

Margin Calculation: $\$5.00 \times 1 \text{ contract} \times 100 \text{ shares} = \500.00
 Margin Requirement: $\$500.00$
 SMA Debit or Margin Call:
 $\$500.00 - \$200.00 = \$300.00$

Explanation: The initial and maintenance margin requirement is the exercise price interval (aggregate). Establishing this complex spread results in a net credit of \$200.00 that may be applied to the margin requirement.

As shown in the table below, the same margin requirement, and SMA debit or margin call, would result by taking the sum of the margin required on each spread in the equivalent aggregation.

	Net dr or cr	Margin Req.	Deposit
Long Butterfly	\$200 dr	0	\$200
Long Butterfly	\$100 dr	0	100
Short Box #1	\$500 cr	\$500	0
Total	\$200 cr	500	300

The margin requirements set forth in this Regulatory Circular will be in effect as a pilot until {insert date one (1) year from the date of approval of the Regulatory Circular by the Commission}.

Questions regarding margin requirements should be directed to James Adams at (312) 786-7718 or Richard Lewandowski at (312) 786-7183.

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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 CBOE 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 CBOE 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

The Exchange proposes to adopt an interpretation to CBOE Rule 12.3—Margin Requirements—to clarify that margin requirements for certain complex option spreads are provided for under CBOE Rule 12.3. The Exchange proposes to implement this interpretation through a Regulatory Circular that will set forth the margin requirements for such complex spreads. The Exchange believes that the complex spreads in question are simply another way of expressing a collection of two or more basic option spreads (*i.e.*, the butterfly spread, the box spread, and the time spread) already covered under the margin rules. Therefore, the Exchange believes that the complex spread margin

requirements are reasonably implied by, and are a logical extension of, the current margin rules. The proposed Regulatory Circular is intended to be a temporary measure and will operate as a pilot for one year from the date of approval of the Regulatory Circular by the Commission.

The proposed Regulatory Circular identifies seven complex spread configurations, each of which can be shown to equate, on a risk/reward basis, to a package of two or more basic spread strategies that are already identified and ascribed a margin requirement under the Exchange's current margin rules. According to the Exchange, netting the common option series between the basic spreads in the package corresponding to a complex spread actually results in the complex spread. Therefore, the Exchange believes that a complex spread can be viewed as the sum of two or more basic spreads. The Exchange believes further that for each complex spread configuration identified in the proposed Regulatory Circular, the sum of the margin required on the basic spreads in an equivalent package covers the maximum risk of the complex spread, and is an appropriate minimum requirement.

The proposed Regulatory Circular holds that a margin requirement for each of the seven complex spread configurations identified is, in effect, provided for under current CBOE margin rules because they equate to basic spread strategies for which margin requirements are already specified. Therefore, according to the Exchange, the proposed Regulatory Circular will allow member organizations to require margin for the subject complex spreads, whether established outright or through netting, of not less than the sum of the margin required on each basic spread in its corresponding package.

To be eligible for the margin requirements set forth in the proposed Regulatory Circular, a complex spread must match one of the seven patterns

specified in the proposed Regulatory Circular. Furthermore, the proposed Regulatory Circular mandates that: (1) Complex spreads must be carried in a margin account; (2) European-style options are prohibited for complex spread configurations having a long option series that expires after the other option series (*i.e.*, involves a time spread); (3) the intervals between exercise prices of each option series must be equal; and (4) each complex spread must comprise four option series, with the exception of one configuration, which must comprise three option series. In view of these limitations, the Exchange believes the complex spread margin requirements are non-controversial.

2. Statutory Basis

The Exchange believes that the proposed Regulatory Circular clarifies that the Exchange's current margin rules extend to complex option spreads, thereby, allowing investors to more efficiently implement these strategies. As such, the Exchange believes that the proposed Regulatory Circular interpretation of CBOE Rule 12.3 is consistent with and furthers the objectives of Section 6(b)(5) of the Act,⁴ in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

The CBOE does not believe that the proposed Regulatory Circular interpretation of CBOE Rule 12.3 will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

⁴ 15 U.S.C. 78f(b)(5).