

Chicago Board Options Exchange Margin Manual

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INTRODUCTION

This manual has been developed by CBOE to assist the margin personnel of member firms as well as to serve as a guide to all users of options. The requirements explained here are based on publication date rules and regulations, and therefore, subject to change. This manual should be used as a reference document and is not intended to be an all-encompassing restatement of Federal Reserve Board and Exchange margin rules. Persons using this manual should be familiar with margin computational methods and procedures as well as the margin requirements for all types of securities. Users contemplating margin account transactions are reminded that a \$2,000 minimum margin account equity is required to effect new securities transactions and commitments [CBOE Rule 12.3(i)]. Further, broker-dealers require a minimum margin account equity well in excess of \$2,000 for uncovered, short option transactions. It should be emphasized that substitutions involving loan value and non-loan value securities be given consideration with regard to the relative changes in an account's maximum loan value and debit balance rather than only to the proceeds of a sale.

For further information, please contact CBOE's Department of Financial and Sales Practice Compliance, (312) 786-7718.

Long Options (listed)	Percentage of Purchase Cost / Market Value		Effective Date
Equity, Equity Index with Expiration > 9 months	75%		8/23/99
Short Options (listed)	Percentage of Underlying	Minimum Percentage	Effective Date
Equity, Narrow Based Index	20%	10%	6/06/88
Broad Based Index	15%	10%	6/06/88
Interest Rate Options	10%	5%	6/23/89
Spreads	Requirement		Effective Date
Long Butterfly Spread	Pay Debit in Full		8/23/99
Short Box Spread	Strike Price Differential		8/23/99

Long options with 9 months or less until expiration remain non-marginable. Note that in respect of short put options, the minimum percentage is applied to the put's exercise price instead of to the underlying value (effective 6/02/97). Butterfly and box spreads must be structured as defined in CBOE rules. Also, certain long box spreads are eligible for margin of 50% of the exercise price differential (effective 8/23/99). Additionally, certain spread strategies having limited risk are permitted in the cash account (effective 8/23/99), as detailed later in this Margin Manual. Certain strategies involving an American style option and a position in the underlying (i.e., Long Put / Long Underlying, Long Call / Short Underlying, Conversion, Reverse Conversion and Collar) are eligible for reduced maintenance margin requirements (effective 8/23/99), as detailed later in this Margin Manual.

Option margin percentage requirements are subject to change. Contact the CBOE's Department of Financial and Sales Practice Compliance for current percentages, (312) 786-7718.

The prices of the various stock and option positions used as examples in the sample calculation section of this Margin Manual are expressed in fractions. At the time of publication, the securities industry was preparing, but had not yet begun, to quote and trade stock and options in decimal format. However, whether prices are expressed in fractions or decimals, the methodology for calculating margin requirements remains the same.

INITIAL AND
MAINTENANCE
REQUIREMENTS

This schedule contains a description of Exchange margin requirements for various positions in put options, call options, combination put-call positions and underlying positions offset by option positions. Unless noted otherwise, requirements are for listed options. Initial requirements must be satisfied within five (5) business days from trade date. Sale proceeds may be applied toward the initial requirement. Maintenance requirements must be satisfied within fifteen (15) calendar days. Positions may be margined separately to obtain lowest requirement.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Long Put or Long Call 9 months or less until expiration	Equity; Broad and Narrow Based Indexes; Interest Rate Options; Long CAPS	Pay for each put or call in full.	Pay for each put or call in full. Cash need not be deposited in excess of put or call cost.	None required (no loan value).
Long Put or Long Call more than 9 months until expiration	Equity; Broad and Narrow Based <u>Equity</u> Indexes only. ¹ [For all other option types, the requirement is the same as for a 9 month or less option (above).]	Pay for each put or call in full.	<u>Listed</u> 75% of the total cost of the option. <u>OTC</u> 75% of the intrinsic value (in-the-money amount) of the option plus 100% of the amount by which the option's purchase price exceeds its intrinsic value. OTC option must be American style exercise and be guaranteed by the carrying broker-dealer.	<u>Listed</u> 75% of option market value. <u>OTC</u> 75% of the intrinsic value of the option. Note that in either case, the option has no value for margin purposes when time remaining to expiration reaches 9 months.

¹ Other than equity options and broad and narrow based equity index options, only stock index warrants are eligible for purchase on margin.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Short Put or Short Call	Broad Based Index	<u>Put</u> Deposit cash or cash equivalents ² equal to aggregate exercise price, or an escrow agreement ³ for a short index put option. <u>Call</u> Deposit escrow agreement for a short index call option. ***** Whether put or call, sale proceeds not released until deposit is made.	100% of option proceeds plus 15% of underlying index value less out-of-the-money amount, if any, to a minimum for calls of option proceeds plus 10% of the underlying index value, and a minimum for puts of option proceeds plus 10% of the put's exercise price.	For each short option, 100% of option market value plus 15% of underlying index value less out-of-the-money amount, if any, to a minimum for calls of option market value plus 10% of the underlying index value, and a minimum for puts of option market value plus 10% of the put's exercise price.
	Equity, Narrow Based Index	<u>Put</u> Deposit cash or cash equivalents equal to aggregate exercise price or appropriate escrow agreement. <u>Call</u> Deposit appropriate escrow agreement. ***** Whether put or call, sale proceeds not released until deposit is made.	100% of option proceeds plus 20% of underlying security / index value less out-of-the-money amount, if any, to a minimum for calls of option proceeds plus 10% of the underlying security / index value, and a minimum for puts of option proceeds plus 10% of the put's exercise price.	For each short option, 100% of option market value plus 20% of underlying security / index value less out-of-the-money amount, if any, to a minimum for calls of option market value plus 10% of the underlying security / index value, and a minimum for puts of option market value plus 10% of the put's exercise price.

² Acceptable as cash equivalents (pursuant to Regulation T of the Board of Governors of the Federal Reserve System) are securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit, banker's acceptances issued by banking institutions in the United States and payable in the United States, or money market mutual funds.

³ The term "escrow agreement" (pursuant to Exchange Rules), 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.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Short Put or Short Call	CAPS	Deposit cash or cash equivalents equal to the cap interval times the index multiplier.	The lesser of: a) the cap interval times the index multiplier or b) 100% of the option proceeds plus 15% of the underlying index value less out-of-the-money amount, if any, to a minimum for calls of option proceeds plus 10% of the underlying index value, and a minimum for puts of option proceeds plus 10% of the put's exercise price.	The lesser of: a) the cap interval times the index multiplier or b) 100% of the option market value plus 15% of the underlying index value less out-of-the-money amount, if any, to a minimum for calls of option market value plus 10% of the underlying index value, and a minimum for puts of option market value plus 10% of the put's exercise price.
	Interest Rate Options	<u>Put</u> Deposit cash or cash equivalents equal to aggregate exercise price. Sale proceeds not released until deposit is made. <u>Call</u> Not permitted. ⁴	100% of option proceeds plus 10% of the underlying value less out-of-the-money amount, if any, to a minimum for calls of option proceeds plus 5% of the underlying value, and a minimum for puts of option proceeds plus 5% of the put's exercise price.	100% of option market value plus 10% of the underlying value less out-of-the-money amount, if any, to a minimum for calls of option market value plus 5% of the underlying value, and a minimum for puts of option market value plus 5% of the put's exercise price.
Short Put and Short Call	Equity	Deposit an escrow agreement for each option. See requirement for short equity put or call.	For the same underlying security, short put or short call requirement, whichever is greater, plus the option proceeds of the other side.	For the same underlying security, short put or short call requirement, whichever is greater, plus the option market value of the other side.

⁴ Escrow agreements are not currently acceptable in lieu of a margin deposit for short interest rate option calls. In many instances, institutional entities are **not** barred from trading these instruments on a margin basis, provided that the options serve to offset the risk exposure of other interest rate investments. Contact the Exchange's Department of Financial and Sales Practice Compliance at (312) 786-7718 for more detailed information.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Short Put and Short Call	Broad and Narrow Based Indexes	Deposit an escrow agreement for each option. See requirement for short index put or call.	For the same underlying index with the same index multiplier, short put or short call requirement, whichever is greater, plus the option proceeds of the other side.	For the same underlying index with the same index multiplier, short put or short call requirement, whichever is greater, plus the option market value of the other side.
	Interest Rate Options	Not permitted. ⁵	For the same underlying interest rate composite, short put or short call requirement, whichever is greater, plus the option proceeds of the other side.	For the same underlying interest rate composite, short put or short call requirement, whichever is greater, plus the option market value of the other side.
Put Spread or Call Spread ⁶ long side expires with or after short side	Equity; Broad and Narrow Based Indexes; Interest Rate Options; CAPS	Not permitted, except as provided below.	For the same underlying instrument and, as applicable, the same index multiplier; the amount by which the long put (short call) aggregate exercise price is below the short put (long call) aggregate exercise price. Long side must be paid for in full. Proceeds from short option sale may be applied. ⁷	Initial spread requirement must be maintained.

⁵ Treat as separate positions (See requirement for short interest rate put or call).

⁶ Reduced value options for the same underlying covering the same total aggregate underlying value may be combined with regular options for spread and straddle positions. However, spread treatment is **not** available for a long CAPS offset by a short regular option.

