MAY 2006

SUGGESTED ROUTING
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Margin
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GUIDANCE

Margin Requirements
Amendments to Margin Rules to Reflect Additional Complex Option Spread Strategies

Executive Summary

On April 3, 2006, NASD filed with the Securities and Exchange Commission (SEC) for immediate effectiveness a rule change to amend NASD Rules 2520 and 2522 that revised the margin requirements to recognize specific additional complex option spread strategies for purposes of determining required margin, and has amended the provisions relating to “permitted offsets” for certain listed option transactions.1 Rules 2520 and 2522, as amended, are set forth in Attachment A of this Notice. The effective date and the implementation date of the amendments was April 3, 2006.

Questions/Further Information

Questions regarding this Notice may be directed to Susan M. DeMando, Associate Vice President, Financial Operations, at (202) 728-8411; or Kathryn M. Moore, Assistant General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 974-2974.

Background and Discussion

NASD has amended Rule 2520 to recognize specific additional complex option spread strategies for purposes of determining required margin, and has amended the provisions relating to “permitted offsets” for certain listed option transactions. In addition, NASD amended Rule 2522 to include definitions relating to the amendments to Rule 2520 and to make certain other conforming changes. The amendments to Rules 2520 and 2522 are consistent with recent margin rule amendments by the New York Stock Exchange (NYSE) and the Chicago Board Options Exchange (CBOE), which were approved by the SEC.2
Complex Option Spread Strategies

NASD has amended Rule 2520 and the corresponding definitions in Rule 2522 to recognize specific additional complex option spread strategies, and has set margin requirements commensurate with the risk of such spread strategies. These complex option spread strategies are the net result of combining two or more spread strategies that were already recognized in NASD’s margin rules. The netting of contracts in option series common to each of the already recognized spreads in an aggregation reduces it to the complex spread strategies noted below. The purpose and benefit of the recent amendments is to set levels of margin that more precisely represent actual net risk of the option positions in the account and enable customers to implement these strategies more efficiently.

To be eligible for the margin requirements set forth below, a complex spread must be consistent with one of the seven patterns specified below. The expiration months and the sequence of the exercise prices must correspond to the same pattern, and the intervals between the exercise prices must be equal.

Members are required to obtain initial and maintenance margin for the subject complex spreads, whether established outright or through netting, of not less than the sum of the margin required on each basic spread in the equivalent aggregation.

The basic requirements are as follows: (a) the complex option spreads must be carried in a margin account; and (b) European-style options are prohibited for complex spread combinations having a long option series that expires after the other option series (i.e., those that involve a time spread such as items 5, 6, and 7 below). Only American-style options may be used in these combinations. Additionally, the intervals between exercise prices must be equal, and each complex spread must comprise four option series, with the exception of item 4 below, which must comprise three option series.
The sum of the margin required on each currently recognized spread in each of the applicable aggregations renders margin requirements for the subject complex spread strategies as stated below. The additional complex option spread strategies and maintenance margin requirements are as follows:

1. A Long Condor Spread is comprised of two long Butterfly Spreads. The rule requires initial and maintenance margin of full cash payment of the net debit incurred when this spread strategy is established. Full payment of the net debit incurred will cover any potential risk to the carrying broker-dealer.

2. A Short Iron Butterfly Spread is comprised of one long Butterfly Spread and one short Box Spread. The establishment of a long Butterfly Spread results in a margin requirement equal to the net debit incurred. The establishment of a short Box Spread requires margin equal to the aggregate difference between the exercise prices. The net proceeds from the sale of short option components may be applied to the margin requirement. Accordingly, to cover the risk to the carrying broker-dealer, the rule requires a deposit of the aggregate exercise price differential. The net credit received may be applied to the deposit required.

3. A Short Iron Condor Spread is comprised of two long Butterfly Spreads and one short Box Spread. The establishment of long Butterfly Spreads results in a margin requirement equal to the net debit incurred. The establishment of a short Box Spread requires margin equal to the difference in the strike price. Accordingly, to cover the risk to the carrying broker-dealer, the rule requires a deposit of the aggregate exercise price differential. The net credit received may be applied to the deposit required.

4. A Long Calendar Butterfly Spread is comprised of one long Calendar Spread and one long Butterfly Spread. The rule requires initial and maintenance margin of full cash payment of the net debit incurred when this spread strategy is established. Full payment of the net debit incurred will cover any potential risk to the carrying broker-dealer.

5. A Long Calendar Condor Spread is comprised of one long Calendar Spread and two long Butterfly Spreads. The rule requires initial and maintenance margin of full cash payment of the net debit incurred when this spread strategy is established. Full payment of the net debit incurred will cover any potential risk to the carrying broker-dealer.

