant carried “short” in a customer’s account shall be 100% of the current market value of the option or warrant plus the percentage of the current “underlying component value” (as described in column IV of the table below) specified in column II of the table below reduced by any “out-of-the-money” amount as defined in this subparagraph (c)(5)(A) below.

Notwithstanding the margin required above, the minimum margin for each such call option or call warrant shall not be less than 100% of the current market value of the option or warrant plus the percentage of the current market value of the underlying component specified in column III of the table below, and for each such put option or put warrant, shall not be less than 100% of the current market

value of the option or warrant plus the percentage of the option or warrant's aggregate exercise price amount specified in column III of the table below.

<i>I. Type of Option</i>	<i>II. Initial and/or Maintenance Margin Required</i>	<i>III. Minimum Margin Required</i>	<i>IV. Underlying Component Value</i>
1. Stock	20%	10%	The equivalent number of shares at current market prices.
2. Narrow based index as defined in Rule 24.1 and Micro Narrow-Based Index as defined in Rule 24.2(d)	20%	10%	The product of the current index group value and the applicable index multiplier.
3. Broad-based index (including Capped-style options (CAPS & QCAPS) Packaged Vertical Spreads and Packaged Butterfly Spreads) as defined in Rule 24.1	15% <sup>1</sup>	10% <sup>2</sup>	The product of the current index group value and the applicable index multiplier.
4. Corporate Debt Security, as defined in Rule 28.1	Investment Grade: 10% Non-Investment Grade: 15% Convertible: 20%	Investment Grade: 5% Non-Investment Grade: 10% Convertible: 10%	The aggregate contract value (current market value x 1000).
5. Interest Rate Contracts	10%	5%	The product of the index value and the applicable index multiplier.

6. U.S. Treasury bills - 95 days or less to maturity	.35%	1/2%	The underlying principal amount.
7. U.S. Treasury notes	3%	1/2%	The underlying principal amount.
8. U.S. Treasury bonds	3.5%	1/2%	The underlying principal amount.
9. Foreign Currency Options Warrants			The product of units per foreign currency contract and the closing spot price. <sup>3</sup>
Australian Dollar	4%	3/4%	
British Pound	4%	3/4%	
Canadian Dollar	4%	3/4%	
German Mark	4%	3/4%	
European Currency Unit	4%	3/4%	
French Franc	4%	3/4%	
Japanese Yen	4%	3/4%	
Swiss Franc	4%	3/4%	
10. Currency Index Warrants	3%	A percentage of the aggregate exercise price as specified by the Exchange and approved by the SEC	The product of the index value and the applicable index multiplier.
11. Stock Index Warrants (broad-based)	15%	10%	The product of the index value and the applicable index multiplier.
12. Stock Index Warrants (narrow-	20%	10%	The product of the index value and the applicable index

based)			multiplier.
13. Registered investment companies based on a broad-based index or portfolio of securities.	15%	10%	The equivalent number of shares at current market prices.
14. Registered investment companies based on a narrow-based index or portfolio of securities.	20%	10%	The equivalent number of shares at current market prices.
15. Volatility Indexes			The product of the current (spot or cash) index value and the applicable index multiplier
Cboe Volatility Index	20%	10%	
Cboe Russell 2000 Volatility Index	20%	10%	
Cboe Gold ETF Volatility Index	20%	10%	
Cboe Crude Oil ETF Volatility Index	20%	10%	
Cboe Emerging Markets ETF Volatility Index	20%	10%	
Cboe Brazil ETF Volatility Index	20%	10%	
Cboe Short-Term Volatility Index	40%	20%	
Other Volatility Indexes identified	20%	10%	

in Rules 24.9(a)(3) and 24.9(a)(4)			
16. Single Stock Dividend Options	20%	10%	The product of the forward expected dividend amount for the accrual period (as adjusted for any contract scaling factor) and the applicable multiplier.

<sup>1</sup> In any event, the maximum margin required on a capped style index option (CAPS and Q- CAPS), Packaged Vertical Spread and Packaged Butterfly Spread as defined in Rule 24.1 need not exceed the aggregate cap interval, vertical spread interval and butterfly spread interval, respectively. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

<sup>2</sup> In respect of a capped-style index option, Packaged Vertical Spread and Packaged Butterfly Spread as defined in Rule 24.1 which is out-of-the-money, the minimum margin required is as follows: CALLS - the lesser of a) 100% of the current market value of the option plus 10% of the underlying index value or b) the aggregate cap, vertical spread or butterfly spread interval, respectively, PUTS - the lesser of a) 100% of the current market value of the option plus 10% of the aggregate put exercise price or b) the aggregate cap, vertical spread or butterfly spread interval, respectively. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

<sup>3</sup> The term “spot price” in respect of a currency warrant on a particular business day means the noon buying rate in U.S. dollars on such day in New York City for cable transfers of the particular underlying currency as certified for customs purposes by the Federal Reserve Bank of New York.

For purposes of this subparagraph (c)(5)(A), “out-of-the-money” amounts are determined as follows:

<i>Option or Warrant Issue</i>	<i>Call</i>	<i>Put</i>
Stock Options, Registered Investment Company Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.

U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
Corporate Debt Security Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent quantity of the underlying security.	Any excess of the current market value of the equivalent quantity of the underlying security over the aggregate exercise price of the option.
Index stock options, Volatility Indexes options, currency index warrants and stock index warrants	Any excess of the aggregate exercise price of the option or warrant over the product of the current (spot or cash) index value and the applicable multiplier.	Any excess of the product of the current (spot or cash) index value and the applicable multiplier over the aggregate exercise price of the option or warrant.
Foreign currency options and warrants	Any excess of the aggregate exercise price of the option or warrant over the product of units per foreign currency contract and the closing spot prices.	Any excess of the product of units per foreign currency contract and the closing spot prices over the aggregate price of the option or warrant.
Interest rate options	Any excess of the aggregate exercise price of the option over the product of the current interest rate measure value and the applicable multiplier.	Any excess of the product of the current interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.

(B) OTC Options. General Rule. The initial and maintenance margin required on any put, call, stock index warrant, currency index warrant, or currency warrant that is not listed and carried “short” in a customer’s account shall be any in-the-money amount plus the percentage of the current “underlying component value” (as described in column IV of the table below) specified in column II of the table below reduced by any “out-of-the- money” amount (as defined in subparagraph (c)(5)(A) above).

Notwithstanding the margin required above, the minimum margin for each such call option or call warrant shall not be less than the percentage of the current value of the underlying component specified in column III of the table below, and

for each such put option or put warrant, shall not be less than the percentage of the option's or the warrant's aggregate exercise price amount specified in column III of the table below.

<i><b>I. Type of Option</b></i>	<i><b>II. Initial and/or Maintenance Margin Required</b></i>	<i><b>III. Minimum Margin Required</b></i>	<i><b>IV. Underlying Aggregate Value</b></i>
1. Stock and Convertible Corporate Debt.	30%	10%	The equivalent number of shares times current market price per share for stocks or the underlying principal amount for convertible corporate debt securities.
2. Narrow-based index and Micro Narrow-Based index as defined in Rule 24.2(d)	30%	10%	The product of the current index value and the applicable index multiplier.
3. Broad-based index	20%	10%	The product of the current index value and the applicable index multiplier.
4. U.S. Government or U.S. Government Agency debt securities other than those exempted by Rule 3a 12-7 under the Securities Exchange Act of 1934 <sup>1</sup>	5%	3%	The underlying principal amount.
5. Corporate debt securities registered on a national securities exchange and marginable OTC corporate debt securities as defined	15%	5%	The underlying principal amount.

in paragraph 12.3(a) <sup>2</sup>			
6. All other OTC options not covered above	45%	20%	The current value of the underlying principal amount.

<sup>1</sup> Option contracts under category (4) must be for a principal amount of not less than \$500,000. If the principal amount is less than \$500,000, category (6) will apply.

<sup>2</sup> Option transactions on all other OTC margin bonds as defined in paragraph 12.3(a) are not eligible for the margin requirements contained in this provision. Margin requirements for such securities are to be computed pursuant to category (6).

For the purpose of this subparagraph (c)(5)(B), “in-the-money amounts” are determined as follows:

<i>Option Issue</i>	<i>Call</i>	<i>Put</i>
Stock Options	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.
Index options	Any excess of the product of the current index value and the applicable multiplier over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the product of the current index value and the applicable multiplier.
U.S. Government mortgaged related or corporate debt securities options	Any excess of the current value of the underlying principal amount over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the current value of the underlying principal amount.

(C) Related Securities Positions—Listed or OTC Options. Unless otherwise specified, margin must be deposited and maintained in the following amounts for each of the following types of positions.

(1)



(A) Short Call Covered by a Convertible Security. No margin is required for a call option written on an equity security when the account holds a net “long” position in any security, other than a warrant, which can be immediately exchanged or converted without restriction (including the payment of money) into an equal or greater quantity of the security underlying the option provided (1) such net long position is adequately margined in accordance with this Rule and (2) the right to exchange or convert the net “long” position does not expire before the short call.

(B) Short Listed Call Covered by a Warrant. No margin is required for a call option written on an equity security when the account holds a net “long” position in a warrant which can be immediately exercised without restriction to purchase an equal or greater quantity of the security underlying the option provided that the warrant does not expire before the short call, and provided that the amount (if any) by which the exercise price of the warrant exceeds the exercise price of the short call is held in or deposited to the account. A warrant used in lieu of the required margin under this provision shall contribute no equity to the account.

(2) Covered Calls/Covered Puts.

(a) No margin is required for a call (put) option contract or warrant carried in a short position where there is carried in the same account a long (short) position in equivalent units of the underlying security.

(b) No margin is required for a call (put) index option contract or warrant carried in a short position where there is carried in the same account a long (short) position in an (i) underlying stock basket, (ii) index mutual fund, (iii) IPR, or (iv) IPS, that is based on the same index underlying the index option or warrant and having a market value at least equal to the aggregate current index value.

(c) In order for the exceptions in subparagraphs (a) and (b) above to apply, in computing margin on positions in the underlying security, underlying stock basket, index mutual fund, IPR or IPS, as applicable, (i) in the case of a call, the current market value to be used shall not be greater than the exercise price, and (ii) in the case of a put, margin shall be the amount required by subparagraph (b)(2) of this Rule, plus the amount, if any, by which the exercise price exceeds the current market value.

(3) Exceptions. The following paragraphs set forth the minimum amount of margin which must be maintained in margin accounts

of customers having positions in components underlying options, stock index warrants, currency index warrants or currency warrant when such components are held in conjunction with certain positions in the overlying option or warrant. In respect of an option or warrant on a market index, an underlying stock basket is an eligible underlying component. The option or warrant must be listed or guaranteed by the carrying broker dealer. In the case of a call option or warrant carried in a short position, a related long position in the underlying component shall be valued at no more than the call option / warrant exercise price for margin equity purposes.

(A) Long Option Offset. When a component underlying an option or warrant is carried long (short) in an account in which there is also carried a long put (call) option or warrant specifying equivalent units of the underlying component, the minimum amount of margin which must be maintained on the underlying component is 10% of the option / warrant exercise price plus the out-of-the-money amount not to exceed the minimum maintenance required pursuant to paragraph (b) of this Rule.

(B) Conversion. When a call option or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and there is also carried a long put option or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the short call option or warrant, the minimum amount of margin which must be maintained for the underlying component shall be 10% of the exercise price.

(C) Reverse Conversion. When a put option or warrant carried in a short position is covered by a short position in equivalent units of the underlying component and there is also carried a long call option or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the short put option or warrant, the minimum amount of margin which must be maintained for the underlying component shall be 10% of the exercise price plus the amount by which the exercise price of the put exceeds the current market value of the underlying, if any.

(D) Collar. When a call option or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and there is also carried a long put option or warrant specifying equivalent units of the same underlying component and having a lower exercise price than, and same expiration date as, the short call option / warrant, the minimum amount of margin which must be maintained for the underlying component shall be the lesser of 10% of the exercise

price of the put plus the put out-of-the-money amount or 25% of the call exercise price.

(4) Spreads.

(A) For spreads as defined in subparagraph (a)(5) of this Rule, the long options must be paid for in full. In addition, margin is required equal to the lesser of the amount required for the short option(s) by subparagraph (c)(5)(A) or (B), whichever is applicable, or the spread's maximum potential loss, if any. To determine the spread's maximum potential loss, first compute the intrinsic value of the options at price points for the underlying security or instrument that are set to correspond to every exercise price present in the spread. Then, net the intrinsic values at each price point. The maximum potential loss is the greatest loss, if any, from among the results. The proceeds for establishing the short options may be applied toward the cost of the long options and/or any margin requirement.

A spread involving a put (call) warrant combined with a put(call) option is permitted provided the spread conforms with the definition of a spread in subparagraph (a)(5) of this rule.

(B) Subparagraph (4)(A) above is not applicable to spreads involving Credit Options, Binary Options or Range Options. However, in respect of spreads involving Range Options, subparagraph (4)(A) above may be applied to pseudo positions in individual option series represented by each Range Option to derive a margin requirement provided that all Range Options expire at the same time, which margin requirement is subject to a maximum of the amount required by paragraph (n) of this Rule 12.3 for all Range Options.

(C) Capped-Style Index Option (CAPS & Q-CAPS), Packaged Vertical Spread and Packaged Butterfly Spread As Defined In Rule 24.1.

(1) The requirements set forth in subparagraph (4)(A) above apply to spreads composed of either CAPS, Q-CAPS, Packaged Vertical Spread or Packaged Butterfly Spread options provided the long and short option each have the same cap, vertical spread or butterfly spread interval (as applicable); except that the amount of margin required for a spread in CAPS, Q-CAPS or Packaged Vertical Spread options need not exceed the lesser of 1) any maximum potential loss as computed in accordance with subparagraph 4(A) above or 2) the cap, vertical spread or

butterfly spread interval (as applicable). Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

(2) In respect of a short CAPS, Q-CAPS or Packaged Vertical Spread option offset by a long option that is not also a CAPS, Q-CAPS or Packaged Vertical Spread option, the amount of margin required is as set forth in subparagraph (4)(A) above; except that the amount of margin required need not exceed the lesser of 1) any maximum potential loss as computed in accordance with subparagraph (4)(A) above or 2) the cap, vertical spread or butterfly spread interval (as applicable).

(3) In respect of a long CAPS, Q-CAPS or Packaged Vertical Spread option which offsets a short option that is not also a CAPS, Q-CAPS or Packaged Vertical Spread option, each position must be margined separately in accordance with the applicable requirements of this Rule 12.3.

(4) In respect of any Packaged Butterfly Spread Option offset by, or which offsets, any option position that is not also a Packaged Butterfly Spread option, each position must be margined separately in accordance with the applicable requirements of this Rule 12.3.

(5) Straddle/Combination.

(A) Listed Options. When a call option contract is carried in a short position, and there is carried for the same customer a short put option contract specifying the same underlying component or index and its aggregate current underlying value, the amount of margin required shall be the margin on the put or the call, whichever is greater, as required pursuant to subparagraph (c)(5)(A) above plus the current market value of the other option.

(B) OTC Options. When a call option contract is carried in a short position and there is carried for the same customer a short put option contract specifying the same underlying component or index and its aggregate value, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to subparagraph (c) (5)(B) above, plus any unrealized loss (i.e., the “in-the-money amount”) on the other option provided that both the put and call are guaranteed by the carrying broker-dealer. In the event either the put or call is not

guaranteed by the carrying broker-dealer, but is listed, the same requirement applies. If either or both the put or call are not guaranteed by the carrying broker dealer or listed, then the put and call must be margined separately pursuant to subparagraph (c)(5)(A) or (B) above, whichever is applicable, except that the minimum margin shall not apply to the option with the lower requirement.

(C) Straddles and combinations involving stock index warrants, currency index warrants and currency warrants are subject to the same requirement set forth in subparagraphs (A) or (B) above, whichever is applicable. Options may be paired with warrants provided they have the same underlying component or index and equivalent aggregate current underlying value.

(6) Long Box Spread in European-Style Options. In respect of a long box spread as defined in subparagraph (a)(10) of this Rule, in which all component options have a European- style exercise provision and are listed or guaranteed by the carrying broker-dealer; margin must be deposited equal to at least 50% of the aggregate difference in the exercise prices. The net proceeds from the sale of short option components may be applied to the requirement. For margin purposes, the long box spread may be valued at an amount not to exceed 100% of the aggregate difference in the exercise prices.

(7) Vested Employee Options. No margin is required for a call option written on an equity security when an account holder possesses a “long” position in a vested employee stock option which can be immediately exercised without restriction (not including the payment of money) to purchase an equal or greater quantity of the security underlying the short call provided that:

(A) The vested employee stock option does not expire before the short call;

(B) The amount (if any) by which the exercise price of the vested employee stock option exceeds the exercise price of the short call is held in or deposited to the account; and

(C) The account holder, broker-dealer and issuer of the vested employee stock option complete such account documentation and comply with such terms and conditions proscribed by the Exchange in such form, format and procedures as may be established by the Exchange from time to time, including without limitation execution of an agreement by account holder, broker-dealer and issuer that requires:

(i) Account holder to pledge the vested employee stock options to broker-dealer (including any agreement that in the event account holder exercises any of the pledged vested employee stock options during the term of a transaction, the account holder will be required to pledge to broker-dealer the shares issued upon exercise to replace the vested employee stock options that were pledged before exercise);

(ii) Account holder to provide broker-dealer with an irrevocable power-of-attorney authorizing broker-dealer to exercise the vested employee stock options on the account holder's behalf;

(iii) Issuer to promptly deliver the stock upon payment or receipt of the exercise notice from broker-dealer; and

(iv) Issuer to waive any transfer restrictions that would preclude a pledge of the vested employee stock options to broker-dealer. In addition, the issuer will represent that the vested employee options are covered by an effective registration statement on Form S-8. If the registration statement becomes ineffective the issuer will notify the broker-dealer immediately.

(d) Customer Cash Account—Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.

(1) Equity Options.

(A) Calls. A call option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is applicable:

(1) an equal or greater quantity of the underlying security specified by the option contract is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the underlying security is received,

(2) a security immediately convertible without the payment of money into an equal or greater quantity of the underlying security specified by the option contract, is held in, or purchased for the account on the same day the call is written, provided that:

(i) the option premium is held in the account until full cash payment for the convertible security is received, and

(ii) the ability to convert does not expire before the expiration of the short call, or

(3) in lieu of the underlying security, an escrow agreement is either held in the account at the time the call is written or is received in the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement, the underlying security (or a security immediately convertible into the underlying security without the payment of money) and that the bank will promptly deliver to the TPH organization the underlying security in the event the account is assigned an exercise notice.

(B) Puts. A put option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is either held in the account at the time the put is written or is received into the account promptly thereafter:

(1) cash or cash equivalents in an amount not less than the aggregate exercise price, or

(2) an escrow agreement.

The escrow agreement must certify that (1) the bank holds for the account of the customer as security for the agreement cash, cash equivalents or a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and (2) that the bank will promptly pay the TPH organization the aggregate exercise price in the event the account is assigned an exercise notice.

(2) Index Options.

(A) Calls. A call option contract on a market index carried in a short position is deemed a covered position, and eligible for the cash account provided any one of the following offsets is applicable:

(1) an underlying stock basket as defined in Rule 12.1 is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the stock basket is received, or

(2) an escrow agreement is either held in the account at the time the call is written or received into the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents, 3) one

or more qualified equity securities, or 4) a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate current index value and that the bank will promptly pay the TPH organization the exercise settlement amount in the event the account is assigned an exercise notice.

(B) Puts. A put option contract on a market index carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following is either held in the account at the time the put is written or received into the account promptly thereafter:

- (1) cash or cash equivalents in an amount not less than the aggregate exercise price or
- (2) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents or 3) a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and that the bank will promptly pay the TPH organization the exercise settlement amount in the event the account is assigned an exercise notice.

(C) No margin is required in respect of a call option contract on a Standard and Poor's 500 (S&P 500) market index carried in a short position where there is carried for the same account a long position in the underlying open-end index mutual fund (which shall be specifically designated by the Exchange) having an aggregate market value at least equal to the underlying value of the S&P 500 contracts to be covered.

(3) Corporate Debt Security Options

(A) Calls. A call option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is applicable:

- (1) an equal or greater quantity of the underlying security specified by the option contract is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the underlying security is received, or
- (2) in lieu of the underlying security, an escrow agreement is either held in the account at the time the call is written or is received in the account promptly thereafter.



The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement, the underlying security (or, in the event the bond is called, cash equal to any aggregate in-the-money amount based upon the exercise settlement price of the bond as set by The Options Clearing Corporation) and that the bank will promptly deliver to the TPH organization the underlying security, or any aggregate in-the-money amount if the bond has been called, in the event the account is assigned an exercise notice.

(B) Puts. A put option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is either held in the account at the time the put is written or is received into the account promptly thereafter:

- (1) cash or cash equivalents in an amount not less than the aggregate exercise price, or
- (2) an escrow agreement.

The escrow agreement must certify that (1) the bank holds for the account of the customer as security for the agreement cash, cash equivalents or a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and (2) that the bank will promptly pay the TPH organization the aggregate exercise price in the event the account is assigned an exercise notice.

(4) Capped-Style Index Option (CAPS & Q-CAPS), Packaged Vertical Spread or Packaged Butterfly Spread As Defined in Rule 24.1. A CAPS, Q-CAPS or Packaged Vertical Spread put or call option contract, or Packaged Butterfly Spread option contract, carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following is either held in the account at the time the CAPS, Q-CAPS, Packaged Vertical Spread or Packaged Butterfly Spread option contract is written or received into the account promptly thereafter:

(A) cash or cash equivalents of not less than the amount of the aggregate cap, vertical spread or butterfly spread interval (as applicable) as defined in Rule 24.1 or

(B) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents or 3) a combination thereof having an aggregate market value at the time the positions are established of not less than the aggregate cap interval, vertical spread interval or butterfly spread interval (as applicable) and that the bank will promptly pay the

TPH organization such amount in the event the account is assigned an exercise notice. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 24.1.

(5) Stock Index Warrants and Currency Index Warrants.

(A) Calls. A call warrant on a market index carried in a short position is deemed a covered position and eligible for the cash account provided an escrow agreement is either held in the account at the time the call warrant is sold or received into the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents, 3) one or more qualified equity securities, or 4) a combination thereof having an aggregate market value at the time the warrant is sold of not less than 100% of the aggregate current index value; and that the bank will promptly pay the TPH organization funds sufficient to purchase the warrant sold short in the event of a buy-in.

(B) Puts. A put warrant on a market index carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following offsets is either held in the account at the time the put warrant is sold or received into the account promptly thereafter:

(1) cash or cash equivalents in an amount not less than the aggregate exercise price or

(2) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash 2) cash equivalents or 3) a combination thereof having an aggregate market value at the time the warrant is sold of not less than 100% of the aggregate exercise price, and that the bank will promptly pay the TPH organization funds sufficient to purchase the warrant sold short in the event of a buy-in.

(e) Customer Cash Account—Spreads. A spread as defined in subparagraph (a)(5) of this Rule, if composed of European-style cash-settled index options that expire at the same time, is deemed a covered position, and eligible for the cash account, provided the long option component(s) is(are) held in or purchased for the account on the same day as the short component(s) and provided:

(1) either there is held in the account at the time the positions are established or received into the account promptly:

(A) cash or cash equivalents of not less than the amount required by subparagraph (c)(5)(C) (4)(A), to which requirement the net proceeds from the sale of the short position(s) may be applied or

(B) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement 1) cash, 2) cash equivalents or 3) a combination thereof having an aggregate market value at the time the positions are established of not less than the amount required by subparagraph (c)(5)(C)(4)(A) of this Rule and that the bank will promptly pay the TPH organization such amount in the event the account is assigned an exercise notice or that the bank will promptly pay the TPH organization funds sufficient to purchase a warrant sold short in the event of a buy-in.

(2) The provisions of subparagraph (e)(1) are also applicable to put and call warrants. A long warrant and a short option contract or a long option contract and a short warrant are eligible for the provisions of subparagraph (e)(1) if they qualify as spreads as defined in subparagraph (a)(5) of this Rule.

(f) Market-Maker and specialist accounts.

