OPTIONS
SEA Rule 15c3-1a (Appendix A)

(a) DEFINITIONS

(1) The term unlisted option shall mean any option not included in the definition of listed option provided in paragraph (c)(2)(x) of § 240.15c3-1.

(2) The term option series refers to listed option contracts of the same type (either a call or a put) and exercise style, covering the same underlying security with the same exercise price, expiration date, and number of underlying units.

(3) The term related instrument within an option class or product group refers to futures contracts and options on futures contracts covering the same underlying instrument. In relation to options on foreign currencies a related instrument within an option class also shall include forward contracts on the same underlying currency.

(4) The term underlying instrument refers to long and short positions, as appropriate, covering the same foreign currency, the same security, or a security which is exchangeable for or convertible into the underlying security within a period of 90 days. If the exchange or conversion requires the payment of money or results in a loss upon conversion at the time when the security is deemed an underlying instrument for purposes of this Appendix A, the broker or dealer will deduct from net worth the full amount of the conversion loss. The term underlying instrument shall not be deemed to include securities options, futures contracts, options on futures contracts, qualified stock baskets, or unlisted instruments.

(5) The term options class refers to all options contracts covering the same underlying instrument.

(6) The term product group refers to two or more option classes, related instruments, underlying instruments, and qualified stock baskets in the same portfolio type (see paragraph (b)(1)(ii) of this section) for which it has been determined that a percentage of offsetting profits may be applied to losses at the same valuation point.

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(a)(6) DEFINITIONS (continued)

/01 Delayed Exercisable Date

Unlisted options which are only exercisable at or after a specified future date should be treated as if immediately exercisable (same as any other unlisted option) in computing net capital haircuts or charges. This applies as long as the option is open.

(SEC Staff to NYSE) (No. 90-11, December 1990)

/02 Warrants

Listed warrants are to be treated as listed options.

(SEC Release No. 34-38248, February 6, 1997) (No. 97-5, September 1997)

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(b) OPTIONS DEDUCTIONS

The deduction under this Appendix A to § 240.15c3-1 shall equal the sum of the deductions specified in paragraphs (b)(1)(v)(C) or (b)(2) of this section.

(1) THEORETICAL PRICING CHARGES

(i) DEFINITIONS

(A) The terms theoretical gains and losses shall mean the gain and loss in the value of individual option series, the value of underlying instruments, related instruments, and qualified stock baskets within that option's class, at 10 equidistant intervals (valuation points) ranging from an assumed movement (both up and down) in the current market value of the underlying instrument equal to the percentage corresponding to the deductions otherwise required under § 240.15c3-1 for the underlying instrument (See paragraph (a)(1)(iii) of this section). Theoretical gains and losses shall be calculated using a theoretical options pricing model that satisfies the criteria set forth in paragraph (a)(1)(i)(B) of this section.

(B) The term theoretical options pricing model shall mean any mathematical model, other than a broker-dealer proprietary model, approved by a Designated Examining Authority. Such Designated Examining Authority shall submit the model to the Commission, together with a description of its methods for approving models. Any such model shall calculate theoretical gains and losses as described in paragraph (a)(1)(i)(A) of this section for all series and issues of equity, index and foreign currency options and related instruments, and shall be made available equally and on the same terms to all registered brokers or dealers. Its procedures shall include the arrangement of the vendor to supply accurate and timely data to each broker-dealer with respect to its services, and the fees for distribution of the services. The data provided to brokers or dealers shall also contain the minimum requirements set forth in paragraphs (b)(1)(v)(C) of this section and the product group offsets set forth in paragraphs (b)(1)(v)(B) of this section. At a minimum, the model shall consider the following factors in pricing the option:

(1) The current spot price of the underlying asset;

(2) The exercise price of the option;

(3) The remaining time until the option’s expiration;

(4) The volatility of the underlying asset;

(5) Any cash flows associated with ownership of the underlying asset that can reasonably be expected to occur during the remaining life of the option; and

(6) The current term structure of interest rates.