6. A Short Calendar Iron Butterfly Spread is comprised of one long Calendar Spread plus one long Butterfly Spread and one short Box Spread. To cover the risk to the carrying broker-dealer, the rule requires a deposit of the aggregate exercise price differential. The net credit received may be applied to the deposit required.

7. A Short Calendar Iron Condor Spread is comprised of one Long Calendar Spread plus two long Butterfly Spreads and one short Box Spread. To cover the risk to the carrying broker-dealer, the rule requires a deposit of the aggregate exercise price differential. The net credit received may be applied to the deposit required.
Permitted Offsets

Rule 2520(f)(2)(J) addresses margin requirements for members that clear and carry the listed options transactions of registered specialists, registered market makers or registered traders in options, and recognizes certain offset positions in establishing the margin requirements. Prior to the recent amendments, the rule limited permitted offsets for these parties to options series that are “in or at the money,” which was defined to mean “the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option.”

Recently, various option exchanges have provided for the listing of options with one-dollar strike intervals in a number of classes. As a result, the use of securities to hedge options series that have one-dollar strike intervals has unintentionally become more restrictive. The recent amendments eliminated the definition of “in or at the money,” thereby eliminating the two standard exercise interval limitation for listed options. In addition, the amended rule requires permitted offset transactions to be effected for specialist or market-making purposes such as hedging, risk reduction, rebalancing of positions, liquidation or accommodation of customer orders, or other similar specialist or market-making purposes.


Endnotes


3 A European-style option is an option contract that can be exercised only on its expiration date.

4 An American-style option is an option contract that can be exercised at any time between the date of purchase and its expiration date.

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ATTACHMENT A

New language is underlined; deletions are in brackets.

* * * * *

2520. Margin Requirements

(a) through (e) No Change.

(f) Other Provisions

(1) No Change.

(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants

(A) through (B) No Change.

(C) For purposes of this subparagraph (f)(2), obligations issued by the United States Government shall be referred to as United States Government obligations. Mortgage pass-through obligations guaranteed as to timely payment of principal and interest by the Government National Mortgage Association shall be referred to as GNMA obligations.

In the case of any put, call, currency warrant, currency index warrant, or stock index warrant carried “long” in a customer’s account that expires in nine months or less, initial margin must be deposited and maintained equal to at least 100% of the purchase price of the option or warrant.

Long Listed Option or Warrant With An Expiration Exceeding Nine Months. In the case of a put, call, index stock group option, or stock index warrant that is issued by a registered clearing agency, margin must be deposited and maintained equal to at least 75% of the current market value of the option or warrant; provided that the option or warrant has a remaining period to expiration exceeding nine months.
Long OTC Option or Warrant With An Expiration Exceeding Nine Months. In the case of an OTC put, call, index stock group option, or stock index warrant carried long that is not issued by a registered clearing agency with an expiration exceeding 9 months, margin must be deposited and maintained equal to at least 75% of the option’s or warrant’s “in-the-money” amount plus 100% of the amount, if any, by which the current market value of the option or warrant exceeds its “in-the-money” amount provided the option or warrant. Options or warrants margined pursuant to this paragraph must:

(i) be valued at all times for margin purposes at an amount not to exceed, the in-the-money amount,

(ii) be guaranteed by the carrying broker-dealer, and

(iii) have an American-style exercise provision, and

(iv) have a remaining period to expiration exceeding nine months.

(D) through (F) No Change.

(G) (i) through (iv) No Change.

(v) The following requirements set forth the minimum amount of margin that must be maintained in margin accounts of customers having positions in components underlying options, and stock index warrants, when such components are held in conjunction with certain positions in the overlying option or warrant. The option or warrant must be issued by a registered clearing agency or guaranteed by the carrying broker/dealer. In the case of a call or warrant carried in a short position, a related long position in the underlying component shall be valued at no more than the call/warrant exercise price for margin equity purposes.

a. Long Option or Warrant Offset. When a component underlying an option or warrant is carried long (short) in an account in which there is also carried a long put (call) or warrant specifying equivalent units of the underlying component, the minimum amount of margin that must be maintained on the underlying component is 10% of the [aggregate] option/warrant exercise price plus the “out-of-the-money” amount, not to exceed the minimum maintenance required pursuant to paragraph (c) of this Rule.
b. Conversions. When a call or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and [there] is also carried with a long put or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the short call or warrant, the minimum amount of margin that must be maintained for the underlying component shall be 10% of the [aggregate] exercise price.