(1) Definitions. For purposes of this section (f), the following terms shall have the meanings specified below.

(A) The term “related instrument” within an option class or product group means any related derivative product, including security futures contracts, that meets the offset level requirements for product groups under Rule 15c3-1 of the Exchange Act, or any applicable SEC staff interpretations or no-action positions (hereinafter referred to as SEC Rule 15c3-1).

(B) The term “product group” means two or more option classes, related instruments, and qualified stock baskets for which it has been determined that a percentage of offsetting profits may be applied to losses in the determination of net capital as set forth in SEC Rule 15c3-1.

(C) The term “option class” refers to all option contracts covering the same underlying instrument.

(D) The term “underlying instrument” refers to long and short positions covering the same security, or a security which is exchangeable for or convertible into the underlying security within a period of 90 days. The term underlying instrument shall not be deemed to include securities options, futures contracts, options on futures contracts, security futures contracts, qualified stock baskets, or unlisted instruments.

(E) The term “qualified stock basket” shall have the meaning as defined in SEC Rule 15c3- 1.

(F) The term “net liquidating equity” shall mean the sum of positive cash balances and long securities positions less negative cash balances and short securities positions held in the accounts.

(2) The following positions of Trading Permit Holders may be carried upon a margin basis that is satisfactory to the Trading Permit Holder and the carrying broker or dealer:

(A) positions in which the Trading Permit Holder makes a market and permitted offset transactions as defined below and

(B) positions in security futures contracts that qualify for exclusion from the margin requirements of SEC and Commodity Futures Trading Commission (“CFTC”) regulations pursuant to SEC Rule 400(c)(2)(v) under the Exchange Act and CFTC Rule 41.42(c)(2) (v), and any permitted offset transactions designated by the exchange or association upon which the Trading Permit Holder trades the security futures contract.

Notwithstanding the other provisions of this paragraph (f), a TPH organization may clear and carry the Market-Maker permitted offset positions of one or more registered specialists, registered Market-Makers, or Designated Primary Market-Makers pursuant to the rules of a national securities exchange (all of which are deemed specialists for all purposes under the Exchange Act) (hereinafter referred to as “Market-Maker(s)”) upon a margin basis satisfactory to the concerned parties. The amount of any deficiency between the equity maintained by the Market-Maker and the haircuts specified in SEC Rule 15c3-1 shall be considered as a deduction from net worth in the net capital computation of the carrying broker or dealer.

(3) Permitted Offset Transactions.

(A) For purposes of this subparagraph (f)(3), a permitted offset position means, in the case of an option in which a market-maker makes a market, a position in the underlying instrument or other related instrument, and in the case of other securities in which a market-maker makes a market, a position in options overlying the securities in which a market-maker makes a market, if the account holds the following permitted offset positions:

(i) A long position in the underlying instrument or security futures contract offset by a short option position;

(ii) A short position in the underlying instrument or security futures contract offset by a long option position;

(iii) A stock position resulting from the assignment of a Market-Maker short option position or delivery in respect of a short security futures contract;

(iv) A stock position resulting from the exercise of a Market-Maker long option position or taking delivery in respect of a long security futures contract;

(v) A net long position in a security (other than an option) in which a Market-Maker makes a market;

(vi) A net short position in a security (other than an option) in which the Market-Maker makes a market; or

(vii) An offset position as defined in SEC Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

Permitted offset transactions must be effected for market-making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation of customer orders, or other similar Market-Maker purpose. The options Market-Maker must be able to demonstrate compliance with this provision.

For purposes of this subparagraph (f)(3), the term “overlying option” means a put option purchased or a call option written against a long position in an underlying instrument, or a call option purchased or a put option written against a short position in an underlying instrument.

(B) [Reserved]

(C)

(1) [Reserved]

(2) For any Trading Permit Holder which acts as a Market-Maker on the Exchange, the carrying TPH organization may combine all Market-Maker accounts in which the Market-Maker or its nominee(s) participates, with the exception of joint accounts in which the Market-Maker or its nominee are not the sole participants, for purpose of computing its requirements as prescribed by SEC Rule 15c3-1.

(3) On any business day on which positive net liquidating equity is not maintained in the account(s), the carrying TPH organization must make a call to the Trading Permit Holder for additional equity at least equal to the deficit and must notify the Exchange’s Department of Financial Compliance of the deficit. The carrying TPH organization may extend no further credit in the account(s) until the account(s) maintains a positive net liquidating equity and, if the TPH

organization's call for additional equity is not met, steps should be taken promptly to liquidate the positions in the account(s). If the deficit is not resolved by noon of the following business day the carrying TPH organization must send telegraphic notice to the Exchange as well as the regional and national offices of the Securities and Exchange Commission. However, nothing in this subparagraph (C) shall prohibit the carrying firm from effecting hedging transactions in the deficit account with the prior written approval of the carrying firm's DEA.

(4) In the case of a joint account carried by a TPH organization for a Market-Maker or specialist in which the TPH organization participates, the margin deposited by the other participants may be in any amount which is mutually satisfactory.

(g)

(i) Broker-Dealer Account. A TPH organization may carry the proprietary account of another broker-dealer, which is registered with the SEC, upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T of the Board of Governors of the Federal Reserve System and, in respect of security futures contracts, SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48 are adhered to and the account is not carried in a deficit equity condition. The amount of any deficiency between the equity maintained in the account and the haircut requirements calculated pursuant to Rule 15c3-1 (Net Capital) of the Exchange Act shall be deducted in computing the Net Capital of the TPH organization under Rule 15c3-1 of the Exchange Act.

(ii) Requirements for Joint Back Office Participants. A TPH organization may carry the accounts of joint back office ("JBO") participants upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T Section 220.7 and Cboe Options Rule 13.4 are adhered to and the account has a minimum equity of not less than \$1,000,000. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days.

(h) Notwithstanding any provisions of paragraphs (b) through (g) and (k) hereof, the Exchange may at any time impose higher margin requirements in respect of positions in any security (including any series of options dealt in on an exchange) when it deems such higher margin requirements to be advisable in light of the price of the security or in light of existing market conditions pertaining generally or with respect to such security.

(i) For the purpose of effecting new securities transactions and commitments, the customer shall be required to deposit margin or have equity in cash and/or securities in the account which shall be at least the greater of:

(1) the amount specified in Regulation T of the Board of Governors of the Federal Reserve System and, in respect of security futures contracts, SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48, or

- (2) the amount specified in paragraphs (b), (c) and (k) of this Rule, or
- (3) such greater amount as the Exchange may from time to time require for specific securities, or
- (4) equity of at least \$2,000 except that cash need not be deposited in excess of the cost of any security purchased (this equity and cost of purchase provision shall not apply to “when distributed” securities in a cash account). The minimum equity requirement for a “pattern day trader” is \$25,000 pursuant to Rule 12.3(j)(4).

Withdrawals of cash or securities may be made from any account which has a debit balance, “short” position or commitments, provided the account is in compliance with Regulation T of the Board of Governors of the Federal Reserve System and the security futures contract margin requirements pursuant to SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48, and after such withdrawal the equity in the account is at least the greater of \$2,000 (\$25,000 in the case of “pattern day traders”) or an amount sufficient to meet the maintenance margin requirements of this Rule.

(j) Day Trading.

(1) The term “day trading” means the purchasing and selling, or the selling and purchasing, of the same security on the same day in a margin account except for:

(A) a long security position held overnight and sold the next day prior to any new purchases of the same security, or

(B) a short security position held overnight and purchased the next day prior to any new sales of the same security.

(2) The term “pattern day trader” means any customer who executes four (4) or more day trades within five (5) business days. However, if the number of day trades is 6% or less of total trades for the five (5) business day period, the customer will no longer be considered a pattern day trader and the special requirements under paragraph 12.3(j)(4) of this Rule will not apply.

(3) The term “day trading buying power” means the equity in a customer’s account at the close of business of the previous day, less any maintenance margin requirement as prescribed in paragraph (b) of this Rule, multiplied by four (4), for equity securities.

Whenever day trading occurs in a customer’s margin account, the special maintenance margin required for the day trades in equity securities shall be 25% of the cost of all the day trades made during the day. For non-equity securities, the special maintenance margin shall be as required pursuant to the other provisions of this Rule. Alternatively, when two or more day trades occur on the same day in the same

customer's account, the margin required may be computed utilizing the highest (dollar amount) open position during that day. To utilize the highest open position computation method, a record showing the "time and tick" of each trade must be maintained to document the sequence in which each day trade was completed.

(4) Special Requirements for Pattern Day Traders.

(A) Minimum Equity Requirement for Pattern Day Traders. The minimum equity required for the accounts of customers deemed to be pattern day traders shall be \$25,000. This minimum equity must be maintained in the customer's account at all times (see Interpretations and Policies .16 and .17 of this Rule).

(B) Pattern day traders cannot trade in excess of their day trading buying power as defined in paragraph (j)(3) above. In the event a pattern day trader exceeds its day trading buying power, which creates a special maintenance margin deficiency, the following actions will be taken by the TPH organization:

(1) The account will be margined based on the cost of all the day trades made during the day, and

(2) The customer's day trading buying power will be limited to the equity in the customer's account at the close of business of the previous day, less the maintenance margin required in paragraph (b) of this Rule, multiplied by two, for equity securities.

(C) Pattern day traders who fail to meet their special maintenance margin calls as required within five (5) business days from the date the margin deficiency occurs will be permitted to execute transactions only on a cash available basis for 90 days or until the special maintenance margin call is met.

(D) Pattern day traders are restricted from utilizing the guaranteed account provision under Rule 12.8 for meeting the requirements of this Rule 12.3(j).

(E) Funds, deposited into a pattern day trader's account to meet the minimum equity or maintenance margin requirements of this Rule 12.3(j), cannot be withdrawn for a minimum of two (2) business days following the close of business on the day of deposit.

(5) When the equity in a customer's account, after giving consideration to the other provisions of this Rule, is not sufficient to meet the requirements of Rule 12.3(j), additional cash or securities must be received into the account to meet any deficiency within five (5) business days of the trade date.



In addition, on the sixth business day only, TPH organizations are required to deduct from net capital the amount of unmet maintenance margin calls pursuant to SEC Rule 15c3-1.

(k) Security Futures Contracts. Nothing in this paragraph (k) or other rules of this Chapter XII shall be applicable to security futures contract transactions and positions in a futures account.

(1) General Rule. In relation to security futures contracts, no TPH organization may effect a transaction or carry an account for a customer, whether a Trading Permit Holder or non- Trading Permit Holder, without proper and adequate margin in accordance with this Chapter XII, all other applicable rules of the Exchange, SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48. No transaction in a security futures contract may be effected, nor may a position in a security futures contract be carried, in a securities cash account.

(2) Time Allowed for Obtaining Margin. If initial or maintenance margin owed is not obtained prior to the day on which the account is deemed undermargined for purposes of SEC Rule 15c3-1(c)(2)(xii), TPH organizations must comply with the provisions of paragraph (k)(3) below. Extensions of time shall be unavailable.

(3) Net Capital. In computing its net capital, a TPH organization shall deduct any initial or maintenance margin deficiency attributable to security futures contracts in accordance with the undermargined account provision of SEC Rule 15c3-1(c)(2)(xii).

(4) Day Trading. Day trading rules shall not be applicable to security futures contracts.

(5) Definitions. For the purposes of this paragraph (k), the following terms shall have the meanings specified below.

(A) The term “security futures contract” means a “security future” as defined in Section 3(a)(55) of Exchange Act.

(B) The term “current market value”, with respect to security futures contracts, means “current market value” as defined in SEC Rule 401(4)(i)(A) or 4(i)(B), whichever is applicable, under the Exchange Act and CFTC Rule 41.43(4)(i)(A) or (4)(i)(B), whichever is applicable.

(C) The term “underlying security” means, in the case of physically settled security futures contracts, the security that is delivered upon expiration of the contract, and, in the case of cash settled security futures contracts, the security or securities index the price or level of which determines the final settlement price for the security futures contract upon its expiration. The term “underlying

security” also means, in the case of a securities index, an underlying stock basket, or equivalent units of a registered investment company meeting the criteria set forth in Cboe Options Rule 5.3 and the Interpretations and Policies thereunder.

(D) The term “underlying basket” means, in the case of a securities index, a group of securities futures contracts where the underlying securities as defined in paragraph (C) above include each of the component securities of the applicable index and which meets the following conditions (i) the quantity of each underlying security is proportional to its representation in the index, (ii) the total market value of the underlying securities is equal to the aggregate value of the applicable index, (iii) the basket cannot be used to offset more than the number of contracts or warrants represented by its total market value, and (iv) the security futures contracts shall be unavailable to support any other contract or warrant transaction in the account.

(6) Exceptions. For the offsetting positions specified in the table below, TPH organizations may apply the corresponding initial and maintenance margin requirement minimums, notwithstanding the margin required on a security futures contract pursuant to paragraph (k)(1) above, or on other securities pursuant to paragraphs (b) and (c) of this Rule.

**All options referred to mean options on the underlying security, not the security futures contract.**

**All requirements that are expressed in terms of an option’s exercise price, in-the-money amount, and out-of-the-money amount mean the aggregate amount (i.e., multiply by number of shares per contract or the contract multiplier).**

	<b><i>SECURITY FUTURES CONTRACT TYPE</i></b>	<b><i>MARGIN ACCOUNT INITIAL REQUIREMENT</i></b>	<b><i>MARGIN ACCOUNT MAINTENANCE REQUIREMENT</i></b>
<b>Long and Short Security Futures Contract</b>  same underlying       different expiration months same or	Single Stock, Narrow-Based Index	5% of the current market value of the long or short security futures contract, whichever is greater.	Same as initial.
	Single Stocks vs. Narrow-Based Index 1	5% of the current market value of the long or short security futures contract(s), whichever is greater.	Same as initial.

different market(s)			
<b>Long and Short Security Futures Contract</b>  same underlying same expiration month different markets 2	Single Stock, Narrow-Based Index	3% of the current market value of the long or short security futures contract, whichever is greater.	Same as initial.
<b>Long Security Futures Contract and Short Underlying</b>  same underlying	Single Stock	None required on long security futures contract. Short sale proceeds plus 50% requirement on short stock position.	None required on long security futures contract. Short stock requirement is 105% of stock market value.
	Narrow-Based Index	None required on long security futures contract. Short sale proceeds plus 50% requirement on short stock basket. 3	None required on long security futures contract. Short stock basket requirement is 105% of basket market value
<b>Long Security Futures Contract and Short Call</b>  same underlying	Single Stock, Narrow-Based Index	20% of the current market value of the long security futures contract plus any call in-the-money amount. None required on short call. Proceeds from the call sale may be applied.	20% of the current market value of the long security futures contract plus any call in-the-money amount.
	Single Stocks 4 vs.  Narrow-Based Index Call Option Narrow-Based Indices 4 vs.  Broad-Based Index Call Option	20% of the current market value of the long basket of security futures contracts plus any call in-the-money amount. None required on short index call. Proceeds	20% of the current market value of the long basket of security futures contracts plus any call in-the-money amount.

		from the call sale may be applied.	
<b>Long Security Futures Contract and Long Put</b>  same underlying	Single Stock, Narrow-Based Index	20% of the current market value of the long security futures contract. Pay for long put in full.	10% of the put exercise price plus any put out-of-the-money amount or 20% of the current market value of the long security futures contract, whichever is lower.
	Single Stocks 4 vs. Narrow-Based Index Put Option Narrow-Based Indices 4 vs. Broad-Based Index Put Option	20% of the current market value of the long basket of security futures contracts. Pay for long index put in full.	10% of the index put exercise price plus any put out-of-the-money amount or 20% of the current market value of the long basket of security futures contracts, whichever is lower.
<b>Short Security Futures Contract and Long Underlying</b>  same underlying	Single Stock	None required on the short security futures contract. 50% requirement on long stock position.	5% of the current market value of the long stock position.
	Narrow-Based Index	None required on the short narrow-based security futures contract. 50% requirement on long stock basket. 4	5% of the current market value of the long stock basket.
<b>Short Security Futures Contract and Marginable Convertible 5</b>  same underlying	Single Stock	None required on the short security futures contract. 50% requirement on long convertible security.	10% of the current market value of the long convertible security.

<b>Short Futures Security Contract and Long Call 6</b>  same underlying	Single Stock	20% of the current market value of the short security futures contract. Pay for long call in full.	10% of the call exercise price plus any call out-of-the-money amount or 20% of the current market value of the short security futures contract, whichever is lower.
	Single Stocks 4 vs.  Narrow-Based Index Call Option Narrow-Based Indices 4 vs.  Broad-Based Index Call Option	20% of the current market value of the short basket of security futures contracts. Pay for long index call in full.	10% of the index call exercise price plus any call out of-the-money amount or 20% of the current market value of the short basket of security futures contracts, whichever is lower.
<b>Short Futures Security Contract and Short Put</b>  same underlying	Single Stock	20% of the current market value of the short security futures contract plus any put in-the-money amount. None required on short put. Proceeds from the put sale may be applied.	20% of the current market value of the short security futures contract plus any put in-the-money amount.
	Single Stocks 4 vs.  Narrow-Based Index Put Option Narrow-Based Indices 4 vs.  Broad-Based Index Put Option	20% of the current market value of the short basket of security futures contracts plus any put in-the-money amount. None required on short index put. Proceeds from the index put sale may be applied.	20% of the current market value of the short basket of security futures contracts plus any put in-the-money amount.
<b>Long Futures Security Contract, Short Call and Long</b>	Single Stock Narrow Based Index Single Stocks 4 vs.	20% of the current market value of the long security futures	10% of the exercise price plus any call in-the-money amount.

<b>Put</b> same underlying put and call must have same exercise price	Narrow-Based Index Options Narrow-Based Indices 4 vs. Broad-Based Index Options	contract(s) plus any call in-the-money amount. Pay for long put in full. None required on short call. Proceeds from call sale may be applied.	
<b>Long Security Futures Contract, Short Call and Long Put</b> same underlying put exercise price must be below call exercise price	Single Stock Narrow-Based Index Single Stocks 4 vs. Narrow-Based Index Options Narrow-Based Indices 4 vs. Broad-Based Index Options	20% of the current market value of the long security futures contract(s) plus any call in-the-money amount. Pay for long put in full. None required on short call. Proceeds from call sale may be applied.	10% of the put exercise price plus any put out-of-the-money amount, or 20% of the call exercise price plus any call in-the-money amount, whichever is lower.
<b>Short Security Futures Contract, Long Call and Short Put</b> same underlying put and call must have same exercise price	Single Stock Narrow-Based Index Single Stocks 4 vs. Narrow-Based Index Options Narrow-Based Indices 4 vs. Broad-Based Index Options	20% of the current market value of the short security futures contract(s) plus any put in-the-money amount. Pay for long call in full. None required on short put. Proceeds from put sale may be applied.	10% of the exercise price plus any put in-the-money amount.

(1) A long (short) basket of security futures contracts on individual equities offset with a short (long) security futures contract on a narrow-based index. A basket of security futures contracts must qualify as an “underlying basket” in accordance with Cboe Options Rule 12.3(k)(5) (D).

(2) Contract specifications must be substantively identical.

(3) The stock basket must qualify as an “underlying stock basket” in accordance with Cboe Options Rule 12.3(a)(7).

(4) A basket of security futures contracts must qualify as an “underlying basket” in accordance with Cboe Options Rule 12.3(k)(5)(D).

(5) The convertible security must be immediately exchangeable for or convertible into, without restriction (including the payment of money), the security underlying the single stock future.

(6) A long warrant (issued by the issuer of the underlying security) is also permitted (single stock futures only). The long warrant must be paid for in full and shall have no value for margin purposes.

(l) Credit Options.

(1) Risk Monitoring Procedures and Guidelines

Trading Permit Holders are required to monitor the risk of customer and broker-dealer accounts with exposure to Credit Options and must implement and maintain a comprehensive written risk analysis methodology for assessing the potential risk to the Trading Permit Holder’s capital over a specified range of possible market movements over a specified time period. For purposes of complying with this rule, Trading Permit Holders must employ the risk monitoring procedures and guidelines set forth below in sub- paragraphs (i) through (viii) of this Rule 12.3(l)(1). The Trading Permit Holder must review, in accordance with the Trading Permit Holder’s written procedures, at reasonable periodic intervals, the Trading Permit Holder’s credit extension activities for consistency with the risk monitoring procedures and guidelines set forth in this Rule 12.3(l)(1), and must determine whether the data necessary to apply the risk monitoring procedures and guidelines is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data, including:

(i) obtaining and reviewing the required account documentation and financial information necessary for assessing the amount of credit to be extended to customers and broker- dealers;

(ii) assessing the determination, review and approval of credit limits to each customer and broker-dealer, and across all customers and broker-dealers, engaging in Credit Option transactions;

(iii) monitoring credit risk exposure to the Trading Permit Holder from Credit Options, including the type, scope and frequency of reporting to senior management;

(iv) the use of stress testing of accounts containing Credit Option contracts in order to monitor market risk exposure from individual accounts and in the aggregate;

(v) managing the impact of credit extended related to Credit Option contracts on the Trading Permit Holder’s overall risk exposure;

(vi) determining the need to collect margin from a particular customer or broker-dealer in addition to the amount required by this Rule 12.3(l), including whether such determination was based upon the credit worthiness of the customer or broker-dealer and/or the risk of the specific Credit Option contracts;

(vii) monitoring the credit exposure resulting from concentrated positions within both individual accounts and across all accounts containing Credit Option contracts: and

(viii) maintaining sufficient margin in each customer and broker-dealer account to protect against the default of the largest individual exposure in the account as measured by computing the largest maximum possible loss.

(2) **Requiring Additional Margin.** Trading Permit Holders shall, based on the risk monitoring procedures and guidelines required above, determine whether the margin required by this Rule 12.3(l) is adequate with respect to their customer and broker-dealer accounts and, where appropriate, increase such requirements.

(3) **Margin Account—Credit Default Options.**

(i) The initial and maintenance margin required on a Credit Default Option carried long in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 29.1) according to the table below.

Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option	Length of Time Until Expiration of the Option			
	1 Year or Less	Greater than 1 Year/Less Than or Equal to 3 Years	Greater Than 3 Years/Less Than or Equal to 7 Years	Greater Than 7 Years
0 - 100	.5%	1%	2%	3.5%
100 – 300	1%	2.5%	3.5%	5%
300 – 500	2.5%	5%	7.5%	10%
500 – 700	5%	7.5%	10%	12.5%
700 & above	7.5%	10%	12.5%	15%

\* Over LIBOR, in basis points.



(ii) Alternative Table. As an alternative to the table under paragraph (1)(3)(i) above, Trading Permit Holders may use the table below.

**Length of Time Until Expiration of the Option**

Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option	12 Mos. or Less	Greater Than 12 Mos. / Less Than or Equal to 24 Mos.	Greater Than 24 Mos. / Less Than or Equal to 36 Mos.	Greater Than 36 Mos. / Less Than or Equal to 48 Mos.	Greater Than 48 Mos. / Less Than or Equal to 60 Mos.	Greater Than 60 Mos. / Less Than or Equal to 72 Mos.	Greater Than 72 Mos. / Less Than or Equal to 84 Mos.	Greater Than 84 Mos. / Less Than or Equal to 120 Mos.	Greater Than 121 Mos.
0 - 100	0.50%	0.75%	1.00%	1.50%	2.00%	2.75%	3.50%	4.25%	5.00%
100 - 300	1.00%	1.75%	2.50%	3.00%	3.50%	4.25%	5.00%	7.50%	10.00%
300 - 400	2.50%	3.75%	5.00%	6.25%	7.50%	8.75%	10.00%	11.25%	12.50%
400 - 500	3.75%	5.00%	6.25%	7.50%	8.00%	10.00%	11.25%	12.50%	13.75%

500 - 700	5.00%	6.25%	7.50%	8.75%	10.00%	11.25%	13.75%	15.00%	17.50%
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700 & above	7.50%	8.75%	10.00%	11.25%	12.50%	13.75%	15.00%	20.00%	25.00%
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(iii) The initial and maintenance margin required on any Credit Default Option carried short in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 29.1) according to the table below.