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(b)(1)(i) THEORETICAL PRICING CHARGES (continued)

(C) The term major market foreign currency shall mean the currency of a sovereign nation whose short-term debt is rated in one of the two highest categories by at least two nationally recognized statistical rating organizations and for which there is a substantial inter-bank forward currency market. For purposes of this section, the European Currency Unit (ECU) shall be deemed a major market foreign currency.

(D) The term qualified stock basket shall mean a set or basket of stock positions which represents no less than 50% of the capitalization for a high-capitalization or non-high-capitalization diversified market index, or, in the case of a narrow-based index, no less than 95% of the capitalization for such narrow-based index.

(ii) With respect to positions involving listed options in a single specialist's market-maker account, and, separately, with respect to positions involving listed option positions in its proprietary or other account, the broker or dealer shall group long and short positions into the following portfolio types:

(A) Equity options on the same underlying instrument and positions in that underlying instrument;

(B) Options on the same major market foreign currency, positions in that major market foreign currency, and related instruments within those options' classes;

(C) High-capitalization diversified market index options, related instruments within the option's class, and qualified stock baskets in the same index;

(D) Non-high-capitalization diversified index options, related instruments within the index option's class, and qualified stock baskets in the same index; and

(E) Narrow-based index options, related instruments within the index option's class, and qualified stock baskets in the same index.

(iii) Before making the computation, each broker or dealer shall obtain the theoretical gains and losses for each options series and for the related and underlying instruments within those options' class in each specialist's market-maker account guaranteed, endorsed, or carried by a broker or dealer, or in the proprietary or other accounts of that broker or dealer. For each option series, the theoretical options pricing model shall calculate theoretical prices at 10 equidistant valuation points within a range consisting of an increase or a decrease of the following percentages of the daily market price of the underlying instrument:

(A) +(-) 15% for equity securities with a ready market, narrow-based indexes, and non-high-capitalization diversified indexes;
(B) +(-) 6% for major market foreign currencies;
(C) +(-) 20% for all other currencies; and
(D) +(-) 10% for high-capitalization diversified indexes.

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(b)(1) THEORETICAL PRICING CHARGES (continued)

(iv) As to non-clearing option specialists and market-makers, the percentages of the daily market price of the underlying instrument shall be:

(A) +(-) 4 1/2% for major market foreign currencies; and
(B) +6(-) 8% for high-capitalization diversified indexes.
(C) +(-) 10% for a non-clearing market-maker, or specialist in non-high capitalization diversified index product group.

(v)(A) The broker or dealer shall multiply the corresponding theoretical gains and losses at each of the 10 equidistant valuation points by the number of positions held in a particular options series, the related instruments and qualified stock baskets within the option's class, and the positions in the same underlying instrument.

(B) In determining the aggregate profit or loss for each portfolio type, the broker or dealer will be allowed the following offsets in the following order, provided, that in the case of qualified stock baskets, the broker or dealer may elect to net individual stocks between qualified stock baskets and take the appropriate deduction on the remaining, if any, securities:

(1) First, a broker or dealer is allowed the following offsets within an option's class:

(i) Between options on the same underlying instrument, positions covering the same underlying instrument, and related instruments within the option's class, 100% of a position's gain shall offset another position's loss at the same valuation point;

(ii) Between index options, related instruments within the option's class, and qualified stock baskets on the same index, 95%, or such other amount as designated by the Commission, of gains shall offset losses at the same valuation point;

(2) Second, a broker-dealer is allowed the following offsets within an index product group:

(i) Among positions involving different high-capitalization diversified index option classes within the same product group, 90% of the gain in a high-capitalization diversified market index option, related instruments, and qualified stock baskets within that index option's class shall offset the loss at the same valuation point in a different high-capitalization diversified market index option, related instruments, and qualified stock baskets within that index option's class;

