



Regulatory Circular RG03-81

TO: Members and Member Firms

FROM: Research Department

DATE: September 17, 2003

RE: Settlement Procedures for Index Options in the Event of Primary Market Disruptions

CBOE Rules 24.7(e) and 24.9(a)(4) provide that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day or otherwise experiences disruption of normal trading on a given day, the price of that security for the purpose of calculating the current index value at expiration is determined in accordance with the Rules and By-Laws of The Options Clearing Corporation (OCC).

Under OCC By-Laws Article XVII, Section 4, OCC may determine the exercise settlement value for index options in these circumstances. Determinations with respect to the exercise settlement value of CBOE index options are made by a panel including OCC and CBOE representatives.

The panel determines what action to take based on its judgment as to what is appropriate for the protection of investors and the public interest. For example, if one or a few component stocks of the index do not open, the panel may decide to use the previous day's closing prices for those stocks in order to calculate the exercise settlement value. As another example, if a substantial portion of component stocks does not open, the panel may decide to calculate the exercise settlement value based on the opening prices of those stocks on the next day that their primary market is open for trading.

Questions about this circular may be directed to Bill Speth at (312) 786-7141.