#### Length of Time Until Expiration of the Option

Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option	1 Year or Less	Greater than 1 Year/Less Than 3 Years	Greater Than 3 or 7 Years/Less Than 7 Years	Greater Than 7 Years
0 - 100	1%	2%	4%	7%
100 - 300	2%	5%	7%	10%
300 - 500	5%	10%	15%	20%
500 - 700	10%	15%	20%	25%
700 & above	15%	20%	25%	30%

\* Over LIBOR, in basis points.

(iv) Alternative Table. As an alternative to the table under paragraph (1)(3)(iii) above, Trading Permit Holders may use the table below.

#### Length of Time Until Expiration of the Option

Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option	12 Mos. or Less	Greater Than 12 Mos. / Less Than or Equal to 24 Mos.	Greater Than 24 Mos. / Less Than or Equal to 36 Mos.	Greater Than 36 Mos. / Less Than or Equal to 48 Mos.	Greater Than 48 Mos. / Less Than or Equal to 60 Mos.	Greater Than 60 Mos. / Less Than or Equal to 72 Mos.	Greater Than 72 Mos. / Less Than or Equal to 84 Mos.	Greater Than 84 Mos. / Less Than or Equal to 120 Mos.	Greater Than 121 Mos.
0 - 100	1.00%	1.50%	2.00%	3.00%	4.00%	5.50%	7.00%	8.50%	10.00%
100 - 300	2.00%	3.50%	5.00%	6.00%	7.00%	8.50%	10.00%	15.00%	20.00%
300 - 400	5.00%	7.50%	10.00%	12.50%	15.00%	17.50%	20.00%	22.50%	25.00%
400 - 500	7.50%	10.00%	12.50%	15.00%	16.00%	20.00%	22.50%	25.00%	27.50%
500 - 700	10.00%	12.50%	15.00%	17.50%	20.00%	22.50%	27.50%	30.00%	35.00%
700 & above	15.00%	17.50%	20.00%	22.50%	25.00%	27.50%	30.00%	40.00%	50.00%

\* Over LIBOR, in basis points.

(v) **Debt Security Offset.** If an account is short a Credit Default Option and also has a short position in a debt security issued by the Reference Entity underlying the option, and the principal amount of the debt security is equal to: the cash settlement amount of the option multiplied by 1.33, no margin is required on the Credit Default Option.

(4) **Margin Account - Credit Default Basket Options.**

(i) The initial and maintenance margin required on a Credit Default Basket Option carried long in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 29.1) according to the table below. In the case of a Single Payout Credit Default Basket Option, the cash settlement amount to be used is the one that is the highest among the basket components, and in the case of a Multiple Payout Credit Default Basket Option, the cash settlement amount to be used is 50% of the sum of each basket component's cash settlement amount.

**Length of Time Until Expiration of the Option**

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Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities	1 Year or Less	Greater than 1 Year/Less Than or Equal to 3 Years	Greater than 3 Years/Less Than or Equal to 5 Years	Greater Than 5 Years/Less Than or Equal to 7 Years	Greater Than 7 Years
0 - 200	0.50%	0.50%	1%	2%	2.50%
200 - 500	1%	1.50%	2%	2.50%	3.50%

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500 & above	1.50%	2.50%	5%	6%	7.50%
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\* Over LIBOR, in basis points.

(ii) Alternative Table. As an alternative to the table under paragraph (l)(4)(i) above, Trading Permit Holders may use the table below.

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**Length of Time Until Expiration of the Option**

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Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities	1 Year or Less	Greater Than 1 Year / Less Than or Equal to 2 Years	Greater Than 2 Years / Less Than or Equal to 3 Years	Greater Than 3 Years / Less Than or Equal to 4 Years	Greater Than 4 Years / Less Than or Equal to 5 Years	Greater Than 5 Years / Less Than or Equal to 6 Years	Greater Than 6 Years / Less Than or Equal to 7 Years	Greater Than 7 Years / Less Than or Equal to 8 Years	Greater Than 8 Years / Less Than or Equal to 9 Years	Greater Than 9 Years	
0 - 200	0.50%	0.50%	0.50%	0.75%	0.10%	1.50%	2%	2.25%	2.50%	2.50%	
200 - 500	1%	1.25%	1.50%	1.75%	2%	2.25%	2.50%	3%	3.50%	3.50%	
500 above	&	1.50%	2%	2.50%	3.75%	5%	5.50%	6%	6.50%	7%	7.50%

(iii) The initial and maintenance margin required on a Credit Default Basket Option carried short in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 29.1) according to the table below. In the case of a Single Payout Credit Default Basket Option, the cash settlement amount to be used is the one that is the highest among the basket components, and in the case of a Multiple Payout Credit Default Basket Option, the cash settlement amount to be used is 50% of the sum of each basket component's cash settlement amount.

**Length of Time Until Expiration of the Option**

Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities	1 Year or Less	Greater than 1 Year/Less Than or Equal to 3 Years	Greater than 3 Years/Less Than or Equal to 5 Years	Greater Than 5 Years/Less Than or Equal to 7 Years	Greater Than 7 Years
0 - 200	1%	1%	2%	4%	5%
200 - 500	2%	3%	4%	5%	7%
500 & above	3%	5%	10%	12%	15%

\* Over LIBOR, in basis points.

(iv) Alternative Table. As an alternative to the table under paragraph (l)(4)(iii) above, Trading Permit Holders may use the table below.

**Length of Time Until Expiration of the Option**

Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities	1 Year or Less	Greater Than 1 Year	Greater Than 2 Years	Greater Than 3 Years	Greater Than 4 Years	Greater Than 5 Years	Greater Than 6 Years	Greater Than 7 Years	Greater Than 8 Years	Greater Than 9 Years
		Less Than or Equal to 2 Years	Less Than or Equal to 3 Years	Less Than or Equal to 4 Years	Less Than or Equal to 5 Years	Less Than or Equal to 6 Years	Less Than or Equal to 7 Years	Less Than or Equal to 8 Years	Less Than or Equal to 9 Years	
0 - 200	1%	1%	1%	1.50%	2%	3%	4%	4.50%	5%	5%
200 - 500	2%	2.50%	3%	3.50%	4%	4.50%	5%	6%	7%	7%
500 above	& 3%	4%	5%	7.50%	10%	11%	12%	13%	14%	15%

(5) Spreads. If an account is short a Credit Option and is also long a Credit Option with the same underlying Reference Obligation(s), and the long option is paid for in full, and the long option does not expire before the short option, no margin is required

(6) Credit Option margin requirements may be satisfied by a deposit of cash or marginable securities.

(7) Concentrations. If, across all accounts, the maximum exposure in Credit Option contracts overlying any single Reference Entity exceeds the Trading Permit Holder's tentative net capital, the Trading Permit Holder must deduct from net capital an amount equal to the aggregate margin requirement for

all such accounts on the Credit Option contracts (including Credit Default Basket Options having the subject Reference Entity as a component) overlying such single Reference Entity, as specified in this Rule 12.3(l). This deduction from net capital may be reduced by the amount of excess margin held in such customer and broker-dealer accounts.

(8) Cash Account—Credit Default Options. A Credit Default Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(i) cash or cash equivalents equal to 100% of the cash settlement amount as defined in Rule 29.1; or

(ii) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (A) cash, (B) cash equivalents, (C) one or more qualified equity securities, or (D) a combination thereof having an aggregate market value of not less than 100% of the cash settlement amount as defined in Rule 29.1 and that the bank will promptly pay the TPH organization the cash settlement amount in the event of a Credit Event as defined in Rule 29.1.

(9) Cash Account - Credit Default Basket Options. A Credit Default Basket Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(i) For Multiple Payout Credit Default Basket Options, cash or cash equivalents equal to 50% of the sum of each Basket Component's cash settlement amount as defined in Rule 29.1;

(ii) For Single Payout Credit Default Basket Options, cash or cash equivalents equal to 100% of the Basket Component cash settlement amount as defined in Rule 29.1 that is the highest; or

(iii) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (A) cash, (B) cash equivalents, (C) one or more qualified equity securities, or (D) a combination thereof having an aggregate market value of not less than 100% of the sum of each Basket Component's cash settlement amount as defined in Rule 29.1 in the case of Multiple Payout Credit Default Basket Option or 100% of the Basket Component cash settlement amount as defined in Rule 29.1 that is the highest in the case of a



Single Payout Credit Default Basket Option and that the bank will promptly pay the TPH organization the cash settlement amount in the event of a Credit Event as defined in Rule 29.1.

(10) Duration of the Credit Option Margin Pilot Program. The Credit Option Margin Pilot Program shall be through July 20, 2020.

(m) Binary Options.

(1) Margin Account. Except as provided below, no binary option carried for a customer shall be considered of any value for purposes of computing the margin required in the account of such customer.

(i) The initial and maintenance margin required on any binary option carried long in a customer's account is 100% of the purchase price of such binary option.

(ii) The initial and maintenance margin required on any binary option carried short in a customer's account is the exercise settlement amount.

(iii) Spreads. No margin is required on a binary call option (put option) carried short in a customer's account that is offset by a long binary call option (put option) for the same underlying security or instrument that expires at the same time and has an exercise price that is less than (greater than) the exercise price of the short call (put). The long call (put) must be paid for in full.

(iv) Straddle/Combination. When a binary call option is carried short in a customer's account and there is also carried a short binary put option for the same underlying security or instrument that expires at the same time and has an exercise price that is less than or equal to the exercise price of the short call, the initial and maintenance margin required is the exercise settlement amount applicable to one contract.

(2) Cash Account. A binary option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(i) cash or cash equivalents equal to 100% of the exercise settlement amount; or

(ii) a long binary option of the same type (put or call) for the same underlying security or instrument that is paid for in full and expires at the same time, and has an exercise price that is less than the exercise price of the short in the case of a call or greater than the exercise price of the short in the case of a put; or

(iii) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (A) cash, (B) cash equivalents, (C) one or more qualified equity securities, or (D) a combination thereof having an aggregate market value of not less than 100% of the exercise settlement amount and that the bank will promptly pay the TPH organization the exercise settlement amount in the event the account is assigned an exercise notice.

(n) Range Options.

(1) Margin Account. Except as provided below, no Range Option carried for a customer shall be considered of any value for purposes of computing the margin requirement in the account of such customer, and each Range Option carried for a customer shall be margined separately.

(i) The initial and maintenance margin required on any Range Option carried long in a customer's account is 100% of the purchase price of such Range Option.

(ii) The initial and maintenance margin required on any Range Option carried short in a customer's account is the Maximum Range Exercise Value times the contract multiplier.

(2) Cash Account. A Range Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(i) cash or cash equivalents equal to 100% of the Maximum Range Exercise Value times the contract multiplier; or

(ii) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (A) cash, (B) cash equivalents, (C) one or more qualified equity securities, or (D) a combination thereof having an aggregate market value of not less than 100% of the Maximum Range Exercise Value times the contract multiplier and that the bank will promptly pay the TPH organization the cash settlement amount in the event the account is assigned an exercise notice.

***... Interpretations and Policies:***

.1 [Reserved]

.2 In determining the "current market value" of a security including an option, if there is no closing price or if trading was halted before and through the normal end of the trading day or if the closing price was outside the last bid and offer that was established after the closing price,

then a TPH organization may use a reasonable estimate of the market value of the security based upon the then current bids and offers from publicly available vendors or services.

.3 Generally, for purposes of the rules of this Chapter 12 and any other Exchange margin rules, unless otherwise specified, index warrants shall be treated as if they were index options.

.4 [Reserved]

.5 If the escrow agreement is forwarded to OCC, Trading Permit Holders should be aware that the OCC may have a different definition of “cash equivalent” than does Regulation T.

.6 Under normal circumstances, Cboe Options Clearing Trading Permit Holders are prohibited from extending credit for opening transactions to market-makers whose net liquidating equity computed as described in 12.3(f)(1)(F) is in deficit. Situations may arise, however, whereby the last sale price of a stock is disseminated after the overlying options cease trading at 3:00 p.m., causing a discrepancy between the last sale price of the underlying stock and the closing quotes and the last sale price of the option series.

In situations where this discrepancy causes a market-maker’s account to liquidate to a deficit, Clearing Trading Permit Holders are permitted to adjust the market-maker’s equity to correct the disparity, and extend credit for opening trades. The adjustments must be documented, filed with, and approved by the Department of Financial and Sales Practice Compliance. The adjustments should be filed with the Department before the next day’s opening (or at least before the firm may extend credit for opening transactions) and must be approved by the Department before opening trades may be financed. Additionally, all information regarding the adjustment(s) must be retained by the Clearing Trading Permit Holder and the Exchange.

.7 The term “aggregate current index value” means the current index value times the index multiplier; the term “aggregate exercise price” means the exercise price times the index multiplier; and the term “exercise settlement amount” means the difference between the aggregate exercise price and the aggregate current index value (as such terms are defined in the OCC By-Laws).

.8 For purposes of Rule 12.3 the bank or trust company issuing escrow agreements must be approved by The Options Clearing Corporation if the escrow agreements to be forwarded to the Corporation for the purpose of meeting margin requirements.

.9 A security is qualified if: (a) Exchange securities: it is a listed equity security (with the exception of warrants, rights and options) or (b) OTC securities: it is an equity security (with the exception of warrants, rights and options) listed on the current list of Marginable Over-the-Counter Stocks published by the Board of Governors of the Federal Reserve System.

.10 When one or more securities are substituted for securities held by the bank or trust company the substitution should not impair the value of the collateral held by the bank at the time the substitution is made.

.11 An index option escrow receipt is no longer deemed to be an acceptable deposit in lieu of the margin required to be maintained by the broker-dealer upon notification that the collateral value is below 50% of the current aggregate index value. If the collateral is not promptly supplemented to a level in excess of 55% of the current aggregate index value, the broker-dealer must take steps to promptly liquidate the short index call(s) covered by the receipt.

.12 The margin requirements set forth in this Rule are applicable only to stock index warrants, currency index warrants and currency warrants listed on or after August 29, 1995.

.13 Reserved

.14 When due to a merger or acquisition a security underlying an option ceases to trade and the registered clearing agency or party which issues the option has announced that all outstanding call options will settle for cash equal to any amount by which a fixed settlement price exceeds the exercise price and all outstanding put options will settle for cash equal to any amount by which the exercise price exceeds a fixed settlement price, no margin is required on such an option carried short if it is out-of-the-money. If such an option carried short is in-the-money, margin must be maintained equal to 100% of the aggregate in-the-money amount.

.15 Under the provisions of Regulation T Section 220.7 a clearing broker may extend good faith financing to an owner of the clearing broker under certain conditions. Such financing is typically provided under what is termed a joint back office arrangement.

.16 In the event that the TPH organization at which a customer seeks to open an account, or resume day trading in an existing account, knows or has a reasonable basis to believe that the customer will engage in pattern day trading, then the minimum equity required under Rule 12.3(j)(4)(A) must be deposited in the account prior to commencement of day trading.

.17 When a customer engages in pattern day trading, the minimum equity required under Rule 12.3(j)(4)(A) must be deposited in the account before such customer may continue day trading.

.18 For purposes of Rule 12.3(j)(3), “time and tick” (i.e., calculating margin utilizing each trade in the sequence that it is executed, using the highest open position during the day) may not be used for a pattern day trader who exceeds their day trading buying power.

.19 For purposes of Rules 12.3(j)(3) and 12.3(j)(4)(B)(2) above, the day trading buying power for non-equity securities shall, at a minimum, be computed using the applicable maintenance margin requirements pursuant to Rule 12.3.]

#### [Rule 12.4. Portfolio Margin

As an alternative to the transaction / position specific margin requirements set forth in Rule 12.3 of this Chapter 12, a TPH organization may require margin for all margin equity securities (as defined in Section 220.2 of Regulation T), listed options, unlisted derivatives, security futures products, and index warrants in accordance with the portfolio margin requirements contained in this Rule 12.4.

In addition, a TPH organization, provided it is a Futures Commission Merchant (“FCM”) and is either a clearing member of a futures clearing organization or has an affiliate that is a clearing member of a futures clearing organization, is permitted under this Rule 12.4 to combine a customer’s related instruments (as defined below), listed index options, unlisted derivatives, options on exchange traded funds, index warrants, and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

Application of the portfolio margin provisions of this Rule 12.4 to IRA accounts is prohibited.

(a) Definitions.

(1) The term “listed option” for purposes of this Rule shall mean any equity (or equity index- based) option traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(2) The term “security future” means a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof, to the extent that that term is defined in Section 3(a)(55) of the Securities Exchange Act of 1934.

(3) The term “security futures product” means a security future, or an option on any security future.

(4) The term “unlisted derivative” for purposes of this Rule means any equity-based (or equity index-based) unlisted option, forward contract or swap that can be valued by a theoretical pricing model approved by the Securities and Exchange Commission and does not include OCC cleared OTC options contracts.

(5) The term “option series” means all option contracts of the same type (either a call or a put) and exercise style, covering the same underlying instrument with the same exercise price, expiration date, and number of underlying units.

(6) The term “class” refers to all listed options, unlisted derivatives, security futures products, and related instruments that are based on the same underlying instrument, and the underlying instrument itself.

(7) The term “portfolio” means products of the same class grouped together.

(8) The term “related instrument” within a class or product group means index futures contracts and options on index futures contracts covering the same underlying instrument, but does not include security futures products.

(9) The term “underlying instrument” means a security or security index upon which any listed option, unlisted derivative, security futures product

or related instrument is based. The term underlying instrument shall not be deemed to include, futures contracts, options on futures contracts or underlying stock baskets except that, for the purpose of calculating theoretical gains and losses for a listed option, unlisted derivative, or security futures product overlying a volatility index pursuant to this Rule, the price of a futures contract referencing the same volatility index may be utilized in lieu of the current (spot or cash) index value.

(10) The term “product group” means two or more portfolios of the same type for which it has been determined by Rule 15c3-1a(b)(ii) under the Securities Exchange Act of 1934 that a percentage of offsetting profits may be applied to losses at the same valuation point.

(11) The terms “theoretical gains and losses” means the gain and loss in the value of each eligible position at 10 equidistant intervals (valuation points) ranging from an assumed movement (both up and down) in the current market value of the underlying instrument.

The magnitude of the valuation point range shall be as follows:

<b>Portfolio Type</b>	<b>Up / down market move (high &amp; low valuation points)</b>
High Capitalization, Broad-based Market Index	+6%/-8%
Non-High Capitalization, Broad-based Market Index	+/-10%
Narrow-based Index	+/-15%
Individual Equity	+/-15%
Volatility Index (30-day implied)	+/-20%
Volatility Index (9-day implied)	+/-40%

(b) Eligible Participants.

Any TPH organization intending to apply the portfolio margin provisions of this Rule 12.4 to its accounts must receive prior approval from its DEA. The TPH organization will be required to, among other things, demonstrate compliance with Rule 15.8A - Risk Analysis of Portfolio Margin Accounts, and with the net capital requirements of Rule 13.5 - Customer Portfolio Margin Accounts.

The application of the portfolio margin provisions of this Rule 12.4 is limited to the following customers:

(1) any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934;

(2) any member of a national futures exchange to the extent that listed index options, unlisted derivatives, options on exchange traded funds, index warrants or underlying instruments hedge the member's related instruments, and

(3) any person or entity not included in (b)(1) or (b)(2) above that is approved for writing uncovered options. However, such persons or entities may not establish or maintain positions in unlisted derivatives unless minimum equity of at least five million dollars is established and maintained with the TPH organization. For purposes of the five million dollar minimum equity requirement, all securities and futures accounts carried by the TPH organization for the same customer may be combined provided ownership across the accounts is identical. A guarantee by any other account for purposes of the minimum equity requirement is not permitted.

(c) Opening of Accounts.

(1) Only customers that, pursuant to Rule 9.7, have been approved for writing uncovered options are permitted to utilize a portfolio margin account.

(2) On or before the date of the initial transaction in a portfolio margin account, a Trading Permit Holder shall:

A. furnish the customer with a special written disclosure statement describing the nature and risks of portfolio margining and which includes an acknowledgement for all portfolio margin account owners to sign, attesting that they have read and understood the disclosure statement, and agree to the terms under which a portfolio margin account is provided, and

B. obtain a signed acknowledgement from the customer and record the date of receipt.

(d) Establishing Account and Eligible Positions.

(1) For purposes of applying the portfolio margin requirements provided in this Rule 12.4, TPH organizations are to establish and utilize a dedicated securities margin account, or sub-account of a margin account, clearly identified as a portfolio margin account that is separate from any other securities account carried for a customer.

(2) A margin deficit in the portfolio margin account of a customer may not be considered as satisfied by excess equity in another account. Funds and/or securities must be transferred to the deficient account and a written record created and maintained. In the case of a portfolio margin account carried as a sub-account of a margin account, excess equity in the margin account may be used to satisfy a

margin deficiency in the portfolio margin sub- account without transferring funds and/or securities to the portfolio margin sub-account.

(3) Eligible Positions

(i) a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a “ready market” under SEC Rule 15c3-1 or a no-action position issued thereunder; and a control or restricted security, provided the security has met the requirements in a manner consistent with SEC Rule 144 or an SEC no-action position issued thereunder, sufficient to permit the sale of the security, upon exercise of any listed option or unlisted derivative written against it, without restriction)

(ii) a listed option on an equity security, index of equity securities, or volatility index referencing either such equity instrument,

(iii) a security futures product,

(iv) an unlisted derivative on an equity security or index of equity securities,

(v) a warrant on an equity security or index of equity securities, and

(vi) a related instrument.

(4) Positions other than those listed in (3) above are not eligible for portfolio margin treatment. However, positions not eligible for portfolio margin treatment (except for ineligible related instruments) may be carried in a portfolio margin account subject to the margin required pursuant Rule 12.3 of this Chapter 12. Shares of a money market mutual fund may be carried in a portfolio margin account subject to the margin required pursuant to Exchange Rule 12.3 of this Chapter 12 provided that:

(i) the customer waives any right to redeem the shares without the TPH organization’s consent,

(ii) the TPH organization (or, if the shares are deposited with a Clearing Trading Permit Holder, the Clearing Trading Permit Holder) obtains the right to redeem the shares in cash upon request,

(iii) the fund agrees to satisfy any conditions necessary or appropriate to ensure that the shares may be redeemed in cash, promptly upon request, and

(iv) the TPH organization complies with the requirements of Section 11(d)(1) of the Securities Exchange Act of 1934 and Rule 11d1-2 thereunder.



(e) Initial and Maintenance Margin Required. The amount of margin required under this Rule 12.4 for each portfolio shall be the greater of:

1) the amount for any of the ten equidistant valuation points representing the largest theoretical loss as calculated pursuant to paragraph (f) below or

2) \$.375 for each listed option, unlisted derivative, security futures product, and related instrument multiplied by the contract or instrument's multiplier, not to exceed the market value in the case of long positions.

(f) Method of Calculation.

(1) Long and short positions in eligible positions are to be grouped by class; each class group being a "portfolio". Each portfolio is categorized as one of the portfolio types specified in paragraph (a)(11) above.

(2) For each portfolio, theoretical gains and losses are calculated for each position as specified in paragraph (a)(11) above. For purposes of determining the theoretical gains and losses at each valuation point, TPH organizations shall obtain and utilize the theoretical value of a listed option, unlisted derivative, security futures product, underlying instrument, and related instrument rendered by a theoretical pricing model that has been approved by the Securities and Exchange Commission.

(3) Offsets. Within each portfolio, theoretical gains and losses may be netted fully at each valuation point.

Offsets between portfolios within the High Capitalization, Broad-Based Index Option, Non- High Capitalization, Broad-Based Index Option and Narrow-Based Index Option product groups may then be applied as permitted by Rule 15c3-1a under the Securities Exchange Act of 1934.

(4) After applying paragraph (3) above, the sum of the greatest loss from each portfolio is computed to arrive at the total margin required for the account (subject to the per contract minimum).

(5) In addition, if a security that is convertible, exchangeable, or exercisable into a security that is an underlying instrument requires the payment of money or would result in a loss if converted, exchanged, or exercised at the time when the security is deemed an underlying instrument, the full amount of the conversion loss is required.

(g) Minimum Equity Deficiency. If, as of the close of business, the equity in the portfolio margin account declines below the five million dollar minimum equity required under Paragraph (b) of this Rule 12.4 and is not restored to the required level within three (3) business days by a deposit of funds or securities, or through favorable market action; TPH organizations are prohibited from accepting new orders beginning on the fourth business day, except that new

orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. This prohibition shall remain in effect until such time as:

- (1) the required minimum account equity is re-established or
- (2) all unlisted derivatives are liquidated or transferred from the portfolio margin account to the appropriate account.

In computing net capital, a deduction in the amount of a customer's equity deficiency may not serve in lieu of complying with the above requirements.

(h) **Determination of Value for Margin Purposes.** For the purposes of this Rule 12.4, all eligible positions shall be valued at current market prices. Account equity for the purposes of this Rule 12.4 shall be calculated separately for each portfolio margin account by adding the current market value of all long positions, subtracting the current market value of all short positions, and adding the credit (or subtracting the debit) balance in the account.

(i) **Additional Margin.**

(1) If, as of the close of business, the equity in any portfolio margin account is less than the margin required, the customer may deposit additional margin or establish a hedge to meet the margin requirement within three business days. After the three business day period, TPH organizations are prohibited from accepting new orders, except that new orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. In the event a customer fails to deposit additional margin in an amount sufficient to eliminate any margin deficiency or hedge existing positions after three business days, the TPH organization must liquidate positions in an amount sufficient to, at a minimum, lower the total margin required to an amount less than or equal to account equity.

TPH organizations should not permit a customer to make a practice of meeting a portfolio margin deficiency by liquidation. TPH organizations must have procedures in place to identify accounts that periodically liquidate positions to eliminate margin deficiencies, and a TPH organization is expected to take appropriate action when warranted. Liquidations to eliminate margin deficiencies that are caused solely by adverse price movements may be disregarded.

Guarantees by any other account for purposes of margin requirements is not permitted.

(2) Pursuant to Rule 13.5 - Customer Portfolio Margin Accounts, if additional margin required is not obtained by the close of business on T+1, TPH organizations must deduct in computing net capital any amount of the additional margin that is still outstanding until such time as the additional margin is obtained or positions are liquidated pursuant to (i)(1) above.

(3) A deduction in computing net capital in the amount of a customer's margin deficiency may not serve in lieu of complying with the requirements of (i)(1) above.

(4) A TPH organization may request from its DEA an extension of time for a customer to deposit additional margin. Such request must be in writing and will be granted only in extraordinary circumstances.

(5) The day trading restrictions promulgated under Rule 12.3(j) shall not apply to portfolio margin accounts that establish and maintain at least five million dollars in equity, provided a TPH organization has the ability to monitor the intra-day risk associated with day trading. Portfolio margin accounts that do not establish and maintain at least five million dollars in equity will be subject to the day trading restrictions under Rule 12.3(j), provided the TPH organization has the ability to apply the applicable day trading restrictions under that Rule. However, if the position or positions day traded were part of a hedge strategy, the day trading restrictions will not apply. A "hedge strategy" for the purpose of this rule means a transaction or a series of transactions that reduces or offsets a material portion of the risk in a portfolio. TPH organizations are also expected to monitor these portfolio margin accounts to detect and prevent circumvention of the day trading requirements. In the event day trades executed in a portfolio margin account exceed the day trading buying power, the day trade margin deficiency that is created must be met by the deposit of cash and/or securities within three business days.

(j) Portfolio Margin Accounts - Requirement to Liquidate.

(1) A TPH organization is required immediately either to liquidate, or transfer to another broker- dealer eligible to carry related instruments within portfolio margin accounts, all customer portfolio margin accounts with positions in related instruments if the Trading Permit Holder is:

(i) insolvent as defined in section 101 of title 11 of the United States Code, or is unable to meet its obligations as they mature;

(ii) the subject of a proceeding pending in any court or before any agency of the United States or any State in which a receiver, trustee, or liquidator for such debtor has been appointed;

(iii) not in compliance with applicable requirements under the Securities Exchange Act of 1934 or rules of the Securities and Exchange Commission or any self-regulatory organization with respect to financial responsibility or hypothecation of customers' securities; or

(iv) unable to make such computations as may be necessary to establish compliance with such financial responsibility or hypothecation rules.

(2) Nothing in this paragraph (j) shall be construed as limiting or restricting in any way the exercise of any right of a registered clearing agency to liquidate or cause the liquidation of positions in accordance with its by-laws and rules.]

[Rule 12.5. Determination of Value for Margin Purposes

Positions in active securities, except security futures contracts, dealt in on a recognized exchange (including option contracts) shall, for margin purposes, be valued at current market value prices; provided that only the following may be deemed to have market value for the purposes of Rule 12.3(c): (a) whether or not dealt in on an exchange, only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds 9 months and which are listed or guaranteed by the carrying broker-dealer, or (b) a Credit Option as defined in Rule 29.1. Security futures contracts shall have no value for margin purposes. Positions in other securities shall be valued conservatively in the light of current market prices and the amount of anticipated realization upon a liquidation of the entire position. Substantial additional margin must be required in all cases where the securities carried are subject to unusually rapid or violent changes in value, or where the amount carried is such that they cannot be liquidated promptly.]

[Rule 12.6. Options Contracts Not Dealt In on Exchange]

[Rule 12.7. “When Issued” and “When Distributed” Securities

(a) The minimum amount of margin on any transaction or net position in each “when issued” security shall be the same as if such security were issued. Each position in a “when issued” security shall be margined separately and any unrealized profit shall be of value only in providing the amount of margin required on that particular position. When an account has a “short” position in a “when issued” security and there are held in the account securities in respect of which the “when issued” security may be issued, such “short” position shall be marked to the market and the balance in the account shall for the purpose of this rule be adjusted for any unrealized loss in such “short” position.

(b) In connection with any transaction or net position resulting from contracts for a “when issued” security in an account other than that of a TPH organization or non-Trading Permit Holder broker or dealer, bank, trust company, insurance company, investment trust, charitable or nonprofit education institution, deposits shall be required equal to the margin required were such transactions or position in a margin account.

In connection with any net position resulting from contracts for a “when issued” security made for or with a non-Trading Permit Holder broker or dealer, no margin need be required, but such net position must be marked to the market. In connection with any net position resulting from contracts for a “When issued” security made for a TPH organization or for or with a bank, trust company, insurance company, investment trust, charitable or nonprofit education institution, no margin need be required and such net position need not be marked to the market. However, where such net position is not marked to the market, an amount equal to the loss at the market in such position shall be considered as cash required to provide margin in the

computation of the net capital of the TPH organization under the Exchange's capital requirements.

(c) The term "when issued" as used herein also means "when distributed."]

[Rule 12.8. Guaranteed Accounts

Any account guaranteed by another account may be consolidated with such other account and the required margin may be determined on the net position of both accounts, provided the guarantee is in writing and permits the TPH organization carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by the TPH organization or an Approved Person of the TPH organization carrying the account or any other Trading Permit Holder, TPH organization or Approved Person of a TPH organization having a definite arrangement for participating in the commissions earned on the guaranteed account.]

[Rule 12.9. Meeting Margin Calls by Liquidation Prohibited

No TPH organization shall permit a customer to make a practice of effecting transactions requiring initial or additional margin or full cash payment and then furnishing such margin or making such full cash payment by liquidation of the same or other commitments. The provisions of this Rule shall not apply to margin calls attributable to security futures contract transactions nor to any account maintained for another broker or dealer, exclusive of the partners, officers and directors of such other broker or dealer, provided such other broker or dealer is a TPH organization or has agreed in good faith with the TPH organization carrying the account that he will maintain a record equivalent to that referred to in Rule 12.12 of these Rules.]

[Rule 12.10. Margin Required Is Minimum

The amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby; but nothing in these Rules shall be construed to prevent a TPH organization from requiring margin in an amount greater than that specified. The Exchange may at any time impose higher margin requirements in respect of such positions when it deems such higher margin requirements to be advisable.]

[Rule 12.11. Compliance with Margin Requirements of New York Stock Exchange

In lieu of meeting the margin requirements set forth in Rules 12.3 through 12.9 of this Chapter and margin rules in other chapters, a TPH organization that is a member of the New York Stock Exchange may elect to be bound by the initial and maintenance requirements of the New York Stock Exchange as the same may be in effect from time to time. Such election shall be made in writing by a notice filed with the Exchange and shall remain effective until the TPH organization shall file with the Exchange a written notice of revocation. Upon the filing of such election, a TPH organization shall be bound to comply with the margin rules of the New York Stock Exchange as though such rules were part of these Rules.]

## [Rule 12.12. Daily Margin Record

Each TPH organization carrying margin accounts for customers shall make and maintain a daily record of every case in which, pursuant to the Rules of the Exchange or regulations of the Federal Reserve Board, initial or additional margin must be obtained in a customer's account because of the transactions effected in such account. This record shall be preserved for at least 12 months and shall show for each account the amount of margin so required and the time and manner in which such margin is furnished or obtained. This record shall be in a form approved by the Exchange and shall contain such additional information as the Exchange may from time to time prescribe. The Exchange may exempt any TPH organization which is a member or member organization of another national securities exchange having a substantially comparable rule with which such TPH organization is required to comply.]

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## [Rule 21.25. Margin Requirements

(a) This rule sets forth the minimum amount of margin which must be deposited and maintained in margin accounts of customers having positions in Government securities options traded on a registered national securities exchange, or a registered securities association and issued by the Options Clearing Corporation. The initial deposit of margin required under this rule must be made within five full business days after the date on which a transaction giving rise to a margin requirement is effected. All long options must be paid in full within five full business days after the date on which the options are purchased. For purposes of this rule, the term "current market value" of an option shall mean the total cost or net proceeds of the option transaction on the day the option was purchased or sold and shall mean the closing price of that series of options on the Exchange on any other day with respect to which a determination of current market value is made.

(b) For each put or call contract on Treasury securities carried in a short position in the account, margin must be maintained equal to at least 100% of the current market value of the contract plus the percentage of the principal amount of the underlying Government security set forth below:

<b>Underlying Government Security</b>	<b>Applicable Percentage of Principal Amount</b>
U.S. Treasury Bills	
95 days or less to maturity	.35%
U.S. Treasury Notes	3%
U.S. Treasury Bonds	3.5%

In each case, the amount shall be decreased by any excess of the aggregate exercise price of the option over the current market value of the underlying Government security in the case of a call, or any excess of the current market value of the underlying Government security over the aggregate exercise price of the option in the case of a put; provided, however, that the minimum margin required on each Treasury Bill option contract shall not be less than .05% of the principal amount of the underlying Treasury Bill; and on each Treasury Note and Treasury Bond option contract shall not be less than .5% of the principal amount of the underlying Government security. As an exception to the foregoing, where both a put and a call option position for the same principal amount of the same underlying Government security are carried in a short position in an account, the amount of the margin required shall be the margin required on the put or call position, whichever amount is greater, increased by the amount of any unrealized loss on the other position. The requirements set forth in this paragraph are also subject to the exceptions set forth in Rule 12.3(b).

(c) Standard options. Short options offset by long options. This subparagraph 21.25(c) applies to an account carrying positions in long call options (or long put options) and short call options (or short put options) for the same Government security provided that the expiration date of the long calls (or long puts) is the same as or subsequent to the expiration date of the offsetting short calls (or short puts) and

(1) When the aggregate exercise price of the long call (short put) position is less than or equal to the aggregate exercise price of the offsetting short call (long put) position, no margin is required.

(2) When the aggregate exercise price of the long call (short put) position is greater than the aggregate exercise price of the short call (long put) position, margin is required equal to the difference in aggregate exercise price(s) on a principal for principal basis.

(3) Covered calls. No margin is required in respect of a call option contract carried in a short position which is covered by a long position in underlying Government securities within the meaning of Rule 21.1(1). Treasury bills having a term to maturity of less than one week on the next applicable exercise settlement date do not qualify as cover under this rule.

(4) Short options offset by long options. This subparagraph (c)(4) applies to accounts carrying positions in long call options (or long put options) which are offset by positions in short call options (or short put options) for the same principal amount of Government securities, provided that the expiration date of the long calls (or long puts) is the same as or subsequent to the expiration date of the offsetting short calls (or short puts).

(A) When the nominal exercise price of the long call options (or short put options) is less than or equal to the nominal exercise price of the offsetting short call options (or long put options), no margin is required.

(B) When the nominal exercise price of the long call options (or short put options) is greater than the nominal exercise price of the offsetting short call options (or long put options), margin is required equal to the difference in nominal exercise prices multiplied by the principal amount of the underlying Government securities covered by the options. The amount of margin required by this subparagraph (c)(4)(B) may be adjusted by the Exchange to reflect market conditions or other factors.

(5) Short put and short call. This subparagraph (c)(5) applies to accounts carrying positions in short put options which are offset by positions in short call options for the same principal amount of Government securities. The margin required for such a position shall be the margin required for the short put option contract or the margin required for the short call option contract, whichever is greater, plus the current market value of the other contract.

(d) Recognized Government securities dealers who report to the Market Statistics Division of the Federal Reserve Bank of New York may extend credit to any customer with respect to positions in Government securities on a mutually agreed upon basis; provided, however, that if the amount of margin agreed upon is less than the proprietary haircut deductions required for such positions under SEC Rule 15c3-1, subparagraph (c)(2)(vi)(A), then a deduction in computing the dealer's net capital must be made to the extent that the equity in the customer's account is less than the amount of such proprietary haircut deductions.

(e) No margin is required in respect of Government security options carried in a short position where the customer has delivered, within five full business days after the options are written, to the TPH organization with which such position is maintained a custodial or Treasury security escrow receipt or letter of guarantee, in a form satisfactory to the Exchange, issued by a bank pursuant to specific authorization from the customer which certifies that:

(1) in the case of a custodial or Treasury security escrow receipt (covering calls), the bank maintains an Exchange approved position in a Government security, as specified in Exchange interpretation .02 below, for the account of the customer, and the bank certifies that the bank will deliver the underlying Government securities at the order of the TPH organization against payment of the exercise price of the calls in accordance with the terms of the custodial receipt; or

(2) in the case of a letter of guarantee (covering puts), the bank holds cash for the account of the customer which the bank will pay to the TPH organization against delivery of the underlying Government securities in accordance with the terms of the letter of guarantee.

Rule 21.25 supplements Chapter 12.

... *Interpretations and Policies:*



.01 For purposes of Rule 21.25(f), the term “bank” shall mean a bank or trust company supervised and examined by a State or Federal bank regulatory authority.

.02 Exchange approved Treasury bonds (notes) other than the underlying Treasury bond (note) may collateralize a Treasury security escrow receipt (covering calls), provided that the bonds have at least fifteen (15) years (notes have in excess of one (1) year and no more than five (5) years, three (3) months) until the callable or maturity date, and that bonds (notes) of a single coupon/maturity are held in escrow against one specific option contract. The amount of surrogate Treasury bonds (notes) needed to collateralize a Treasury security escrow receipt is determined by multiplying \$100,000 per contract by the Exchange approved conversion factor, which is the percentage of the face value of the surrogate bond (note) that must be deposited for the principal value of the deliverable bond (note) underlying the option contract.

New issues of U.S. Treasury securities which satisfy this regulation shall be added as they are issued. The Exchange shall have the right to include any new issue meeting the requirements specified above or to further limit any outstanding issue from collateralizing a Treasury security escrow receipt.]

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## EXHIBIT 5B

(additions are underlined; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

(Effective October 7, 2019)

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**CHAPTER 10. MARGIN REQUIREMENTS****Rule 10.1. General Rule**

No TPH organization may effect a transaction or carry an account for a customer, whether a Trading Permit Holder or non-Trading Permit Holder, without proper and adequate margin in accordance with this Chapter 10, all other applicable rules of the Exchange, and Regulation T of the Federal Reserve Board.

**Rule 10.2. Time Margin Must Be Obtained**

(a) *Securities Other Than Security Futures Contracts.* The amount of initial margin, or payment in respect of cash account transactions, required by this Rule shall be obtained as promptly as possible and in any event within one payment period as defined in Section 220.2 of Regulation T of the Board of Governors of the Federal Reserve System. The amount of maintenance margin required by this Rule shall be obtained as promptly as possible and in any event within 15 business days.

**Rule 10.3. Margin Requirements**

(a) *Definitions.* For purposes of this Rule, the following terms shall have the meanings specified below.

(1) The term “bank” means a U.S. bank or trust company (but not a bank holding company) supervised and examined by state or federal authority.

(2) The term “current market value” is as defined in Section 220.3 of Regulation T of the Board of Governors of the Federal Reserve System. At any other time, in the case of options, stock index warrants, currency index warrants and currency warrants, it shall mean the closing price of that series of options or warrants on the Exchange on any day with respect to which a determination of current market value is made. In the case of other securities, it shall mean the preceding business day’s closing price as shown by any regularly published reporting or quotation service. If there is no closing price on the option or on another security, a TPH organization may use a reasonable estimate of the current market value of the security as of the close of business on the preceding business day.

(3) The term “escrow agreement”, when used in connection with non cash settled call or put options carried short, means any agreement issued in a form acceptable to the Exchange under which a bank holding the underlying security (in the case of a call option) or required cash, cash equivalents or a combination thereof (in the case of a put option), is obligated to deliver to the creditor (in the case of a call option) or accept from the creditor (in the case of a put option) the underlying security against payment of the exercise price in the event the call or put is assigned an exercise notice.

The term “escrow agreement”, when used in connection with cash settled call or put options, stock index warrants, currency index warrants or currency warrants carried short, means any agreement issued in a form acceptable to the Exchange under which a bank holding cash, cash equivalents, one or more qualified equity securities or a combination thereof in the case of a call option or warrant; or cash, cash equivalents or a combination thereof in the case of a put option or warrant; is obligated (in the case of an option) to pay the creditor the exercise settlement amount in the event an option is assigned an exercise notice or (in the case of a warrant) the funds sufficient to purchase a warrant sold short in the event of a buy-in.

(4) The term “exempted security” or “exempted securities” has the same meaning as in Section 3(a)(12) of the Securities Exchange Act of 1934.

(5) For the purpose of this rule, the term “spread” means an equivalent long and short position in different call option series, different put option series, or combinations thereof, that collectively have a limited risk / reward profile, and meet the following conditions (A) all options must have the same underlying security or instrument, (B) all options must be either all American style or all European style, (C) all options must be either all listed or all OTC, (D) within option type(s), the long and short options must have equal aggregate underlying contract values and (E) the short option(s) must expire on or before the expiration date of the long option(s).

(6) The term “box spread” means an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same underlying component or index and time of expiration, and are based on the same aggregate current underlying value, and are structured as either: (A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or (B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price.

(7) The term “underlying stock basket” means a group of securities which includes each of the component securities of the applicable index and which meets the following conditions (A) the quantity of each stock in the basket is proportional to its representation in the index, (B) the total market value of the basket is equal to the underlying index value of the index options or warrants to be covered, (C) the securities in the basket cannot be used to cover more than the number of index options or warrants represented by that value and (D) the securities in the basket shall be unavailable to support any other option or warrant transaction in the account.

(8) The term “cash equivalent” is as defined in Section 220.2 of Regulation T of the Board of Governors of the Federal Reserve System.

(9) The term “listed” for purposes of this Chapter 10 means a security traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(10) The term “OTC margin bond” for purposes of this Chapter 10 means (A) any debt securities not traded on a national securities exchange that meet all of the following requirements (i) at the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding; (ii) the issue was registered under Section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to the Act or is an insurance company under Section 12(g)(2)(G) of the Act; or (iii) at the time of the extension of credit the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; or (B) any private pass-through securities (not guaranteed by a U.S. government agency) that meet all of the following requirements: (i) an aggregate principal amount of not less than \$25,000,000 was issued pursuant to a registration statement filed with the Commission; and (ii) current reports relating to the issue have been filed with the Commission; and (iii) at the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

(11) The term “Investment Grade” in respect of any Corporate Debt Security, as that term is defined in Rule 4.30, means, if rated by only one nationally recognized statistical rating organization (“NRSRO”), is rated in one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated in one of the four highest generic rating categories by all or a majority of such NRSROs; provided that if the NRSROs assign ratings that are evenly divided between (A) the four highest generic ratings and (B) ratings lower than the four highest generic ratings, the Exchange will classify the Corporate Debt Security as Non-Investment Grade.

(12) The term “Non-Investment Grade” in respect of any Corporate Debt Security, as that term is defined in Rule 4.30, means, if rated by only one NRSRO (as defined in Rule 10.3(a)(15)), is rated lower than one of the four highest generic rating categories; or if rated by more than one NRSRO, is rated lower than one of the four highest generic rating categories by all or a majority of such NRSROs.

(13) The term “Convertible” in respect of any Corporate Debt Security, as that term is defined in Rule 4.30, means, notwithstanding the classification of a Corporate Debt Security as Investment Grade or Non-Investment Grade, means

any Corporate Debt Security that may be exchanged for shares of the issuer's common or preferred stock.

(14) The term "OTC option" as used with reference to a call or put option contract in this Chapter 10 means an over-the-counter option contract that is issued and guaranteed by the carrying broker-dealer and not traded on a national securities exchange or issued and guaranteed by the Clearing Corporation.

(b) Customer Margin Accounts—General Rule. Subject to the exceptions set forth in parts (c) and (k) hereof, the minimum amount of margin which must be maintained in margin accounts of customers having positions in securities shall be as follows:

(1) Long Positions. 25% of the current market value of all "long" in the account; plus

(2) Short Positions.

(A) \$2.50 per share or 100% of the current market value, whichever amount is greater, of each security "short" in the account which has a current market value of less than \$5.00 per share; plus

(B) \$5.00 per share or 30% of the current market value, whichever amount is greater, of each security "short" in the account which has a current market value of \$5 per share or more.

(C) Short Bonds. 5% of the principal amount or 30% of the current market value, whichever amount is greater, of each bond "short" in the account.

(c) Customer Margin Account—Exception. The foregoing requirements are subject to the following exceptions. Nothing in this paragraph (c) shall prevent a broker-dealer from requiring margin from any account in excess of the amounts specified in these provisions.

(1) Exempted Securities.

(A) Obligations of the United States. On net "long" or net "short" positions in obligations (including zero coupon bonds, i.e., bonds with coupons detached or non-interest bearing bonds) issued or guaranteed as to principal or interest by the United States Government or issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury, the margin to be maintained shall be the percentage of the current market value of such obligations as specified in the applicable category below:

<u>(i)</u>	<u>Less than one year to maturity</u>	<u>1%</u>
<u>(ii)</u>	<u>One year but less than three years to maturity</u>	<u>2%</u>
<u>(iii)</u>	<u>Three years but less than five years to maturity</u>	<u>3%</u>

(iv) _____	<u>Five years but less than ten years to maturity</u>	<u>4%</u>
(v) _____	<u>Ten years but less than twenty years to maturity</u>	<u>5%</u>
(vi) _____	<u>Twenty years or more to maturity</u>	<u>6%</u>

Notwithstanding the above, on zero coupon bonds with five years or more to maturity the margin to be maintained shall not be less than 3% of the principal amount of the obligation.

When such obligations other than United States Treasury bills are due to mature in thirty calendar days or less, a TPH organization, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation to reduce the margin required on the new obligation, provided the customer has given the TPH organization irrevocable instructions to redeem the maturing obligations.

(B) All Other Exempted Securities. On any long position in an exempted security other than an obligation of the United States, the margin to be maintained shall be 15% of the current market value or 7% of the principal amount of such exempt security, whichever amount is greater.

(2) Non-Convertible Debt Securities. On any long position in a non-convertible debt security that is listed or that qualifies as an “OTC margin bond”, the margin to be maintained shall be 20% of the current market value or 7% of the principal amount, whichever amount is greater.

(3) Security Offset. Listed and OTC.

(A) When a security (with the exception of options) carried in a long position is exchangeable or convertible within ninety days, without restriction other than the payment of money, into a security carried in a short position for the same customer, the minimum margin required on such positions shall be 10% of the current market value of the “long” securities. In determining such margin requirement short positions shall be marked to the market or to the amount of money payable upon such exchange or conversion, whichever is the greater.

(B) When an account has offsetting long and short positions in the same security, the minimum margin shall be 5% of the current market value of the “long” securities. In determining such margin requirements “short” positions shall be marked to the market.