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(b)(1)(v)(B)(2) THEORETICAL PRICING CHARGES (continued)

(ii) Among positions involving different non-high-capitalization diversified index option classes within the same product group, 75% of the gain in a non-high-capitalization diversified market index option, related instruments, and qualified stock baskets within that index option's class shall offset the loss at the same valuation point in another non-high-capitalization diversified market index option, related instruments, and qualified stock baskets within that index option's class or product group;

(iii) Among positions involving different narrow-based index option classes within the same product group, 90% of the gain in a narrow-based market index option, related instruments, and qualified stock baskets within that index option's class shall offset the loss at the same valuation point in another narrow-based market index option, related instruments, and qualified stock baskets within that index option's class or product group;

(iv) No qualified stock basket should offset another qualified stock basket; and

(3) Third, a broker-dealer is allowed the following offsets between product groups: Among positions involving different diversified index product groups within the same market group, 50% of the gain in a diversified market index option, a related instrument, or a qualified stock basket within that index option's product group shall offset the loss at the same valuation point in another product group;

(C) For each portfolio type, the total deduction shall be the larger of:

(1) The amount for any of the 10 equidistant valuation points representing the largest theoretical loss after applying the offsets provided in paragraph (b)(1)(v)(B) if this section; or

(2) A minimum charge equal to 25% times the multiplier for each equity and index option contract and each related instrument within the option's class or product group, or $25 for each option on a major market foreign currency with the minimum charge for futures contracts and options on futures contracts adjusted for contract size differentials, not to exceed market value in the case of long positions in options and options on futures contracts; plus

(3) In the case of portfolio types involving index options and related instruments offset by a qualified stock basket, there will be a minimum charge of 5% of the market value of the qualified stock basket for high-capitalization diversified and narrow-based indexes; and

(4) In the case of portfolio types involving index options and related instruments offset by a qualified stock basket, there will be a minimum charge of 7 1/2% of the market value of the qualified stock basket for non-high-capitalization diversified indexes.

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(b) ALTERNATIVE STRATEGY BASED METHOD

(2) A broker or dealer may elect to apply the alternative strategy based method in accordance with the provisions of this paragraph (b)(2).

(i) DEFINITIONS

(A) The term intrinsic value or in-the-money amount shall mean the amount by which the exercise value, in the case of a call, is less than the current market value of the underlying instrument, and, in the case of a put, is greater than the current market value of the underlying instrument.

(B) The term out-of-the-money amount shall mean the amount by which the exercise value, in the case of a call, is greater than the current market value of the underlying instrument, and, in the case of a put, is less than the current market value of the underlying instrument.

(C) The term time value shall mean the current market value of an option contract that is in excess of its intrinsic value.

(ii) Every broker or dealer electing to calculate adjustments to net worth in accordance with the provisions of this paragraph (b)(2) must make the following adjustments to net worth:

(A) Add the time value of a short position in a listed option; and

(B) Deduct the time value of a long position in a listed option, which relates to a position in the same underlying instrument or in a related instrument within the option class or product group as recognized in the strategies enumerated in paragraph (b)(2)(iii)(D) of this section; and

(C) Add the net short market value or deduct the long market value of listed options as recognized in the strategies enumerated in paragraphs (b)(2)(iii)(E)(1) and (2) of this section.

(iii) In computing net capital after the adjustments provided for in paragraph (b)(2)(ii) of this section, every broker or dealer shall deduct the percentages specified in this paragraph (b)(2)(iii) for all listed option positions, positions covering the same underlying instrument and related instruments within the options' class or product group.

/01 TCO Options Considered as “Listed”

Options issued by Trans Canada Options, Inc. (TCO), the issuer of standardized call and put options traded on the Toronto Stock Exchange, are includable within the definition of the term “listed option”.