⁷ It is important to remember that under certain circumstances, it is possible that the spread margin held by a carrying broker-dealer could become insufficient to cover the assignment obligation on the short option if the long side is a European style option that can not be exercised, and that option is trading at a discount to its intrinsic value.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
<p>Put Spread or Call Spread</p> <p>long side expires <u>with</u> short side</p> <p>all component options are European style exercise index options</p> <p>all component options are cash settled</p>	Broad and Narrow Based Indexes, CAPS	For the same underlying instrument and, as applicable, the same index multiplier; deposit and <u>maintain</u> cash or cash equivalents equal to the amount by which the long put (short call) aggregate exercise price is below the short put (long call) aggregate exercise price. Long side must be paid for in full. Proceeds from short option sale may be applied. An escrow agreement representing cash or cash equivalents may be deposited in lieu of requirement.	See above.	See above.
<p>Long Butterfly Spread</p> <p>two short options of the same series offset by one long option of the same type with a higher strike price and one long option of the same type with a lower strike price</p> <p>all component options have the same expiration</p> <p>intervals between exercise prices are equal</p>	<p>Cash Account Broad and Narrow Based Indexes only (see next cell).</p> <p>Margin Account Equity; Broad and Narrow Based Indexes; Interest Rate Options; CAPS</p>	<p>Only long butterfly spreads composed of European style exercise, cash-settled index options are permitted in the cash account.</p> <p>For the same underlying instrument and, as applicable, the same index multiplier; the long sides must be paid for in full. Proceeds from short option sale may be applied.</p>	For the same underlying instrument and, as applicable, the same index multiplier; the long sides must be paid for in full. Proceeds from short option sale may be applied.	Initial long butterfly spread requirement must be maintained.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
<p>Short Butterfly Spread</p> <p>two long options of the same series offset by one short option of the same type with a higher strike price and one short option of the same type with a lower strike price</p> <p>all component options have the same expiration</p> <p>intervals between exercise prices are equal</p>	<p>Cash Account Broad and Narrow Based Indexes only (see next cell).</p> <p>Margin Account Equity; Broad and Narrow Based Indexes; Interest Rate Options; CAPS</p>	<p>Only short butterfly spreads composed of European style exercise, cash-settled index options are permitted in the cash account.</p> <p>For the same underlying instrument and, as applicable, the same index multiplier, deposit and maintain cash or cash equivalents equal to:</p> <p><u>Puts</u> The amount of the aggregate difference between the two highest exercise prices or</p> <p><u>Calls</u> The aggregate difference between the two lowest exercise prices.</p> <p>Net proceeds from sale of short options may be applied.</p> <p>An escrow agreement representing cash or cash equivalents may be deposited in lieu of requirement.</p>	<p>For the same underlying instrument and, as applicable, the same index multiplier:</p> <p><u>Puts</u> The amount of the aggregate difference between the two highest exercise prices.</p> <p><u>Calls</u> The aggregate difference between the two lowest exercise prices.</p> <p>Net proceeds from sale of short options may be applied.</p>	<p>Initial short butterfly spread requirement must be maintained.</p>

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
<p>Long Box Spread</p> <p>long call and short put with the same exercise price ("buy side") coupled with a long put and short call with the same exercise price ("sell side"); buy side exercise price is lower than the sell side exercise price</p> <p>all component options must expire at the same time</p>	<p>Cash Account Broad and Narrow Based Indexes only (see next cell).</p> <p>Margin Account Equity; Broad and Narrow Based Indexes; Interest Rate Options; CAPS</p>	<p>Only long box spreads composed of European style exercise, cash-settled index options are permitted in the cash account.</p> <p>For the same underlying instrument and, as applicable, the same index multiplier; the long sides must be paid for in full. Proceeds from sale of short options may be applied.</p>	<p>For the same underlying instrument and, as applicable, the same index multiplier; the long sides must be paid for in full. Proceeds from sale of short options may be applied.</p> <p><EXCEPTION></p> <p>Long box spreads composed of European style options.</p> <p>50% of the aggregate difference in the exercise prices. Proceeds from short option sales may be applied. Long box spread may be valued at an amount not to exceed 100% of the aggregate difference in the exercise prices.</p>	<p>Initial long box spread requirement must be maintained.</p>
<p>Short Box Spread</p> <p>long call and short put with the same exercise price ("buy side") coupled with a long put and short call with the same exercise price ("sell side"); buy side exercise price is higher than the sell side exercise price</p> <p>all component options must expire at the same time</p>	<p>Cash Account Broad and Narrow Based Indexes only (see next cell).</p> <p>Margin Account Equity; Broad and Narrow Based Indexes; Interest Rate Options; CAPS</p>	<p>Only short box spreads composed of European style exercise, cash-settled index options are permitted in the cash account.</p> <p>For the same underlying instrument and, as applicable, the same index multiplier; deposit and maintain at least the amount of the aggregate difference in the exercise prices. Net proceeds from sale of short options may be applied.</p> <p>An escrow agreement representing cash and / or cash equivalents may be deposited in lieu of requirement.</p>	<p>For the same underlying instrument and, as applicable, the same index multiplier; deposit and maintain at least the amount of the aggregate difference in the exercise prices. Net proceeds from sale of short options may be applied.</p>	<p>Initial short box spread requirement must be maintained.</p>

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Short Put and Short Underlying (not permitted for CAPS or interest rate options)	Equity	Not permitted	None required on short put. Short sale proceeds plus 50% requirement on short stock position.	<p>None required on short put. Short stock requirement is 100% of stock market value plus:</p> <ul style="list-style-type: none"> •for stock with market value of less than \$5.00 per share, the greater of \$2.50 per share or 100% of stock market value •for stock with market value of \$5.00 or more per share, the greater of \$5.00 per share or 30% of stock market value. <p>Any amount (aggregate) by which the exercise price of the put exceeds the market price of the stock must be added to the stock maintenance requirement, and to the stock initial requirement for purposes of determining if excess Reg. T equity exists.</p>
	Broad and Narrow Based Indexes	Not permitted.	None required on short put. Short sale proceeds plus 50% requirement on short underlying stock basket.	None required on short put. On underlying, same maintenance requirement as for stock (above).
Short Call and Long Underlying (not permitted for CAPS or interest rate options)	Equity	Pay for underlying position in full.	None required on short call. 50% requirement on long stock position.	<p>None required on short call. 25% requirement on long stock position.</p> <p>Long underlying position must be valued at lower of current market value or call exercise price for margin equity purposes.</p>

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Short Call and Long Underlying (not permitted for CAPS or interest rate options)	Broad and Narrow Based Indexes	Not permitted.	None required on short call. 50% requirement on long underlying stock basket; or unit investment trust or open end mutual fund specifically approved by the Exchange.	None required on short call. On underlying, same maintenance requirement as for stock (above). Long underlying position must be valued at lower of current market value or call exercise price for margin equity purposes.
Short Call and Long Marginable Convertibles (the convertible security must be immediately convertible or exchangeable and may not expire before the short call; no money payable upon exchange or conversion; equity options only)	Equity	Pay for the convertible security in full.	None required on short call. 50% requirement on convertible security.	None required on short call. 25% requirement on convertible security. The convertible security must be valued at lower of current market value or call exercise price for margin equity purposes.
Short Call and Long Marginable Stock Warrants (money payable upon exercise or conversion; equity options only)	Equity	Not permitted.	None required on short call. 100% requirement on warrants plus any amount by which exercise price of warrants exceeds option exercise price. ⁸ Warrants may not expire before the short call. The warrant may not be given value for margin purposes.	Initial requirement must be maintained.

⁸ Regulation T allows loan value on a long, marginable stock warrant. However, pursuant to CBOE rules, when a long warrant is spread with a short call option, the warrant may contribute no equity to the account (no loan value). Therefore, the higher Exchange maintenance requirement becomes both the initial and maintenance requirement.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Long Put and Long Underlying	Equity, Index ⁹	Pay for each position in full.	Pay for put in full. 50% requirement on long stock position.	<p>None required on put (no loan value). Provided long put is American style exercise, long stock requirement is the lower of:</p> <ol style="list-style-type: none"> 1) 10% of the put exercise price plus 100% of any out-of-the-money amount, or 2) 25% of stock market value.
Long Call and Short Underlying	Equity, Index ⁹	Not permitted.	Pay for call in full. Short sale proceeds plus 50% requirement on short stock position.	<p>None required on call (no loan value). Provided long call is American style exercise, short stock requirement is 100% of stock market value plus the lower of:</p> <ol style="list-style-type: none"> 1) 10% of the call exercise price plus 100% of any out-of-the-money amount, or 2) <ul style="list-style-type: none"> • for stock with market value of less than \$5.00 per share, the greater of \$2.50 per share or 100% of stock market value • for stock with market value of \$5.00 or more per share, the greater of \$5.00 per share or 30% of stock market value.

