

Regulatory Circular RG96-56

Date: June 19, 1996

To: Members and Member Organizations

From: Office of the Chairman

Re: Calculation of Exercise-Settlement Values for Nasdaq-100 Index[®] Options

Summary: This circular is intended as a reminder to Chicago Board Options Exchange Members and Member Organizations that there are separate calculation methodologies for determining the exercise-settlement values for the two classes of Nasdaq-100 Index Options traded at CBOE. The affected index option classes employ the symbols **NDX** (overflow symbol NDU) and **NDV** (overflow symbol NDZ). The calculation methodology and ticker symbol associated with the exercise-settlement for each class of Nasdaq-100 Index Options is described below.

Background: The Chicago Mercantile Exchange began trading Nasdaq-100 Index futures and futures options contracts on Wednesday, April 10, 1996. Nasdaq-100 Index futures contracts at the CME have been designed with a different expiration settlement methodology than the calculation originally used to determine the exercise-settlement value in conjunction with Nasdaq-100 Index Options at the CBOE. To facilitate hedging and arbitrage strategies by market participants in Nasdaq-100 Index derivatives, the CBOE amended its rules to allow for a “new” class of Nasdaq-100 Index Options with an exercise-settlement value calculation methodology which conforms with the one employed by the CME. This “new” class of Nasdaq-100 Index Options employs the ticker symbol **NDX** (overflow symbol NDU).

The “old” class of Nasdaq-100 Index Options remains and a symbol conversion process was undertaken such that this class now uses the ticker symbol **NDV** (overflow symbol NDZ). **The contract specifications in force at the time the “old” class of Nasdaq-100 Index Options were initially listed -- including the use of a “first reported price” methodology for calculating the exercise-settlement value -- remain unchanged and these options will expire on or before September 21, 1996.**

Change in Method of Calculating Nasdaq-100 Index Options Exercise-Settlement Value:

The “new” Nasdaq-100 Index Options employing the symbol NDX (overflow symbol NDU) will have their exercise- settlement value **NDS** based on a ***volume-weighted average of prices reported in the first five minutes of trading for each of the component securities on the last business day (usually a Friday) before the expiration date.*** Only trade reports which update the last sale on The Nasdaq Stock Market[®] will be included in the calculation of the volume-weighted average described above.

The “old” Nasdaq-100 Index Options employing the ticker symbols NDV (overflow symbol NDZ) -- which will cease to exist after the September 1996 expiration -- will continue to have their exercise-settlement value **NAS** based on the first reported price on The Nasdaq Stock Market for each of the component securities on the last business day (usually a Friday) before the expiration date.

For *both* the “old” and “new” Nasdaq-100 Index Options classes at the CBOE, if a component stock within the index does not open for trading on the day on which the exercise-settlement value is calculated, the last sales price reported to The Nasdaq Stock Market will be used in calculating the exercise-settlement value.

It is important to note that the exercise-settlement value for NDX options (ticker symbol NDS) is highly likely to differ from the exercise settlement value for NDV options (ticker symbol NAS). Although the magnitude of the difference may or may not be small, the incongruence means that spread positions between NDX or NDU, on the one hand, and NDV or NDZ on the other, will result in risks that must be understood by investors and traders.

The CBOE has developed a flyer which is approved for customer distribution which contains “new” and “old” contract specifications and a table that describes the symbol conversion and expiration month additions that will occur between April 10, 1996 and September 21, 1996. To obtain copies please call CBOE Investor Services at 1-800-OPTIONS. For technical information regarding the exercise-settlement value calculation methodology, please contact Peter Canada of The Nasdaq Stock Market at 202/728-8479.