(SEC Letter to Proskauer, Rose, Gaetz & Mendelsohn, March 29, 1983)
(No. 90-3, May 1990)

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(b)(2)(iii) ALTERNATIVE STRATEGY BASED METHOD (continued)

(A) Uncovered Calls

Where a broker or dealer is short a call, deducting the percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1 of the current market value of the underlying instrument for such option reduced by its out-of-the-money amount, to the extent that such reduction does not operate to increase net capital. In no event shall this deduction be less than the greater of $250 for each short call option contract for 100 shares or 50% of the aforementioned percentage.

(B) Uncovered Puts

Where a broker or dealer is short a put, deducting the percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1 of the current market value of the underlying instrument for such option reduced by its out-of-the-money amount, to the extent that such reduction does not operate to increase net capital. In no event shall the deduction provided by this paragraph be less than the greater of $250 for each short put option contract for 100 shares or 50% of the aforementioned percentage.

(C) Long Positions

Where a broker or dealer is long puts or calls, deducting 50 percent of the market value of the net long put and call positions in the same options series.

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(b)(2)(iii)(C) ALTERNATIVE STRATEGY BASED METHOD (continued)

/01 Unlisted Option on a Treasury Bill, Note or Bond May be Treated as "Listed"

When the underlying security is a Treasury bill, note or bond, a long "unlisted option" (a separately negotiated transaction between the broker-dealer and a counterparty that is not traded on a registered national securities exchange or facility of a registered national securities association) may be treated as a "listed option" provided the broker-dealer:

1. Has possession or control of the security underlying the option or an escrow receipt for the underlying security from a bank defined in Section 3(a)(6) of the Securities Exchange Act containing a representation that it will not release the security except on instructions from the broker-dealer and that it will turn over the security to fulfill the counterparty's option contract; or

2. Deducts from net worth in computing net capital the sum of:

   A) The amount by which the "current credit risk" and the "safety factor" from unlisted options with one counterparty exceeds 5 percent of the broker-dealer's excess net capital; and

   B) The amount by which the "current credit risk" and the "safety factors" as to all counterparties exceeds 25 percent of the broker-dealer's excess net capital.

"Current credit risk" shall equal, on a counterparty basis, the sum of all the intrinsic values of all long unlisted options reduced by the intrinsic value of short unlisted options written by the counterparty and margin, marks to the market or other required deposits received from the counterparty outstanding one business day or less.

For this purpose the intrinsic value may be defined as: (i) in the case of a long position in an unlisted put option, the excess of the exercise price of the unlisted put option over the market value of the underlying security; and (ii) in the case of a long position in an unlisted call option, the excess of the market value of the underlying security over the exercise price of the unlisted call option.

"Safety factor" shall equal one half of the percentages set forth in paragraph (c)(2)(vi)(A) of SEA Rule 15c3-1 applied, on a per counterparty basis, to the unlisted options held by the broker-dealer. For purposes of computing the safety factor, the broker-dealer shall assign the market values of the underlying securities represented by those unlisted options to the categories specified in paragraph (c)(2)(vi)(A) of SEA Rule 15c3-1 (with the percentages therein reduced by one half). Securities underlying short unlisted option positions may be netted against the securities underlying the long unlisted option positions only if the short option position is in-the-money.

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(b)(2)(iii)(C) ALTERNATIVE STRATEGY BASED METHOD (continued)

/01 Unlisted Option on a Treasury Bill, Note or Bond May be Treated as "Listed"(continued)

3. In order to comply with the provisions of part (2) above:

A) The counterparty to the option must be:

i) A registered broker-dealer or government securities broker or dealer with net capital or liquid capital after haircuts exceeding $25,000,000;

ii) A bank as defined in Section (3)(a)(6) of the Act with a net worth exceeding $100,000,000;

iii) A foreign bank with net worth exceeding $500,000,000;

iv) A registered investment company with assets exceeding $100,000,000; or

v) A registered clearing agency; and

B) The broker-dealer must provide its designated examining authority with the following information on a quarterly basis:

i) The number of any options described above it has outstanding with all counterparties;

ii) The value of the securities underlying the options;

iii) The number and general classification of the counterparties to these options; and

iv) The intrinsic values of the long unlisted options.