⁹ Permitted only for options on individual stocks and stock index options. For stock index options, a qualified stock basket may serve as an underlying component for the following strategies: Long Put and Long Underlying; Long Call and Short Underlying; Conversion; Reverse Conversion; and Collar. A unit investment trust (“UIT”) replicating the S&P 500 index that has been approved by the Exchange may serve as the underlying component in respect of the Conversion and Collar strategies. **When an option is part of a hedge strategy, loan value on the option is not permitted.**

Also permitted with OTC options, however, the OTC option must be guaranteed by the carrying broker-dealer.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
<p>Conversion</p> <p>long put and long underlying with short call</p> <p>put and call must have same expiration and exercise price</p>	Equity, Index ⁹	Pay for put and long stock in full. No requirement on short call.	Pay for put in full. No requirement on short call. 50% requirement on long stock position.	<p>None required on put (no loan value) or call. Provided options are American style exercise, long stock requirement is 10% of the exercise price.</p> <p>Long stock position must be valued at lower of current market value or call exercise price for margin equity purposes.</p>
<p>Reverse Conversion</p> <p>long call and short underlying with short put</p> <p>put and call must have same expiration and exercise price</p>	Equity, Index ⁹	Not permitted.	Pay for call in full. No requirement on short put. Short sale proceeds plus 50% requirement on short stock position.	<p>None required on put (no loan value) or call. Provided options are American style exercise, short stock requirement is 10% of the exercise price.</p> <p>Any amount (aggregate) by which the exercise price of the put exceeds the market price of the stock must be added to the stock maintenance requirement, and to the stock initial requirement for the purpose of determining if excess Reg. T equity exists.</p>
<p>Collar</p> <p>long put and long underlying with short call</p> <p>put and call must have same expiration</p> <p>put exercise price lower than call exercise price</p>	Equity, Index ⁹	Pay for put and long stock in full. No requirement on short call.	Pay for put in full. No requirement on short call. 50% requirement on long stock position.	<p>None required on put (no loan value) or call. Provided options are American style exercise, long stock requirement is the lower of:</p> <ol style="list-style-type: none"> 1) 10% of the put exercise price plus any put out-of-the-money amount, or 2) 25% of the call exercise price. <p>Long stock position must be valued at lower of current market value or call exercise price for margin equity purposes.</p>

⁹See p. 13.
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FLEX OPTIONS

The preceding margin requirements also apply to FLEX Options, with some exceptions which are reflected below (Put Spreads or Call Spreads; Short Put and Short Call).

Note that FLEX Options can be offset against conventional options. Also, FLEX Options are allowed to be offset with FLEX Options or conventional options having a different exercise style (American vs. European). Additionally, Index FLEX Options are allowed to be offset with Index FLEX Options or conventional index options with a different settlement value determination (open vs. close).

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Put Spread or Call Spread	Equity	Not permitted.	Long side must expire with or after the short side.	Initial spread requirement must be maintained.
FLEX vs. FLEX			Spreads between different exercise styles (American vs. European) permitted.	
FLEX vs. Conventional			For the same underlying instrument and, as applicable, the same index multiplier; the amount by which the long put (short call) aggregate exercise price is below the short put (long call) aggregate exercise price. Long side must be paid for in full. Proceeds from short option sale may be applied. ¹⁰	

¹⁰ It is important to remember that under certain circumstances, it is possible that the spread margin held by a carrying broker-dealer could become insufficient to cover the assignment obligation on the short option if the long side is a European style option that can not be exercised, and that option is trading at a discount to its intrinsic value.

	OPTION TYPE	CASH ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT INITIAL REQUIREMENT	MARGIN ACCOUNT MAINTENANCE REQUIREMENT
Put Spread or Call Spread FLEX vs. FLEX FLEX vs. Conventional	Index	<p>Both long and short side must be European style exercise, cash settled index options</p> <p>Long must expire with the short.</p> <p>For the same underlying instrument and, as applicable, the same index multiplier; deposit and <u>maintain</u> cash or cash equivalents equal to the amount by which the long put (short call) aggregate exercise price is below the short put (long call) aggregate exercise price. Long side must be paid for in full. Proceeds from short option sale may be applied.</p> <p>An escrow agreement representing cash or cash equivalents may be deposited in lieu of requirement.</p>	<p>See above.</p> <p>Also, long and short may have different settlement value determinations (open vs. close). If settlement value determinations differ, and both positions expire on the same day, each position must be margined separately two days prior to expiration.</p>	<p>See above.</p> <p>Also, long and short may have different settlement value determinations (open vs. close). If settlement value determinations differ, and both positions expire on the same day, each position must be margined separately two days prior to expiration.</p>
Short Put and Short Call FLEX vs. FLEX FLEX vs. Conventional	Equity	Deposit an escrow agreement for each option. See requirement for short equity put or call.	<p>Different exercise styles are permitted (American vs. European).</p> <p>For the same underlying security, short put or short call requirement whichever is greater, plus the option proceeds of the other side.</p>	For the same underlying security, short put or short call requirement whichever is greater, plus the option market value of the other side.
	Index	See above.	<p>See above.</p> <p>Also, the options may have different settlement value determinations (open vs. close). If settlement value determinations differ, and both positions expire on the same day, each position must be margined separately two days prior to expiration.</p>	<p>See above.</p> <p>Also, the options may have different settlement value determinations (open vs. close). If settlement value determinations differ, and both positions expire on the same day, each position must be margined separately two days prior to expiration.</p>

SAMPLE CALCULATIONS FOR OPTIONS

With the exception of the examples concerning maintenance margin on pages 37 through 40, the examples that follow only reflect the margin treatment on the illustrated positions at the time they are effected. The examples do not demonstrate the impact of brokerage charges, such as commissions and interest, or the effect of adverse market movements, which could result in losses and maintenance margin calls. **It should be noted that current option market value must be used in lieu of option proceeds when calculating maintenance margin requirements.** The inclusion of any particular strategy in this publication is solely the result of either industry practice or related inquiries received by the Exchange. No statement in this publication should be construed as an endorsement of a specific strategy.

EQUITY OPTIONS: LONG OPTION EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION
Long Options With 9 Months or Less to Expiration (Listed or OTC)	
Long 1 Dec 125 call at 5 (expiring in 6 months, any style exercise) Underlying security at 128-1/2	<p><i>Margin Calculation:</i> 100 x 5 = \$500.00</p> <p><i>Margin Requirement:</i> \$500.00</p> <p><i>SMA¹¹ Debit or Margin Call:</i> \$500.00</p> <p><i>Explanation:</i> Long options with 9 months or less until expiration must be paid for in full.</p>
Long Options With More Than 9 Months to Expiration (Listed)	
Long 1 Dec 80 call at 12 (expiring in 18 months, can be either American or European style exercise) Underlying at 78	<p><i>Margin Calculation:</i> 75% x 12 x 100 = \$900.00</p> <p><i>Margin Requirement:</i> \$900.00</p> <p><i>SMA Debit or Margin Call:</i> \$900.00</p> <p><i>Explanation:</i> Initial (maintenance) margin requirement for long listed options with more than 9 months until expiration is 75% of the premium (market value). Option has no value for margin purposes when time remaining to expiration reaches 9 months.</p>
Long Options With More Than 9 Months to Expiration (OTC)	
Long 1 Jun 75 call at 4-1/2 (expiring in 12 months, American style exercise only, and must be guaranteed by the carrying broker-dealer) Underlying at 79	<p><i>Margin Calculation:</i> (75% x 4) + .50 x 100= \$350.00</p> <p><i>Margin Requirement:</i> \$350.00</p> <p><i>SMA Debit or Margin Call:</i> \$350.00</p> <p><i>Explanation:</i> For an OTC option with 9 months or more until expiration, the initial margin requirement is 75% of the option's intrinsic value (in-the-money amount) plus 100% of the amount by which the option's purchase price exceeds its intrinsic value. In addition to having more than 9 months to expiration, OTC options must be American style exercise and be guaranteed by the carrying broker-dealer in order to be eligible for margin. The maintenance margin requirement is 75% of the option's intrinsic value. Option has no value for margin purposes when time remaining to expiration reaches 9 months.</p>

¹¹ SMA = "Special Memorandum Account" provided in Federal Reserve Board Regulation T Section 220.5

EQUITY OPTIONS:
SHORT OPTION EXAMPLES

CALCULATION, REQUIREMENT AND EXPLANATION

Short 1 Feb 30 call at 1/16
(Out-of-the-money)
Underlying security at 17-3/8

Margin Calculation:

100 x .0625 =	\$ 6.25
20% x 100 x 17.375 =	347.50
(30 - 17.375) x 100 =	<u>(1,262.50)</u>
	\$ (908.75)

Therefore, minimum applies:

100 x .0625 =	\$ 6.25
10% x 100 x 17.375 =	<u>173.75</u>
	\$180.00

Margin Requirement: \$180.00

SMA Debit or Margin Call: \$180.00 - \$6.25 = \$173.75

Explanation: The margin requirement is 100% of the option proceeds plus 20% of the underlying security value less out-of-the-money amount, if any, to a minimum for calls of 100% of the option proceeds plus 10% of the underlying security value. The minimum applies in this example because the resulting margin requirement is greater than that of the basic formula. The sale proceeds may be applied to the **initial** margin requirement.

Short 1 Nov 120 call at 8-3/8
(in-the-money)
Underlying security at 128-1/2

Margin Calculation:

100 x 8.375 =	\$ 837.50
20% x 100 x 128.50 =	<u>2,570.00</u>
	\$3,407.50

Margin Requirement: \$3,407.50

SMA Debit or Margin Call: \$3,407.50 - \$837.50 = \$2,570.00

Explanation: The margin requirement is 100% of the option proceeds plus 20% of the underlying security value. The sale proceeds may be applied to the initial margin requirement.

Short 1 Sep 80 put at 2
(out-of-the-money)
Underlying security at 95

Margin Calculation:

100 x 2 =	\$ 200.00
20% x 100 x 95 =	\$ 1,900.00
(95 - 80) x 100 =	<u>\$(1,500.00)</u>
	\$ 600.00

Therefore, minimum applies:

100 x 2 =	\$ 200.00
10% x 80 x 100 =	<u>800.00</u>
	\$1,000.00

Margin Requirement: \$1,000.00

SMA Debit or Margin Call: \$1,000.00 - \$200.00 = \$800.00

Explanation: The margin requirement is 100% of the option proceeds plus 20% of the underlying security value less out-of-the-money amount, if any, to a minimum **for puts** of option proceeds plus 10% of the put's exercise price. The minimum applies in this example because the resulting margin requirement is greater than that of the basic formula. The sale proceeds may be applied to the initial margin requirement.

