



Department of Market Regulation

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Regulatory Circular RG00-147

Date: September 27, 2000
To: Members and Member Organizations
From: Regulatory Services Division
Re: September 29, 2000, Special Closing Rotations
Early Exercise Advice Cutoff Time

This Regulatory Circular sets forth the closing times and the procedures that will apply to the close of trading in domestic broad-based index options on September 29, 2000.

The closing procedures set forth below are being implemented in response to a decision by the Chicago Mercantile Exchange (CME) to conduct a special settlement procedure for all domestic stock index futures and options on September 29, 2000. On that day, the CME will stop trading in domestic stock index products at 3:05 p.m. (CST) - five minutes after the close of the stock market – instead of the usual 15 minutes after the close. The CME will then determine the settlement prices for all domestic stock index futures and options on the basis of their “fair value”¹ relative to the underlying cash indexes at 3:00 p.m. (CST).

In order to make the Exchange’s hours of trading in domestic broad-based index options on September 29, 2000, conform to the hours of trading in related futures and to assure that quarter-end values for the Exchange’s domestic broad-based index options are also based on “fair value” in a manner consistent with the determination of related futures values, the Exchange is implementing special quarter-end closing procedures, as described below.

Closing of Certain Index Options at 3:05 p.m.

On September 29, 2000, trading in the following index options will cease at 3:05 p.m. (CT): S&P 500 Index (SPX), S&P 100 Index (OEX), Nasdaq-100 Index (NDX), Mini-NDX (MNX), Russell 2000 Index (RUT), S&P/Barra Growth Index (SGX), S&P/Barra Value Index (SVX), S&P SmallCap Index (SML), Morgan Stanley Multinational Company Index (NFT).

Special "Closing Rotations" in these Index Options

¹ “Fair value” of futures represents the price at which futures should theoretically trade in relation to cash index values in the absence of transaction costs. It is typically calculated as a function of the underlying index value plus the financing cost of owning the underlying stock portfolio less dividends paid up to the futures expiration.

In order to allow the CBOE's domestic broad-based index options to be valued on the same "fair value" basis as the related index futures at the CME, the Exchange has determined to deviate from the normal procedure for the conduct of closing rotations on September 29, 2000, for each of the index options listed above. Specifically, after the close of trading at 3:05 p.m. (CT) on that date, special "closing rotations" will be held for the sole purpose of determining theoretical fair values for the option contracts listed above. **It should be noted that the option "fair values" determined during the special closing rotations may deviate from actual traded prices at the close.** This action is being taken pursuant to authorization given to CBOE Floor Officials in consultation with the Order Book Officials under CBOE Rules 6.2 and 24.13 to deviate from ordinary rotation policies or procedures in the interest of a fair and orderly market. **No trading of any kind is permitted. No orders of any type, including orders resting in the Exchange's limit order book, will be allowed to be traded during these special closing rotations. No market maker to market maker transactions will be allowed.**

Additionally, please be aware that in accordance with Exchange Rule 11.1, the cutoff time for submitting an "exercise advice" to the Exchange on September 29, 2000, will be changed due to the early close of trading on that day. As the close of trading for OEX options will be 3:05 p.m. (CT) on September 29, 2000, "exercise advices" must be submitted to the Exchange **within five minutes after the closing rotation on that day.**