c. Reverse Conversions. When a put or warrant carried in a short position is covered by a short position in equivalent units of the underlying component and is also carried with a long call or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the short put or warrant, the minimum amount of margin that must be maintained for the underlying component shall be 10% of the [aggregate] exercise price plus the amount by which the exercise price of the put exceeds the current market value of the underlying, if any.

d. Collars. When a call or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and is also carried with a long put or warrant specifying equivalent units of the same underlying component and having a lower exercise price and the same expiration date as the short call/warrant, the minimum amount of margin that must be maintained for the underlying component shall be the lesser of 10% of the [aggregate] exercise price of the put plus the put “out-of-the-money” amount or 25% of the call aggregate exercise price.

e. Butterfly Spread. This subparagraph applies to a butterfly spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer.

1. No Change.

2. With respect to a short butterfly spread as defined in Rule 2522, margin must be deposited and maintained equal to at least the amount of the [aggregate] difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the [aggregate] difference between the two highest exercise prices with respect to short butterfly spreads comprised of puts. The net proceeds from the sale of short option components may be applied to the requirement.
f. Box Spread. This subparagraph applies to box spreads as defined in Rule 2522, where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer.

1. With respect to a long box spread as defined in Rule 2522, the net debit must be paid in full.

2. With respect to a short box spread as defined in Rule 2522, margin must be deposited and maintained equal to at least the amount of the [aggregate] difference between the exercise prices. The net proceeds from the sale of the short option components may be applied to the requirement.

g. Long Box Spread in European-Style Options. With respect to a long box spread as defined in Rule 2522, in which all component options have a European-style exercise provision and are issued by a registered clearing agency or guaranteed by the carrying broker/dealer, margin must be deposited and maintained equal to at least 50% of the [aggregate] difference in the exercise prices. The net proceeds from the sale of short option components may be applied to the requirement. For margin purposes, the long box spread may be valued at an amount not to exceed 100% of the [aggregate] difference in the exercise prices.

h. Long Condor Spread. This subparagraph applies to a long condor spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a long condor spread as defined in Rule 2522, the net debit must be paid in full.

i. Short Iron Butterfly Spread. This subparagraph applies to a short iron butterfly spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short iron butterfly spread as defined in Rule 2522, margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

j. Short Iron Condor Spread. This subparagraph applies to a short iron condor spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short iron condor spread as defined in Rule 2522, margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.
k. Long Calendar Butterfly Spread. This subparagraph applies to a long calendar butterfly spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a long calendar butterfly spread as defined in Rule 2522, the net debit must be paid in full.

l. Long Calendar Condor Spread. This subparagraph applies to a long calendar condor spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a long calendar condor spread as defined in Rule 2522, the net debit must be paid in full.

m. Short Calendar Iron Butterfly Spread. This subparagraph applies to a short calendar iron butterfly spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short calendar iron butterfly spread as defined in Rule 2522, margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

n. Short Calendar Iron Condor Spread. This subparagraph applies to a short calendar iron condor spread as defined in Rule 2522 where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short calendar iron condor spread as defined in Rule 2522, margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

(H) through (I) No Change.

(J) (i) Registered specialists, market makers or traders — Notwithstanding the other provisions of this subparagraph (f)(2), a member may clear and carry the listed option transactions of one or more registered specialists, registered market makers or registered traders in options (whereby[which] registered traders are deemed specialists for all purposes under the Act, pursuant to the rules of a national securities exchange) (hereinafter referred to as “specialist(s”)”), upon a “Good Faith” margin basis satisfactory to the concerned parties, provided the “Good Faith” margin requirement[s] is not less than the Net Capital haircut deduction of the member [organization] carrying the transaction pursuant to SEC Rule 15c3-1 under the Act. In lieu of collecting the “Good Faith” margin requirement, a carrying member [organization] may elect to deduct in computing its Net Capital the amount of any deficiency between the equity maintained in the account and the “Good Faith” margin required.
For purposes of this paragraph (f)(2)(J), a permitted offset position means, in the case of an option in which a specialist or market maker makes a market, a position in the underlying asset or other related assets, and in the case of other securities in which a specialist or market maker makes a market, a position in options overlying the securities in which a specialist or market maker makes a market. Accordingly, a specialist or market maker in options may establish, on a share-for-share basis, a long or short position in the securities underlying the options in which the specialist or market maker makes a market, and a specialist or market maker in securities other than options may purchase or write options overlying the securities in which the specialist or market maker makes a market, if the account holds the following permitted offset positions:

a. A short option position which is “in or at the money” and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is “in the money”;

b. A long option position which is “in or at the money” and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is “in the money”;

c. A short option position against which an exercise notice was tendered;

d. A long option position which was exercised;

e. A net long position in a security (other than an option) in which a specialist or market maker makes a market;

f. A net short position in a security (other than an option) in which the specialist or market maker makes a market; or

g. A specified portfolio type as referred to in SEC Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

Permitted offset transactions must be effected for specialist or market making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation[s] of customer orders, or other similar [market making]specialist or market maker purpose. The specialist or market maker must be able to demonstrate compliance with this provision.
For purposes of this paragraph (f)(2)(J), the term “in or at the money” means the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term “in the money” means the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; and, the term “overlying option” means a put option purchased or a call option written against a long position in an underlying asset; or a call option purchased or a put option written against a short position in an underlying asset.

(ii) Securities, including options, in such accounts shall be valued conservatively in the light of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required or excess net capital maintained in all cases where the securities carried:

a. through b. No Change.

c. in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent undue concentration of risk in view of the carrying member’s net capital and its overall exposure to material loss.

(K) through (L) No Change.

(M) Cash account transactions — A member may make option transactions in a customer’s cash account, provided that:

(i) No Change.

(ii) Spreads. A European-style cash-settled index stock group option or stock index warrant carried in a short position is deemed a covered position, and eligible for the cash account, provided a long position in a European-style cash-settled stock group index option, or stock index warrant having the same underlying component or index that is based on the same aggregate current underlying value, is held in or purchased for the account on the same day, provided that:

a. through b. No Change.
c. there is held in the account at the time the positions are established, or received into the account promptly thereafter:

1. cash or cash equivalents of not less than any amount by which the [aggregate] exercise price of the long call or call warrant (short put or put warrant) exceeds the [aggregate] exercise price of the short call or call warrant (long put or put warrant), to which [requirement of] net proceeds from the sale of the short position may be applied, or

2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents, or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than any amount by which the [aggregate] exercise price of the long call or call warrant (short put or put warrant) exceeds the [aggregate] exercise price of a short call or call warrant (long put or put warrant) and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice or that the bank will promptly pay the member funds sufficient to purchase a warrant sold short in the event of a buy-in.

d. No Change.

(iii) Long Butterfly Spreads, Short Butterfly Spreads, Long Condor Spreads, Short Iron Butterfly Spreads, or Short Iron Condor Spreads. Put or call options carried in a short position are deemed covered positions and eligible for the cash account provided that the account contains long positions of the same type which in conjunction with the short options, constitute a long butterfly spread, short butterfly spread, long condor spread, short iron butterfly spread, or short iron condor spread as defined in Rule 2522 and provided that:

a. through d. No Change.

e. all components options expire concurrently;

[f]. with respect to a long butterfly spread or long condor spread as defined in Rule 2522, the net debit is paid in full; and
[flg. with respect to a short butterfly spread, short iron butterfly spread or short iron condor spread as defined in Rule 2522, there is held in the account at the time the positions are established or received into the account promptly thereafter:

1. cash or cash equivalents of not less than the amount of the [aggregate] difference between the two lowest exercise prices with respect to short butterfly spreads comprised of call options or the [aggregate] difference between the two highest exercise prices with respect to short butterfly spreads comprised [or] of put options, to which [requirement] the net proceeds from the sale of short option components may be applied; or

2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than the amount of the [aggregate] difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the [aggregate] difference between the two highest exercise prices with respect to short butterfly spreads comprised of puts and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice on the call (put) with the lowest (highest) exercise price.

(iv) **Box Spreads.** Puts and calls carried in a short position are deemed covered positions and eligible for the cash account provided that the account contains long positions which in conjunction with the short options constitute a box spread as defined in Rule 2522 provided that:

a. through d. No Change.

e. **all component options expire concurrently.**

   [ef]. with respect to a long box spread as defined in Rule 2522, the net debit is paid in full; and
[fig. with respect to a short box spread as defined in Rule 2522, there is held in
the account at the time the positions are established, or received into the account promptly
thereafter:

1. cash or cash equivalents of not less than the amount of the [aggregate]
difference between the exercise prices, to which [requirement] the net proceeds from the
sale of short option components may be applied; or
2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the
customer as security for the agreement i. cash, ii. cash equivalents or iii. a combination
thereof having an aggregate market value at the time the positions are established of not
less than the amount of the [aggregate] difference between the exercise prices and that the
bank will promptly pay the member such amount in the event the account is assigned an
exercise notice on either short option.

(3) through (11) No Change.

* * * * *
2522. Definitions Related to Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants Transactions.

(a) The following definitions shall apply to the margin requirements for options, currency warrants, currency index warrants and stock index warrants transactions:

(1) through (5) No Change.

