Regulatory Circular RG93-60

Date: November 5, 1993

To: Exchange Members and Member Organizations

From: Department of Financial Compliance

Subject: Margin and Capital Requirements for Treasury Bond and Note Options

On November 5, 1993 the Chicago Board Options Exchange (the "CBOE" or the Exchange") will began trading options on the most recently issued 30-year treasury bond and 10 and 5 year treasury notes ("Treasury Options"). The options will be cash-settled, European-style options based on the yield-to-maturity of the underlying treasury security. The purpose of this circular is to explain the Exchange margin and capital treatment for the Treasury Options.

MARGIN

The Treasury Options will be subject to margin rules outlined in CBOE Rule 23.13. A long option must be paid for in full. The margin requirement for a short put or call is 100% of the current market value plus 10% of the current interest rate measure[1] times the multiplier. In each case the amount shall be decreased by any excess of the aggregate exercise price of the option over the interest rate measure as multiplied by the multiplier in the case of a call, or any excess of the interest rate measure as multiplied by the multiplier over the aggregate exercise price in the case of a put, provided that the minimum margin required on each such option contract shall not be less than the option market value plus 5% of the interest rate measure times the multiplier. Spreads and straddles are permitted for options covering equivalent units of the same underlying treasury security.

NET CAPITAL

The net capital treatment for Treasury Options will be similar to other yield-based treasury options. For example, the haircut on a short Treasury Option position will be:

[1] The term "interest rate measure" means the number derived by the Exchange by multiplying by a factor of ten the current underlying yield-to-maturity on the given treasury security.

- 75% of the current market value with a minimum haircut of $75 per contract for market maker positions.

- 100% of the current market value with a minimum haircut of $150 per contract for firms utilizing the proprietary haircuts described in the Securities and Exchange Commission ("SEC") October 23, 1985 no action letter to the Securities Industry Association Capital Committee.[2]

- 10% of the underlying index value, less the out-of-the-money amount, plus the prescribed net worth adjustment which is an add back equal to the time value of the short contract, for firms computing haircuts under Appendix A of SEC Rule 15c3-1. The minimum haircut is $250 per contract less the aforementioned net worth adjustment.

Questions regarding the margin and capital treatment for Treasury Options should be directed to the Exchange's Department of Financial Compliance at (312) 786-7924.

[2] A copy of the SEC October 23, 1985 no action letter may be obtained from the Department of Financial Compliance.

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