



To: Members and Member Firms

From: Research & Planning

Date: April 4, 2002

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

Since January 31, 2001, the Chicago Mercantile Exchange (CME) has employed special "fair value"¹ settlement procedures for domestic stock index futures and options on the last business day of each month. On these days, the CME calculates the daily settlement price for its domestic stock index futures and options contracts on the basis of their fair value relative to the daily close of the underlying cash index as reflected at 3:15 p.m. (Chicago time).

CBOE has conducted 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. On the last business day of each month, trading in certain index options has been closed at 3:05 p.m. rather than the normal closing time of 3:15 p.m. Special closing rotations are then held for the sole purpose of determining theoretical fair values for these option contracts.

On November 15, 2001, the CME announced that trading in stock index futures and options at the CME would revert back to the normal closing time of 3:15 p.m. In response to the decision by the CME to return its stock index futures and options to their normal daily closing time of 3:15 p.m., CBOE will now conduct special closing rotations

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.

after the close of trading at 3:15 p.m. (CT) in the following options contracts on the last business day of each month:

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)
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 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.**

Please be advised that there will be no end of quarter trading closing rotation in these option contracts.

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

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

Also, please be aware that pursuant to Exchange Rule 11.1, as the close of trading for OEX options will be 3:15 p.m. (CT) on March 28, 2002, "exercise advices" must be submitted to the Exchange **no later than 3:20:59 p.m. (CT).**

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

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