

RG96-45

Date: May 14, 1996

To: All Members

From: Department of Market Regulation

Re: Position Limit Narrow Based Index Hedge Exemption

The Securities and Exchange Commission ("SEC") has approved a change to Exchange Rule 24.4A, Position Limits for Industry Options, to include a provision for a narrow based index hedge exemption. The exemption must be approved in advance by the Department of Market Regulation, is applicable to broker/dealer (including market-makers) and customer accounts, is in addition to the standard limit and other exemptions provided by Exchange rules, and may not exceed twice the standard limit. In order to qualify for an exemption an account or portfolio must be previously established and consist of common stock positions or securities convertible into such stock, in at least 75% of the component stocks of the index. For example, the current position limit in the MEX index is 12,000 contracts. The maximum position that can be maintained is 36,000 contracts (12,000 + 24,000 contracts = 36,000 contracts) provided that the qualifying stock portfolio's underlying market value equals the underlying market value of a 24,000 contract option position. A stock portfolio of lesser value will be equated to an equal number of option contracts and applied to the hedge exemption. If an exemption is granted, it will be effective at the time it is communicated and will remain in effect until such time the stock portfolio no longer meets the noted qualifications. Ordinarily, only written exemption requests accompanied by documentation substantiating the stock portfolio will be considered. However, on a case-by-case basis and under extreme market conditions, a verbal exemption may be granted. In this situation, the account receiving the exemption must follow up with the required documentation within two business days of the effective date of the exemption.

The hedge exemption account must initiate and liquidate option and stock positions in an orderly fashion and shall liquidate exempt option positions prior to or contemporaneously with a reduction in the stock portfolio. In addition, option and stock positions may not be initiated or liquidated with a view towards taking advantage of any differential in price between a group of securities and an overlying index option position. Questions pertaining to this index hedge exemption or requests to obtain a narrow based index hedge exemption application may be directed to Patricia Cerny at (312) 786-7722 or Beth Curran at (312) 786-7833.