EQUITY OPTIONS: SPREAD EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION
Long 1 Nov 125 call at 3-3/4 Short 1 Nov 120 call at 8-3/8 (Long expires with short) Underlying security at 128-1/2	<p><i>Margin Calculation:</i> $100 \times (125 - 120) =$ $\\$500.00$</p> <p><i>Margin Requirement:</i> $\\$500.00$</p> <p><i>SMA Debit or Margin Call:</i> $\\$500.00 - (\\$837.50 - \\$375.00) = \\37.50</p> <p><i>Explanation:</i> For the same underlying instrument, the margin requirement is the amount by which the long put (short call) exercise price is below the short put (long call) exercise price. The long side must be paid for in full. The proceeds from the short option sale may be applied.</p>
Long 1 Nov 250 put at 3 Short 1 Nov 240 put at 15/16 (Long expires with short) Underlying security at 255	<p><i>Margin Calculation:</i> $300.00 - 93.75 =$ $\\$206.25$</p> <p><i>Margin Requirement:</i> $\\$206.25$</p> <p><i>SMA Debit or Margin Call:</i> $\\$300.00 - \\$93.75 =$ $\\$206.25$</p> <p><i>Explanation:</i> For the same underlying security, the margin requirement is the amount by which the long put (short call) exercise price is below the short put (long call) exercise price. If this condition is not met, as in this example (the long put exercise price exceeds the short put exercise price), the margin requirement is to fully pay for the net debit of the spread.</p>
Long 1 Mar 70 call at 5 Short 1 Jun 70 call at 8 (Long expires before short) Underlying security at 75	<p><i>Margin Calculation:</i></p> <p>$5 \times 100 =$ $\\$ 500.00$</p> <p>$8 \times 100 =$ 800.00</p> <p>$20\% \times 100 \times 75 =$ $\underline{1,500.00}$</p> <p>$\\$2,800.00$</p> <p><i>Margin Requirement:</i> $\\$2,800.00$</p> <p><i>SMA Debit or Margin Call:</i> $\\$2,800.00 - \\$800.00 =$ $\\$2,000.00$</p> <p><i>Explanation:</i> In order to qualify for spread treatment under Exchange Rules, the long side must expire with or after the short. If not, both sides must be treated as separate positions. The proceeds from the short option sale may be applied to the initial margin requirement.</p>

EQUITY OPTIONS:
STRADDLE/COMBINATION
(SHORT) EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Short 1 Dec 90 call at 7
Short 1 Dec 90 put at 3-3/4
Underlying security at 92-5/8

Margin Calculation:

<u>Call</u>		
100 x 7 =		\$ 700.00
20% x 100 x 92.625 =		<u>1,852.50</u>
		\$2,552.50

<u>Put</u>		
100 x 3.75 =		\$ 375.00
20% x 100 x 92.625 =		1,852.50
(92.625 - 90) x 100 =		<u>(262.50)</u>
		\$1,965.00

Margin Requirement: \$2,552.50 + \$375.00 = \$2,927.50

SMA Debit or Margin Call: \$2,927.50 - (\$700.00 + \$375.00) = \$1,852.50

Explanation: In this example, for the same underlying security, the margin is the requirement on the short put or call, whichever is greater, plus the option proceeds on the other side. The proceeds from both option sales may be applied to the initial margin requirement.

EQUITY OPTIONS:
COVERED POSITION EXAMPLES

Long 100 shares at 92-3/8
Short 1 Dec 90 call at 7

Margin Calculation: 50% x 100 x 92.375 = \$4,618.75

Margin Requirement: \$4,618.75

SMA Debit or Margin Call: \$4,618.75 - \$700.00 = \$3,918.75

Explanation: No margin required on the call because the short call overlies the security position; 50% requirement on the underlying security. For purposes of computing margin equity the long underlying security position must be valued at the lower of the current market value or the call exercise price. The proceeds from the short option sale may be applied to the initial margin requirement.

Short 100 shares at 255
Short 1 Nov 250 put at 3

Margin Calculation: 50% x 100 x 255 = \$12,750.00

Margin Requirement: \$12,750.00

SMA Debit or Margin Call: \$12,750.00 - \$300.00 = \$12,450.00

Explanation: No margin required on the put; 50% requirement on the short stock. The option sale proceeds may be applied to the initial margin requirement. Any amount (aggregate) by which the exercise price of the put exceeds the market price of the stock must be added to the stock initial requirement for the purpose of determining if excess Reg. T equity exists.

INDEX OPTIONS: LONG OPTION EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION		
Long Options With 9 Months or Less to Expiration (Listed or OTC)			
Long 1 index Nov 430 put at 5-1/2 (Expiring in 6 months, any style exercise) Underlying index at 433.35	<i>Margin Calculation:</i>	$5.50 \times 100 =$	\$550.00
	<i>Margin Requirement:</i>		\$550.00
	<i>SMA Debit or Margin Call:</i>		\$550.00
	<i>Explanation:</i> Long options with 9 months or less to expiration must be paid for in full.		
Long Options With More Than 9 Months to Expiration (Listed)			
Long 1 index Jun 1325 call at 16-3/4 (Expiring in 20 months, can be either American or European style exercise) Underlying at 1290	<i>Margin Calculation:</i>	$75\% \times 16.75 \times 100 =$	\$1,256.25
	<i>Margin Requirement:</i>		\$1,256.25
	<i>SMA Debit or Margin Call:</i>		\$1,256.25
	<i>Explanation:</i> Initial (maintenance) margin requirement for long listed options with more than 9 months until expiration is 75% of the premium (market value). Option has no value for margin purposes when time remaining to expiration reaches 9 months.		
Long Options With More Than 9 Months to Expiration (OTC)			
Long 1 Jun 665 call at 11 (expiring in 12 months, American style exercise only, and must be guaranteed by the carrying broker-dealer) Underlying at 667.34	<i>Margin Calculation:</i>	$(75\% \times 2.34) + (11 - 2.34) \times 100 =$	\$1,041.50
	<i>Margin Requirement:</i>		\$1,041.50
	<i>SMA Debit or Margin Call:</i>		\$1,041.50
	<i>Explanation:</i> For an OTC option with 9 months or more until expiration, the initial margin requirement is 75% of the option's intrinsic value (in-the-money amount) plus 100% of the amount by which the option's purchase price exceeds its intrinsic value. In addition to having more than 9 months to expiration, OTC options must be American style exercise and be guaranteed by the carrying broker-dealer in order to be eligible for margin. The maintenance margin requirement is 75% of the option's intrinsic value. Option has no value for margin purposes when time remaining to expiration reaches 9 months.		
Long 1 Jun 665 call at 13 (expiring in 12 months, American style exercise only, and must be guaranteed by the carrying broker-dealer) Underlying at 663.50	<i>Margin Calculation:</i>	$(75\% \times 0) + (13 - 0) \times 100 =$	\$1,300.00
	<i>Margin Requirement:</i>		\$1,300.00
	<i>SMA Debit or Margin Call:</i>		\$1,300.00
	<i>Explanation:</i> For an OTC option with 9 months or more until expiration, the initial margin requirement is 75% of the option's intrinsic value (in-the-money amount) plus 100% of the amount by which the option's purchase price exceeds its intrinsic value. In addition to having more than 9 months to expiration, OTC options must be American style exercise and be guaranteed by the carrying broker-dealer in order to be eligible for margin. The maintenance margin requirement is 75% of the option's intrinsic value. Option has no value for margin purposes when time remaining to expiration reaches 9 months. In this example the OTC option is not in-the-money. OTC options that are at or out-of-the-money must be paid for in full.		

INDEX OPTIONS: SHORT OPTION EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION		
Short 1 index Nov 430 call at 8-3/4 (In-the-money) Underlying index at 433.35	<i>Margin Calculation:</i>	100 x 8.75 =	\$ 875.00
		15% x 100 x 433.35 =	<u>6,500.25</u>
			\$7,375.25
	<i>Margin Requirement:</i>		\$7,375.25
	<i>SMA Debit or Margin Call:</i>	\$7,375.25 - \$875.00 =	\$6,500.25
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 15% of the underlying index value. The proceeds from the short option sale may be applied to the initial margin requirement.		
Short 1 index Oct 410 put at 1/8 (Out-of-the-money) Underlying index at 445.35	<i>Margin Calculation:</i>	100 x .125 =	\$ 12.50
		15% x 100 x 445.35 =	6,680.25
		(445.35 - 410) x 100 =	<u>(3,535.00)</u>
			\$ 3,157.75
	Therefore, minimum applies:	100 x .125 =	\$ 12.50
		10% x 100 x 410 =	<u>4,100.00</u>
			\$4,112.50
	<i>Margin Requirement:</i>		\$4,112.50
	<i>SMA Debit or Margin Call:</i>	\$4,112.50 - \$12.50 =	\$4,100.00
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 15% of the underlying index value less out-of-the-money amount, if any, to a minimum for puts of option proceeds plus 10% of the put's exercise price. The minimum applies in this example because the resulting margin requirement is greater than that of the basic formula. The proceeds from the short option sale may be applied to the initial margin requirement.		
Short 1 index Dec 430 put at 7-7/8 (Out-of-the-money) Underlying index at 433.35	<i>Margin Calculation:</i>	100 x 7.875 =	\$ 787.50
		15% x 100 x 433.35 =	6,500.25
		(433.35 - 430) x 100 =	<u>(335.00)</u>
			\$6,952.75
	<i>Margin Requirement:</i>		\$6,952.75
	<i>SMA Debit or Margin Call:</i>	\$6,952.75 - \$787.50 =	\$6,165.25
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 15% of the underlying index value less out-of-the-money amount, if any, to a minimum for puts of option proceeds plus 10% of the put's exercise price. The minimum does not apply because the minimum would be a lesser requirement (\$787.50 + \$4,300.00 = \$5,087.50). The proceeds from the short option sale may be applied to the initial margin requirement.		

