CBOE CFE
CHICAGO BOARD OPTIONS EXCHANGE CBOE FUTURES EXCHANGE

CBOE Regulatory Circular RG07-050
CFE Regulatory Circular RG07-003

Date: **May 8, 2007**

To: **All Volatility Index Options and Futures Market Participants**

From: **Research Department**

Re: **Proposed Revised Expiration Methodology for Options and Futures on Volatility Indexes**

Proposed Revised Expiration Methodology

Recently, CBOE submitted a rule filing to the SEC proposing to clarify and supplement the manner in which the expiration date for options on Volatility Indexes are determined. A copy of the rule filing, SR-CBOE-2007-041, is available at http://www.cboe.org/Legal. Under CBOE's current methodology, all options on Volatility Indexes expire on the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the expiration month of the Volatility Index options. (The options used to calculate the volatility indexes generally expire on the third Friday of any given month). This methodology was chosen because it provides consistency by ensuring that Volatility Index options expire exactly thirty days before the expiration date of the options that are used to calculate the volatility indexes.

In order to maintain this desired consistency, the Exchange has proposed to amend CBOE Rule 24.9(a)(5) to provide that if the third Friday of the month subsequent to the expiration of the Volatility Index option is an Exchange holiday, the current volatility index value at expiration shall be determined on the business day that is thirty days prior to the Exchange business day immediately preceding that Friday.

CFE is also proposing a similar change relating to the expiration dates for futures contracts on volatility indexes. CFE will submit a rule amendment under self-certification with the CFTC after the SEC has approved the rule filing that proposes to clarify and amend CBOE Rule 24.9(a)(5) relating to Volatility Index options.

The proposed rule changes described in this circular remain subject to regulatory approval by the SEC and the CFTC.

Example

To illustrate how the proposed revised methodology will work, a February 2008 VIX option would generally expire on the Wednesday (February 20, 2008) that is thirty days prior to the third Friday in the succeeding month (March 21, 2008). (This would be the expiration date of the SPX options used to calculate the VIX). However, CBOE will be closed on Friday, March 21, 2008, in observance of Good Friday; therefore, the SPX options will expire on the immediately preceding business day, which is Thursday, March 20, 2008. To ensure that a thirty-day volatility measurement period is used for the February 2008 VIX option, the expiration would be Tuesday, February 19, 2008.

Contact Information

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