Regulatory Circular RG01-133

CHICAGO BOARD OPTIONS EXCHANGE

To: Members and Member Firms

From: Research & Planning

Date: August 22, 2001

Re: Monthly "Fair Value" Settlement of CME Stock Index Futures and Options

On January 12, 2001, the Chicago Mercantile Exchange (CME) announced that starting January 31st, special "fair value"[1] settlement procedures for domestic stock index futures and options will be employed on the last business day of each month. Previously, these special procedures were applied only on the last business day of each quarter.

Consistent with past practices**,** the CME will calculate a "fair value" for each domestic stock index futures and options contract based on underlying index values observed at 3:15 p.m. (Chicago time). In addition, trading in stock index futures and options at the CME will cease at 3:05 p.m. rather than the normal closing time of 3:15 p.m.

Currently, CBOE conducts special "closing rotations" on the days in which special settlement procedures are employed at the CME in order to allow the Exchange's domestic broad-based index options to be valued on the same "fair value" basis as related index futures. Specifically, on the last business day of each calendar quarter, trading in the following index options is closed at 3:05 p.m. rather than the normal closing time of 3:15 p.m.:

S&P 500 Index (SPX)
S&P 100 Index (OEX)
S&P 100 Index (XEO)
Nasdaq-100 Index (NDX)
Mini-NDX Index (MNX)
Russell 2000 Index (RUT)

[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.

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 are then held for the sole purpose of determining theoretical fair values for these option contracts. **No orders, including orders resting in the Exchange's limit order book, are allowed to be traded during these special closing rotations.**

In response to the decision by the CME to employ "fair value" settlement procedures on a monthly basis, CBOE has determined to conduct special closing rotations in the options contracts listed above - previously used on a quarterly basis only - on the last business day of each month beginning January 31, 2001.

Additionally, trading in the following option classes will cease at 3:05 p.m. Chicago time on the last business day of each month beginning January 31, 2001:

Nasdaq-100 Tracking Stock (QQQ)
iShares S&P 100 Index Fund (OEF)

Please Note: No special closing rotation will be conducted in these classes.

CBOE has been advised that the CME is considering plans to extend the trading of stock index futures and options from 3:05 p.m. to 3:15 p.m. on the days in which "fair value" settlement procedures are used.

Also, please be aware that in accordance with Exchange Rule 11.1, the cutoff time for submitting an "exercise advice" to the Exchange on August 31, 2001, will be changed due to the early closing of trading on that day. As the close of trading for OEX options will be 3:05 p.m. (CT) on August 31, 2001, "exercise advices" must be submitted to the Exchange **within five minutes after the closing rotation on that day.**

Questions regarding this Circular may be directed to Bill Speth at (312) 786-7141 or Michael Felty at (312) 786-7504.

(Reissue of RG01-120)