The SEC will determine whether the position expressed above should be continued, modified or terminated.

Note: If the terms and conditions of the interim no-action letter are strictly adhered to and solely for such period of time as the no-action letter remains in effect, the Exchange will permit recognition of unlisted option instruments as detailed in the commission's no-action letter as consisting and conforming with NYSE Rule 325(c)(1) and the purpose for which it was adopted. See Interpretation NYSE Rule 325(c)(1)/01.

(SEC Letter to NYSE, January 31, 1990) (No. 90-3, May 1990)

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(b)(2)(iii) ALTERNATIVE STRATEGY BASED METHOD (continued)

(D) Certain Security Positions With Offsetting Options

(1) Where a broker or dealer is long a put for which it has an offsetting long position in the same number of units of the same underlying instrument, deducting the percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1 of the current market value of the underlying instrument for the long offsetting position, not to exceed the out-of-the-money amount of the option. In no event shall the deduction provided by this paragraph be less than $25 for each option contract for 100 shares, provided that the minimum charge need not exceed the intrinsic value of the option.

(2) Where a broker or dealer is long a call for which it has an offsetting short position in the same number of units of the same underlying instrument, deducting the percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1 of the current market value of the underlying instrument for the short offsetting position, not to exceed the out-of-the-money amount of the option. In no event shall the deduction provided by this paragraph be less than $25 for each option contract for 100 shares, provided that the minimum charge need not exceed the intrinsic value of the option.

/01 Unlisted Option Treated as Listed

Where a broker-dealer is short a security and long an unlisted call written by its customer, the unlisted call may be treated as a listed call for haircut purposes, i.e., a hedged position, provided:

- The customer is long the underlying security on the books of the broker-dealer in street name, and
- The position is maintained in a separate customer account apart from the customer's other accounts.

(SEC Letter to Oppenheim, Appel, Dixon & Co., February 17, 1986)
(No. 90-3, May 1990)

(3) Where a broker or dealer is short a call for which it has an offsetting long position in the same number of units of the same underlying instrument, deducting the percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1 of the current market value of the underlying instrument for the offsetting long position reduced by the short call's intrinsic value. In no event shall the deduction provided by this paragraph be less than $25 for each option contract for 100 shares.

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(b)(2)(iii) ALTERNATIVE STRATEGY BASED METHOD (continued)

(E) Certain Spread Positions

(1) Where a broker or dealer is short a listed call and is also long a listed call in the same class of options contracts and the long option expires on the same date as or subsequent to the short option, the deduction, after adjustments required in paragraph (b) of this section, shall be the amount by which the exercise value of the long call exceeds the exercise value of the short call. If the exercise value of the long call is less than or equal to the exercise value of the short call, no deduction is required.

(2) Where a broker or dealer is short a listed put and is also long a listed put in the same class of options contracts and the long option expires on the same date as or subsequent to the short option, the deduction, after the adjustments required in paragraph (b) of this section, shall be the amount by which the exercise value of the short put exceeds the exercise value of the long put. If the exercise value of the long put is equal to or greater than the exercise value of the short put, no deduction is required.

/01 Spread Treatments

The spread treatment is available for short unlisted options that offset long listed options, provided the broker-dealer does not utilize theoretical pricing charges.

(SEC Staff to NYSE) (No. 97-5, September 1997)

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(c) UNLISTED OPTIONS DEDUCTIONS

With respect to transactions involving unlisted options, every broker or dealer shall determine the value of unlisted option positions in accordance with the provision of paragraph (c)(2)(i) of § 240.15c3-1, and shall deduct the percentages of all securities positions or unlisted options in the proprietary or other accounts of the broker or dealer specified in this paragraph (c). However, where computing the deduction required for a security position as if the security position had no related unlisted option position and positions in unlisted options as if uncovered would result in a lesser deduction from net worth, the broker or dealer may compute such deductions separately.

