CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG05-85

To: Members

From: Legal Division
Department of Market Regulation

Date: October 5, 2005

Re: Modified ROS Opening Procedure on Settlement Dates of Volatility Options and Futures

The Securities and Exchange Commission has approved an amendment to CBOE Rule 6.2A.03 relating to the modified ROS opening procedure on the settlement dates of volatility index options and futures. SPX and DJX options are the only index option classes currently using the modified ROS opening procedure.[1] In the event that an option class for which the modified ROS opening procedure is currently used is moved to the Hybrid Trading System, the modified ROS opening procedure will no longer be used for that option class. In that event, the Exchange will issue a subsequent circular with regard to the applicable opening procedures.

Under the approved rule change, all index option orders for participation in the modified ROS opening procedure that are related to positions in, or a trading strategy involving, volatility index options or futures, and any change to or cancellation of any such order

(A) must be received prior to 8:00 a.m. and

(B) may not be cancelled or changed after 8:00 a.m., except that any such order may be changed or cancelled after 8:00 a.m. and prior to 8:25 a.m. in order to correct a legitimate error, in which case the member submitting the change or cancellation shall prepare and maintain a memorandum setting forth the circumstances that resulted in the change or cancellation and shall file a copy of the memorandum with the CBOE Department of Market Regulation no later than the next business day.

Additionally, all other index option orders for participation in the modified ROS opening procedure, and any change to or cancellation of any such order, must now be received prior to 8:25 a.m. The previous submission deadline was 8:28 a.m.

In general, the Exchange shall consider index option orders to be related to positions in, or a trading strategy involving, volatility index options or futures for purposes of Rule 6.2A.03 if the orders possess the following three characteristics:

(1) The orders are for options series with the expiration month that will be used to calculate the settlement price of the applicable volatility index option or futures contract. (For example, in the case of VIX futures, the orders would be in SPX

[1] The final settlement values of the CBOE Volatility Index and CBOE DJIA Volatility Index futures contracts are calculated from the sequence of opening prices of SPX options and DJX options, respectively.

option series that expire one month following the settlement date of the expiring VIX futures contract).

(2) The orders are for options series spanning the full range of strike prices in the appropriate expiration month for options series that will be used to calculate the settlement price of the applicable volatility index option or futures contract, but not necessarily every available strike price.

(3) The orders are for put options with strike prices less than the "at-the-money" strike price and for call options with strike prices greater than the "at-the-money" strike price. The orders may also be for put and call options with "at-the-money" strike prices.

Whether index option orders are related to positions in, or a trading strategy involving, volatility index options or futures for purposes of Rule 6.2A.03 depends upon the specific facts and circumstances. This circular is intended to provide guidance regarding what types of orders would generally be considered to fall within this category of orders. Other types of orders may also be deemed by the Exchange to fall within this category of orders if the Exchange determines that to be the case based upon the applicable facts and circumstances.

Questions regarding this circular may be directed to David Doherty, Legal Division, at (312) 786-7466 or Steven Slawinski, Department of Market Regulation, at (312) 786-7744.