



**To: Members**  
**From: Legal Division**  
**Member and Regulatory Services Division**  
**Date: June 14, 2010**  
**Re: Rule Change Regarding Correlated Instruments Delta Hedge Exemption**

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On May 27, 2010, the SEC approved SR-CBOE-2010-21 amending CBOE Rules 4.11, 24.4 and 24.4A with respect to correlated instruments delta hedge exemption.<sup>1</sup> Implementation is operative as of the date of this circular. The following summarizes the amendments:

(i) The rule amendment expands the delta based exemption by amending Rule 4.11.04(c)(A) to permit equity option positions for which the underlying security is an ETF that is based on the same index as an index option to be combined with an index option position for calculation of the delta-based equity hedge exemption. The rule allows financial products such as securities index options, index futures, and options on index futures to be included along with the ETF in an equity option's net delta calculation. So for example, the proposed rule would allow SPY options to be hedged not only with SPY shares, but with S&P 500 options, S&P 500 futures, options on S&P 500 futures or any other instrument that tracks the performance of or is based on the S&P 500 index. This would be accomplished by including such positions with a related index option position in accordance with the Delta-Based Index Hedge Exemption.

(ii) The rule amendment also amends the reporting requirements applicable to members relying on the delta hedging exemption to exempt from the reporting requirements Exchange Market-Makers and Designated Primary Market-Makers ("DPMs") relying on the Exemption who use the Options Clearing Corporation ("OCC") pricing model, because Market-Maker and DPM position and delta information can be accessed through the Exchange's market surveillance systems.

(iii) The rule amendment also adopts a delta hedging exemption from certain index options position limits. A delta-based index hedge exemption would provide market participants the ability to accumulate an unlimited number of index options contracts provided that such contracts are properly delta hedged in accordance with the requirements of the exemption.

**Please be advised that the Exemption is not currently available to be utilized by customers. CBOE will announce to Member organizations when the Exemption is available to be utilized for customers.**

Further questions about the applicability of the Correlated Instrument Delta Hedge Exemption should be directed to the Department of Market Regulation at (312) 786-8460 or (312) 786-7730.

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<sup>1</sup> Rules 24.4 and 24.4A provide position limits for broad-based index options, industry index options, respectively.