



SECURITIES AND EXCHANGE COMMISSION  
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**DIVISION OF MARKET REGULATION**

Richard Lewandowski  
Vice President  
Department of Financial and  
Sales Practice Compliance  
Regulatory Division

400 South LaSalle Street  
Chicago, Illinois 60605 312 786-7183  
Fax: 312 786-7288

January 11, 1999

Mr. Michael Macchiaroli  
Associate Director  
Division of Market Regulation  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549

RE: Adjustment of Closing Option Prices for Purposes of  
Calculating Equity in Accounts of Options Market-Makers

Dear Mr. Macchiaroli;

Often, a situation arises wherein, due to heavy volume just prior to the close of trading, last sale information for transactions in a common stock will continue to be reported past the time that trading in listed options on the common stock has ceased. When this occurs, the closing price established for the options is not adjusted to reflect the actual last sale price for the stock. The closing option prices are used to calculate equity in the accounts of options market-makers. If the equity in a market-maker's account calculates to a deficit in this situation, adjusting the closing option prices to reflect the underlying stock's true last sale price and recalculating the equity can alleviate a deficit situation in many instances. This can allow the market-maker to continue trading whereas in the deficit situation, further market-making activity is prohibited.

Market-makers on the Chicago Board Options Exchange are generally not self-clearing. They maintain market-maker accounts with other broker-dealer firms that specialize in clearing and carrying such accounts. If the equity in the account of an options market-maker calculates to a deficit, Rule 15c3-1(c)(2)(x)(D) of the Securities and Exchange Act of 1934 prohibits the clearing broker-dealer from extending any further credit to the market-maker account. The clearing broker-dealer must promptly liquidate existing positions in the account. Although, the clearing broker-dealer may, upon approval of its Designated Examining Authority, itself effect or allow the market-maker to effect, opening hedging transactions in the options market-maker's account. The clearing broker-dealer is also required to send telegraphic or facsimile notice of a deficit and its amount to its Designated

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Examining Authority and the market-maker's Designated Examining Authority, if different, by the close of business of the following business day.

Equity in an options market-maker's account is calculated pursuant to a formula found in Rule 15c3-1(c)(2)(x)(B)(2) of the Securities and Exchange Act of 1934. In calculating equity in an options market-maker's account, all securities positions are marked to their current market value. Equity is equal to the market value of all long positions, less the market value of all short positions, plus the credit (or minus the debit) balance in the account.

The Exchange requests that the Division of Market Regulation not recommend enforcement action to the Securities and Exchange Commission if broker-dealers clearing and carrying the accounts of options market-makers adjust the equity value of the market-maker's option positions to reflect a substantial move in the price of the underlying stock when the closing price of the stock is reported after closing quotations for the options are established and a liquidating deficit results. Any broker-dealer adjusting equity in a market-maker's account under these circumstances would be required to provide documentation to the Exchange's Department of Financial and Sales Practice Compliance for such adjustments before the opening of trading the next business day or before extending further credit to the market-maker for opening transactions. If the Exchange approves the adjustments and the adjustments eliminate the deficit, the market-maker will be permitted to continue trading.

The Exchange greatly appreciates the attention you and your staff have given to this matter. Please feel free to contact me should you have any questions or require further information.

Sincerely,



Richard Lewandowski

cc: Mary Bender - CBOE  
Douglas Beck - CBOE  
Timothy Thompson - CBOE