UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

January 13, 2000

Mr. Richard Lewandowski
Vice President
Regulatory Division
The Chicago Board Options Exchange, Inc.
400 South LaSalle Street
Chicago, Illinois 60605

Re: Extension of Subparagraph (b)(1)(iv) of Appendix A to Rule 15c3-1 of the Securities Exchange Act of 1934 ("Exchange Act")

Dear Mr. Lewandowski:

This is in response to your letters dated August 24, 1999, and December 10, 1999, in which you request, on behalf of The Chicago Board Options Exchange, Inc., that certain broker-dealers be permitted to calculate net capital as to listed options and related positions that hedge those options in major market foreign currencies and high-capitalization and non-high-capitalization diversified indexes in accordance with subparagraph (b)(1)(iv) of Appendix A to Rule 15c3-1 under the Exchange Act[1] until such time as the Securities and Exchange Commission ("Commission") issues an order or other relief extending subparagraph (b)(1)(iv).

In 1997, the Commission adopted Appendix A to Rule 15c3-1 which permits broker-dealers to employ theoretical option pricing models to calculate required net capital for listed options and related positions that hedge those options.[2] In adopting Appendix A, which became effective on September 1, 1997, the Commission reduced net capital requirements as to non-clearing option specialists and market-makers with proprietary listed option positions in major market foreign currencies and high-capitalization and non-high-capitalization diversified indexes.[3] However, the

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1 17 C.F.R. 240.15c3-1a(b)(1)(iv).

2 See Exchange Act Release No. 34-38248 (February 6, 1997), 62 FR 6474 (February 12, 1997) ("Release").

Commission provided that this relief would expire two years from its effective date unless it can be demonstrated that retention of these reduced capital requirements is in the public interest.

In order to demonstrate that the relief set forth in subparagraph (b)(1)(iv) is in the public interest, you represent in your letter, among other things, that there has been a significant reduction in the number of deficits in non-clearing option specialist and market-maker accounts since the adoption of subparagraph (b)(1)(iv) and that there is no evidence that these lower charges have resulted in excessive leverage.

Based on these representations, the Division of Market Regulation ("Division") will not recommend that the Commission take enforcement action if non-clearing option specialists and market-makers continue to rely on subparagraph (b)(1)(iv) of Appendix A to Rule 15c3-1 under the Exchange Act until such time as the Commission has determined whether it should be extended.

You should be aware that this is a staff position with respect to enforcement only and does not purport to express any legal conclusions. This position is based solely on the foregoing description. Factual variations could warrant a different response, and any material change in the facts must be brought to the Division's attention. This position may be withdrawn or modified if the staff determines that such action is necessary for the protection of investors, in the public interest, or otherwise in furtherance of the purposes of the securities laws.

Sincerely,

Michael A. Macchiaroli
Associate Director

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[3] See 17 C.F.R. 240.15c3-1a(b)(1)(i)(C) (definition of the term "major market foreign currency"); Release, supra note 2, at 6478 (list of indexes to be treated as high-capitalization and non-high-capitalization diversified indexes).