

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

Form 19b-7

Proposed Rule Change

by

CBOE FUTURES EXCHANGE, LLC

Pursuant to Rule 19b-7 Under the  
Securities Exchange Act of 1934

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

CBOE Futures Exchange, LLC

By: \_\_\_\_\_  
Edward J. Joyce  
President

**SECURITIES AND EXCHANGE COMMISSION**  
**(Release No. \_\_\_\_\_; File No. SR-CFE-2005-01)**

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by CBOE Futures Exchange, LLC Relating to its Listing Standards for Security Futures Products

---

Pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934<sup>1</sup> ("Act") and Rule 19b-7 under the Act<sup>2</sup>, notice is hereby given that on [Date], CBOE Futures Exchange, LLC ("CFE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change described in Items I and II below, which Items have been prepared by CFE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. CFE also filed the proposed rule change with the Commodity Futures Trading Commission ("CFTC"), together with a written certification under Section 5c(c) of the Commodity Exchange Act ("CEA")<sup>3</sup> on July 25, 2005.

**I. Self-Regulatory Organization's Description of the Proposed Rule Change**

CFE is proposing to adopt rules regarding listing standards for security futures contracts ("Eligibility and Maintenance Criteria for Security Futures") to comply with the requirements under Section 6(h)(3)<sup>4</sup> of the Act and the criteria under Section 2(a)(1)(D)(i) of the CEA<sup>5</sup>. The CFE Listing Standards<sup>6</sup> are, for the most part, identical to the sample listing standards ("Sample

---

<sup>1</sup> 15 U.S.C. 78s(b)(7).

<sup>2</sup> 17 C.F.R. 240.19b-7.

<sup>3</sup> 7 U.S.C. 7a-2(c).

<sup>4</sup> 15 U.S.C. 78f(h)(3).

<sup>5</sup> 7 U.S.C. 2(a)(1)(D)(i).

<sup>6</sup> The CFE Listing Standards are set forth in proposed Policy and Procedure VIII – Eligibility and Maintenance Criteria for Security Futures.

Listing Standards") included in Staff Legal Bulletin No. 15<sup>7</sup> ("SLB 15") except that the CFE Listing Standards:

- reflect the modifications to the statutory listing standards requirements adopted by the Commission and the CFTC with respect to shares of exchange-traded funds ("ETFs"), trust-issued receipts ("TIRs"), shares of registered closed-end management investment companies ("Closed-End Fund Shares"), and American Depositary Receipts ("ADRs")<sup>8</sup>;
- establish an approximately equal dollar-weighting methodology for physically settled futures based on narrow-based security indices (all narrow-based security index futures are referred to hereafter as "NBI futures")<sup>9</sup>, which (i) requires the number of each component security to be rounded up or down to the nearest multiple of 100 shares or receipts in the course of the initial index composition and any subsequent rebalancing, (ii) contemplates mandatory annual rebalancing of such indices under specified circumstances, complemented by CFE's ability to rebalance indices on an interim basis if it so elects, and (iii) ensures that outstanding contracts will not be affected by any rebalancing; and
- contain certain provisions that reflect rule changes that have been filed by other security futures exchanges since the adoption of SLB 15, which vary from the Sample Listing Standards set forth in SLB 15.

---

<sup>7</sup> SEC, Division of Market Regulation, Staff Legal Bulletin No. 15: Listing Standards for Trading Security Futures Products (September 5, 2001) [available at [www.sec.gov](http://www.sec.gov)].

<sup>8</sup> See Joint Order Granting the Modification of Listing Standards Requirements (ETFs, TIRs and Closed-End Fund Shares), Securities Exchange Act Release No. 46090 (June 19, 2002), 67 FR 42760 (June 25, 2002) and Joint Order Granting the Modification of Listing Standards Requirements (ADRs), Securities Exchange Act Release No. 44725 (August 20, 2001).

<sup>9</sup> CFE Policy and Procedures VIII(C) and VIII(D) contain listing requirements that relate to the initial eligibility criteria and maintenance standards, respectively, for approximately equal dollar-weighted, physically settled narrow-based security indices.

CFE is also filing herewith CFE Rules 215, 403, 412 – 415, 417, 501, 601 - 605, 610 – 615, 1801 – 1806, and 1901 – 1906, all of which remain unchanged from the CFE Rulebook filed with the Commission as part of CFE's notice registration on Form 1-N. These rules are being filed herewith because they relate to the listing standard requirements set forth in Section 6(h)(3) of the Act<sup>10</sup> as further described below. CFE Rule 517 and CFE Policy and Procedure VII, while also referenced in Item II below, are not filed in this proposed rule change because they were the subjects of a separate filing by CFE on SEC Form 19b-4.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

CFE has prepared statements concerning the purpose of, and basis for, the proposed rule change, burdens on competition, and comments received from its members, participants, and others. The text of these statements may be examined at the places specified in Item IV below. These statements are set forth in Sections A, B, and C below.

