Customer Margin. The Exchange proposes to apply options margin treatment to BOUNDs as explained below.

A. Long BOUND Positions

Long BOUND positions will be given no loan value and payment in full will be required at the time of purchase. As described more fully below, however, there will be a credit for long BOUNDs in BOUND spread positions.

B. Short BOUND Positions

The BOUND seller receives the full value of the BOUND at the time of the initial sale and receives no further payment when the contract is settled either by payment of the strike price or delivery of the underlying stock. Short BOUND positions, therefore, will be margined in an amount equal to the current market price of the BOUND plus an amount equal to the "add on" percentage used to margin short call options times the market value of the BOUND. Since the maximum obligation of the seller of a BOUND cannot exceed the strike price, however, the amount of margin will never exceed the strike value. Examples of the margin treatment for a short BOUND position follow:

1. Assume a stock price of \$50, a margin add-on percent of 20% and the BOUND trading at \$40. In this case, the short seller would have to pay \$48 to margin the position, *i.e.*, \$40 BOUND price plus 20% of \$40 (\$8), or \$48.

2. Assume a stock price of \$60, an exercise price of \$50, a margin add-on of 20% and the BOUND trading at \$45. In this case, the calculated margin would be \$54, *i.e.*, \$45 BOUND price plus 20% of \$45 (\$9) or \$54. However, since the maximum margin for a short BOUND is the strike value, the margin would be \$50.

3. Assume a stock price of \$40, an exercise price of \$50, a margin add-on percent of 20% and the BOUND trading at \$35. In this case, the margin would be \$42, *i.e.*, \$35 BOUND price plus 20% of \$35 (\$7), or \$42.

C. Covered Positions

Short BOUND positions offset by the equivalent number of shares of the underlying stock will not require any additional margin since the seller's obligation to the buyer will, in all cases, be covered by the position in the underlying stock. Further, since the sum of the prices of a LEAP and a BOUND will be approximately equal to the price of the underlying stock, a long stock position is cover for both a short BOUND and a short LEAP position.

D. Spread Positions

Same Expiration—Different Strike Prices

There will be no margin requirement for BOUND positions which are long the higher strike price and short the lower strike price since the long BOUND more than covers the obligation of the short side of the position. For positions short the higher strike price and long the lower strike, a customer will be required to post the difference between the strike prices.

Different Expiration—Same Strike Price

No margin will be required for positions long the nearest expiration and short the longer expiration since the value of the long BOUND will cover the obligation on the short leg of the position. Positions that are short the near expiration and long the distant expiration will require full margin on the short position less 80% of the market value of the long position.

Different Expiration—Different Strike Prices

There will be no margin required for positions that are long the near expiration and short the distant expiration when the strike price on the near expiration is higher than the strike on the distant expiration. For positions which are long the near expiration and short the distant expiration when the strike price on the near expiration is lower than the strike on the distant contract, the margin will be the difference in the strike between the near term and distant strikes. For positions which are short the near expiration and long the distant expiration, full margin will be required on the short position less 80% of the market value of the long position.

Sales Practices

BOUNDs will be subject to the sales practice and suitability rules applicable to standardized options.

Adjustments for Corporate Transactions

BOUNDs will be subject to adjustments for corporate and other actions in accordance with the rules of The Options Clearing Corporation.

Positions Limits

BOUNDS will be subject to the position limits for equity options set forth in Exchange Rule 4.11. In addition, BOUNDs will be aggregated with equity options on the same underlying stock for the purpose of calculating position limits. However, since BOUND, to the holder, is a "bullish" position (*i.e.*, it is the equivalent of a short put position where the strike price has been prepaid), long BOUNDS will be aggregated with long call and short put positions. Similarly, since the BOUND, to the seller, is a "bearish" position (*i.e.*, it is the equivalent of a long put position where the strike price has been prepaid), short BOUNDS will be aggregated with short call and long put positions.

The CBOE believes the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 9(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the **Federal Register** or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, S.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule