July 28, 2000

Mr. Jack Drogin
Assistant Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: **File No. SR-NASD-00-15, Amendment No. 1** - Margin Rule Amendments Relating to Options Positions

Dear Mr. Drogin:

NASD Regulation hereby amends the above-referenced rule filing as follows and as reflected in the proposed rule language attached as Exhibit 1.

1. In SR-NASD-00-15 (the "rule filing"), NASD Regulation proposed, among other things, Rule 2520(f)(2)(L)(ii)d., which provides that European-style, cash settled index options, stock index warrants or currency index warrants may be held in cash accounts under certain conditions. This provision further proposes that a long warrant may offset a short option contract and a long option contract may offset a short warrant provided that they have the same underlying component or index and equivalent aggregate current underlying value for cash account treatment. NASD Regulation is amending the proposed requirement to provide that if the long position is not listed, it must be guaranteed by the carrying broker/dealer; otherwise the offsetting short position is not eligible for the cash account and must be margined separately pursuant to Rule 2520(f)(2)(D).

2. NASD Regulation is revising Footnote 26 within the text of the rule filing to make it consistent with the proposed rule language. Footnote 26 is revised as follows (new text is underlined, deletions are bracketed): "For any stock option, stock index option, or stock index warrant that expires in nine months or less, initial margin must be deposited and maintained equal to at least 100% of the <u>purchase price</u> [current market value] of the option or warrant."

3. NASD Regulation is adding the term "aggregate" prior to "exercise price" to clarify that the minimum amount of margin that must be maintained in certain put options, long option

or warrant offsets, conversions, reverse conversions, and collars is a percentage of the aggregate exercise prices. Proposed Rules 2520(f)(2)(D)(i) and 2520(f)(2)(G)(v)a. through d. are amended as follows (indicated with double underline):

Rule 2520(f)(2)(D)(i):

. . . [Notwithstanding the margin required below, t]The [minimum] margin on any put[or call issued], call, currency warrant, currency index warrant, or stock index warrant issued, guaranteed or carried "short" in a customer's account may be reduced by any "out-of-the-money amount" (as defined below), but shall not be less than 100 percent of the current market value of the option or warrant plus the percentage of the current value of the underlying [security or index] component specified in column III, except in the case of any put issued, guaranteed or carried "short" in a customer's account. Margin on such put option contracts shall not be less than the current value of the put option plus the percentage of the put option's aggregate exercise price as specified in column III.

Rule 2520(f)(2)(G)(v):

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.

4. Footnote 17 of the rule filing is being revised to clarify the maintenance margin treatment of short positions. Footnote 17 is replaced in its entirety by the following: "For each stock carried short that has a current market value of less than $5 per share, the maintenance margin is $2.50 per share or 100% of the current market value, whichever is greater. For each stock carried short that has a current market value of $5 per share or more, the maintenance margin is $5 per share or 30% of the current market value, whichever is greater. See NASD Rule 2520(c)."

5. NASD Regulation is proposing to add to Rule 2522(a) the definition of the term "Stock Index Warrant" to mean a put or call warrant that overlies a broad index stock group or an industry index stock group, consistent with the definition provided in New York Stock Exchange Rule 414(a).

6. NASD Regulation is amending proposed Rule 2522(a)(24), which defines Escrow Agreement, to include that 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 the call or put is assigned an exercise notice.

7. NASD Regulation is clarifying the purpose of the proposed change to the definition of "current market value." The NASD's existing definition of "current market value" is equivalent to the definition found in Regulation T.[1] Instead of repeating the Regulation T definition, the proposal would revise the definition to note that the meaning of the term "current market value" is as defined in Regulation T. As a result, if there are future changes to the Regulation T definition, the NASD's definition will remain consistent. In addition, NASD Regulation is clarifying that it proposed to move the definitions of "Current Market Value" or "Current Market Price," "Exercise Settlement Amount," "Aggregate Exercise Price" and "Aggregate Current Index Value" from Rule 2520(f)(2)(C) to Rule 2522(a) for ease of reference purposes, such that all definitions relating to transactions in options, currency warrants, currency index warrants and stock index warrants are located in Rule 2522.

8. The proposed rule change provides definitions for "butterfly spread" and "box spread" options strategies. NASD Regulation is explaining the purpose of these definitions. These definitions are important elements of the NASD's proposal to recognize and specify cash and margin account requirements for butterfly and box spreads. The definitions specify what multiple option positions, if held together, qualify for classification as butterfly or box spreads and consequently are eligible for the proposed cash and margin account treatment.

9. Consistent with a clarification being made by the Chicago Board Options Exchange to its margin rules, NASD Regulation is revising the text of the proposed rule change as follows to clarify the requirements of Rule 2520(f)(2) with respect to long OTC options and warrants with an expiration exceeding 9 months:

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[1] Regulation T defines "current market value" of a security to be:

> (i) Throughout the day of the purchase or sale of a security, the security's total cost of purchase or the net proceeds of its sale including any commissions charged; or (ii) At any other time, the closing sale price of the security on the preceding business day, as shown by any regularly published reporting or quotation service. If there is no closing sale price, the creditor may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day.

See 12 CFR 220.2.

Long OTC Option or Warrant With An Expiration Exceeding Nine Months. In the case of an OTC put or call option on a stock or stock index, and a stock index warrant, with an expiration greater than 9 months, margin must be deposited and maintained equal to at least 75% of the option's or warrant's in-the-money amount. 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.

10. To reflect the portion of the proposed rule change that allows the extension of credit on certain long-term options and warrants, NASD Regulation is proposing to amend Rule 2520(f)(1) as follows:

(1) Determination of Value for Margin Purposes

Active securities dealt in on a national securities exchange or OTC Marginable securities listed on Nasdaq shall, for margin purposes, be valued at current market prices; provided that, whether or not dealt in on an exchange or listed on Nasdaq, only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds nine months and that are listed or guaranteed by the carrying broker-dealer, may be deemed to have market value for the purposes of Rule 2520. Other securities shall be valued conservatively in view of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required in all cases where the securities carried in "long" or "short" positions are subject to unusually rapid or violent changes in value, or do not have an active market on Nasdaq or on a national securities exchange, or where the amount carried is such that the position(s) cannot be liquidated promptly.

Technical Changes

1. NASD Regulation is revising the text of the proposed rule change to specifically indicate that there were no changes to the Tables provided in Rule 2520.

2. NASD Regulation is proposing to amend the title of Rule 2522 to clarify that the definitions provided in Rule 2522 also relate to currency warrants, currency index warrants and stock index warrants in addition to options.

3. The numbering of proposed definitions in Rule 2522(a) was incorrect in the rule filing in certain instances and was renumbered accordingly.

If you have any questions, please contact Stephanie M. Dumont, Office of General Counsel, NASD Regulation, Inc., at (202) 728-8176; e-mail Stephanie.Dumont@nasd.com. The fax number of the Office of General Counsel is (202) 728-8264.

Very truly yours,

Alden S. Adkins
Senior Vice President
and General Counsel

Attachment

cc: Hong-anh Tran
Division of Market Regulation, SEC

EXHIBIT 1

Proposed Rule Language – SR-NASD-00-15

(Note: New language proposed in this Amendment #1 is double underlined; new language proposed in the original rule filing is single underlined; and deletions are bracketed)

2520. Margin Requirements

(a) through (e) No Change

(f) Other Provisions

(1) Determination of Value for Margin Purposes

Active securities dealt in on a national securities exchange or OTC Marginable securities listed on Nasdaq shall, for margin purposes, be valued at current market prices; provided that, whether or not dealt in on an exchange or listed on Nasdaq, only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds nine months and that are listed or guaranteed by the carrying broker-dealer, may be deemed to have market value for the purposes of Rule 2520. Other securities shall be valued conservatively in view of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required in all cases where the securities carried in "long" or "short" positions are subject to unusually rapid or violent changes in value, or do not have an active market on Nasdaq or on a national securities exchange, or where the amount carried is such that the position(s) cannot be liquidated promptly.

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

(A) Except as provided below, and in the case of a put, call index stock group option, or stock index warrant with a remaining period to expiration exceeding nine months, no put, call, currency warrant, currency index warrant or stock index warrant carried for a customer shall be considered of any value for the purpose of computing the margin to be maintained in the account of such customer.

(B) No Change

(C) For purposes of this subparagraph [(6)(B)] (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. [The terms "current market value" or "current market price" of an options, currency warrant, currency index warrant or stock index warrant shall mean the total cost or net proceeds of the option contract or warrant on the day it was purchased or sold and at any other time shall be the preceding business day's closing price of that option (times the appropriate unit of trading or multiplier) as shown by any regularly published reporting or quotation service. The term "exercise settlement amount" shall mean the difference between the "aggregate exercise price" and the "aggregate current index value" (as such terms are defined in the pertinent By-Laws of the Options Clearing Corporation).]

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 or call option on a stock or stock index, and a stock index warrant, 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. 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.

(D) The margin required on any put [or call issued], call, currency warrant, currency index warrant, or stock index warrant issued, guaranteed or carried "short" in a customer's account shall be:

(i) In the case of puts and calls issued by a registered clearing agency, 100 percent of the current market value of the option plus the percentage of the current value of the underlying [security or index] component specified in column II of the chart below. In the case of currency warrants, currency index warrants and stock index warrants, 100 percent of the current market value of each such warrant plus the percentage of the warrant's current "underlying component value" (as column IV of the chart below describes) specified in column II of the chart below.