(4) Initial and Maintenance Margin Requirements on Long Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants. Options and warrants carried “long” in a customer’s account shall be margined as follows:

(A) Listed or OTC Options Expiring in 9 Months or Less. In the case of any put or call option, stock index warrant, currency index warrant or currency warrant which expires in 9 months or less, initial margin must be deposited and maintained equal to at least 100% of the current market value of the option or warrant.

(B) Listed Options and Warrants With An Expiration Exceeding 9 Months. In the case of a listed put or call option on a stock or stock index, and a stock index warrant, expiring in more than 9 months, margin must be deposited and maintained equal to at least 75% of the current market value of the option or warrant.

(C) OTC Options and Warrants With An Expiration Exceeding 9 Months. In the case of an OTC put or call option on a stock or stock index, and a stock index warrant, expiring in more than 9 months, margin must be deposited and maintained equal to at least 75% of the option or warrant's in-the-money amount plus 100% of the amount, if any, by which the current market value of the option or warrant exceeds its in-the-money amount provided also that the option or warrant:

(i) is guaranteed by the carrying broker-dealer,

(iii) has an American style exercise provision and

(5) Initial and Maintenance Margin Requirements on Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.

(A) Listed. General Rule. The initial and maintenance margin required on any listed put, call, stock index warrant, currency index warrant or currency warrant carried "short" in a customer's account shall be 100% of the current market value of the option or warrant plus the percentage of the current "underlying component value" (as described in column IV of the table below) specified in column II of the table below reduced by any "out-of-the-money" amount as defined in this subparagraph (c)(5)(A) below.

Notwithstanding the margin required above, the minimum margin for each such call option or call warrant shall not be less than 100% of the current market value of the option or warrant plus the percentage of the current market value of the underlying component specified in column III of the table below, and for each such put option or put warrant, shall not be less than 100% of the current market value of the option or warrant plus the percentage of the option or warrant's aggregate exercise price amount specified in column III of the table below.

<u>I. Type of Option</u>	<u>II. Initial and/or Maintenance Margin Required</u>	<u>III. Minimum Margin Required</u>	<u>IV. Underlying Component Value</u>

1. Stock _____ _____	<u>20%</u>	<u>10%</u>	The <u>equivalent number of shares at current market prices.</u>
2. <u>Narrow based index as defined in Rule 4.11 and Micro Narrow-Based Index as defined in Rule 4.10(d)</u>	<u>20%</u>	<u>10%</u>	The <u>product of the current index group value and the applicable index multiplier.</u>
3. <u>Broad-based index (including Capped-style options (CAPS &amp; QCAPS) Packaged Vertical Spreads and Packaged Butterfly Spreads) as defined in Rule 4.11</u>	<u>15% <sup>1</sup></u>	<u>10% <sup>2</sup></u>	The <u>product of the current index group value and the applicable index multiplier.</u>
4. <u>Corporate Debt Security, as defined in Rule 4.30</u>	<u>Investment Grade: 10%</u>  <u>Non-Investment Grade: 15%</u>  <u>Convertible: 20%</u>	<u>Investment Grade: 5%</u>  <u>Non-Investment Grade: 10%</u>  <u>Convertible: 10%</u>	The <u>aggregate contract value (current market value x 1000).</u>
5. <u>Interest Rate Contracts</u>	<u>10%</u>	<u>5%</u>	The <u>product of the index value and the applicable index multiplier.</u>
6. <u>U.S. Treasury bills - 95 days or less to maturity</u>	<u>.35%</u>	<u>1/2%</u>	The <u>underlying principal amount.</u>
7. <u>U.S. Treasury notes</u>	<u>3%</u>	<u>1/2%</u>	The <u>underlying principal amount.</u>



<u>8. U.S. Treasury bonds</u>	<u>3.5%</u>	<u>1/2%</u>	<u>The underlying principal amount.</u>
<u>9. Foreign Currency Options Warrants</u>			<u>The product of units per foreign currency contract and the closing spot price.</u> <sup>3</sup>
<u>Australian Dollar</u>	<u>4%</u>	<u>3/4%</u>	
<u>British Pound</u>	<u>4%</u>	<u>3/4%</u>	
<u>Canadian Dollar</u>	<u>4%</u>	<u>3/4%</u>	
<u>German Mark</u>	<u>4%</u>	<u>3/4%</u>	
<u>European Currency Unit</u>	<u>4%</u>	<u>3/4%</u>	
<u>French Franc</u>	<u>4%</u>	<u>3/4%</u>	
<u>Japanese Yen</u>	<u>4%</u>	<u>3/4%</u>	
<u>Swiss Franc</u>	<u>4%</u>	<u>3/4%</u>	
<u>10. Currency Index Warrants</u>	<u>3%</u>	<u>A percentage of the aggregate exercise price as specified by the Exchange and approved by the SEC</u>	<u>The product of the index value and the applicable index multiplier.</u>
<u>11. Stock Index Warrants (broad-based)</u>	<u>15%</u>	<u>10%</u>	<u>The product of the index value and the applicable index multiplier.</u>
<u>12. Stock Index Warrants (narrow-based)</u>	<u>20%</u>	<u>10%</u>	<u>The product of the index value and the applicable index multiplier.</u>
<u>13. Registered investment companies based on a broad-based index or portfolio of</u>	<u>15%</u>	<u>10%</u>	<u>The equivalent number of shares at current market prices.</u>

<u>securities.</u>			
<u>14. Registered investment companies based on a narrow-based index or portfolio of securities.</u>	<u>20%</u>	<u>10%</u>	<u>The equivalent number of shares at current market prices.</u>
<u>15. Volatility Indexes</u>			<u>The product of the current (spot or cash) index value and the applicable index multiplier</u>
<u>Cboe Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>Cboe Russell 2000 Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>Cboe Gold ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>Cboe Crude Oil ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>Cboe Emerging Markets ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>Cboe Brazil ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>Cboe Short-Term Volatility Index</u>	<u>40%</u>	<u>20%</u>	
<u>Other Volatility Indexes identified in Rules 4.13(a)(3) and 4.13(a)(4)</u>	<u>20%</u>	<u>10%</u>	
<u>16. Single Stock Dividend Options</u>	<u>20%</u>	<u>10%</u>	<u>The product of the forward expected dividend amount for the accrual period</u>

			(as adjusted for any contract scaling factor) and the applicable multiplier.
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<sup>1</sup> In any event, the maximum margin required on a capped style index option (CAPS and Q-CAPS), Packaged Vertical Spread and Packaged Butterfly Spread as defined in Rule 4.11 need not exceed the aggregate cap interval, vertical spread interval and butterfly spread interval, respectively. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 4.11.

<sup>2</sup> In respect of a capped-style index option, Packaged Vertical Spread and Packaged Butterfly Spread as defined in Rule 4.11 which is out-of-the-money, the minimum margin required is as follows: CALLS - the lesser of a) 100% of the current market value of the option plus 10% of the underlying index value or b) the aggregate cap, vertical spread or butterfly spread interval, respectively, PUTS - the lesser of a) 100% of the current market value of the option plus 10% of the aggregate put exercise price or b) the aggregate cap, vertical spread or butterfly spread interval, respectively. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 4.11.

<sup>3</sup> The term “spot price” in respect of a currency warrant on a particular business day means the noon buying rate in U.S. dollars on such day in New York City for cable transfers of the particular underlying currency as certified for customs purposes by the Federal Reserve Bank of New York.

For purposes of this subparagraph (c)(5)(A), “out-of-the-money” amounts are determined as follows:

<u><i>Option or Warrant Issue</i></u>	<u><i>Call</i></u>	<u><i>Put</i></u>
<u>Stock Options, Registered Investment Company Options</u>	<u>Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.</u>	<u>Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.</u>
<u>U.S. Treasury Options</u>	<u>Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.</u>	<u>Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.</u>
<u>Corporate Debt Security</u>	<u>Any excess of the aggregate</u>	<u>Any excess of the current</u>

<u>Options</u>	<u>exercise price of the option over the current market value of the equivalent quantity of the underlying security.</u>	<u>market value of the equivalent quantity of the underlying security over the aggregate exercise price of the option.</u>
<u>Index stock options, Volatility Indexes options, currency index warrants and stock index warrants</u>	<u>Any excess of the aggregate exercise price of the option or warrant over the product of the current (spot or cash) index value and the applicable multiplier.</u>	<u>Any excess of the product of the current (spot or cash) index value and the applicable multiplier over the aggregate exercise price of the option or warrant.</u>
<u>Foreign currency options and warrants</u>	<u>Any excess of the aggregate exercise price of the option or warrant over the product of units per foreign currency contract and the closing spot prices.</u>	<u>Any excess of the product of units per foreign currency contract and the closing spot prices over the aggregate price of the option or warrant.</u>
<u>Interest rate options</u>	<u>Any excess of the aggregate exercise price of the option over the product of the current interest rate measure value and the applicable multiplier.</u>	<u>Any excess of the product of the current interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.</u>

(B) OTC Options. General Rule. The initial and maintenance margin required on any put, call, stock index warrant, currency index warrant, or currency warrant that is not listed and carried “short” in a customer’s account shall be any in-the-money amount plus the percentage of the current “underlying component value” (as described in column IV of the table below) specified in column II of the table below reduced by any “out-of-the- money” amount (as defined in subparagraph (c)(5)(A) above).

Notwithstanding the margin required above, the minimum margin for each such call option or call warrant shall not be less than the percentage of the current value of the underlying component specified in column III of the table below, and for each such put option or put warrant, shall not be less than the percentage of the option’s or the warrant’s aggregate exercise price amount specified in column III of the table below.

<u><b>I. Type of Option</b></u>	<u><b>II. Initial and/or Maintenance Margin</b></u>	<u><b>III. Minimum Margin Required</b></u>	<u><b>IV. Underlying Aggregate Value</b></u>
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	<b><u>Required</u></b>		
1. <u>Stock and Convertible Corporate Debt.</u> _____ _____	<u>30%</u>	<u>10%</u>	<u>The equivalent number of shares times current market price per share for stocks or the underlying principal amount for convertible corporate debt securities.</u>
2. <u>Narrow-based index and Micro Narrow-Based index as defined in Rule 4.10(d)</u>	<u>30%</u>	<u>10%</u>	<u>The product of the current index value and the applicable index multiplier.</u>
3. <u>Broad-based index</u> _____	<u>20%</u>	<u>10%</u>	<u>The product of the current index value and the applicable index multiplier.</u>
4. <u>U.S. Government or U.S. Government Agency debt securities other than those exempted by Rule 3a 12-7 under the Securities Exchange Act of 1934</u> <sup>1</sup>	<u>5%</u>	<u>3%</u>	<u>The underlying principal amount.</u>
5. <u>Corporate debt securities registered on a national securities exchange and marginable OTC corporate debt securities as defined in paragraph 10.3(a)</u> <sup>2</sup>	<u>15%</u>	<u>5%</u>	<u>The underlying principal amount.</u>
6. <u>All other OTC options not covered above</u> _____	<u>45%</u>	<u>20%</u>	<u>The current value of the underlying principal amount.</u>

1 Option contracts under category (4) must be for a principal amount of not less than \$500,000. If the principal amount is less than \$500,000, category (6) will apply.

2 Option transactions on all other OTC margin bonds as defined in paragraph 10.3(a) are not eligible for the margin requirements contained in this provision. Margin requirements for such securities are to be computed pursuant to category (6).

For the purpose of this subparagraph (c)(5)(B), “in-the-money amounts” are determined as follows:

<u><b>Option Issue</b></u>	<u><b>Call</b></u>	<u><b>Put</b></u>
<u>Stock Options</u>	<u>Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.</u>	<u>Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.</u>
<u>Index options</u>	<u>Any excess of the product of the current index value and the applicable multiplier over the aggregate exercise price of the option.</u>	<u>Any excess of the aggregate exercise price of the option over the product of the current index value and the applicable multiplier.</u>
<u>U.S. Government mortgaged related or corporate debt securities options</u>	<u>Any excess of the current value of the underlying principal amount over the aggregate exercise price of the option.</u>	<u>Any excess of the aggregate exercise price of the option over the current value of the underlying principal amount.</u>

(C) Related Securities Positions—Listed or OTC Options. Unless otherwise specified, margin must be deposited and maintained in the following amounts for each of the following types of positions.

(i) Short Call Covered by a Convertible Security. No margin is required for a call option written on an equity security when the account holds a net “long” position in any security, other than a warrant, which can be immediately exchanged or converted without restriction (including the payment of money) into an equal or greater quantity of the security underlying the option provided (a) such net long position is adequately margined in accordance with this Rule and (b) the right to exchange or convert the net “long” position does not expire before the short call.

(ii) Short Listed Call Covered by a Warrant. No margin is required for a call option written on an equity security when the account holds a net “long” position in a warrant which can be immediately exercised without restriction to purchase an equal or greater quantity of the security underlying the option provided that the warrant does not expire before the short call, and provided that the amount (if any) by which the exercise price of the warrant exceeds the exercise price of the short call is held in or deposited to the account. A warrant used in lieu of the required margin under this provision shall contribute no equity to the account.

(iii) Covered Calls/Covered Puts.

(a) No margin is required for a call (put) option contract or warrant carried in a short position where there is carried in the same account a long (short) position in equivalent units of the underlying security.

(b) No margin is required for a call (put) index option contract or warrant carried in a short position where there is carried in the same account a long (short) position in an (1) underlying stock basket, (2) index mutual fund, (3) IPR, or (4) IPS, that is based on the same index underlying the index option or warrant and having a market value at least equal to the aggregate current index value.

(c) In order for the exceptions in subparagraphs (a) and (b) above to apply, in computing margin on positions in the underlying security, underlying stock basket, index mutual fund, IPR or IPS, as applicable, (1) in the case of a call, the current market value to be used shall not be greater than the exercise price, and (2) in the case of a put, margin shall be the amount required by subparagraph (b)(2) of this Rule, plus the amount, if any, by which the exercise price exceeds the current market value.

(iv) Exceptions. The following paragraphs set forth the minimum amount of margin which must be maintained in margin accounts of customers having positions in components underlying options, stock index warrants, currency index warrants or currency warrant when such components are held in conjunction with certain positions in the overlying option or warrant. In respect of an option or warrant on a market index, an underlying stock basket is an eligible underlying component. The option or warrant must be listed or guaranteed by the carrying broker dealer. In the case of a call option or warrant carried in a short position, a related long position in the underlying component shall be valued at no more than the call option / warrant exercise price for margin equity purposes.

(a) Long Option Offset. When a component underlying an option or warrant is carried long (short) in an account in which there is

also carried a long put (call) option or warrant specifying equivalent units of the underlying component, the minimum amount of margin which must be maintained on the underlying component is 10% of the option / warrant exercise price plus the out-of-the-money amount not to exceed the minimum maintenance required pursuant to paragraph (b) of this Rule.

(b) *Conversion.* When a call option or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and there is also carried a long put option or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the short call option or warrant, the minimum amount of margin which must be maintained for the underlying component shall be 10% of the exercise price.

(c) *Reverse Conversion.* When a put option or warrant carried in a short position is covered by a short position in equivalent units of the underlying component and there is also carried a long call option or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the short put option or warrant, the minimum amount of margin which must be maintained for the underlying component shall be 10% of the exercise price plus the amount by which the exercise price of the put exceeds the current market value of the underlying, if any.

(d) *Collar.* When a call option or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and there is also carried a long put option or warrant specifying equivalent units of the same underlying component and having a lower exercise price than, and same expiration date as, the short call option / warrant, the minimum amount of margin which must be maintained for the underlying component shall be the lesser of 10% of the exercise price of the put plus the put out-of-the-money amount or 25% of the call exercise price.

(v) *Spreads.*

(a) For spreads as defined in subparagraph (a)(5) of this Rule, the long options must be paid for in full. In addition, margin is required equal to the lesser of the amount required for the short option(s) by subparagraph (c)(5)(A) or (B), whichever is applicable, or the spread's maximum potential loss, if any. To determine the spread's maximum potential loss, first compute the intrinsic value of the options at price points for the underlying security or instrument that are set to correspond to every exercise



price present in the spread. Then, net the intrinsic values at each price point. The maximum potential loss is the greatest loss, if any, from among the results. The proceeds for establishing the short options may be applied toward the cost of the long options and/or any margin requirement.

A spread involving a put (call) warrant combined with a put(call) option is permitted provided the spread conforms with the definition of a spread in subparagraph (a)(5) of this rule.

(b) Subparagraph (c)(5)(C)(v)(a) above is not applicable to spreads involving Credit Options, Binary Options or Range Options. However, in respect of spreads involving Range Options, subparagraph (c)(5)(C)(v)(a) above may be applied to pseudo positions in individual option series represented by each Range Option to derive a margin requirement provided that all Range Options expire at the same time, which margin requirement is subject to a maximum of the amount required by paragraph (n) of this Rule 10.3 for all Range Options.

(c) Capped-Style Index Option (CAPS & Q-CAPS), Packaged Vertical Spread and Packaged Butterfly Spread As Defined In Rule 4.11.

(1) The requirements set forth in subparagraph (c)(5)(C)(v)(a) above apply to spreads composed of either CAPS, Q-CAPS, Packaged Vertical Spread or Packaged Butterfly Spread options provided the long and short option each have the same cap, vertical spread or butterfly spread interval (as applicable); except that the amount of margin required for a spread in CAPS, Q-CAPS or Packaged Vertical Spread options need not exceed the lesser of (A) any maximum potential loss as computed in accordance with subparagraph (c)(5)(C)(v)(a) above or (B) the cap, vertical spread or butterfly spread interval (as applicable). Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 4.11.

(2) In respect of a short CAPS, Q-CAPS or Packaged Vertical Spread option offset by a long option that is not also a CAPS, Q-CAPS or Packaged Vertical Spread option, the amount of margin required is as set forth in subparagraph (c)(5)(C)(v)(a) above; except that the amount of margin required need not exceed the lesser of (A) any maximum potential loss as computed in accordance with subparagraph (c)(5)(C)(v)(a) above or (B) the cap, vertical spread or butterfly spread interval (as applicable).

(3) In respect of a long CAPS, Q-CAPS or Packaged Vertical Spread option which offsets a short option that is not also a CAPS, Q-CAPS or Packaged Vertical Spread option, each position must be margined separately in accordance with the applicable requirements of this Rule 10.3.

(4) In respect of any Packaged Butterfly Spread Option offset by, or which offsets, any option position that is not also a Packaged Butterfly Spread option, each position must be margined separately in accordance with the applicable requirements of this Rule 10.3.

(vi) Straddle/Combination.

(a) Listed Options. When a call option contract is carried in a short position, and there is carried for the same customer a short put option contract specifying the same underlying component or index and its aggregate current underlying value, the amount of margin required shall be the margin on the put or the call, whichever is greater, as required pursuant to subparagraph (c)(5)(A) above plus the current market value of the other option.

(b) OTC Options. When a call option contract is carried in a short position and there is carried for the same customer a short put option contract specifying the same underlying component or index and its aggregate value, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to subparagraph (c)(5)(B) above, plus any unrealized loss (i.e., the “in-the-money amount”) on the other option provided that both the put and call are guaranteed by the carrying broker-dealer. In the event either the put or call is not guaranteed by the carrying broker-dealer, but is listed, the same requirement applies. If either or both the put or call are not guaranteed by the carrying broker dealer or listed, then the put and call must be margined separately pursuant to subparagraph (c)(5)(A) or (B) above, whichever is applicable, except that the minimum margin shall not apply to the option with the lower requirement.

(c) Straddles and combinations involving stock index warrants, currency index warrants and currency warrants are subject to the same requirement set forth in subparagraphs (c)(5)(C)(vi)(a) or (b) above, whichever is applicable. Options may be paired with warrants provided they have the same underlying component or index and equivalent aggregate current underlying value.

(vii) Long Box Spread in European-Style Options. In respect of a long box spread as defined in subparagraph (a)(10) of this Rule, in which all component options have a European- style exercise provision and are listed or guaranteed by the carrying broker-dealer; margin must be deposited equal to at least 50% of the aggregate difference in the exercise prices. The net proceeds from the sale of short option components may be applied to the requirement. For margin purposes, the long box spread may be valued at an amount not to exceed 100% of the aggregate difference in the exercise prices.

(viii) Vested Employee Options. No margin is required for a call option written on an equity security when an account holder possesses a “long” position in a vested employee stock option which can be immediately exercised without restriction (not including the payment of money) to purchase an equal or greater quantity of the security underlying the short call provided that:

(a) The vested employee stock option does not expire before the short call;

(b) The amount (if any) by which the exercise price of the vested employee stock option exceeds the exercise price of the short call is held in or deposited to the account; and

(c) The account holder, broker-dealer and issuer of the vested employee stock option complete such account documentation and comply with such terms and conditions proscribed by the Exchange in such form, format and procedures as may be established by the Exchange from time to time, including without limitation execution of an agreement by account holder, broker-dealer and issuer that requires:

(1) Account holder to pledge the vested employee stock options to broker-dealer (including any agreement that in the event account holder exercises any of the pledged vested employee stock options during the term of a transaction, the account holder will be required to pledge to broker-dealer the shares issued upon exercise to replace the vested employee stock options that were pledged before exercise);

(2) Account holder to provide broker-dealer with an irrevocable power-of-attorney authorizing broker-dealer to exercise the vested employee stock options on the account holder’s behalf;

(3) Issuer to promptly deliver the stock upon payment or receipt of the exercise notice from broker-dealer; and

(4) Issuer to waive any transfer restrictions that would preclude a pledge of the vested employee stock options to broker-dealer. In addition, the issuer will represent that the vested employee options are covered by an effective registration statement on Form S-8. If the registration statement becomes ineffective the issuer will notify the broker- dealer immediately.

(d) Customer Cash Account—Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.

(1) Equity Options.

(A) Calls. A call option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is applicable:

(i) an equal or greater quantity of the underlying security specified by the option contract is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the underlying security is received,

(ii) a security immediately convertible without the payment of money into an equal or greater quantity of the underlying security specified by the option contract, is held in, or purchased for the account on the same day the call is written, provided that:

(a) the option premium is held in the account until full cash payment for the convertible security is received, and

(b) the ability to convert does not expire before the expiration of the short call, or

(iii) in lieu of the underlying security, an escrow agreement is either held in the account at the time the call is written or is received in the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement, the underlying security (or a security immediately convertible into the underlying security without the payment of money) and that the bank will promptly deliver to the TPH organization the underlying security in the event the account is assigned an exercise notice.

(B) Puts. A put option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is either held in the account at the time the put is written or is received into the account promptly thereafter:

(i) cash or cash equivalents in an amount not less than the aggregate exercise price, or

(ii) an escrow agreement.

The escrow agreement must certify that (a) the bank holds for the account of the customer as security for the agreement cash, cash equivalents or a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and (b) that the bank will promptly pay the TPH organization the aggregate exercise price in the event the account is assigned an exercise notice.

(2) Index Options.

(A) Calls. A call option contract on a market index carried in a short position is deemed a covered position, and eligible for the cash account provided any one of the following offsets is applicable:

(i) an underlying stock basket as defined in Rule 10.1 is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the stock basket is received, or

(ii) an escrow agreement is either held in the account at the time the call is written or received into the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (a) cash, (b) cash equivalents, (c) one or more qualified equity securities, or (d) a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate current index value and that the bank will promptly pay the TPH organization the exercise settlement amount in the event the account is assigned an exercise notice.

(B) Puts. A put option contract on a market index carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following is either held in the account at the time the put is written or received into the account promptly thereafter:

(i) cash or cash equivalents in an amount not less than the aggregate exercise price or

(ii) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (a) cash, (b) cash equivalents or (c) a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and that the bank will promptly pay the TPH organization the exercise settlement amount in the event the account is assigned an exercise notice.

(C) No margin is required in respect of a call option contract on a Standard and Poor's 500 (S&P 500) market index carried in a short position where there is carried for the same account a long position in the underlying open-end index mutual fund (which shall be specifically designated by the Exchange) having an aggregate market value at least equal to the underlying value of the S&P 500 contracts to be covered.

(3) Corporate Debt Security Options.

