

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-48306; File No. SR-CBOE-2003-24)

August 8, 2003

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Amendment No. 1 thereto by the Chicago Board Options Exchange, Incorporated to Interpret Rules Relating to Margin Requirements for Certain Complex Options Spreads on a Pilot Basis

I. Introduction

On June 8, 2003, the Chicago Board Options Exchange, Inc. (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to issue a Regulatory Circular to its membership setting forth a clarifying interpretation to CBOE Rule 12.3, Margin Requirements, relating to margin requirements for certain complex option spreads. On June 26, 2003, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as amended, was published for public comment in the Federal Register on July 9, 2003.³ The Commission received one comment letter on the proposal.⁴ This order approves the proposed rule change.

II. Description of the Proposal

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 48115 (July 1, 2003), 68 FR 41027.

⁴ See letter from Patrick K. Blackburn, ABN-AMRO Incorporated, to Secretary, Commission, dated July 25, 2003 (“ABN-AMRO Letter”).

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. 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 Regulatory Circular provides that CBOE members may collect a specific amount of margin for each of the seven identified complex spreads. Specifically, the Regulatory Circular will allow CBOE member organizations to require margin for the identified complex spreads, whether they are established outright or through netting, of not less than the sum of the margin required on each basic spread in its corresponding package.

III. Summary of Comments

As noted above, the Commission received one comment in response to the proposed rule change, which supported the proposal. The commenter believed that the issuance of the Regulatory Circular will resolve ambiguity concerning the appropriate margin treatment for these complex spreads, which will benefit all market participants for whom options are an important part of their investment programs.

IV. Discussion

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of Section 6 of the Act⁵ and the rules and regulations thereunder applicable to a national securities exchange.⁶ In particular, the Commission finds that the

⁵ 15 U.S.C. 78f(b).

⁶ In approving the proposed rule change, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

proposed Regulatory Circular is consistent with Section 6(b)(5) of the Act,⁷ which requires, among other things, that the Exchange's rules be designed to perfect the mechanisms of a free and open market and, in general, to protect investors and the public interest. The Commission believes that the Regulatory Circular should clarify the margin requirements for the identified complex spreads.

The Commission notes that this approval will operate as a one-year pilot from the date of approval of the proposed rule change. The Commission expects that during the pilot period, the CBOE will work to submit a proposed rule change to permanently implement the margin requirements for the subject complex spreads.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change, as amended (SR-CBOE-2003-24), is approved until August 7, 2004.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland
Deputy Secretary

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).