(1) Uncovered Calls

Where a broker or dealer is short a call, deducting 15 percent (or such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the current market value of the security underlying such option reduced by any excess of the exercise value of the call over the current market value of the underlying security. In no event shall the deduction provided by this paragraph be less than $250 for each option contract for 100 shares.

(2) Uncovered Puts

Where a broker or dealer is short a put, deducting 15 percent (or such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the current market value of the security underlying the option reduced by any excess of the market value of the underlying security over the exercise value of the put. In no event shall the deduction provided by this paragraph be less than $250 for each option contract for 100 shares.

/01 Short Straddles - Applied to Unlisted Options on Treasuries

Where a broker or dealer is short an unlisted call option on U.S. Treasury securities and also short an unlisted put option on the same underlying security, the haircut charge on the straddle shall be the greater of 1) the deduction resulting from paragraph (c)(1) of this Appendix A to the short call, or 2) the deduction resulting from the application of paragraph (c)(2) of this Appendix A to the short put.

The subject security must be the same underlying type (e.g. bills, notes, or bonds) which maturities may differ but must be within the same time bands as set forth in SEA Rule 15c3-1(c)(2)(vi)(A).

The option contracts should be valued at the in the money amount. The minimum deduction to be applied will be $750 per contract (deemed to be based on $100,000).

(SEC to NYSE) (No. 92-4, January 1992)
(No. 97-5, September 1997)

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(c) UNLISTED OPTIONS DEDUCTIONS (continued)

(3) Covered Calls

Where a broker or dealer is short a call and long equivalent units of the underlying security, deducting 15 percent (or such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the current market value of the underlying security reduced by any excess of the current market value of the underlying security over the exercise value of the call. No reduction under this paragraph shall have the effect of increasing net capital.

(4) Covered Puts

Where a broker or dealer is short a put and short equivalent units of the underlying security, deducting 15 percent (or such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the current market value of the underlying security reduced by any excess of the exercise value of the put over the market value of the underlying security. No such reduction shall have the effect of increasing net capital.

(5) Conversion Accounts

Where a broker or dealer is long equivalent units of the underlying security, long a put written or endorsed by a broker or dealer and short a call in its proprietary or other accounts, deducting 5 percent (or 50 percent of such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the current market value of the underlying security.

/01 Options Conversion Percentage Deductions

Option conversion accounts consisting of long unlisted options, short listed options and related underlying securities positions are treated as if the short options had been unlisted. The market value of the listed options is added to net worth and their in the money amount, if any, is deducted from net worth.

(SEC Staff to NYSE) (No. 76-2, February 1976)

The percentage deductions applicable to conversion accounts that are long unlisted options are:

- 5% for securities covered by SEA Rule 15c3-1(c)(2)(vi)(J).
- 50% of the applicable percentage for securities covered by SEA Rules 15c3-1(c)(2)(vi)(A to I and K).

(SEC Staff to NYSE) (No. 77-2, June 1977)
(No. 93-6, November 1993)

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(c) UNLISTED OPTIONS DEDUCTIONS (continued)

(6) Where a broker or dealer is short equivalent units of the underlying security, long a call written or endorsed by a broker or dealer and short a put in his proprietary or other accounts, deducting 5 percent (or 50 percent of such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the market value of the underlying security.

(7) Long Options

Where a broker or dealer is long a put or call endorsed or written by a broker or dealer, deducting 15 percent (or such other percentage required by paragraphs (c)(2)(vi) (A) through (K) of § 240.15c3-1) of the market value of the underlying security, not to exceed any value attributed to such option in paragraph (c)(2)(i) of § 240.15c3-1.

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