[Notwithstanding the margin required below, t]The [minimum] margin on any put[or call issued], call, currency warrant, currency index warrant, or stock index warrant issued, guaranteed or carried "short" in a customer's account may be reduced by any "out-of-the-money amount" (as defined below), but shall not be less than 100 percent of the current market value of the option or warrant plus the percentage of the current value of the underlying [security or index] component specified in column III, except in the case of any put issued, guaranteed or carried "short" in a customer's account. Margin on such put option contracts shall not be less than the current value of the put option plus the percentage of the put option's aggregate exercise price as specified in column III.

* * * No Change to Tables * * *

If the option contract provides for the delivery of obligations with different maturity dates or coupon rates, the computation of the "out-of-the-money amount," if any, where required by this Rule, shall be made in such a manner as to result in the highest margin requirement on the short option position.

(ii) In the case of puts and calls issued by a registered clearing agency which represent options on GNMA obligations in the principal amount of $100,000, 130 percent of the current market value of the option plus $1,500, except that the margin required need not exceed $5,000 plus the current market value of the option.

(iii) In the case of puts and calls not issued by a registered clearing agency, the percentage of the current value of the underlying component and the applicable multiplier, if any, specified in column II below, plus any "in-the-money amount" (as defined in this paragraph (f)(2)(D)(iii).)

[Notwithstanding the margin required by this subparagraph] In the case of options not issued by a registered clearing agency, the [minimum] margin on any put or call issued, guaranteed or carried "short" in a customer's account may be reduced by any "out of the money amount" (as defined in paragraph (f)(2)(D)(i)), but shall not be less than the percentage of the current value of the underlying component and the applicable multiplier, if any, specified in column III below, except in the case of any put issued or guaranteed or carried "short" in a customer's account. Margin on such put option contracts shall not be less than the percentage of the put option's exercise price as specified in column III below.

* * * No Change to Tables or corresponding footnotes * * *

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

(G)(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. With respect to a long butterfly spread as defined in Rule 2522, the net debit must be paid in full.

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 a 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.

(f)(2)(H) through (f)(2)(L) No Change

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

(i) The transaction is permissible under Regulation T, Section 220.8; or

(ii) [The transaction is a debit put spread in listed broad-based index options with European-style exercise comprised of a long put(s) coupled with a short put(s) overlying the same broad-based index with an equivalent underlying aggregate index value and the short put(s) and the long put(s) expire simultaneously, and the strike price of the long put(s) exceed the strike price of the short put(s).] **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. the long position and the short position expire concurrently;

b. the long position is paid is full; and

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. A long warrant may offset a short option contract and a long option contract may offset a short warrant provided that they have the same underlying component or index and equivalent aggregate current underlying value. In the event that the long position is not listed, it must be guaranteed by the carrying broker/dealer; otherwise the short position is not eligible for the cash account and must be margined separately pursuant to subparagraph (f)(2)(D).

(iii) **Butterfly 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 butterfly spread as defined in Rule 2522 and provided that:

a. all component options are listed, or guaranteed by the carrying broker/dealer;

b. all component options are European-style;

c. all component options are cash settled;

d. the long options are held in, or purchased for the account on the same day;

e. with respect to a long butterfly spread as defined in Rule 2522, the net debit is paid in full; and

f. with respect to a short butterfly 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 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. all component options are listed, or guaranteed by the carrying broker/dealer;

b. all component options are European-style;

c. all component options are cash settled;

d. the long options are held in, or purchased for the account on the same day;

e. with respect to a long box spread as defined in Rule 2522, the net debit is paid in full; and

f. 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.

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

[(a) Definitions Related to Options Transactions]

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

*   *   *

(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.

Paragraphs (6) and (7) are renumbered as Paragraphs (7) and (8).

(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.

Paragraphs (8) through (17) are renumbered as Paragraphs (10) through (19).

(20) Current Market Value or Current Market Price

The terms "current market value" or "current market price" of an option, currency warrant, currency index warrant or stock index warrant are as defined in Section 220.2 of Regulation T of the Board of Governors of the Federal Reserve System.

Paragraphs (18) and (19) are renumbered as Paragraphs (21) through (22).

(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 under which a bank holding cash, cash equivalents, one or more qualified equity securities or combination thereof in the case of a call or warrants or cash, cash equivalents or a combination thereof in the case of a put or warrant is obligated (in 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 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.

Paragraphs (20) through (22) are renumbered as Paragraphs (24) through (26).

(27) Exercise Settlement Amount

The term "exercise settlement amount" shall mean the difference between the "aggregate exercise price" and the "aggregate current index value" (as such terms are defined in the pertinent By-Laws of the Options Clearing Corporation).

Paragraphs (23) through (58) are renumbered as Paragraphs (28) through (63).

(64) Stock Index Warrant

The term "stock index warrant" shall mean a put or call warrant that overlies a broad index stock group or an industry index stock group.

Paragraphs (59) through (71) are renumbered as Paragraphs (65) through (77).