CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG09-31

To: Members

From: Division of Member and Regulatory Services

Date: February 26, 2009

Subject: Margin and Net Capital Requirements for Mini CBOE Volatility Index Futures

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KEY POINTS

- On March 2, 2009, Mini CBOE Volatility Index futures are expected to commence trading on CBOE Futures Exchange ("CFE").
- The outright margin requirement for Mini CBOE Volatility Index futures (symbol: VM) will be one-tenth of the outright margin requirement for the standard CBOE Volatility Index futures contract.
- Please see CFE Regulatory Circular RG09-02 for more information concerning margin requirements.
- Cross-margin and net capital treatment of VM futures are outlined below.

DISCUSSION

CROSS-MARGIN (CBOE Options Market-Makers)

A market professional cross-margin (i.e., inter-exchange offset) capability will be provided for offsetting VM futures and options on the CBOE Volatility Index ("VIX options" traded on the CBOE). In order to utilize the cross-margining capability, a clearing firm must establish a separate OCC/CBOE/CFE cross-margin account for each eligible market professional and have or establish a separate clearing account for itself at OCC. VM futures may be combined with VIX options in the OCC/CBOE/CFE cross-margin account. The CFE SPAN file will handle the margin computation; providing for a reduction in the full CFE margin requirement on VM futures when offsetting VIX options (or standard CBOE Volatility Index futures contracts) are present.

Questions regarding the margin treatment of VM futures should be directed to Jim Adams, Department of member Firm Regulation, at (312) 786-7718.

NET CAPITAL REQUIREMENTS

For risk-based haircuts, VM futures will be included in the "CBOE Volatility Indexes" Product Group with a 100% offset within the VM futures class and an 80% offset with other classes in the product group.[1] The risk–based haircut will be equal to the maximum potential loss calculated over a range of market movements covering +/-15%, for options market-makers and all other broker–dealers. All positions are subject to a minimum charge of $25 per contract, except that the minimum charge for long positions will not exceed the market value.

For those firms not utilizing risk–based haircuts, the haircut will be calculated pursuant to SEC Rule 15c3–1b ("Appendix B").

Questions regarding the net capital treatment of VM futures should be directed to Robert Gardner, Department of Member Firm Regulation, at (312) 786–7937.

Footnote

[1] Risk–based haircuts may be applied pursuant to SEC Rule 15c3-1a (Appendix A).