(A) Calls. A call option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is applicable:

(i) an equal or greater quantity of the underlying security specified by the option contract is held in or purchased for the account on the same day the call is written provided the option premium is held in the account until full cash payment for the underlying security is received, or

(ii) in lieu of the underlying security, an escrow agreement is either held in the account at the time the call is written or is received in the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement, the underlying security (or, in the event the bond is called, cash equal to any aggregate in-the-money amount based upon the exercise settlement price of the bond as set by The Options Clearing Corporation) and that the bank will promptly deliver to the TPH organization the underlying security, or any aggregate in-the-money amount if the bond has been called, in the event the account is assigned an exercise notice.

(B) Puts. A put option contract carried in a short position is deemed a covered position, and eligible for the cash account, provided any one of the following offsets is either held in the account at the time the put is written or is received into the account promptly thereafter:

(i) cash or cash equivalents in an amount not less than the aggregate exercise price, or

(ii) an escrow agreement.

The escrow agreement must certify that (1) the bank holds for the account of the customer as security for the agreement cash, cash equivalents or a combination thereof having an aggregate market value at the time the option is written of not less than 100% of the aggregate exercise price amount and (2) that the bank will promptly pay the TPH organization the aggregate exercise price in the event the account is assigned an exercise notice.

(4) Capped-Style Index Option (CAPS & Q-CAPS), Packaged Vertical Spread or Packaged Butterfly Spread As Defined in Rule 4.11. A CAPS, Q-CAPS or Packaged Vertical Spread put or call option contract, or Packaged Butterfly Spread option contract, carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following is either held in the account at the time the CAPS, Q-CAPS, Packaged Vertical Spread or Packaged Butterfly Spread option contract is written or received into the account promptly thereafter:

(A) cash or cash equivalents of not less than the amount of the aggregate cap, vertical spread or butterfly spread interval (as applicable) as defined in Rule 4.11 or

(B) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (a) cash, (b) cash equivalents or (c) a combination thereof having an aggregate market value at the time the positions are established of not less than the aggregate cap interval, vertical spread interval or butterfly spread interval (as applicable) and that the bank will promptly pay the TPH organization such amount in the event the account is assigned an exercise notice. Cap interval, vertical spread interval and butterfly spread interval shall have the meanings defined in Rule 4.11.

(5) Stock Index Warrants and Currency Index Warrants.

(A) Calls. A call warrant on a market index carried in a short position is deemed a covered position and eligible for the cash account provided an escrow agreement is either held in the account at the time the call warrant is sold or received into the account promptly thereafter.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (i) cash, (ii) cash equivalents, (iii) one or more qualified equity securities, or (iv) a combination thereof having an aggregate market value at the time the warrant is sold of not less than 100% of the aggregate

current index value; and that the bank will promptly pay the TPH organization funds sufficient to purchase the warrant sold short in the event of a buy-in.

(B) *Puts*. A put warrant on a market index carried in a short position is deemed a covered position and eligible for the cash account provided any one of the following offsets is either held in the account at the time the put warrant is sold or received into the account promptly thereafter:

(i) cash or cash equivalents in an amount not less than the aggregate exercise price or

(ii) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (a) cash (b) cash equivalents or (c) a combination thereof having an aggregate market value at the time the warrant is sold of not less than 100% of the aggregate exercise price, and that the bank will promptly pay the TPH organization funds sufficient to purchase the warrant sold short in the event of a buy-in.

(e) *Customer Cash Account—Spreads*. A spread as defined in subparagraph (a)(5) of this Rule, if composed of European-style cash-settled index options that expire at the same time, is deemed a covered position, and eligible for the cash account, provided the long option component(s) is(are) held in or purchased for the account on the same day as the short component(s) and provided:

(1) either there is held in the account at the time the positions are established or received into the account promptly:

(A) cash or cash equivalents of not less than the amount required by subparagraph (c)(5)(C)(v)(a), to which requirement the net proceeds from the sale of the short position(s) may be applied or

(B) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (a) cash, (b) cash equivalents or (c) a combination thereof having an aggregate market value at the time the positions are established of not less than the amount required by subparagraph (c)(5)(C)(v)(a) of this Rule and that the bank will promptly pay the TPH organization such amount in the event the account is assigned an exercise notice or that the bank will promptly pay the TPH organization funds sufficient to purchase a warrant sold short in the event of a buy-in.

(2) The provisions of subparagraph (e)(1) are also applicable to put and call warrants. A long warrant and a short option contract or a long option contract and a short warrant are



eligible for the provisions of subparagraph (e)(1) if they qualify as spreads as defined in subparagraph (a)(5) of this Rule.

(f) *Market-Maker and specialist accounts.*

(1) *Definitions.* For purposes of this section (f), the following terms shall have the meanings specified below.

(A) The term “related instrument” within an option class or product group means any related derivative product, including security futures contracts, that meets the offset level requirements for product groups under Rule 15c3-1 of the Exchange Act, or any applicable SEC staff interpretations or no-action positions (hereinafter referred to as SEC Rule 15c3-1).

(B) The term “product group” means two or more option classes, related instruments, and qualified stock baskets for which it has been determined that a percentage of offsetting profits may be applied to losses in the determination of net capital as set forth in SEC Rule 15c3-1.

(C) The term “option class” refers to all option contracts covering the same underlying instrument.

(D) The term “underlying instrument” refers to long and short positions covering the same security, or a security which is exchangeable for or convertible into the underlying security within a period of 90 days. The term underlying instrument shall not be deemed to include securities options, futures contracts, options on futures contracts, security futures contracts, qualified stock baskets, or unlisted instruments.

(E) The term “qualified stock basket” shall have the meaning as defined in SEC Rule 15c3- 1.

(F) The term “net liquidating equity” shall mean the sum of positive cash balances and long securities positions less negative cash balances and short securities positions held in the accounts.

(2) The following positions of Trading Permit Holders may be carried upon a margin basis that is satisfactory to the Trading Permit Holder and the carrying broker or dealer:

(A) positions in which the Trading Permit Holder makes a market and permitted offset transactions as defined below and

(B) positions in security futures contracts that qualify for exclusion from the margin requirements of SEC and Commodity Futures Trading Commission (“CFTC”) regulations pursuant to SEC Rule 400(c)(2)(v) under the Exchange Act and CFTC Rule 41.42(c)(2) (v), and any permitted offset transactions designated by the exchange or association upon which the Trading Permit Holder trades the security futures contract.

Notwithstanding the other provisions of this paragraph (f), a TPH organization may clear and carry the Market-Maker permitted offset positions of one or more registered specialists, registered Market-Makers, or Designated Primary Market-Makers pursuant to the rules of a national securities exchange (all of which are deemed specialists for all purposes under the Exchange Act) (hereinafter referred to as "Market-Maker(s)") upon a margin basis satisfactory to the concerned parties. The amount of any deficiency between the equity maintained by the Market-Maker and the haircuts specified in SEC Rule 15c3-1 shall be considered as a deduction from net worth in the net capital computation of the carrying broker or dealer.

(3) Permitted Offset Transactions.

(A) For purposes of this subparagraph (f)(3), a permitted offset position means, in the case of an option in which a market-maker makes a market, a position in the underlying instrument or other related instrument, and in the case of other securities in which a market-maker makes a market, a position in options overlying the securities in which a market-maker makes a market, if the account holds the following permitted offset positions:

(i) A long position in the underlying instrument or security futures contract offset by a short option position;

(ii) A short position in the underlying instrument or security futures contract offset by a long option position;

(iv) A stock position resulting from the assignment of a Market-Maker short option position or delivery in respect of a short security futures contract;

(v) A stock position resulting from the exercise of a Market-Maker long option position or taking delivery in respect of a long security futures contract;

(vi) A net long position in a security (other than an option) in which a Market-Maker makes a market;

(vii) A net short position in a security (other than an option) in which the Market-Maker makes a market; or

(viii) An offset position as defined in SEC Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

Permitted offset transactions must be effected for market-making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation of customer orders, or other similar Market-Maker purpose. The

options Market-Maker must be able to demonstrate compliance with this provision.

For purposes of this subparagraph (f)(3), the term “overlying option” means a put option purchased or a call option written against a long position in an underlying instrument, or a call option purchased or a put option written against a short position in an underlying instrument.

(4) For any Trading Permit Holder which acts as a Market-Maker on the Exchange, the carrying TPH organization may combine all Market-Maker accounts in which the Market-Maker or its nominee(s) participates, with the exception of joint accounts in which the Market-Maker or its nominee are not the sole participants, for purpose of computing its requirements as prescribed by SEC Rule 15c3-1.

(5) On any business day on which positive net liquidating equity is not maintained in the account(s), the carrying TPH organization must make a call to the Trading Permit Holder for additional equity at least equal to the deficit and must notify the Exchange’s Department of Financial Compliance of the deficit. The carrying TPH organization may extend no further credit in the account(s) until the account(s) maintains a positive net liquidating equity and, if the TPH organization’s call for additional equity is not met, steps should be taken promptly to liquidate the positions in the account(s). If the deficit is not resolved by noon of the following business day the carrying TPH organization must send telegraphic notice to the Exchange as well as the regional and national offices of the Securities and Exchange Commission. However, nothing in this subparagraph (f)(5) shall prohibit the carrying firm from effecting hedging transactions in the deficit account with the prior written approval of the carrying firm’s DEA.

(6) In the case of a joint account carried by a TPH organization for a Market-Maker or specialist in which the TPH organization participates, the margin deposited by the other participants may be in any amount which is mutually satisfactory.

(g) *Broker-Dealer Account.* A TPH organization may carry the proprietary account of another broker-dealer, which is registered with the SEC, upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T of the Board of Governors of the Federal Reserve System and, in respect of security futures contracts, SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48 are adhered to and the account is not carried in a deficit equity condition. The amount of any deficiency between the equity maintained in the account and the haircut requirements calculated pursuant to Rule 15c3-1 (Net Capital) of the Exchange Act shall be deducted in computing the Net Capital of the TPH organization under Rule 15c3-1 of the Exchange Act.

(1) *Requirements for Joint Back Office Participants.* A TPH organization may carry the accounts of joint back office (“JBO”) participants upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T Section 220.7 and Cboe Options Rule 11.4 are adhered to and the account has a minimum equity of not less than \$1,000,000. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days.

(h) Notwithstanding any provisions of paragraphs (b) through (g) and (k) hereof, the Exchange may at any time impose higher margin requirements in respect of positions in any security (including any series of options dealt in on an exchange) when it deems such higher margin requirements to be advisable in light of the price of the security or in light of existing market conditions pertaining generally or with respect to such security.

(i) For the purpose of effecting new securities transactions and commitments, the customer shall be required to deposit margin or have equity in cash and/or securities in the account which shall be at least the greater of:

(1) the amount specified in Regulation T of the Board of Governors of the Federal Reserve System and, in respect of security futures contracts, SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48, or

(2) the amount specified in paragraphs (b), (c) and (k) of this Rule, or

(3) such greater amount as the Exchange may from time to time require for specific securities, or

(4) equity of at least \$2,000 except that cash need not be deposited in excess of the cost of any security purchased (this equity and cost of purchase provision shall not apply to “when distributed” securities in a cash account). The minimum equity requirement for a “pattern day trader” is \$25,000 pursuant to Rule 10.3(j)(4).

Withdrawals of cash or securities may be made from any account which has a debit balance, “short” position or commitments, provided the account is in compliance with Regulation T of the Board of Governors of the Federal Reserve System and the security futures contract margin requirements pursuant to SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48, and after such withdrawal the equity in the account is at least the greater of \$2,000 (\$25,000 in the case of “pattern day traders”) or an amount sufficient to meet the maintenance margin requirements of this Rule.

(j) *Day Trading.*

(1) The term “day trading” means the purchasing and selling, or the selling and purchasing, of the same security on the same day in a margin account except for:

(A) a long security position held overnight and sold the next day prior to any new purchases of the same security, or

(B) a short security position held overnight and purchased the next day prior to any new sales of the same security.

(2) The term “pattern day trader” means any customer who executes four (4) or more day trades within five (5) business days. However, if the number of day trades is 6% or less of total trades for the five (5) business day period, the customer will no longer be considered a pattern day trader and the special requirements under paragraph 10.3(j)(4) of this Rule will not apply.

(3) The term “day trading buying power” means the equity in a customer’s account at the close of business of the previous day, less any maintenance margin requirement as prescribed in paragraph (b) of this Rule, multiplied by four (4), for equity securities.

Whenever day trading occurs in a customer’s margin account, the special maintenance margin required for the day trades in equity securities shall be 25% of the cost of all the day trades made during the day. For non-equity securities, the special maintenance margin shall be as required pursuant to the other provisions of this Rule. Alternatively, when two or more day trades occur on the same day in the same customer’s account, the margin required may be computed utilizing the highest (dollar amount) open position during that day. To utilize the highest open position computation method, a record showing the “time and tick” of each trade must be maintained to document the sequence in which each day trade was completed.

(4) *Special Requirements for Pattern Day Traders.*

(A) *Minimum Equity Requirement for Pattern Day Traders.* The minimum equity required for the accounts of customers deemed to be pattern day traders shall be \$25,000. This minimum equity must be maintained in the customer’s account at all times (see Interpretations and Policies .13 and .14 of this Rule).

(B) Pattern day traders cannot trade in excess of their day trading buying power as defined in paragraph (j)(3) above. In the event a pattern day trader exceeds its day trading buying power, which creates a special maintenance margin deficiency, the following actions will be taken by the TPH organization:

(i) The account will be margined based on the cost of all the day trades made during the day, and

(ii) The customer’s day trading buying power will be limited to the equity in the customer’s account at the close of business of the previous day, less the maintenance margin required in paragraph (b) of this Rule, multiplied by two, for equity securities.

(C) Pattern day traders who fail to meet their special maintenance margin calls as required within five (5) business days from the date the margin deficiency occurs will be permitted to execute transactions only on a cash available basis for 90 days or until the special maintenance margin call is met.

(D) Pattern day traders are restricted from utilizing the guaranteed account provision under Rule 10.7 for meeting the requirements of this Rule 10.3(j).

(E) Funds, deposited into a pattern day trader’s account to meet the minimum equity or maintenance margin requirements of this Rule 10.3(j), cannot be withdrawn for a minimum of two (2) business days following the close of business on the day of deposit.

(5) When the equity in a customer's account, after giving consideration to the other provisions of this Rule, is not sufficient to meet the requirements of Rule 10.3(j), additional cash or securities must be received into the account to meet any deficiency within five (5) business days of the trade date.

In addition, on the sixth business day only, TPH organizations are required to deduct from net capital the amount of unmet maintenance margin calls pursuant to SEC Rule 15c3-1.

(k) *Security Futures Contracts.* Nothing in this paragraph (k) or other rules of this Chapter 10 shall be applicable to security futures contract transactions and positions in a futures account.

(1) *General Rule.* In relation to security futures contracts, no TPH organization may effect a transaction or carry an account for a customer, whether a Trading Permit Holder or non- Trading Permit Holder, without proper and adequate margin in accordance with this Chapter 10, all other applicable rules of the Exchange, SEC Rules 400 through 406 under the Exchange Act and CFTC Rules 41.42 through 41.48. No transaction in a security futures contract may be effected, nor may a position in a security futures contract be carried, in a securities cash account.

(2) *Time Allowed for Obtaining Margin.* If initial or maintenance margin owed is not obtained prior to the day on which the account is deemed undermargined for purposes of SEC Rule 15c3-1(c)(2)(xii), TPH organizations must comply with the provisions of paragraph (k)(3) below. Extensions of time shall be unavailable.

(3) *Net Capital.* In computing its net capital, a TPH organization shall deduct any initial or maintenance margin deficiency attributable to security futures contracts in accordance with the undermargined account provision of SEC Rule 15c3-1(c)(2)(xii).

(4) *Day Trading.* Day trading rules shall not be applicable to security futures contracts.

(5) *Definitions.* For the purposes of this paragraph (k), the following terms shall have the meanings specified below.

(A) The term "security futures contract" means a "security future" as defined in Section 3(a)(55) of Exchange Act.

(B) The term "current market value", with respect to security futures contracts, means "current market value" as defined in SEC Rule 401(4)(i)(A) or 4(i)(B), whichever is applicable, under the Exchange Act and CFTC Rule 41.43(4)(i)(A) or (4)(i)(B), whichever is applicable.

(C) The term "underlying security" means, in the case of physically settled security futures contracts, the security that is delivered upon expiration of the contract, and, in the case of cash settled security futures contracts, the security or securities index the price or level of which determines the final settlement price for the security futures contract upon its expiration. The term "underlying security" also means, in the case of a securities index, an underlying stock basket,

or equivalent units of a registered investment company meeting the criteria set forth in Cboe Options Rule 4.3 and the Interpretations and Policies thereunder.

(D) The term “underlying basket” means, in the case of a securities index, a group of securities futures contracts where the underlying securities as defined in paragraph (C) above include each of the component securities of the applicable index and which meets the following conditions (i) the quantity of each underlying security is proportional to its representation in the index, (ii) the total market value of the underlying securities is equal to the aggregate value of the applicable index, (iii) the basket cannot be used to offset more than the number of contracts or warrants represented by its total market value, and (iv) the security futures contracts shall be unavailable to support any other contract or warrant transaction in the account.

(6) *Exceptions.* For the offsetting positions specified in the table below, TPH organizations may apply the corresponding initial and maintenance margin requirement minimums, notwithstanding the margin required on a security futures contract pursuant to paragraph (k)(1) above, or on other securities pursuant to paragraphs (b) and (c) of this Rule.

**All options referred to mean options on the underlying security, not the security futures contract.**

**All requirements that are expressed in terms of an option’s exercise price, in-the-money amount, and out-of-the-money amount mean the aggregate amount (i.e., multiply by number of shares per contract or the contract multiplier).**

	<b><u>SECURITY FUTURES CONTRACT TYPE</u></b>	<b><u>MARGIN ACCOUNT INITIAL REQUIREMENT</u></b>	<b><u>MARGIN ACCOUNT MAINTENANCE REQUIREMENT</u></b>
<b><u>Long and Short Security Futures Contract</u></b>  same underlying	Single Stock, Narrow-Based Index	5% of the current market value of the long or short security futures contract, whichever is greater.	Same as initial.
	Single Stocks vs. Narrow-Based Index 1	5% of the current market value of the long or short security futures contract(s), whichever is greater.	Same as initial.
different expiration months same or different market(s)			

<b><u>Long and Short Security Futures Contract</u></b>  same underlying same expiration month different markets 2	<u>Single Stock, Narrow-Based Index</u>	<u>3% of the current market value of the long or short security futures contract, whichever is greater.</u>	<u>Same as initial.</u>
<b><u>Long Security Futures Contract and Short Underlying</u></b>  same underlying	<u>Single Stock</u>	<u>None required on long security futures contract. Short sale proceeds plus 50% requirement on short stock position.</u>	<u>None required on long security futures contract. Short stock requirement is 105% of stock market value.</u>
	<u>Narrow-Based Index</u>	<u>None required on long security futures contract. Short sale proceeds plus 50% requirement on short stock basket. 3</u>	<u>None required on long security futures contract. Short stock basket requirement is 105% of basket market value</u>
<b><u>Long Security Futures Contract and Short Call</u></b>  same underlying	<u>Single Stock, Narrow-Based Index</u>	<u>20% of the current market value of the long security futures contract plus any call in-the-money amount. None required on short call. Proceeds from the call sale may be applied.</u>	<u>20% of the current market value of the long security futures contract plus any call in-the-money amount.</u>
	<u>Single Stocks 4 vs. Narrow-Based Index Call Option Narrow-Based Indices 4 vs. Broad-Based Index Call Option</u>	<u>20% of the current market value of the long basket of security futures contracts plus any call in-the-money amount. None required on short index call. Proceeds from the call sale</u>	<u>20% of the current market value of the long basket of security futures contracts plus any call in-the-money amount.</u>



		<u>may be applied.</u>	
<b><u>Long Security Futures Contract and Long Put</u></b> <u>same underlying</u>	<u>Single Stock,</u> <u>Narrow-Based Index</u>	<u>20% of the current market value of the long security futures contract. Pay for long put in full.</u>	<u>10% of the put exercise price plus any put out-of-the-money amount or 20% of the current market value of the long security futures contract, whichever is lower.</u>
	<u>Single Stocks 4 vs.</u> <u>Narrow-Based Index Put Option</u> <u>Narrow-Based Indices 4 vs.</u> <u>Broad-Based Index Put Option</u>	<u>20% of the current market value of the long basket of security futures contracts. Pay for long index put in full.</u>	<u>10% of the index put exercise price plus any put out-of-the-money amount or 20% of the current market value of the long basket of security futures contracts, whichever is lower.</u>
<b><u>Short Security Futures Contract and Long Underlying</u></b> <u>same underlying</u>	<u>Single Stock</u>	<u>None required on the short security futures contract. 50% requirement on long stock position.</u>	<u>5% of the current market value of the long stock position.</u>
	<u>Narrow-Based Index</u>	<u>None required on the short narrow-based security futures contract. 50% requirement on long stock basket. 4</u>	<u>5% of the current market value of the long stock basket.</u>
<b><u>Short Security Futures Contract and Long Marginable Convertible 5</u></b> <u>same underlying</u>	<u>Single Stock</u>	<u>None required on the short security futures contract. 50% requirement on long convertible security.</u>	<u>10% of the current market value of the long convertible security.</u>

<b><u>Short Security Futures Contract and Long Call 6</u></b> <u>same underlying</u>	<u>Single Stock</u>	<u>20% of the current market value of the short security futures contract. Pay for long call in full.</u>	<u>10% of the call exercise price plus any call out-of-the-money amount or 20% of the current market value of the short security futures contract, whichever is lower.</u>
	<u>Single Stocks 4 vs. Narrow-Based Index Call Option</u> <u>Narrow-Based Indices 4 vs. Broad-Based Index Call Option</u>	<u>20% of the current market value of the short basket of security futures contracts. Pay for long index call in full.</u>	<u>10% of the index call exercise price plus any call out-of-the-money amount or 20% of the current market value of the short basket of security futures contracts, whichever is lower.</u>
<b><u>Short Security Futures Contract and Short Put</u></b> <u>same underlying</u>	<u>Single Stock</u>	<u>20% of the current market value of the short security futures contract plus any put in-the-money amount. None required on short put. Proceeds from the put sale may be applied.</u>	<u>20% of the current market value of the short security futures contract plus any put in-the-money amount.</u>
	<u>Single Stocks 4 vs. Narrow-Based Index Put Option</u> <u>Narrow-Based Indices 4 vs. Broad-Based Index Put Option</u>	<u>20% of the current market value of the short basket of security futures contracts plus any put in-the-money amount. None required on short index put. Proceeds from the index put sale may be applied.</u>	<u>20% of the current market value of the short basket of security futures contracts plus any put in-the-money amount.</u>
<b><u>Long Security Futures Contract, Short Call and Long</u></b>	<u>Single Stock</u> <u>Narrow-Based Index</u> <u>Single Stocks 4 vs.</u>	<u>20% of the current market value of the long security futures</u>	<u>10% of the exercise price plus any call in-the-money amount.</u>

<b><u>Put</u></b> <u>same underlying put and call must have same exercise price</u>	<u>Narrow-Based Index Options</u> <u>Narrow-Based Indices 4 vs.</u>  <u>Broad-Based Index Options</u>	<u>contract(s) plus any call in-the-money amount. Pay for long put in full. None required on short call. Proceeds from call sale may be applied.</u>	
<b><u>Long Security Futures Contract, Short Call and Long Put</u></b> <u>same underlying put exercise price must be below call exercise price</u>	<u>Single Stock Narrow-Based Index Single Stocks 4 vs.</u>  <u>Narrow-Based Index Options</u> <u>Narrow-Based Indices 4 vs.</u>  <u>Broad-Based Index Options</u>	<u>20% of the current market value of the long security futures contract(s) plus any call in-the-money amount. Pay for long put in full. None required on short call. Proceeds from call sale may be applied.</u>	<u>10% of the put exercise price plus any put out-of-the-money amount, or 20% of the call exercise price plus any call in-the-money amount, whichever is lower.</u>
<b><u>Short Security Futures Contract, Long Call and Short Put</u></b> <u>same underlying put and call must have same exercise price</u>	<u>Single Stock Narrow-Based Index Single Stocks 4 vs.</u>  <u>Narrow-Based Index Options</u> <u>Narrow-Based Indices 4 vs.</u>  <u>Broad-Based Index Options</u>	<u>20% of the current market value of the short security futures contract(s) plus any put in-the-money amount. Pay for long call in full. None required on short put. Proceeds from put sale may be applied.</u>	<u>10% of the exercise price plus any put in-the-money amount.</u>

(A) A long (short) basket of security futures contracts on individual equities offset with a short (long) security futures contract on a narrow-based index. A basket of security futures contracts must qualify as an “underlying basket” in accordance with Cboe Options Rule 10.3(k)(5)(D).