**A. Self-Regulatory Organization's Statement of the Purpose of and Statutory Basis for, Proposed Rule Change**

Section 6(h)(3) of the Act<sup>11</sup> sets forth a number of requirements for listing standards applicable to security futures products. Among other things, that Section provides that such listing standards must (i) be no less restrictive than comparable listing standards for options traded on a national securities exchange<sup>12</sup> and (ii) require that trading in security futures products not be readily susceptible to manipulation of the price of such products or of the underlying securities or options on such securities<sup>13</sup>.

***a. CFE Listing Standards***

---

<sup>10</sup> 15 U.S.C. 78f(h)(3).

<sup>11</sup> *Id.*

<sup>12</sup> 15 U.S.C. 78f(h)(3)(C).

Commission staff published SLB 15, including the Sample Listing Standards (which were derived from typical listing standards used by exchanges trading options based on securities or security indices), to provide guidance as to how an exchange can comply with the foregoing requirements. SLB 15 also noted that different listing standards could also be consistent with the Act.

The CFE Listing Standards follow the Sample Listing Standards, subject to the additional modifications relating to ETFs, TIRs, Closed-End Fund Shares, and ADRs and the establishment of an additional weighting methodology for certain physically settled NBI futures described under Item I above, and certain other rule changes that were filed with the Commission and the CFTC by OneChicago, LLC ("OneChicago")<sup>14</sup> which pertained to OneChicago's listing standards for security futures. Therefore, the CFE Listing Standards as set forth herein do not contain any listing standards that have not already been reviewed by the Commission. The CFE Listing Standards permit CFE to trade both cash settled and physically settled NBI futures on the following types of indices: capitalization-weighted, modified capitalization-weighted, price-weighted, and equal dollar-weighted. The modifications to SLB 15, including the modifications that permit CFE to list approximately equal-dollar weighted, physically settled NBI futures, are explained in further detail below.

***b. Modifications of SLB 15***

---

<sup>13</sup> 15 U.S.C. 78f(h)(3)(H).

<sup>14</sup> See SR-OC-2002-04 (Securities Exchange Act Release No. 47114 (December 31, 2002), 68 FR 837 (January 7, 2003)) ("Notice of Filing and Immediate Effectiveness of Proposed Rule Change by OneChicago, LLC Relating to Listing Standards for Security Futures Products") (referred to herein as the "OneChicago Listing Standards Filing"). See also SR-OC-2003-01 (Securities Exchange Act Release No. 47356 (February 12, 2003), 68 FR 8064 (February 19, 2003)); SR-OC-2003-04 (Securities Exchange Act Release No. 47445 (March 5, 2003), 68 FR 11595 (March 11, 2003)); SR-OC-2003-06 (Securities Exchange Act Release No. 48191 (July 17, 2003), 68 FR 43555 (July 23, 2003)); SR-OC-2003-08 (Securities Exchange Act Release No. 48660 (October 20, 2003), 68 FR 61027 (October 24, 2003)); and SR-OC-2004-02 (Securities Exchange Act Release No. 50373 (September 14, 2004), 69 FR 56470 (September 21, 2004)).

**1. *Modification of SLB 15 I(A)(i)***

The modifications set forth in the CFE listing standards that relate to shares of ETFs, TIRs, Closed-End Fund Shares, and ADRs reflect the modifications to the statutory listing standards requirements adopted by the Commission and the CFTC subsequent to the adoption of SLB 15.<sup>15</sup> These standards are reflected in Section A(1)(i) of CFE Policy and Procedure VIII.

**2. *Modification of SLB 15 III(A)(ii)***

The modifications that relate to narrow-based security indices are (i) intended to allow CFE to provide for an additional weighting methodology, called an "approximately equal dollar-weighted" methodology, that would be available only for physically settled NBI futures, and accordingly, are limited in application to such physically settled contracts, and (ii) designed to enhance the usefulness and effectiveness of physically settled NBI futures in connection with hedging, arbitrage and other investment strategies.