INDEX OPTIONS: SPREAD EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION		
Long 1 index Dec 425 put at 6-3/8 Short 1 index Dec 430 put at 7-7/8 (Long expires with short) Underlying index at 433.35	<i>Margin Calculation:</i>	100 x (430 - 425) =	\$500.00
	<i>Margin Requirement:</i>		\$500.00
	<i>SMA Debit or Margin Call:</i>	\$500.00 - (\$787.50 - \$637.50) =	\$350.00
	<i>Explanation:</i> For the same underlying index, the margin requirement is the amount by which the long put (short call) exercise price is below the short put (long call) exercise price. The long side must be paid for in full. The proceeds from the short option sale may be applied.		
Long 1 index Dec 425 call at 15-1/4 Short 1 index Nov 430 call at 8-3/4 (Long expires after short) Underlying index at 433.35	<i>Margin Calculation:</i>	\$1,525.00 - \$875.00 =	\$650.00
	<i>Margin Requirement:</i>		\$650.00
	<i>SMA Debit or Margin Call:</i>		\$650.00
	<i>Explanation:</i> For the same underlying index, the margin requirement is the amount by which the short call (long put) exercise price is below the long call (short put) exercise price. If this condition is not met, as in this example (short call exercise price exceeds long call exercise price), the margin requirement is to fully pay for the net debit of the spread.		
Long 1 index Nov 425 call at 13-1/8 Short 1 index Dec 430 call at 12-1/4 (Long expires before short) Underlying index at 433.35	<i>Margin Calculation:</i>	13.125 x 100 =	\$1,312.50
		12.25 x 100 =	1,225.00
		15% x 100 x 433.35 =	<u>6,500.25</u>
			\$9,037.75
	<i>Margin Requirement:</i>		\$9,037.75
	<i>SMA Debit or Margin Call:</i>	\$9,037.75 - \$1,225.00 =	\$7,812.75
	<i>Explanation:</i> In order to qualify for spread treatment under Exchange Rules, the long side must expire with or after the short. If not, both sides must be treated as separate positions. The proceeds from the short option sale may be applied to the initial margin requirement.		
INDEX OPTIONS: STRADDLE/COMBINATION (SHORT) EXAMPLE			
Short 1 index Nov 435 put at 7-1/4 Short 1 index Nov 435 call at 5-1/2 Underlying index at 433.35	<i>Margin Calculation:</i>	<u>Put</u>	
		100 x 7.25 =	\$ 725.00
		15% x 100 x 433.35=	<u>6,500.25</u>
			\$7,225.25
		<u>Call</u>	
		100 x 5.50 =	\$ 550.00
		15% x 100 x 433.35=	6,500.25
		(435 - 433.35) x 100=	<u>(165.00)</u>
			\$6,885.25
	<i>Margin Requirement:</i>	\$7,225.25 + \$550.00 =	\$7,775.25
	<i>SMA Debit or Margin Call:</i>	\$7,775.25 - (\$550.00 + \$725.00) =	\$6,500.25
	<i>Explanation:</i> For the same underlying index with the same index multiplier, the margin is the requirement on the short put or call, whichever is greater, plus the option proceeds on the other side. The proceeds from both short option sales may be applied to the initial margin requirement.		

REDUCED-VALUE INDEX OPTIONS: LONG OPTION EXAMPLE	CALCULATION, REQUIREMENT AND EXPLANATION		
Long Options With More Than 9 Months to Expiration (Listed)			
Long 1 reduced-value index Dec 42.5 put at 2 (expiring in 2 years)	<i>Margin Calculation:</i>	$100 \times 2 \times 75\% =$	\$150.00
	<i>Margin Requirement:</i>		\$150.00
	<i>SMA Debit or Margin Call:</i>		\$150.00
	<i>Explanation:</i> Initial (maintenance) margin requirement for long, listed options with more than 9 months until expiration is 75% of the premium (market value). Option has no value for margin purposes when time remaining to expiration reaches 9 months.		
REDUCED-VALUE INDEX OPTIONS: SHORT OPTION EXAMPLES			
Short 1 reduced-value index Dec 45 put at 2-7/8 (In-the-money, expiring in 2 years) Underlying index at 43.34	<i>Margin Calculation:</i>	$100 \times 2.875 =$ $15\% \times 100 \times 43.34 =$	\$287.50 <u>650.10</u> \$937.60
	<i>Margin Requirement:</i>		\$937.60
	<i>SMA Debit or Margin Call:</i>	$\$937.60 - \$287.50 =$	\$650.10
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 15% of the underlying index value. The proceeds from the short option sale may be applied to the initial margin requirement.		
Short 1 reduced-value index Dec 45 call at 1-3/8 (Out-of-the-money, expiring in 18 months) Underlying index at 43.34	<i>Margin Calculation:</i>	$100 \times 1.375 =$ $15\% \times 100 \times 43.34 =$ $(45 - 43.34) \times 100 =$	\$137.50 650.10 <u>(166.00)</u> \$621.60
	<i>Margin Requirement:</i>		\$621.60
	<i>SMA Debit or Margin Call:</i>	$\$621.60 - \$137.50 =$	\$484.10
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 15% of the underlying index value less out-of-the-money amount, if any, to a minimum for calls of 100% of the option proceeds plus 10% of the index value. The minimum does not apply because the minimum would be a lesser requirement ($\$137.50 + \$433.40 = \$570.90$). The proceeds from the short option sale may be applied to the initial margin requirement.		

REDUCED-VALUE INDEX OPTIONS: SPREAD EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION		
Long 1 reduced-value index Dec 42.5 put at 2 Short 1 reduced-value index Dec 45 put at 2-7/8 (Long expires with short in 18 months) Underlying index at 43.34	<i>Margin Calculation:</i>	100 x (45 - 42.5) =	\$250.00
	<i>Margin Requirement:</i>		\$250.00
	<i>SMA Debit or Margin Call:</i>	\$250.00 - (\$287.50 - \$200.00) =	\$162.50
	<i>Explanation:</i> For the same underlying index, the margin requirement is the amount by which the long put (short call) exercise price is below the short put (long call) exercise price. The long side must be paid for in full. The proceeds from the short option sale may be applied.		
Long 10 reduced-value index Dec 45 calls at 1-3/8 Short 1 index Sep 450 call at 1/4 (Long expiring in 18 months, short expiring in 3 months) Underlying index at 43.34	<i>Margin Calculation:</i>	\$1,375.00 - \$25.00 =	\$1,350.00
	<i>Margin Requirement:</i>		\$1,350.00
	<i>SMA Debit or Margin Call:</i>		\$1,350.00
	<i>Explanation:</i> For the same underlying index covering the same total aggregate underlying value (e.g., 10 SPX LEAPS = 1 SPX), reduced value index contracts may offset regular index contracts for spreads. The margin requirement is the amount by which the short call (long put) exercise price is below the long call (short put) exercise price. If this condition is not met, as in this example (short call exercise price equals long call exercise price) the margin requirement is to fully pay for the net debit of the spread.		
Long 1 index Sep 430 put at 7-7/8 Short 10 reduced-value index Dec 42.5 puts at 2 (Long expiring in 5 months, short expiring in 18 months) Underlying index at 43.34	<i>Margin Calculation:</i>	7.875 x 100 x 1 =	\$ 787.50
		2 x 100 x 10 =	2,000.00
		15% x 100 x 43.34 x 10 =	6,501.00
		(43.34 - 42.5) x 100 x 10 =	<u>(840.00)</u>
			\$8,448.50
	<i>Margin Requirement:</i>		\$8,448.50
	<i>SMA Debit or Margin Call:</i>	\$8,448.50 - \$2,000.00 =	\$6,448.50
	<i>Explanation:</i> For the same underlying index covering the same total aggregate underlying value (e.g., 10 SPX LEAPS = 1 SPX), reduced value index contracts may offset regular index contracts for spreads. However, in order to qualify for spread treatment under Exchange Rules, the long side must expire with or after the short. If not, both sides must be treated as separate positions. The proceeds from the short option sale may be applied to the initial margin requirement.		

REDUCED-VALUE INDEX
 OPTIONS:
 STRADDLE/COMBINATION
 (SHORT) EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Short 1 reduced-value index Dec 45 put at 2-7/8	<i>Margin Calculation:</i>	<u>Put</u> 100 x 2.875 =	\$287.50
Short 1 reduced-value index Dec 45 call at 1-3/8		15% x 100 x 43.34 =	<u>650.10</u> \$937.60
Underlying index at 43.34		<u>Call</u> 100 x 1.375 =	\$ 137.50
		15% x 100 x 43.34 =	650.10
		(45 - 43.34) x 100 =	<u>(166.00)</u> \$621.60

Margin Requirement: \$937.60 + \$137.50 = \$1,075.10

SMA Debit or Margin Call: \$1,075.10 - (\$287.50 + \$137.50) = \$650.10

Explanation: For the same underlying index with the same index multiplier, the margin is the requirement on the short put or call, whichever is greater, plus the option proceeds on the other side. The proceeds from both short option sales may be applied to the initial margin requirement. Additionally, for the same underlying index covering the same total aggregate underlying value (e.g., 10 SPX LEAPS = 1 SPX), reduced value index contracts may offset a regular index contract for straddles.