(B) Contract specifications must be substantively identical.

(C) The stock basket must qualify as an “underlying stock basket” in accordance with Cboe Options Rule 10.3(a)(7).

(D) A basket of security futures contracts must qualify as an “underlying basket” in accordance with Cboe Options Rule 10.3(k)(5)(D).

(E) The convertible security must be immediately exchangeable for or convertible into, without restriction (including the payment of money), the security underlying the single stock future.

(F) A long warrant (issued by the issuer of the underlying security) is also permitted (single stock futures only). The long warrant must be paid for in full and shall have no value for margin purposes.

(l) Credit Options.

(1) Risk Monitoring Procedures and Guidelines

Trading Permit Holders are required to monitor the risk of customer and broker-dealer accounts with exposure to Credit Options and must implement and maintain a comprehensive written risk analysis methodology for assessing the potential risk to the Trading Permit Holder’s capital over a specified range of possible market movements over a specified time period. For purposes of complying with this rule, Trading Permit Holders must employ the risk monitoring procedures and guidelines set forth below in sub- paragraphs (A) through (H) of this Rule 10.3(l)(1). The Trading Permit Holder must review, in accordance with the Trading Permit Holder’s written procedures, at reasonable periodic intervals, the Trading Permit Holder’s credit extension activities for consistency with the risk monitoring procedures and guidelines set forth in this Rule 10.3(l)(1), and must determine whether the data necessary to apply the risk monitoring procedures and guidelines is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data, including:

(A) obtaining and reviewing the required account documentation and financial information necessary for assessing the amount of credit to be extended to customers and broker- dealers;

(B) assessing the determination, review and approval of credit limits to each customer and broker-dealer, and across all customers and broker-dealers, engaging in Credit Option transactions;

(C) monitoring credit risk exposure to the Trading Permit Holder from Credit Options, including the type, scope and frequency of reporting to senior management;

(D) the use of stress testing of accounts containing Credit Option contracts in order to monitor market risk exposure from individual accounts and in the aggregate;

(E) managing the impact of credit extended related to Credit Option contracts on the Trading Permit Holder’s overall risk exposure;

(F) determining the need to collect margin from a particular customer or broker-dealer in addition to the amount required by this Rule 10.3(l), including whether such determination was based upon the credit worthiness of the customer or broker-dealer and/or the risk of the specific Credit Option contracts;

(G) monitoring the credit exposure resulting from concentrated positions within both individual accounts and across all accounts containing Credit Option contracts: and

(H) maintaining sufficient margin in each customer and broker-dealer account to protect against the default of the largest individual exposure in the account as measured by computing the largest maximum possible loss.

(2) *Requiring Additional Margin.* Trading Permit Holders shall, based on the risk monitoring procedures and guidelines required above, determine whether the margin required by this Rule 10.3(l) is adequate with respect to their customer and broker-dealer accounts and, where appropriate, increase such requirements.

(3) *Margin Account—Credit Default Options.*

(A) The initial and maintenance margin required on a Credit Default Option carried long in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 4.40) according to the table below.

<u>Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option</u>	<u>Length of Time Until Expiration of the Option</u>			
	<u>1 Year or Less</u>	<u>Greater than 1 Year/Less Than or Equal to 3 Years</u>	<u>Greater Than 3 Years/Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
<u>0 - 100</u>	<u>.5%</u>	<u>1%</u>	<u>2%</u>	<u>3.5%</u>
<u>100 - 300</u>	<u>1%</u>	<u>2.5%</u>	<u>3.5%</u>	<u>5%</u>
<u>300 - 500</u>	<u>2.5%</u>	<u>5%</u>	<u>7.5%</u>	<u>10%</u>
<u>500 - 700</u>	<u>5%</u>	<u>7.5%</u>	<u>10%</u>	<u>12.5%</u>
<u>700 &amp; above</u>	<u>7.5%</u>	<u>10%</u>	<u>12.5%</u>	<u>15%</u>

\* Over LIBOR, in basis points.

### Length of Time Until Expiration of the Option

[illegible]

<u>500 - 700</u>	<u>5.00%</u>	<u>6.25%</u>	<u>7.50%</u>	<u>8.75%</u>	<u>10.00%</u>	<u>11.25%</u>	<u>13.75%</u>	<u>15.00%</u>	<u>17.50%</u>
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<u>700 &amp; above</u>	<u>7.50%</u>	<u>8.75%</u>	<u>10.00%</u>	<u>11.25%</u>	<u>12.50%</u>	<u>13.75%</u>	<u>15.00%</u>	<u>20.00%</u>	<u>25.00%</u>
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(C) The initial and maintenance margin required on any Credit Default Option carried short in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 4.40) according to the table below.

**Length of Time Until Expiration of the Option**

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<u>Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option</u>				
	<u>1 Year or Less</u>	<u>Greater than 1 Year/Less Than or Equal to 3 Years</u>	<u>Greater Than 3 Years/Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
<u>0 - 100</u>	<u>1%</u>	<u>2%</u>	<u>4%</u>	<u>7%</u>
<u>100 - 300</u>	<u>2%</u>	<u>5%</u>	<u>7%</u>	<u>10%</u>
<u>300 - 500</u>	<u>5%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
<u>500 - 700</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>	<u>25%</u>
<u>700 &amp; above</u>	<u>15%</u>	<u>20%</u>	<u>25%</u>	<u>30%</u>

\* Over LIBOR, in basis points.

(D) *Alternative Table.* As an alternative to the table under paragraph (1)(3)(C) above, Trading Permit Holders may use the table below.

**Length of Time Until Expiration of the Option**

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<u>Average Credit Default Swap ("CDS") Spread* for the Reference Entity Underlying the Credit Default Option</u>	<u>12 Mos. or Less</u>	<u>Greater Than 12 Mos. / Less Than or Equal to 24 Mos.</u>	<u>Greater Than 24 Mos. / Less Than or Equal to 36 Mos.</u>	<u>Greater Than 36 Mos. / Less Than or Equal to 48 Mos.</u>	<u>Greater Than 48 Mos. / Less Than or Equal to 60 Mos.</u>	<u>Greater Than 60 Mos. / Less Than or Equal to 72 Mos.</u>	<u>Greater Than 72 Mos. / Less Than or Equal to 84 Mos.</u>	<u>Greater Than 84 Mos. / Less Than or Equal to 120 Mos.</u>	<u>Greater Than 121 Mos.</u>
-									
<u>0 - 100</u>	<u>1.00%</u>	<u>1.50%</u>	<u>2.00%</u>	<u>3.00%</u>	<u>4.00%</u>	<u>5.50%</u>	<u>7.00%</u>	<u>8.50%</u>	<u>10.00%</u>
-									
<u>100 - 300</u>	<u>2.00%</u>	<u>3.50%</u>	<u>5.00%</u>	<u>6.00%</u>	<u>7.00%</u>	<u>8.50%</u>	<u>10.00%</u>	<u>15.00%</u>	<u>20.00%</u>
-									
<u>300 - 400</u>	<u>5.00%</u>	<u>7.50%</u>	<u>10.00%</u>	<u>12.50%</u>	<u>15.00%</u>	<u>17.50%</u>	<u>20.00%</u>	<u>22.50%</u>	<u>25.00%</u>
-									
<u>400 - 500</u>	<u>7.50%</u>	<u>10.00%</u>	<u>12.50%</u>	<u>15.00%</u>	<u>16.00%</u>	<u>20.00%</u>	<u>22.50%</u>	<u>25.00%</u>	<u>27.50%</u>
-									
<u>500 - 700</u>	<u>10.00%</u>	<u>12.50%</u>	<u>15.00%</u>	<u>17.50%</u>	<u>20.00%</u>	<u>22.50%</u>	<u>27.50%</u>	<u>30.00%</u>	<u>35.00%</u>
-									
<u>700 &amp; above</u>	<u>15.00%</u>	<u>17.50%</u>	<u>20.00%</u>	<u>22.50%</u>	<u>25.00%</u>	<u>27.50%</u>	<u>30.00%</u>	<u>40.00%</u>	<u>50.00%</u>

\* Over LIBOR, in basis points.



(E) Debt Security Offset. If an account is short a Credit Default Option and also has a short position in a debt security issued by the Reference Entity underlying the option, and the principal amount of the debt security is equal to: the cash settlement amount of the option multiplied by 1.33, no margin is required on the Credit Default Option.

(4) Margin Account - Credit Default Basket Options.

(A) The initial and maintenance margin required on a Credit Default Basket Option carried long in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 4.40) according to the table below. In the case of a Single Payout Credit Default Basket Option, the cash settlement amount to be used is the one that is the highest among the basket components, and in the case of a Multiple Payout Credit Default Basket Option, the cash settlement amount to be used is 50% of the sum of each basket component's cash settlement amount.

**Length of Time Until Expiration of the Option**

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<u>Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities</u>	<u>1 Year or Less</u>	<u>Greater than 1 Year/Less Than or Equal to 3 Years</u>	<u>Greater than 3 Years/Less Than or Equal to 5 Years</u>	<u>Greater Than 5 Years/Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
-					
<u>0 - 200</u>	<u>0.50%</u>	<u>0.50%</u>	<u>1%</u>	<u>2%</u>	<u>2.50%</u>
-					
<u>200 - 500</u>	<u>1%</u>	<u>1.50%</u>	<u>2%</u>	<u>2.50%</u>	<u>3.50%</u>
-					
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<u>500 &amp; above</u>	<u>1.50%</u>	<u>2.50%</u>	<u>5%</u>	<u>6%</u>	<u>7.50%</u>
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\* Over LIBOR, in basis points.

(B) Alternative Table. As an alternative to the table under paragraph (1)(4)(A) above, Trading Permit Holders may use the table below.

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Length of Time Until Expiration of the Option

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<u>Average</u> <u>Credit</u> <u>Default</u> <u>Swap</u> <u>("CDS")</u> <u>Spread* of</u> <u>the Basket</u> <u>Component</u> <u>Reference</u> <u>Entities</u>	<u>1</u> <u>Year</u> <u>or</u> <u>Less</u>	<u>Greater</u> <u>Than 1</u> <u>Year /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 2</u> <u>Years</u>	<u>Greater</u> <u>Than 2</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 3</u> <u>Years</u>	<u>Greater</u> <u>Than 3</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 4</u> <u>Years</u>	<u>Greater</u> <u>Than 4</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 5</u> <u>Years</u>	<u>Greater</u> <u>Than 5</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 6</u> <u>Years</u>	<u>Greater</u> <u>Than 6</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 7</u> <u>Years</u>	<u>Greater</u> <u>Than 7</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 8</u> <u>Years</u>	<u>Greater</u> <u>Than 8</u> <u>Years /</u> <u>Less</u> <u>Than or</u> <u>Equal</u> <u>to 9</u> <u>Years</u>	<u>Greater</u> <u>Than 9</u> <u>Years</u>
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0 - 200	0.50%	0.50%	0.50%	0.75%	0.10%	1.50%	2%	2.25%	2.50%	2.50%

-											
200 - 500	1%	1.25%	1.50%	1.75%	2%	2.25%	2.50%	3%	3.50%	3.50%	

-											
500 & above	1.50%	2%	2.50%	3.75%	5%	5.50%	6%	6.50%	7%	7.50%	

(C) The initial and maintenance margin required on a Credit Default Basket Option carried short in a customer or broker-dealer's account is a percentage of the option's cash settlement amount (as defined in Rule 4.40) according to the table below. In the case of a Single Payout Credit Default Basket Option, the cash settlement amount to be used is the one that is the highest among the basket components, and in the case of a Multiple Payout Credit Default Basket Option, the cash settlement amount to be used is 50% of the sum of each basket component's cash settlement amount.

**Length of Time Until Expiration of the Option**

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<u>Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities</u>	<u>1 Year or Less</u>	<u>Greater than 1 Year/Less Than or Equal to 3 Years</u>	<u>Greater than 3 Years/Less Than or Equal to 5 Years</u>	<u>Greater Than 5 Years/Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
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<u>0 - 200</u>	<u>1%</u>	<u>1%</u>	<u>2%</u>	<u>4%</u>	<u>5%</u>
-					
<u>200 - 500</u>	<u>2%</u>	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>7%</u>
-					
<u>500 &amp; above</u>	<u>3%</u>	<u>5%</u>	<u>10%</u>	<u>12%</u>	<u>15%</u>

\* Over LIBOR, in basis points.

(D) Alternative Table. As an alternative to the table under paragraph (1)(4)(C) above, Trading Permit Holders may use the table below.

**Length of Time Until Expiration of the Option**

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<u>Average</u> <u>Credit</u> <u>Default</u> <u>Swap</u> <u>(“CDS”)</u> <u>Spread* of</u> <u>the Basket</u> <u>Component</u> <u>Reference</u> <u>Entities</u>	<u>1</u> <u>Year</u> <u>or</u> <u>Less</u>	<u>Greater</u> <u>Than 1</u> <u>Year /</u>	<u>Greater</u> <u>Than 2</u> <u>Years /</u>	<u>Greater</u> <u>Than 3</u> <u>Years /</u>	<u>Greater</u> <u>Than 4</u> <u>Years /</u>	<u>Greater</u> <u>Than 5</u> <u>Years /</u>	<u>Greater</u> <u>Than 6</u> <u>Years /</u>	<u>Greater</u> <u>Than 7</u> <u>Years /</u>	<u>Greater</u> <u>Than 8</u> <u>Years /</u>	<u>Greater</u> <u>Than 9</u> <u>Years</u>
		<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	<u>Less</u> <u>Than or</u> <u>Equal</u>	
		<u>to 2</u> <u>Years</u>	<u>to 3</u> <u>Years</u>	<u>to 4</u> <u>Years</u>	<u>to 5</u> <u>Years</u>	<u>to 6</u> <u>Years</u>	<u>to 7</u> <u>Years</u>	<u>to 8</u> <u>Years</u>	<u>to 9</u> <u>Years</u>	
		-								
<u>0 - 200</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1.50%</u>	<u>2%</u>	<u>3%</u>	<u>4%</u>	<u>4.50%</u>	<u>5%</u>	<u>5%</u>
-										
<u>200 - 500</u>	<u>2%</u>	<u>2.50%</u>	<u>3%</u>	<u>3.50%</u>	<u>4%</u>	<u>4.50%</u>	<u>5%</u>	<u>6%</u>	<u>7%</u>	<u>7%</u>
-										
<u>500</u> & <u>above</u>	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>7.50%</u>	<u>10%</u>	<u>11%</u>	<u>12%</u>	<u>13%</u>	<u>14%</u>	<u>15%</u>

(5) Spreads. If an account is short a Credit Option and is also long a Credit Option with the same underlying Reference Obligation(s), and the long option is paid for in full, and the long option does not expire before the short option, no margin is required

(6) Credit Option margin requirements may be satisfied by a deposit of cash or marginable securities.

(7) Concentrations. If, across all accounts, the maximum exposure in Credit Option contracts overlying any single Reference Entity exceeds the Trading Permit Holder's tentative net capital, the Trading Permit Holder must deduct from net capital an amount equal to the aggregate margin requirement for all such accounts on the Credit Option contracts (including Credit Default Basket Options having the subject Reference Entity as

a component) overlying such single Reference Entity, as specified in this Rule 10.3(l). This deduction from net capital may be reduced by the amount of excess margin held in such customer and broker-dealer accounts.

(8) *Cash Account—Credit Default Options.* A Credit Default Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(A) cash or cash equivalents equal to 100% of the cash settlement amount as defined in Rule 4.40; or

(B) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (i) cash, (ii) cash equivalents, (iii) one or more qualified equity securities, or (iv) a combination thereof having an aggregate market value of not less than 100% of the cash settlement amount as defined in Rule 4.40 and that the bank will promptly pay the TPH organization the cash settlement amount in the event of a Credit Event as defined in Rule 4.40.

(9) *Cash Account - Credit Default Basket Options.* A Credit Default Basket Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(A) For Multiple Payout Credit Default Basket Options, cash or cash equivalents equal to 50% of the sum of each Basket Component's cash settlement amount as defined in Rule 4.40;

(B) For Single Payout Credit Default Basket Options, cash or cash equivalents equal to 100% of the Basket Component cash settlement amount as defined in Rule 4.40 that is the highest; or

(C) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (i) cash, (ii) cash equivalents, (iii) one or more qualified equity securities, or (iv) a combination thereof having an aggregate market value of not less than 100% of the sum of each Basket Component's cash settlement amount as defined in Rule 4.40 in the case of Multiple Payout Credit Default Basket Option or 100% of the Basket Component cash settlement amount as defined in Rule 4.40 that is the highest in the case of a Single Payout Credit Default Basket Option and that the bank will promptly pay the TPH organization the cash settlement amount in the event of a Credit Event as defined in Rule 4.40.

(10) Duration of the Credit Option Margin Pilot Program. The Credit Option Margin Pilot Program shall be through July 20, 2020.

(m) Binary Options.

(1) Margin Account. Except as provided below, no binary option carried for a customer shall be considered of any value for purposes of computing the margin required in the account of such customer.

(A) The initial and maintenance margin required on any binary option carried long in a customer's account is 100% of the purchase price of such binary option.

(B) The initial and maintenance margin required on any binary option carried short in a customer's account is the exercise settlement amount.

(C) Spreads. No margin is required on a binary call option (put option) carried short in a customer's account that is offset by a long binary call option (put option) for the same underlying security or instrument that expires at the same time and has an exercise price that is less than (greater than) the exercise price of the short call (put). The long call (put) must be paid for in full.

(D) Straddle/Combination. When a binary call option is carried short in a customer's account and there is also carried a short binary put option for the same underlying security or instrument that expires at the same time and has an exercise price that is less than or equal to the exercise price of the short call, the initial and maintenance margin required is the exercise settlement amount applicable to one contract.

(2) Cash Account. A binary option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(A) cash or cash equivalents equal to 100% of the exercise settlement amount; or

(B) a long binary option of the same type (put or call) for the same underlying security or instrument that is paid for in full and expires at the same time, and has an exercise price that is less than the exercise price of the short in the case of a call or greater than the exercise price of the short in the case of a put; or

(C) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (i) cash, (ii) cash equivalents, (iii) one or more qualified equity securities, or (iv) a combination thereof having an aggregate market value of not less than 100% of the exercise settlement amount and that the bank will promptly pay the TPH organization the exercise settlement amount in the event the account is assigned an exercise notice.

(n) Range Options.

(1) Margin Account. Except as provided below, no Range Option carried for a customer shall be considered of any value for purposes of computing the margin requirement in the account of such customer, and each Range Option carried for a customer shall be margined separately.

(A) The initial and maintenance margin required on any Range Option carried long in a customer's account is 100% of the purchase price of such Range Option.

(B) The initial and maintenance margin required on any Range Option carried short in a customer's account is the Maximum Range Exercise Value times the contract multiplier.

(C) Cash Account. A Range Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(D) cash or cash equivalents equal to 100% of the Maximum Range Exercise Value times the contract multiplier; or

(E) an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (i) cash, (ii) cash equivalents, (iii) one or more qualified equity securities, or (iv) a combination thereof having an aggregate market value of not less than 100% of the Maximum Range Exercise Value times the contract multiplier and that the bank will promptly pay the TPH organization the cash settlement amount in the event the account is assigned an exercise notice.

**Interpretations and Policies**

.01 In determining the "current market value" of a security including an option, if there is no closing price or if trading was halted before and through the normal end of the trading day or if the closing price was outside the last bid and offer that was established after the closing price, then a TPH organization may use a reasonable estimate of the market value of the security based upon the then current bids and offers from publicly available vendors or services.

.02 Generally, for purposes of the rules of this Chapter 10 and any other Exchange margin rules, unless otherwise specified, index warrants shall be treated as if they were index options.

.03 If the escrow agreement is forwarded to OCC, Trading Permit Holders should be aware that the OCC may have a different definition of "cash equivalent" than does Regulation T.

.04 Under normal circumstances, Cboe Options Clearing Trading Permit Holders are prohibited from extending credit for opening transactions to market-makers whose net liquidating equity computed as described in 10.3(f)(1)(F) is in deficit. Situations may arise, however, whereby the

last sale price of a stock is disseminated after the overlying options cease trading at 3:00 p.m., causing a discrepancy between the last sale price of the underlying stock and the closing quotes and the last sale price of the option series.

In situations where this discrepancy causes a market-maker's account to liquidate to a deficit, Clearing Trading Permit Holders are permitted to adjust the market-maker's equity to correct the disparity, and extend credit for opening trades. The adjustments must be documented, filed with, and approved by the Department of Financial and Sales Practice Compliance. The adjustments should be filed with the Department before the next day's opening (or at least before the firm may extend credit for opening transactions) and must be approved by the Department before opening trades may be financed. Additionally, all information regarding the adjustment(s) must be retained by the Clearing Trading Permit Holder and the Exchange.

.05 The term "aggregate current index value" means the current index value times the index multiplier; the term "aggregate exercise price" means the exercise price times the index multiplier; and the term "exercise settlement amount" means the difference between the aggregate exercise price and the aggregate current index value (as such terms are defined in the OCC By-Laws).

.06 For purposes of Rule 10.3 the bank or trust company issuing escrow agreements must be approved by The Options Clearing Corporation if the escrow agreements to be forwarded to the Corporation for the purpose of meeting margin requirements.

.07 A security is qualified if: (a) Exchange securities: it is a listed equity security (with the exception of warrants, rights and options) or (b) OTC securities: it is an equity security (with the exception of warrants, rights and options) listed on the current list of Marginable Over-the-Counter Stocks published by the Board of Governors of the Federal Reserve System.

.08 When one or more securities are substituted for securities held by the bank or trust company the substitution should not impair the value of the collateral held by the bank at the time the substitution is made.

.09 An index option escrow receipt is no longer deemed to be an acceptable deposit in lieu of the margin required to be maintained by the broker-dealer upon notification that the collateral value is below 50% of the current aggregate index value. If the collateral is not promptly supplemented to a level in excess of 55% of the current aggregate index value, the broker- dealer must take steps to promptly liquidate the short index call(s) covered by the receipt.

.10 The margin requirements set forth in this Rule are applicable only to stock index warrants, currency index warrants and currency warrants listed on or after August 29, 1995.

.11 When due to a merger or acquisition a security underlying an option ceases to trade and the registered clearing agency or party which issues the option has announced that all outstanding call options will settle for cash equal to any amount by which a fixed settlement price exceeds the exercise price and all outstanding put options will settle for cash equal to any amount by which the exercise price exceeds a fixed settlement price, no margin is required on such an



option carried short if it is out-of-the-money. If such an option carried short is in-the-money, margin must be maintained equal to 100% of the aggregate in-the-money amount.

.12 Under the provisions of Regulation T Section 220.7 a clearing broker may extend good faith financing to an owner of the clearing broker under certain conditions. Such financing is typically provided under what is termed a joint back office arrangement.

.13 In the event that the TPH organization at which a customer seeks to open an account, or resume day trading in an existing account, knows or has a reasonable basis to believe that the customer will engage in pattern day trading, then the minimum equity required under Rule 10.3(j)(4)(A) must be deposited in the account prior to commencement of day trading.

.14 When a customer engages in pattern day trading, the minimum equity required under Rule 10.3(j)(4)(A) must be deposited in the account before such customer may continue day trading.

.15 For purposes of Rule 10.3(j)(3), “time and tick” (i.e., calculating margin utilizing each trade in the sequence that it is executed, using the highest open position during the day) may not be used for a pattern day trader who exceeds their day trading buying power.

.16 For purposes of Rules 10.3(j)(3) and 10.3(j)(4)(B)(ii) above, the day trading buying power for non-equity securities shall, at a minimum, be computed using the applicable maintenance margin requirements pursuant to Rule 10.3.

