Section 1. General Rules Relating to Options

Rule 904. Position Limits

.10 Delta-Based Equity Hedge Exemption. The Delta-Based Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An equity options position of a member, member organization or non-member affiliate that is delta neutral shall be exempt from established position limits as prescribed under Commentary .07 above, subject to the following:

(a) Delta Neutral - The term "delta neutral" refers to an equity options position that is hedged, in accordance with a Permitted Pricing Model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position.

In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments, as defined in Rule 904C, Commentary .06(a), in accordance with Rule 904C, Commentary .06 – Delta-Based Index Hedge Exemption, for calculation of the Delta-Based Equity Hedge Exemption.

(b) Net Delta - The term "net delta" means the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an equity options position will change with incremental changes in the price of the security underlying the options position, as determined in accordance with a Permitted Pricing Model.

(c) Options Contract Equivalent of the Net Delta - The term "options contract equivalent of the net delta" means the net delta divided by the number of shares [underlying the options contract] that equate to one option contract on a delta basis.

(d) through (i) No change.
Section 11. Stock Index Options

Rule 904C. Position Limits

• • • Commentary  ------------------

.06 Delta-Based Index Hedge Exemption. The Delta-Based Index Hedge Exemption shall be available with respect to broad stock index group options and is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. A broad stock index group option position of a member, member organization or non-member affiliate that is delta neutral shall be exempt from established position limits as prescribed under this Rule 904C, subject to the following:

(a) The term “delta neutral” refers to an index option position that is hedged, in accordance with a Permitted Pricing Model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term “correlated instruments” means securities and/or other instruments that track the performance of or are based on the same underlying index as the index underlying the option position (but not including baskets of securities).

(b) An index option position that is not delta neutral shall be subject to position limits in accordance with this Rule 904C (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The “options contract equivalent of the net delta” is the net delta divided by units of trade that equate to one option contract on a delta basis. The term “net delta” means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a Permitted Pricing Model.

(c) A “Permitted Pricing Model” shall have the meaning as defined in Rule 904, Commentary .10(e).

(d) Effect on Aggregation of Accounts

(1) Members, member organizations and non-member affiliates who rely on this exemption must ensure that the Permitted Pricing Model is applied to all positions in correlated instruments that are owned or controlled by such member, member organization or non-member affiliate.

(2) Notwithstanding subparagraph (d)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading
unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

(A) the entity demonstrates to the Exchange’s satisfaction that no control relationship, as defined in Rule 904, Commentary .08, exists between such affiliates or trading units,* and

(B) the entity has provided (by the member or member organization carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

* Note: The Exchange has set forth in Regulatory Circular REG 2008-14 the conditions under which it will deem no control relationship to exist between affiliates and between separate and distinct trading units within the same entity.

(3) Notwithstanding subparagraph (d)(1) or (d)(2), a member, member organization or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the member or member organization carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange rules to be aggregated with the option positions of such member, member organization or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(A) the Permitted Pricing Model shall be applied, for purposes of calculating such member’s, member organization’s or non-member affiliate’s net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and

(B) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange rules to be aggregated with the option positions of such member, member organization or non-member affiliate.

(e) Obligations of members and member organizations

(1) A member or member organization that relies on this exemption for a proprietary index options position:

(A) must provide a written certification to the Exchange that it is using a Permitted Pricing Model pursuant to subparagraph (c) above; and
(B) by such reliance authorizes any other person carrying for such member or
member organization an account including, or with whom such member or
member organization has entered into, a position in a correlated instrument to
provide to the Exchange or the Clearing Corporation such information
regarding such account or position as the Exchange or Clearing Corporation
may request as part of the Exchange’s confirmation or verification of the
accuracy of any net delta calculation under this exemption.

(2) The index option positions of a non-member affiliate relying on this exemption
must be carried by a member or member organization with which it is affiliated.

(3) A member or member organization carrying an account that includes an index
option position for a non-member affiliate that intends to rely on this exemption
must obtain from such non-member affiliate and must provide to the Exchange:

(A) a written certification to the Exchange that the non-member affiliate is using a
Permitted Pricing Model pursuant to subparagraph (c) above; and

(B) a written statement confirming that such non-member affiliate:

(i) is relying on this exemption;

(ii) will use only a Permitted Pricing Model for purposes of calculating the net
delta of its option positions for purposes of this exemption;

(iii) will promptly notify the member or member organization if it ceases to
rely on this exemption;

(iv) authorizes the member or member organization to provide to the Exchange
or the Clearing Corporation such information regarding positions of the non-
member affiliate as the Exchange or Clearing Corporation may request as
part of the Exchange’s confirmation or verification of the accuracy of any
net delta calculation under this exemption; and

(v) if the non-member affiliate is using the OCC Model, has duly executed and
delivered to the member or member organization such documents as the
Exchange may require to be executed and delivered to the Exchange as a
condition to reliance on this exemption.

(f) Reporting. Each member or member organization that holds or carries an account
that relies on this exemption shall report, in accordance with Rule 906, all index
option positions (including those that are delta neutral) that are reportable
thereunder. Each such member or member organization on its own behalf or on
behalf of a designated aggregation unit pursuant to Rule 904C, Commentary .06(d)
shall also report, in accordance with Rule 906, for each such account that holds an
index option position subject to this exemption in excess of the levels specified in
this Rule 904C, the net delta and the options contract equivalent of the net delta of
such position.
(g) Records. Each member or member organization relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member or member organization relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

.07 Delta-Based Industry Index Hedge Exemption. The Delta-Based Index Hedge Exemption provided under Rule 904C, Commentary .06 above may also be applied to Industry Index Option positions. The Delta-Based Industry Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies.

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