CAPS OPTIONS: LONG OPTION EXAMPLE	CALCULATION, REQUIREMENT AND EXPLANATION		
Long 1 CAPS Feb 360 (390 cap) call at 15-3/4	<i>Margin Calculation:</i>	15.75 x 100 =	\$1,575.00
	<i>Margin Requirement:</i>		\$1,575.00
	<i>SMA Debit or Margin Call:</i>		\$1,575.00
	<i>Explanation:</i> Long CAPS options must be paid for in full.		
CAPS OPTIONS: SHORT OPTION EXAMPLE			
Short 1 CAPS Feb 380 (410 cap) call at 1-3/4 Underlying index at 370	<i>Margin Calculation:</i>	a) (410 - 380) x 100 =	\$3,000.00
		b) 100 x 1.75 =	\$ 175.00
		15% x 100 x 370 =	5,550.00
		(380 - 370) x 100 =	<u>(1,000.00)</u>
			\$4,725.00
	<i>Margin Requirement:</i>		\$3,000.00
<i>SMA Debit or Margin Call:</i>	\$3,000.00 - \$175.00 =	\$2,825.00	
<i>Explanation:</i> The margin requirement is the lesser of a) the cap interval times the index multiplier or b) 100% of the option proceeds plus 15% of the underlying index value less out-of-the-money amount, if any, to a minimum of 100% of the option proceeds plus 10% of the underlying index value. The proceeds from the short option sale may be applied to the initial margin requirement.			
CAPS OPTIONS: SPREAD EXAMPLES			
<i>Spread treatment is permitted for spreads comprised of CAPS or spreads comprised of long regular index options offset by short CAPS on the same underlying index. Spread treatment is not permitted for long CAPS offset by short regular index options.</i>			
Long 1 CAPS Feb 380 call at 1-3/4 Short 1 CAPS Feb 360 call at 15-3/4 (Long expires with short) Underlying index at 370	<i>Margin Calculation:</i>	(380 - 360) x 100 =	\$2,000.00
	<i>Margin Requirement:</i>		\$2,000.00
	<i>SMA Debit or Margin Call:</i>	\$2,000.00 - (\$1,575.00 - \$175.00) =	\$600.00
	<i>Explanation:</i> For the same underlying index, the margin requirement is the amount by which the short call (long put) exercise price is below the long call (short put) exercise price. The proceeds from the short option sale may be applied to the initial margin requirement.		
Long 1 CAPS Mar 360 call at 15-3/4 Short 1 Mar 370 call at 4-3/8 (Long expires with short) Underlying index at 370	<i>Margin Calculation:</i>	15.75 x 100 =	\$1,575.00
		4.375 x 100 =	437.50
		15% x 100 x 370 =	<u>5,550.00</u>
			\$7,562.50
	<i>Margin Requirement:</i>		\$7,562.50
	<i>SMA Debit or Margin Call:</i>	\$7,562.50 - \$437.50 =	\$7,125.00
<i>Explanation:</i> In order to qualify for spread treatment the regular index must be the long leg of the spread. If not, both sides must be treated as separate positions. The proceeds from the short option sale may be applied to the initial margin requirement.			

CAPS OPTIONS:
STRADDLE/COMBINATION
(SHORT) EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Straddle margin treatment is available to CAPS straddles and to straddles comprised of CAPS and regular index options on the same underlying index. However, it should be noted that if one leg of a CAPS straddle is assigned the remaining CAPS leg must be closed or margined as a naked position which would require an additional margin deposit.

<p>Short 1 CAP Feb 380 (410 cap) call at 1-3/4</p> <p>Short 1 CAP Feb 380 (350 cap) put at 12-3/8</p> <p>Underlying index at 370</p>	<p><i>Margin Calculation:</i></p> <p style="padding-left: 40px;"><u>Call</u></p> <p>a) $(410 - 380) \times 100 =$ 3,000.00</p> <p>b) $100 \times 1.75 =$ \$ 175.00 $15\% \times 100 \times 370 =$ 5,550.00 $(380 - 370) \times 100 =$ <u>(1,000.00)</u> \$4,725.00</p> <p style="padding-left: 40px;"><u>Put</u></p> <p>a) $(380 - 350) \times 100 =$ \$3,000.00</p> <p>b) $100 \times 12.375 =$ \$1,237.50 $15\% \times 100 \times 370 =$ <u>5,550.00</u> \$6,787.50</p> <p><i>Margin Requirement:</i> $\\$3,000.00 + \\$175.00 =$ \$3,175.00</p> <p><i>SMA Debit or Margin Call:</i> $\\$3,175.00 - (\\$175.00 + \\$1,237.50) = \\$1,762.50$</p>
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Explanation: For the same underlying index with the same index multiplier, the margin is the requirement on the short put or call, whichever is greater, plus the option proceeds on the other side. The proceeds from both short option sales may be applied to the initial margin requirement.

INTEREST RATE OPTIONS: LONG OPTION EXAMPLE	CALCULATION, REQUIREMENT AND EXPLANATION		
Long 1 IRX Oct 50 put at 7/8 IRX at 48.90	<i>Margin Calculation:</i>	100 x .875 =	\$87.50
	<i>Margin Requirement:</i>		\$87.50
	<i>SMA Debit or Margin Call:</i>		\$87.50
	<i>Explanation:</i> Long interest rate options must be paid for in full.		
INTEREST RATE OPTIONS: SHORT OPTION EXAMPLE			
Short 1 TYX Oct 70 call at 9-3/8 (In-the-money) TYX at 78.53	<i>Margin Calculation:</i>	100 x 9.375 =	\$ 937.50
		10% x 100 x 78.53 =	<u>785.30</u>
			\$1,722.80
	<i>Margin Requirement:</i>		\$1,722.80
	<i>SMA Debit or Margin Call:</i>	\$1,722.80 - \$937.50 =	\$785.30
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 10% of the underlying value, less out-of-the-money amount, if any, to a minimum for calls of option proceeds plus 5% of the underlying value. The proceeds from the short option sale may be applied to the initial margin requirement.		
Short 1 IRX Oct 50 call at 7/8 (Out-of-the-money) IRX at 48.90	<i>Margin Calculation:</i>	100 x .875 =	\$ 87.50
		10% x 100 x 48.90 =	489.00
		(50 - 48.90) x 100 =	<u>(110.00)</u>
			\$466.50
	<i>Margin Requirement:</i>		\$466.50
	<i>SMA Debit or Margin Call:</i>	\$466.50 - \$87.50 =	\$379.00
	<i>Explanation:</i> The margin requirement is 100% of the option proceeds plus 10% of the underlying value less out-of-the-money amount, if any, to a minimum for calls of option proceeds plus 5% of the underlying value. The minimum does not apply because the minimum would be a lesser requirement (\$87.50 + \$244.50 = \$332.00). The proceeds from the short option sale may be applied to the initial margin requirement.		

INTEREST RATE OPTIONS:
SPREAD EXAMPLES

CALCULATION, REQUIREMENT AND EXPLANATION

	<i>In order to qualify for spread treatment, both the long and the short options must have the same underlying and the long side must expire with or after the short side.</i>	
Long 1 TYX Nov 70 call at 9-3/8 Short 1 TYX Nov 80 call at 1-1/2 (Long expires with short) TYX at 78.53	<i>Margin Calculation:</i>	$\$937.50 - \$150.00 = \$787.50$
	<i>Margin Requirement:</i>	\$787.50
	<i>SMA Debit or Margin Call:</i>	\$787.50
	<i>Explanation:</i> For the same underlying, the margin requirement is the amount by which the short call (long put) exercise price is below the long call (short put) exercise price. If this condition is not met, as in this example (the long call exercise price is below that of the short call exercise price), the margin requirement is to fully pay for the net debit of the spread.	
Long 1 FVX Nov 70 put at 7/8 Short 1 FVX Nov 72.5 put at 1-1/2 (Long expires with short) FVX at 72.69	<i>Margin Calculation:</i>	$100 \times (72.5 - 70) = \250.00
	<i>Margin Requirement:</i>	\$250.00
	<i>SMA Debit or Margin Call:</i>	$\$250.00 - (\$150.00 - \$87.50) = \187.50
	<i>Explanation:</i> For the same underlying, the margin requirement is the amount by which the long put (short call) exercise price is below the short put (long call) exercise price. The long side must be paid for in full. The proceeds from the short option sale may be applied.	
INTEREST RATE OPTIONS: STRADDLE/COMBINATION (SHORT) EXAMPLE		
	<i>The margin requirement for long straddle/combination positions is to fully pay for the entire position. Short straddles must have the same underlying for both legs to be margined on a combined basis.</i>	
Short 1 TYX Nov 77.5 call at 1-7/8 Short 1 TYX Dec 80 put at 3-3/8 TYX at 78.53	<i>Margin Calculation:</i>	
	<u>Call</u>	
	$100 \times 1.875 =$	\$187.50
	$10\% \times 100 \times 78.53 =$	<u>785.30</u>
		\$972.80
	<u>Put</u>	
	$100 \times 3.375 =$	\$ 337.50
	$10\% \times 100 \times 78.53 =$	<u>785.30</u>
		\$1,122.80
	<i>Margin Requirement:</i>	$\$1,122.80 + \$187.50 = \$1,310.30$
	<i>SMA Debit or Margin Call:</i>	$\$1,310.30 - (\$187.50 + \$337.50) = \785.30
	<i>Explanation:</i> For the same underlying, the margin is the requirement on the short put or call, whichever is greater, plus the proceeds from the sale of the other option. The proceeds from both short option sales may be applied to the initial margin requirement.	

Exchange Rule 12.3(d) permits short puts to be written in a cash account provided the customer deposits cash or cash equivalents, the market value of which equals the aggregate strike price of the options, or an escrow agreement. Cash equivalents must meet the Regulation T definition of cash equivalent. Regulation T defines cash equivalent to mean securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit, banker's acceptances issued by banking institutions in the United States and payable in the United States, or money market mutual funds. To date no "covered" provisions exist for short interest rate option calls written in a cash account. In many instances, institutional entities are not barred from trading these instruments on a margin basis, provided that the options serve to offset the risk exposure of the other interest rate investments. Contact the Exchange's Department of Financial and Sales Practice Compliance at (312) 786-7718 for more detailed information.

