

{ EMBED PBrush }

To: Members and Member Firms

From: Research & Planning

Date: December 17, 2003

Re: Monthly "Fair Value" Settlement of CME Stock Index Futures and Options and  
Year End Closing Rotations.

The Chicago Mercantile Exchange (CME) conducts a special "fair value"<sup>1</sup> settlement procedure for domestic stock index futures and options on the last business day of each month. On these days, the CME calculates the daily settlement price for its domestic stock index futures and options contracts on the basis of their fair value relative to the daily close of the underlying cash index as reflected at 3:15 p.m. (Chicago time).

CBOE conducts special "closing rotations" on the days in which special settlement procedures are employed at the CME in order to allow the Exchange's domestic broad-based index options to be valued on the same "fair value" basis as related index futures. Accordingly, on December 31, 2003, CBOE shall conduct special closing rotations in the following options contracts:

- S&P 500 Index (SPX)
- S&P 100 Index (OEX)
- S&P 100 Index (XEO)
- Nasdaq-100 Index (NDX)
- Mini-NDX Index (MNX)
- Russell 2000 Index (RUT)
- S&P SmallCap Index (SML)

Special closing rotations are held for the sole purpose of determining theoretical fair values for these option contracts. **No orders, including orders resting in the Exchange's limit order book, are allowed to trade during these special closing rotations.**

**Please be advised that there will be no end of year trading closing rotation in these option contracts.**

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<sup>1</sup> "Fair value" of futures represents the price at which futures should theoretically trade in relation to cash index values in the absence of transaction costs. It is typically calculated as a function of the underlying index value plus the financing cost of owning the underlying stock portfolio, less dividends paid up to the futures expiration.

***Please Note: No special closing rotation will be conducted in the following classes.***

Nasdaq-100 Tracking Stock (QQQ)  
Dow Jones Industrial Average Index (DJX)  
iShares S&P 100 Index Fund (OEF)  
DIAMONDS Trust (DIA)

Also, please be aware that pursuant to Exchange Rule 11.1, as the close of trading for OEX options will be 3:15 p.m. (CT) on December 31, 2003, “exercise advices” must be submitted to the Exchange **no later than 3:20:59 p.m. (CT)**.

**Equity Year End Closing Rotation on December 31, 2003**

Pursuant to Rule 6.2, Interpretation .05, a closing rotation will be held in all equity and narrow-based index option classes on Wednesday, December 31, 2003.

The only orders that may participate in the closing rotation are those orders that are received prior to the normal close of the trading day, *i.e.* 3:02 p.m. CST for equity and narrow-based index options. However, for equity options, the rotation may commence at or after the 3:02 p.m. CST close once the closing price of the stock in its primary market has been established.

Questions concerning the above may be directed to a member of the Floor Officials Committee, Kerry Winters 786-7312 or Michael Felty (312) 786-7504.