(6) **Box Spread**

The term “box spread” means an aggregation of positions in a long call and short put with the same exercise price (“buy side”) coupled with a long put and short call with the same exercise price (“sell side”) [all of which have the same underlying component or index and time of expirations, and are based on the same aggregate current underlying value, and are] structured as[ ]; (A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or (B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price[,] all of which have the same contract size, underlying component or index and time of expiration, and are based on the same aggregate current underlying value.

(7) through (8) No Change.

(9) **Butterfly Spread**

The term “butterfly spread” means an aggregation of positions in three series of either puts or calls[ all having the same underlying component or index, and time of expiration, and based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, which positions are] structured as either: (A) a “long butterfly spread” in which two short options in the same series are offset by one long option with a higher exercise price and one long option with a lower exercise price or (B) a “short butterfly spread” in which two long options in the same series offset one short option with a higher exercise price and one short option with a lower exercise price[,] all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in ascending order.

(10) **Calendar Spread**

The term “calendar spread” or “time spread” means the sale of one option and the simultaneous purchase of another option of the same type, both specifying the same underlying component with the same exercise price or different exercise prices, where the “long” option expires after the “short” option.

(10) through (22) renumbered as (11) through (23).
(23) Escrow Agreement

The term “escrow agreement,” when used in connection with cash settled calls, puts, currency warrants, currency index warrants, or stock index warrants carried short, means any agreement issued in a form acceptable to [the Association] NASD under which a bank holding cash, cash equivalents, one or more qualified equity securities or a combination thereof in the case of a call [option] or warrant or cash, cash equivalents or a combination thereof in the case of a put [option] or warrant is obligated (in the case of an option) to pay the creditor the exercise settlement amount in the event an option is assigned an exercise notice or, (in the case of a warrant) the funds sufficient to purchase a warrant sold short in the event of a buy-in.

[The term “escrow agreement” when used in connection with non cash settled call or put options carried short, means any agreement issued in a form acceptable to the Association under which a bank holding the underlying security (in the case of a call option) or required cash or cash equivalents or a combination thereof (in the case of a put option) is obligated to deliver to the creditor (in the case of a call option) or accept from the creditor (in the case of a put option) the underlying security against payment of the exercise price in the event of the call or put is assigned an exercise notice.]

(24) through (40) renumbered as (25) through (41).

(42) Long Calendar Butterfly Spread

The term “long calendar butterfly spread” means an aggregation of positions in three series of either puts or calls, structured as two short options with the same exercise price, offset by a long option with a lower exercise price and a long option with a higher exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a long calendar butterfly spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread and one long butterfly spread, as defined in this rule.
(43) **Long Calendar Condor Spread**

The term “long calendar condor spread” means an aggregation of positions in four series of either puts or calls, structured as a long option with the lowest exercise price, two short options with the next two consecutively higher exercise prices and a long option with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a long calendar condor spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread and two long butterfly spreads, as defined in this rule.

(44) **Long Condor Spread**

The term “long condor spread” means an aggregation of positions in four series of either puts or calls, structured as a long option with the lowest exercise price, two short options with the next two consecutively higher exercise prices and a long option with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of two long butterfly spreads, as defined in this rule.

(41) through (60) renumbered as (45) through (64).

(65) **Short Calendar Iron Butterfly Spread**

The term “short calendar iron butterfly spread” means an aggregation of positions in two series of puts and two series of calls, structured as a short put and a short call with the same exercise price, offset by a long put with a lower exercise price and a long call with a higher exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a short calendar iron butterfly spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread, one long butterfly spread, and one short box spread, as defined in this rule.
(66) Short Calendar Iron Condor Spread

The term “short calendar iron condor spread” means an aggregation of positions in two series of puts and two series of calls, structured as a long put with the lowest exercise price, a short put and a short call with the next two consecutively higher exercise prices and a long call with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a short calendar iron condor spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread, two long butterfly spreads, and one short box spread, as defined in this rule.

(67) Short Iron Butterfly Spread

The term “short iron butterfly spread” means an aggregation of positions in two series of puts and two series of calls, structured as a short put and a short call with the same exercise price, offset by a long put with a lower exercise price and a long call with a higher exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of one long butterfly spread and one short box spread, as defined in this rule.

(68) Short Iron Condor Spread

The term “short iron condor spread” means an aggregation of positions in two series of puts and two series of calls, structured as a long put with the lowest exercise price, a short put and a short call with the next two consecutively higher exercise prices, and a long call with the highest exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of two long butterfly spreads and one short box spread, as defined in this rule.

(61) through (77) renumbered as (69) through (85).