Note: Bond prices fall when interest rates rise. Due to the inverse relationship between the direction of interest rates and the price of bonds, puts (not calls) would be written against Treasury securities to accomplish the investment objectives of income enhancement and cushioning downside risk. Conversely, long calls could hedge long positions in Treasury securities. Refer to the Chicago Board Options Exchange's web site at www.cboe.com for more information.

BOX SPREAD AND BUTTERFLY SPREAD EXAMPLES

CALCULATION, REQUIREMENT AND EXPLANATION

Box spreads and butterfly spreads meeting the respective definitions in Exchange Rule 12.3 are recognized for margin purposes. In each strategy, each option series must have the same expiration. In respect of butterfly spreads, the interval between each option series must be equal. In a margin account, loan value of 50% of the difference in the exercise prices may be extended on long box spreads comprised of European style, cash-settled options. Box spreads and butterfly spreads may be effected and carried in a cash account if they are comprised of European style, cash settled index options.

LONG BOX SPREAD (LOAN VALUE) EXAMPLE
(European style exercise, cash settled options only)

Long 1 Nov 535 call at 19-3/8
Short 1 Nov 545 call at 12-1/4
Long 1 Nov 545 put at 5-3/8
Short 1 Nov 535 put at 3
Underlying at 550

<i>Margin Calculation:</i>	$[(545 - 535) \times 100] \times 50\% =$	\$500.00
	<u>Calls</u>	
	$19.375 \times 100 =$	\$(1,937.50)
	$12.25 \times 100 =$	1,225.00
	<u>Puts</u>	
	$5.375 \times 100 =$	\$ (537.50)
	$3 \times 100 =$	<u>300.00</u>
		\$(950.00)
<i>Margin Requirement:</i>		\$500.00
<i>SMA Debit or Margin Call:</i>	$\$950.00 - (\$1,000.00 - \$500.00) =$	\$450.00

Explanation: To be eligible for loan value, all components must be European style options. The margin requirement is 50% of the difference in the exercise prices. Since loan value (difference in the exercise prices minus the margin requirement) is \$500.00 in this example, the debit balance minus the loan value equals the amount of the SMA debit or margin call, or \$450.00. All components have the same expiration. The long call and short put have the same exercise price, and the long put and short call have the same exercise price.

Cash Account. Permitted only with European style, cash settled index options. The requirement is to pay for the net debit in full.

LONG BOX SPREAD
(NO LOAN VALUE) EXAMPLE
(can be composed of either American
or European style exercise options)

CALCULATION, REQUIREMENT AND EXPLANATION

Long 1 Sep 40 call at 15-3/8
Short 1 Sep 50 call at 7-1/4
Long 1 Sep 50 put at 1-3/4
Short 1 Sep 40 put at 3/8
Underlying at 50

Margin Calculation:

<u>Calls</u>		
15.375 x 100 =		\$(1,537.50)
7.25 x 100 =		725.00
<u>Puts</u>		
1.75 x 100 =		(175.00)
375 x 100 =		<u>37.50</u>
		\$ (950.00)

Margin Requirement: \$950.00

SMA Debit or Margin Call: \$950.00

Explanation: The margin requirement is to pay for the net debit in full. All components have the same expiration. The long call and short put have the same exercise price, and the long put and short call have the same exercise price.

Cash Account. Permitted only with European style, cash settled index options. The requirement is the same, pay for debit in full.

SHORT BOX SPREAD
EXAMPLES

Short 1 Nov 535 call at 19-3/8
Long 1 Nov 545 call at 12-1/4
Short 1 Nov 545 put at 5-3/8
Long 1 Nov 535 put at 3
Underlying at 550

Margin Calculation:

(545 - 535) x 100 =		\$1,000.00
<u>Calls</u>		
19.375 x 100 =		\$ 1,937.50
12.25 x 100 =		(1,225.00)

<u>Puts</u>		
5.375 x 100 =		537.50
3 x 100 =		<u>(300.00)</u>
		\$ 950.00

Margin Requirement: \$1,000.00

SMA Debit or Margin Call: \$1,000.00 - \$950.00 = \$50.00

Explanation: This example represents the sale of a box. The margin requirement is the difference in the exercise prices. The net credit received may be applied to the initial margin requirement. All positions must have the same expiration; the long call and short put must have the same exercise price; and the long put and short call must have the same exercise price.

Cash Account. Permitted only with European style, cash settled options. The requirement is the same (the difference in the exercise prices) and must be met with cash or cash equivalents.

SHORT BOX SPREAD
EXAMPLES

CALCULATION, REQUIREMENT AND EXPLANATION

Short 1 Nov 50 call at 17-1/4
Long 1 Nov 60 call at 8-1/4
Short 1 Nov 60 put at 1-1/4
Long 1 Nov 50 put at 3/8
Underlying at 66

<i>Margin Calculation:</i>	$(60 - 50) \times 100 =$	\$1,000.00
	<u>Calls</u>	
	$17.25 \times 100 =$	\$1,725.00
	$8.25 \times 100 =$	(825.00)
	<u>Puts</u>	
	$1.25 \times 100 =$	125.00
	$.375 \times 100 =$	(37.50)
		\$ 987.50
<i>Margin Requirement:</i>		\$1,000.00
<i>SMA Debit or Margin Call:</i>	$\$1,000.00 - \$987.50 =$	\$12.50

Explanation: This example represents the sale of a box. The margin requirement is the difference in the exercise prices. The net credit received may be applied to the initial margin requirement. All positions must have the same expiration; the long call and short put must have the same exercise price; and the long put and short call must have the same exercise price.

Cash Account. Permitted only with European style, cash-settled options. The requirement is the same (the difference in the exercise prices) and must be met with cash or cash equivalents.

Short 1 Nov 60 call at 8-1/4
Long 1 Nov 65 call at 5
Short 1 Nov 65 put at 2-1/2
Long 1 Nov 60 put at 1
Underlying at \$88

<i>Margin Calculation:</i>	$(65 - 60) \times 100 =$	\$500.00
	<u>Calls</u>	
	$8.25 \times 100 =$	\$ 825.00
	$5 \times 100 =$	(500.00)
	<u>Puts</u>	
	$2.50 \times 100 =$	250.00
	$1 \times 100 =$	(100.00)
		\$ 475.00
<i>Margin Requirement:</i>		\$500.00
<i>SMA Debit or Margin Call:</i>	$\$500.00 - \$475.00 =$	\$25.00

Explanation: This example represents the sale of a box. The margin requirement is the difference in the exercise prices. The net credit received may be applied to the initial margin requirement. All positions must have the same expiration; the long call and short put must have the same exercise price; and the long put and short call must have the same exercise price.

Cash Account. Permitted only with European style, cash-settled options. The requirement is the same (the difference in the exercise prices) and must be met with cash or cash equivalents.

LONG BUTTERFLY SPREAD
(CALLS) EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Long 1 Nov 545 call at 12-1/4	<i>Margin Calculation:</i>	$12.25 \times 100 =$	\$ (1,225.00)
Short 2 Nov 550 calls at 8-3/4		$8.75 \times 100 \times 2 =$	1,750.00
Long 1 Nov 555 call at 6		$6 \times 100 =$	<u>(600.00)</u>
Underlying at 550			\$ (75.00)

Margin Requirement: \$75.00

SMA Debit or Margin Call: \$75.00

Explanation: The margin requirement is to pay for the net debit in full provided all positions have the same expiration and the intervals between exercise prices are equal.

Cash Account. Permitted only with European style cash settled options. The requirement is the same, pay for debit in full.

SHORT BUTTERFLY SPREAD
(CALLS) EXAMPLE

Short 1 Nov 545 call at 12-1/4	<i>Margin Calculation:</i>	$12.25 \times 100 =$	\$ 1,225.00
Long 2 Nov 550 calls at 8-3/4		$(8.75 \times 100) \times 2 =$	(1,750.00)
Short 1 Nov 555 call at 6		$6 \times 100 =$	<u>600.00</u>
Underlying at 550			\$ 75.00

$(550 - 545) \times 100 =$ \$500.00

Margin Requirement: \$500.00

SMA Debit or Margin Call: $\$500.00 - \$75.00 =$ \$425.00

Explanation: The margin requirement is the difference between the middle and lowest exercise prices. The net credit received may be applied to the initial margin requirement. All positions must have the same expiration and the intervals between exercise prices must be equal.

Cash Account. Permitted only with European style cash settled options. The requirement is the same and must be held in cash or cash equivalents.

LONG BUTTERFLY SPREAD
(PUTS) EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Long 1 Nov 555 put at 9-1/2	<i>Margin Calculation:</i>	$9.50 \times 100 =$	\$ (950.00)
Short 2 Nov 550 puts at 7-1/8		$(7.125 \times 100) \times 2 =$	1,425.00
Long 1 Nov 545 put at 5-3/8		$5.375 \times 100 =$	<u>(537.50)</u>
Underlying at 550			\$ (62.50)

Margin Requirement: \$62.50

SMA Debit or Margin Call: \$62.50

Explanation: The margin requirement is to pay for the net debit in full provided all positions have the same expiration and the intervals between exercise prices are equal.

Cash Account. Permitted only with European style, cash settled options. The requirement is the same; pay for debit in full.

