



Regulatory Circular RG04-72

DATE: June 14, 2004

TO: Members and Member Firms

FROM: Regulatory Services Division

RE: Description of Procedures for the ROS Opening on VIX Futures and Options Contract Settlement Days

On June 8, 2004, the Securities and Exchange Commission approved CBOE's request for permanent approval of the modified ROS opening procedure, which is used to settle VIX futures. The modified ROS opening procedure was formerly operating under a pilot program.

The settlement date for VIX futures contracts, and for VIX options contracts when they will begin trading on CBOE, is on the Wednesday immediately prior to the standard Friday options expiration. CBOE Rule 6.2A.03 provides for a modified ROS opening procedure in the SPX only on the settlement date of VIX futures and options contracts. The normal ROS opening procedure will occur on all other days and on the VIX futures settlement date in all SPX option contract months whose prices are not used to calculate the VIX index.

Expiring VIX Contract	Settlement Date	SPX Series used for VIX Special Opening Quotation
Jun 2004	June 16	Jul
Jul 2004	July 14	Aug and Sep
Aug 2004	August 18	Sep
Sep 2004	September 15	Oct
Oct 2004	October 13	Nov and Dec
Nov 2004	November 17	Dec
Dec 2004	December 15	Jan and Feb
Jan 2005	January 19	Feb

Participation in the Modified ROS Opening Procedure

In the SPX ROS opening on that Wednesday only, all orders (including public customer, broker-dealer, CBOE market-maker and away market-maker and specialist orders), other than contingency orders, may be placed in the electronic book only in those SPX option contract months whose prices are used to calculate the VIX index. The contract months used in the VIX calculation will either be the nearby or the nearby and second nearby contract months. Since the other option contract months are never used in the calculation of VIX, market-maker and broker-dealer orders may not be placed in the electronic book for those months. In addition, in order to participate in the ROS opening, all orders for placement in the electronic book must be received prior to 8:28 a.m.

Market-makers not in the SPX pit and broker-dealers must electronically submit orders for placement in the electronic book for the modified ROS opening. Market-makers in the SPX pit may submit orders for placement in the electronic book for the modified ROS opening via one of the following methods:

1. Submit the order to a floor broker that has access to CBOE's Order Routing System (ORS).
2. Submit the order through a hand-held terminal that has futures/options routing functionality (e.g., FOC, REDI).
3. Submit a paper ticket to the Order Book Official (Note: Only paper tickets for market orders will be accepted – limit orders may not be submitted via paper ticket for placement in the electronic book for participation in the ROS opening).

All market maker orders should designate the market maker account in the CMTA field of the order.

Additionally, all market-maker and broker dealer orders that were entered in the electronic book but were not executed at the opening must be cancelled immediately following the opening of the applicable option series. Violations of these requirements may result in disciplinary action.

Market-Maker Requirements in the Modified ROS Opening Procedure

All market-makers, including LMMs, who are required to log on to ROS or RAES for the current expiration cycle are required to log on to ROS during the modified ROS opening procedure if the market-maker is physically present in the SPX trading crowd. On the Wednesday of the VIX futures contract settlement only, all SPX LMMs will collectively set the Autoquote values that will be used by ROS to calculate the opening prices for all series in the SPX option contract months whose prices are used to calculate the VIX index. ROS contracts to trade in SPX will be assigned equally, to the greatest extent possible, to all logged-on market-makers, including the LMMs.

LMMs are required to set Autoquote values for the modified ROS opening procedure consistent with their obligation to price option contracts fairly. In addition, members submitting orders for placement on the electronic book may not do so for the purpose of creating or inducing a false, misleading, or artificial appearance of activity or for the purpose of unduly or improperly influencing the opening price or settlement or for the purpose of making a price which does not reflect the true state of the market. Violations of these requirements are subject to disciplinary action.

Signing on to ROS for the Modified ROS Opening Procedure

All market-makers who are required to log on to ROS for the modified ROS opening procedure must do so prior to 8:28 a.m.

Signing on to ROS requires a change in the market-maker's profile found on the RAES sign-in terminal. All market-makers signed on to RAES that are not LMMs are signed on using the letter 'Z' in the field before the affected class symbol. Signing on to ROS as well as RAES requires that the letter 'Z' be changed to a 'B' for both (ROS & RAES).

Prior to signing on for the day, type in the market-maker's acronym and password and hit F15 once. Change the 'Z' in front of the necessary symbols to 'B' and hit F15 again.

At some point after the opening and prior to the next ROS opening, market-makers that are not LMMs must change their profile to once again show a 'Z' indicating RAES only.

Any questions regarding this circular may be directed to Steve Slawinski of the Regulatory Division at 312-786-7744 or Patrick Fay of the CBOE Futures Exchange at 312-786-7925.

(Replaces RG04-58 and RG04-61)