#### **Rule 10.4. Portfolio Margin**

As an alternative to the transaction / position specific margin requirements set forth in Rule 10.3 of this Chapter 10, a TPH organization may require margin for all margin equity securities (as defined in Section 220.2 of Regulation T), listed options, unlisted derivatives, security futures products, and index warrants in accordance with the portfolio margin requirements contained in this Rule 10.4.

In addition, a TPH organization, provided it is a Futures Commission Merchant (“FCM”) and is either a clearing member of a futures clearing organization or has an affiliate that is a clearing member of a futures clearing organization, is permitted under this Rule 10.4 to combine a customer’s related instruments (as defined below), listed index options, unlisted derivatives, options on exchange traded funds, index warrants, and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

Application of the portfolio margin provisions of this Rule 10.4 to IRA accounts is prohibited.

##### **(a) Definitions.**

(1) The term “listed option” for purposes of this Rule shall mean any equity (or equity index- based) option traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(2) The term “security future” means a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof, to the extent that that term is defined in Section 3(a)(55) of the Securities Exchange Act of 1934.

(3) The term “security futures product” means a security future, or an option on any security future.

(4) The term “unlisted derivative” for purposes of this Rule means any equity-based (or equity index-based) unlisted option, forward contract or swap that can be valued by a theoretical pricing model approved by the Securities and Exchange Commission and does not include OCC cleared OTC options contracts.

(5) The term “option series” means all option contracts of the same type (either a call or a put) and exercise style, covering the same underlying instrument with the same exercise price, expiration date, and number of underlying units.

(6) The term “class” refers to all listed options, unlisted derivatives, security futures products, and related instruments that are based on the same underlying instrument, and the underlying instrument itself.

(7) The term “portfolio” means products of the same class grouped together.

(8) The term “related instrument” within a class or product group means index futures contracts and options on index futures contracts covering the same underlying instrument, but does not include security futures products.

(9) The term “underlying instrument” means a security or security index upon which any listed option, unlisted derivative, security futures product or related instrument is based. The term underlying instrument shall not be deemed to include, futures contracts, options on futures contracts or underlying stock baskets except that, for the purpose of calculating theoretical gains and losses for a listed option, unlisted derivative, or security futures product overlying a volatility index pursuant to this Rule, the price of a futures contract referencing the same volatility index may be utilized in lieu of the current (spot or cash) index value.

(10) The term “product group” means two or more portfolios of the same type for which it has been determined by Rule 15c3-1a(b)(ii) under the Securities Exchange Act of 1934 that a percentage of offsetting profits may be applied to losses at the same valuation point.

(11) The terms “theoretical gains and losses” means the gain and loss in the value of each eligible position at 10 equidistant intervals (valuation points) ranging from an assumed movement (both up and down) in the current market value of the underlying instrument.

The magnitude of the valuation point range shall be as follows:

<u>Portfolio Type</u>	<u>Up / down market move (high &amp; low valuation points)</u>
<u>High Capitalization, Broad-based Market Index</u>	<u>+6%/-8%</u>
<u>Non-High Capitalization, Broad-based Market Index</u>	<u>+/-10%</u>
<u>Narrow-based Index</u>	<u>+/-15%</u>
<u>Individual Equity</u>	<u>+/-15%</u>
<u>Volatility Index (30-day implied)</u>	<u>+/-20%</u>
<u>Volatility Index (9-day implied)</u>	<u>+/-40%</u>

(b) Eligible Participants.

Any TPH organization intending to apply the portfolio margin provisions of this Rule 10.4 to its accounts must receive prior approval from its DEA. The TPH organization will be required to, among other things, demonstrate compliance with Rule 15.8A - Risk Analysis of Portfolio Margin Accounts, and with the net capital requirements of Rule 11.5 - Customer Portfolio Margin Accounts.

The application of the portfolio margin provisions of this Rule 10.4 is limited to the following customers:

- (1) any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934;
- (2) any member of a national futures exchange to the extent that listed index options, unlisted derivatives, options on exchange traded funds, index warrants or underlying instruments hedge the member's related instruments, and
- (3) any person or entity not included in (b)(1) or (b)(2) above that is approved for writing uncovered options. However, such persons or entities may not establish or maintain positions in unlisted derivatives unless minimum equity of at least five million dollars is established and maintained with the TPH organization. For purposes of the five million dollar minimum equity requirement, all securities and futures accounts carried by the TPH organization for the same customer may be combined provided ownership across the accounts is identical. A guarantee by any other account for purposes of the minimum equity requirement is not permitted.

(c) Opening of Accounts.

(1) Only customers that, pursuant to Rule 9.1, have been approved for writing uncovered options are permitted to utilize a portfolio margin account.

(2) On or before the date of the initial transaction in a portfolio margin account, a Trading Permit Holder shall:

(A) furnish the customer with a special written disclosure statement describing the nature and risks of portfolio margining and which includes an acknowledgement for all portfolio margin account owners to sign, attesting that they have read and understood the disclosure statement, and agree to the terms under which a portfolio margin account is provided, and

(B) obtain a signed acknowledgement from the customer and record the date of receipt.

(d) Establishing Account and Eligible Positions.

(1) For purposes of applying the portfolio margin requirements provided in this Rule 10.4, TPH organizations are to establish and utilize a dedicated securities margin account, or sub-account of a margin account, clearly identified as a portfolio margin account that is separate from any other securities account carried for a customer.

(2) A margin deficit in the portfolio margin account of a customer may not be considered as satisfied by excess equity in another account. Funds and/or securities must be transferred to the deficient account and a written record created and maintained. In the case of a portfolio margin account carried as a sub-account of a margin account, excess equity in the margin account may be used to satisfy a margin deficiency in the portfolio margin sub- account without transferring funds and/or securities to the portfolio margin sub-account.

(3) Eligible Positions

(A) a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a “ready market” under SEC Rule 15c3-1 or a no-action position issued thereunder; and a control or restricted security, provided the security has met the requirements in a manner consistent with SEC Rule 144 or an SEC no-action position issued thereunder, sufficient to permit the sale of the security, upon exercise of any listed option or unlisted derivative written against it, without restriction)

(B) a listed option on an equity security, index of equity securities, or volatility index referencing either such equity instrument,

(C) a security futures product,

(D) an unlisted derivative on an equity security or index of equity securities,

(E) a warrant on an equity security or index of equity securities, and

(F) a related instrument.

(4) Positions other than those listed in (d)(3) above are not eligible for portfolio margin treatment. However, positions not eligible for portfolio margin treatment (except for ineligible related instruments) may be carried in a portfolio margin account subject to the margin required pursuant Rule 10.3 of this Chapter 10. Shares of a money market mutual fund may be carried in a portfolio margin account subject to the margin required pursuant to Exchange Rule 10.3 of this Chapter 10 provided that:

(A) the customer waives any right to redeem the shares without the TPH organization's consent,

(B) the TPH organization (or, if the shares are deposited with a Clearing Trading Permit Holder, the Clearing Trading Permit Holder) obtains the right to redeem the shares in cash upon request,

(C) the fund agrees to satisfy any conditions necessary or appropriate to ensure that the shares may be redeemed in cash, promptly upon request, and

(D) the TPH organization complies with the requirements of Section 11(d)(1) of the Securities Exchange Act of 1934 and Rule 11d1-2 thereunder.

(e) Initial and Maintenance Margin Required. The amount of margin required under this Rule 10.4 for each portfolio shall be the greater of:

(A) the amount for any of the ten equidistant valuation points representing the largest theoretical loss as calculated pursuant to paragraph (f) below or

(B) \$.375 for each listed option, unlisted derivative, security futures product, and related instrument multiplied by the contract or instrument's multiplier, not to exceed the market value in the case of long positions.

(f) Method of Calculation.

(1) Long and short positions in eligible positions are to be grouped by class; each class group being a "portfolio". Each portfolio is categorized as one of the portfolio types specified in paragraph (a)(11) above.

(2) For each portfolio, theoretical gains and losses are calculated for each position as specified in paragraph (a)(11) above. For purposes of determining the theoretical gains and losses at each valuation point, TPH organizations shall obtain and utilize the theoretical value of a listed option, unlisted derivative, security futures product, underlying instrument, and related instrument rendered by a theoretical pricing model that has been approved by the Securities and Exchange Commission.

(3) Offsets. Within each portfolio, theoretical gains and losses may be netted fully at each valuation point.

Offsets between portfolios within the High Capitalization, Broad-Based Index Option, Non- High Capitalization, Broad-Based Index Option and Narrow-Based Index Option product groups may then be applied as permitted by Rule 15c3-1a under the Securities Exchange Act of 1934.

(4) After applying paragraph (f)(3) above, the sum of the greatest loss from each portfolio is computed to arrive at the total margin required for the account (subject to the per contract minimum).

(5) In addition, if a security that is convertible, exchangeable, or exercisable into a security that is an underlying instrument requires the payment of money or would result in a loss if converted, exchanged, or exercised at the time when the security is deemed an underlying instrument, the full amount of the conversion loss is required.

(g) Minimum Equity Deficiency. If, as of the close of business, the equity in the portfolio margin account declines below the five million dollar minimum equity required under Paragraph (b) of this Rule 10.4 and is not restored to the required level within three (3) business days by a deposit of funds or securities, or through favorable market action; TPH organizations are prohibited from accepting new orders beginning on the fourth business day, except that new orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. This prohibition shall remain in effect until such time as:

(1) the required minimum account equity is re-established or

(2) all unlisted derivatives are liquidated or transferred from the portfolio margin account to the appropriate account.

In computing net capital, a deduction in the amount of a customer's equity deficiency may not serve in lieu of complying with the above requirements.

(h) Determination of Value for Margin Purposes. For the purposes of this Rule 10.4, all eligible positions shall be valued at current market prices. Account equity for the purposes of this Rule 10.4 shall be calculated separately for each portfolio margin account by adding the current market value of all long positions, subtracting the current market value of all short positions, and adding the credit (or subtracting the debit) balance in the account.

(i) Additional Margin.

(1) If, as of the close of business, the equity in any portfolio margin account is less than the margin required, the customer may deposit additional margin or establish a hedge to meet the margin requirement within three business days. After the three business day period, TPH organizations are prohibited from accepting new orders, except that new orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. In the event a customer fails to deposit

additional margin in an amount sufficient to eliminate any margin deficiency or hedge existing positions after three business days, the TPH organization must liquidate positions in an amount sufficient to, at a minimum, lower the total margin required to an amount less than or equal to account equity.

TPH organizations should not permit a customer to make a practice of meeting a portfolio margin deficiency by liquidation. TPH organizations must have procedures in place to identify accounts that periodically liquidate positions to eliminate margin deficiencies, and a TPH organization is expected to take appropriate action when warranted. Liquidations to eliminate margin deficiencies that are caused solely by adverse price movements may be disregarded.

Guarantees by any other account for purposes of margin requirements is not permitted.

(2) Pursuant to Rule 11.5 - Customer Portfolio Margin Accounts, if additional margin required is not obtained by the close of business on T+1, TPH organizations must deduct in computing net capital any amount of the additional margin that is still outstanding until such time as the additional margin is obtained or positions are liquidated pursuant to (i)(1) above.

(3) A deduction in computing net capital in the amount of a customer's margin deficiency may not serve in lieu of complying with the requirements of (i)(1) above.

(4) A TPH organization may request from its DEA an extension of time for a customer to deposit additional margin. Such request must be in writing and will be granted only in extraordinary circumstances.

(5) The day trading restrictions promulgated under Rule 10.3(j) shall not apply to portfolio margin accounts that establish and maintain at least five million dollars in equity, provided a TPH organization has the ability to monitor the intra-day risk associated with day trading. Portfolio margin accounts that do not establish and maintain at least five million dollars in equity will be subject to the day trading restrictions under Rule 10.3(j), provided the TPH organization has the ability to apply the applicable day trading restrictions under that Rule. However, if the position or positions day traded were part of a hedge strategy, the day trading restrictions will not apply. A "hedge strategy" for the purpose of this rule means a transaction or a series of transactions that reduces or offsets a material portion of the risk in a portfolio. TPH organizations are also expected to monitor these portfolio margin accounts to detect and prevent circumvention of the day trading requirements. In the event day trades executed in a portfolio margin account exceed the day trading buying power, the day trade margin deficiency that is created must be met by the deposit of cash and/or securities within three business days.

(j) *Portfolio Margin Accounts - Requirement to Liquidate.*

(1) A TPH organization is required immediately either to liquidate, or transfer to another broker- dealer eligible to carry related instruments within portfolio margin accounts, all

customer portfolio margin accounts with positions in related instruments if the Trading Permit Holder is:

(A) insolvent as defined in section 101 of title 11 of the United States Code, or is unable to meet its obligations as they mature;

(B) the subject of a proceeding pending in any court or before any agency of the United States or any State in which a receiver, trustee, or liquidator for such debtor has been appointed;

(C) not in compliance with applicable requirements under the Securities Exchange Act of 1934 or rules of the Securities and Exchange Commission or any self-regulatory organization with respect to financial responsibility or hypothecation of customers' securities; or

(D) unable to make such computations as may be necessary to establish compliance with such financial responsibility or hypothecation rules.

(2) Nothing in this paragraph (j) shall be construed as limiting or restricting in any way the exercise of any right of a registered clearing agency to liquidate or cause the liquidation of positions in accordance with its by-laws and rules.

#### **Rule 10.5. Determination of Value for Margin Purposes**

Positions in active securities, except security futures contracts, dealt in on a recognized exchange (including option contracts) shall, for margin purposes, be valued at current market value prices; provided that only the following may be deemed to have market value for the purposes of Rule 10.3(c): (a) whether or not dealt in on an exchange, only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds 9 months and which are listed or guaranteed by the carrying broker-dealer, or (b) a Credit Option as defined in Rule 4.40. Security futures contracts shall have no value for margin purposes. Positions in other securities shall be valued conservatively in the light of current market prices and the amount of anticipated realization upon a liquidation of the entire position. Substantial additional margin must be required in all cases where the securities carried are subject to unusually rapid or violent changes in value, or where the amount carried is such that they cannot be liquidated promptly.

#### **Rule 10.6. "When Issued" and "When Distributed" Securities**

(a) The minimum amount of margin on any transaction or net position in each "when issued" security shall be the same as if such security were issued. Each position in a "when issued" security shall be margined separately and any unrealized profit shall be of value only in providing the amount of margin required on that particular position. When an account has a "short" position in a "when issued" security and there are held in the account securities in respect of which the "when issued" security may be issued, such "short" position shall be marked to the market and the balance in the account shall for the purpose of this rule be adjusted for any unrealized loss in such "short" position.



(b) In connection with any transaction or net position resulting from contracts for a “when issued” security in an account other than that of a TPH organization or non-Trading Permit Holder broker or dealer, bank, trust company, insurance company, investment trust, charitable or nonprofit education institution, deposits shall be required equal to the margin required were such transactions or position in a margin account.

(c) In connection with any net position resulting from contracts for a “when issued” security made for or with a non-Trading Permit Holder broker or dealer, no margin need be required, but such net position must be marked to the market. In connection with any net position resulting from contracts for a “When issued” security made for a TPH organization or for or with a bank, trust company, insurance company, investment trust, charitable or nonprofit education institution, no margin need be required and such net position need not be marked to the market. However, where such net position is not marked to the market, an amount equal to the loss at the market in such position shall be considered as cash required to provide margin in the computation of the net capital of the TPH organization under the Exchange’s capital requirements.

(d) The term “when issued” as used herein also means “when distributed.”

#### **Rule 10.7. Guaranteed Accounts**

Any account guaranteed by another account may be consolidated with such other account and the required margin may be determined on the net position of both accounts, provided the guarantee is in writing and permits the TPH organization carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by the TPH organization or an Approved Person of the TPH organization carrying the account or any other Trading Permit Holder, TPH organization or Approved Person of a TPH organization having a definite arrangement for participating in the commissions earned on the guaranteed account.

#### **Rule 10.8. Meeting Margin Calls by Liquidation Prohibited**

No TPH organization shall permit a customer to make a practice of effecting transactions requiring initial or additional margin or full cash payment and then furnishing such margin or making such full cash payment by liquidation of the same or other commitments. The provisions of this Rule shall not apply to margin calls attributable to security futures contract transactions nor to any account maintained for another broker or dealer, exclusive of the partners, officers and directors of such other broker or dealer, provided such other broker or dealer is a TPH organization or has agreed in good faith with the TPH organization carrying the account that he will maintain a record equivalent to that referred to in Rule 10.11 of these Rules.

#### **Rule 10.9. Margin Required Is Minimum**

The amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby; but nothing in these Rules shall be construed to prevent a TPH organization from requiring margin in an

amount greater than that specified. The Exchange may at any time impose higher margin requirements in respect of such positions when it deems such higher margin requirements to be advisable.

#### **Rule 10.10. Compliance with Margin Requirements of New York Stock Exchange**

In lieu of meeting the margin requirements set forth in Rules 10.3 through 10.8 of this Chapter and margin rules in other chapters, a TPH organization that is a member of the New York Stock Exchange may elect to be bound by the initial and maintenance requirements of the New York Stock Exchange as the same may be in effect from time to time. Such election shall be made in writing by a notice filed with the Exchange and shall remain effective until the TPH organization shall file with the Exchange a written notice of revocation. Upon the filing of such election, a TPH organization shall be bound to comply with the margin rules of the New York Stock Exchange as though such rules were part of these Rules.

#### **Rule 10.11. Daily Margin Record**

Each TPH organization carrying margin accounts for customers shall make and maintain a daily record of every case in which, pursuant to the Rules of the Exchange or regulations of the Federal Reserve Board, initial or additional margin must be obtained in a customer's account because of the transactions effected in such account. This record shall be preserved for at least 12 months and shall show for each account the amount of margin so required and the time and manner in which such margin is furnished or obtained. This record shall be in a form approved by the Exchange and shall contain such additional information as the Exchange may from time to time prescribe. The Exchange may exempt any TPH organization which is a member or member organization of another national securities exchange having a substantially comparable rule with which such TPH organization is required to comply.

#### **Rule 10.12. Government Security Options Margin Requirements**

(a) This rule sets forth the minimum amount of margin which must be deposited and maintained in margin accounts of customers having positions in Government securities options traded on a registered national securities exchange, or a registered securities association and issued by the Options Clearing Corporation. The initial deposit of margin required under this rule must be made within five full business days after the date on which a transaction giving rise to a margin requirement is effected. All long options must be paid in full within five full business days after the date on which the options are purchased. For purposes of this rule, the term "current market value" of an option shall mean the total cost or net proceeds of the option transaction on the day the option was purchased or sold and shall mean the closing price of that series of options on the Exchange on any other day with respect to which a determination of current market value is made.

(b) For each put or call contract on Treasury securities carried in a short position in the account, margin must be maintained equal to at least 100% of the current market value of the contract plus the percentage of the principal amount of the underlying Government security set forth below:

<u>Underlying Government Security</u>	<u>Applicable Percentage of Principal Amount</u>
<u>U.S. Treasury Bills</u>	
<u>95 days or less to maturity</u>	<u>.35%</u>
<u>U.S. Treasury Notes</u>	<u>3%</u>
<u>U.S. Treasury Bonds</u>	<u>3.5%</u>

In each case, the amount shall be decreased by any excess of the aggregate exercise price of the option over the current market value of the underlying Government security in the case of a call, or any excess of the current market value of the underlying Government security over the aggregate exercise price of the option in the case of a put; provided, however, that the minimum margin required on each Treasury Bill option contract shall not be less than .05% of the principal amount of the underlying Treasury Bill; and on each Treasury Note and Treasury Bond option contract shall not be less than .5% of the principal amount of the underlying Government security. As an exception to the foregoing, where both a put and a call option position for the same principal amount of the same underlying Government security are carried in a short position in an account, the amount of the margin required shall be the margin required on the put or call position, whichever amount is greater, increased by the amount of any unrealized loss on the other position. The requirements set forth in this paragraph are also subject to the exceptions set forth in Rule 10.3(b).

(c) Standard options. Short options offset by long options. This subparagraph 10.12(c) applies to an account carrying positions in long call options (or long put options) and short call options (or short put options) for the same Government security provided that the expiration date of the long calls (or long puts) is the same as or subsequent to the expiration date of the offsetting short calls (or short puts) and

(1) When the aggregate exercise price of the long call (short put) position is less than or equal to the aggregate exercise price of the offsetting short call (long put) position, no margin is required.

(2) When the aggregate exercise price of the long call (short put) position is greater than the aggregate exercise price of the short call (long put) position, margin is required equal to the difference in aggregate exercise price(s) on a principal for principal basis.

(3) Covered calls. No margin is required in respect of a call option contract carried in a short position which is covered by a long position in underlying Government securities within the meaning of Rule 4.50. Treasury bills having a term to maturity of less than one week on the next applicable exercise settlement date do not qualify as cover under this rule.

(4) Short options offset by long options. This subparagraph (c)(4) applies to accounts carrying positions in long call options (or long put options) which are offset by positions in short call options (or short put options) for the same principal amount of Government securities, provided that the expiration date of the long calls (or long puts) is the same as or subsequent to the expiration date of the offsetting short calls (or short puts).

(A) When the nominal exercise price of the long call options (or short put options) is less than or equal to the nominal exercise price of the offsetting short call options (or long put options), no margin is required.

(B) When the nominal exercise price of the long call options (or short put options) is greater than the nominal exercise price of the offsetting short call options (or long put options), margin is required equal to the difference in nominal exercise prices multiplied by the principal amount of the underlying Government securities covered by the options. The amount of margin required by this subparagraph (c)(4)(B) may be adjusted by the Exchange to reflect market conditions or other factors.

(5) Short put and short call. This subparagraph (c)(5) applies to accounts carrying positions in short put options which are offset by positions in short call options for the same principal amount of Government securities. The margin required for such a position shall be the margin required for the short put option contract or the margin required for the short call option contract, whichever is greater, plus the current market value of the other contract.

(d) Recognized Government securities dealers who report to the Market Statistics Division of the Federal Reserve Bank of New York may extend credit to any customer with respect to positions in Government securities on a mutually agreed upon basis; provided, however, that if the amount of margin agreed upon is less than the proprietary haircut deductions required for such positions under SEC Rule 15c3-1, subparagraph (c)(2)(vi)(A), then a deduction in computing the dealer's net capital must be made to the extent that the equity in the customer's account is less than the amount of such proprietary haircut deductions.

(e) No margin is required in respect of Government security options carried in a short position where the customer has delivered, within five full business days after the options are written, to the TPH organization with which such position is maintained a custodial or Treasury security escrow receipt or letter of guarantee, in a form satisfactory to the Exchange, issued by a bank pursuant to specific authorization from the customer which certifies that:

(1) in the case of a custodial or Treasury security escrow receipt (covering calls), the bank maintains an Exchange approved position in a Government security, as specified in Exchange interpretation .02 below, for the account of the customer, and the bank certifies that the bank will deliver the underlying Government securities at the order of the TPH organization against payment of the exercise price of the calls in accordance with the terms of the custodial receipt; or

(2) in the case of a letter of guarantee (covering puts), the bank holds cash for the account of the customer which the bank will pay to the TPH organization against delivery of the underlying Government securities in accordance with the terms of the letter of guarantee.

Rule 10.12 supplements Chapter 10.

**Interpretations and Policies**

.01 For purposes of Rule 10.12(f), the term “bank” shall mean a bank or trust company supervised and examined by a State or Federal bank regulatory authority.

.02 Exchange approved Treasury bonds (notes) other than the underlying Treasury bond (note) may collateralize a Treasury security escrow receipt (covering calls), provided that the bonds have at least fifteen (15) years (notes have in excess of one (1) year and no more than five (5) years, three (3) months) until the callable or maturity date, and that bonds (notes) of a single coupon/maturity are held in escrow against one specific option contract. The amount of surrogate Treasury bonds (notes) needed to collateralize a Treasury security escrow receipt is determined by multiplying \$100,000 per contract by the Exchange approved conversion factor, which is the percentage of the face value of the surrogate bond (note) that must be deposited for the principal value of the deliverable bond (note) underlying the option contract.

New issues of U.S. Treasury securities which satisfy this regulation shall be added as they are issued. The Exchange shall have the right to include any new issue meeting the requirements specified above or to further limit any outstanding issue from collateralizing a Treasury security escrow receipt.

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