SHORT BUTTERFLY SPREAD
(PUTS) EXAMPLE

Short 1 Nov 555 put at 9-1/2	<i>Margin Calculation:</i>	$9.50 \times 100 =$	\$ 950.00
Long 2 Nov 550 puts at 7-1/8		$(7.125 \times 100) \times 2 =$	(1,425.00)
Short 1 Nov 545 put at 5-3/8		$5.375 \times 100 =$	<u>537.50</u>
Underlying at 550			\$ 62.50

$(555 - 550) \times 100 =$ \$500.00

Margin Requirement: \$500.00

SMA Debit or Margin Call: $\$500.00 - \$62.50 =$ \$437.50

Explanation: The margin requirement is the difference between the highest and middle exercise prices. The net credit received may be applied to the initial margin requirement. All positions must have the same expiration and the intervals between exercise prices must be equal.

Cash Account. Permitted only with European style, cash settled options. The requirement is the same and must be held in cash or cash equivalents.

MAINTENANCE MARGIN FOR HEDGED UNDERLYING POSITIONS EXAMPLES	CALCULATION, REQUIREMENT AND EXPLANATION
	<p><i>When initially established, an underlying security must be margined in accordance with Regulation T, regardless of any option hedge strategy that may be employed.</i></p> <p><i>The following examples illustrate the Exchange's maintenance margin requirements on the underlying security component of hedge strategies recognized by Exchange rules. Options must be American style. The long option component must be paid for in full and is not marginable.</i></p>
MAINTENANCE MARGIN FOR HEDGED UNDERLYING POSITIONS: LONG UNDERLYING/LONG PUT EXAMPLE	<p><i>Maintenance Margin Calculation:</i></p> <p style="text-align: center;">XYZ</p> <p>a) $[(10\% \times 95) + (103.50 - 95)] \times 100 = \\$1,800.00$</p> <p>b) $25\% \times 103.50 \times 100 = \\$2,587.50$</p> <p><i>Maintenance Margin Requirement:</i> \$1,800.00</p> <p><i>Explanation:</i> The maintenance margin requirement on a long position in an underlying instrument hedged with a long put is the <u>lower</u> of 1) 10% of the put exercise price plus 100% of any out-of-the-money amount, or 2) 25% of the market value of the underlying.</p>
MAINTENANCE MARGIN FOR HEDGED UNDERLYING POSITIONS: SHORT UNDERLYING/LONG CALL EXAMPLE	<p><i>Maintenance Margin Calculation:</i></p> <p style="text-align: center;">XYZ</p> <p>a) $[(10\% \times 50) + (50 - 46)] \times 100 = \\$ 900.00$</p> <p>b) $(30\% \times 46 \times 100) = \\$ 1,380.00$</p> <p><i>Maintenance Margin Requirement:</i> \$900.00</p> <p><i>Explanation:</i> The maintenance margin requirement on a short position in an underlying instrument hedged with a long call is the <u>lower</u> of 1) 10% of the call exercise price plus 100% of any out-of-the-money amount, or 2) the normal Exchange maintenance margin requirement (in this example, 30% of the market value of the underlying).¹²</p>

¹² In addition, 100% of the short security current market value must be maintained at all times.

MAINTENANCE MARGIN
FOR HEDGED UNDERLYING
POSITIONS:
CONVERSION EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Long 100 XYZ at 115
Short 1 May 110 call at 6-1/2
Long 1 May 110 put at 1-3/8

Maintenance Margin Calculation:
XYZ
10% x 110 x 100 = \$1,100.00

Maintenance Margin Requirement: \$1,100.00

Explanation: This example represents a long security position offset by a synthetic short security position (long put / short call). Option positions provide a minimum selling price for the long security position equal to the exercise price. The maintenance margin requirement on the stock component of a conversion is 10% of the exercise price. Both options must have the same exercise price and time of expiration. For margin purposes, the stock must be valued at the lower of current market value or the call exercise price. In this example, the underlying security would be valued at the call exercise price.

If the Conversion in the above example is established at the given prices, the initial margin required would be computed as follows:

Conversions (Initial Margin)

Long 100 XYZ at 115
Short 1 May 110 call at 6-1/2
Long 1 May 110 put at 1-3/8

Initial Margin Calculation: Long Stock: 50% x 115 x 100 = \$5,750.00
Covered Call: 0.00
Long Put: 1.375 x 100 = 137.50
\$5,887.50

Initial Margin Requirement: \$5,887.50

SMA Debit or Margin Call: \$5,887.50 - \$650.00 = \$5,237.50

Explanation: This example represents a long security position offset by a synthetic short security position. For initial margin purposes, the stock component of a conversion must be treated as any other margin purchase. The option components must be treated as a long put and covered call.

MAINTENANCE MARGIN FOR HEDGED UNDERLYING POSITIONS: REVERSE CONVERSION EXAMPLE	CALCULATION, REQUIREMENT AND EXPLANATION																		
Short 100 XYZ at 115 Long 1 May 110 call at 6-1/2 Short 1 May 110 put at 1-3/8	<p><i>Maintenance Margin Calculation:</i></p> <table border="0"> <tr> <td>Short XYZ</td> <td></td> <td></td> </tr> <tr> <td>10% x 110 x 100 =</td> <td></td> <td>\$1,100.00</td> </tr> </table> <p><i>Maintenance Margin Requirement:</i> \$1,100.00</p> <p><i>Explanation:</i> This example represents a short security position offset by a synthetic long security position (long call / short put). Option positions provide a maximum buy-in price for the short security position equal to the exercise price. The maintenance margin requirement on the stock component of a reverse conversion is 10% of the exercise price.¹³ Both options must have the same exercise price and time of expiration. Any put in-the-money amount must be added to the stock maintenance requirement.</p> <p>If the Reverse Conversion in the above example is established at the given prices, the <u>initial</u> margin required would be computed as follows:</p> <p>Reverse Conversions (Initial Margin) Short 100 shares at 115 Long 1 May 110 call at 6-1/2 Short 1 May 110 put at 1-3/8</p> <p><i>Initial Margin Calculation:</i></p> <table border="0"> <tr> <td>Short Stock: 150% x 115 x 100 =</td> <td></td> <td>\$17,250.00</td> </tr> <tr> <td>Long Call:</td> <td></td> <td>650.00</td> </tr> <tr> <td>Covered Put:</td> <td></td> <td>0.00</td> </tr> <tr> <td></td> <td></td> <td>\$17,900.00</td> </tr> </table> <p><i>Initial Margin Requirement:</i> \$17,900.00</p> <p><i>SMA Debit or Margin Call:</i> \$17,900.00 - \$11,500.00 - \$137.50 = \$6,262.50</p> <p><i>Explanation:</i> This example represents a short security position offset by a synthetic long security position. For initial margin purposes, the short stock component of a reverse conversion must be treated as any other short sale purchase. The option components must be treated as a long call and covered put. Any put in-the-money amount must be added to the stock initial requirement for the purpose of determining if excess Reg. T equity exists.</p>	Short XYZ			10% x 110 x 100 =		\$1,100.00	Short Stock: 150% x 115 x 100 =		\$17,250.00	Long Call:		650.00	Covered Put:		0.00			\$17,900.00
Short XYZ																			
10% x 110 x 100 =		\$1,100.00																	
Short Stock: 150% x 115 x 100 =		\$17,250.00																	
Long Call:		650.00																	
Covered Put:		0.00																	
		\$17,900.00																	
REVERSE CONVERSION (PUT IN-THE-MONEY) EXAMPLE																			
Short 100 XYZ at 71-7/8 Long 1 XYZ Dec 75 call Short 1 XYZ Dec 75 put	<p><i>Maintenance Margin Calculation:</i></p> <table border="0"> <tr> <td>XYZ</td> <td></td> <td></td> </tr> <tr> <td>10% x 75 x 100 =</td> <td></td> <td>\$750.00</td> </tr> </table> <p><u>Put</u></p> <table border="0"> <tr> <td>(75 - 71.875) x 100 =</td> <td></td> <td>\$312.50</td> </tr> </table> <p><i>Maintenance Margin Requirement:</i> \$750.00 + \$312.50 = \$1,062.50</p> <p><i>Explanation:</i> This example represents a short security position offset by a synthetic long security position (long call / short put). Option positions provide a maximum buy-in price for the short security position equal to the exercise price. The maintenance margin requirement on the stock component of a reverse conversion is 10% of the exercise price.¹³ Both options must have the same exercise price and time of expiration. Any put in-the-money amount must be added to the stock maintenance requirement. In this example, the put is in-the-money and the put in-the-money amount is added to the short stock requirement.</p>	XYZ			10% x 75 x 100 =		\$750.00	(75 - 71.875) x 100 =		\$312.50									
XYZ																			
10% x 75 x 100 =		\$750.00																	
(75 - 71.875) x 100 =		\$312.50																	

¹³ In addition, 100% of the short security current market value must be maintained at all times.

MAINTENANCE MARGIN
FOR HEDGED UNDERLYING
POSITIONS
COLLAR EXAMPLE

CALCULATION, REQUIREMENT AND EXPLANATION

Long 100 XYZ at 31-3/4
Long 1 XYZ Dec 30 put
Short 1 XYZ Dec 35 call

<i>Maintenance Margin Calculation:</i>		XYZ	
a)	$[(10\% \times 30) + 1.75] \times 100 =$		\$475.00
b)	$25\% \times 35 \times 100 =$		\$875.00
<i>Maintenance Margin Requirement:</i>			\$475.00

Explanation: The maintenance margin requirement on a long position in an underlying instrument which is part of a collar is the lower of 1) 10% of the put exercise price plus any out-of-the-money amount or 2) 25% of the call exercise price. For margin purposes, the stock must be valued at the lower of market price or the call exercise price.



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