The proposed approximately equal dollar-weighted methodology contemplates narrow-based security indices consisting of component securities in increments that are no less than 100 shares or receipts, which corresponds to customary increments for transactions in the markets for those securities. For this reason, rounding will be a necessary step in the initial index composition and any subsequent rebalancing. The underlying index of a physically settled NBI future using an approximately equal dollar-weighted methodology would be rebalanced annually, but only if the aggregate value of the security position with the highest value is two or more times greater than the aggregate value of the security position with the lowest value in the index for a specified time period. CFE will also have the ability to rebalance any approximately

---

<sup>15</sup> See Joint Order Granting the Modification of Listing Standards Requirements (ETFs, TIRs and Closed-End Fund Shares), Securities Exchange Act Release No. 46090 (June 19, 2002), 67 FR 42760 (June 25, 2002) and Joint Order Granting the Modification of Listing Standards Requirements (ADRs), Securities Exchange Act Release No. 44725 (August 20, 2001).

equal dollar-weighted narrow-based security index on an interim basis should this become necessary as a result of exceptional changes in the relative values of the component securities. As CFE plans to list only physically settled NBI futures contracts expiring on the next two quarterly expiration dates and the nearest two serial monthly expiration dates that are not quarterly expiration dates, CFE will be able to phase in contracts based on a rebalanced narrow-based security index, and thereby replace contracts with open interest based on the previous narrow-based security index composition, within a short period of time. CFE also believes that investors in approximately equal dollar-weighted narrow-based security indices should be able to rely on the number of shares or receipts evidencing each component security remaining unchanged for purposes of those contracts. Therefore, the CFE Listing Standards clarify that approximately equal dollar-weighted narrow-based security indices will not be affected by any rebalancing. The proposed listing standards for approximately equal dollar-weighted narrow-based security indices are identical to the listing standards for approximately equal dollar-weighted narrow-based security indices that are set forth in the OneChicago rules. In addition, the contents of the CFE Listing Standards, including the approximately equal dollar-weighting methodology described above, will be publicly available and fully disclosed. These standards are reflected in Sections C(1)(ii) and D(1)(ii) of CFE Policy and Procedure VIII.

### **3. *Modification of SLB 15 I(A)(vi)***

CFE is adopting the initial listing standard implemented by OneChicago in SR-OC-2004-02<sup>16</sup>, which would permit CFE to list a single stock future on an underlying security that had trading volume of at least 2,400,000 shares in the preceding 12 months. This standard is reflected in Section A(1)(vi) of CFE Policy and Procedure VIII.

---

<sup>16</sup> See *supra* note 12.

**4. Modification of SLB 15 I(A)(vii)**

CFE is adopting the initial listing standards implemented by OneChicago in SR-OC-2003-01<sup>17</sup>, which would permit a single stock future to be listed on a "covered security" as defined under Section 18(b)(1)(A) of the Securities Act of 1933<sup>18</sup> that has a market price of at least \$3.00 for the five consecutive business days prior to the date on which CFE submits a certificate to The Options Clearing Corporation ("OCC") for listing and trading the futures contract. The market price of the underlying security would be measured by the closing price reported in the primary market in which the underlying security is traded. CFE rules would also require that an underlying security that is not a "covered security" meet CFE's current price requirement that it have a market price of \$7.50 for the majority of the trading days for the three calendar months preceding selection. These standards are reflected in Sections A(1)(viii) and A(1)(ix) of CFE Policy and Procedure VIII.

**5. Modification of SLB 15 II(A)(iv)**

CFE is adopting the maintenance standard implemented by OneChicago in SR-OC-2003-04<sup>19</sup> (as amended by SR-OC-2003-08)<sup>20</sup>, pursuant to which CFE would not open for trading a new delivery month for a single stock future trading on CFE if the market price per share of the underlying security closed below \$3.00 on the previous day to the expiration of the nearest expiring contract on the underlying security. The market price per share of the underlying security would be determined by the closing price reported in the primary market in which the underlying security is traded. This standard is reflected in Section B(1)(v) of CFE Policy and Procedure VIII.

**c. Section 6(h)(3) Requirements**

---

<sup>17</sup> *Id.*

<sup>18</sup> 15 U.S.C. 77r(b)(1)(A).

<sup>19</sup> *See supra* note 12.

<sup>20</sup> *Id.*

Section 6(h)(3) of the Act<sup>21</sup> contains detailed requirements for listing standards and conditions for trading applicable to security futures products. Set forth below is a summary of each such requirement or condition, followed by a brief explanation of how CFE will comply with it, whether by particular provisions in the CFE Listing Standards or otherwise.

Clause (A) of Section 6(h)(3) of the Act<sup>22</sup> requires that any security underlying a security future be registered pursuant to Section 12 of the Act<sup>23</sup>. This requirement is addressed in Sections A(1)(ii), B(1)(i), C(1)(ii)(b), and D(1)(ii)(a) of CFE Policy and Procedure VIII.

Clause (B) of Section 6(h)(3) of the Act<sup>24</sup> requires that a market on which a physically settled security futures product is traded have arrangements in place with a registered clearing agency for the payment and delivery of the securities underlying the security futures product. CFE has entered into an arrangement with OCC, which is a registered clearing agency, relating to the clearing of security futures products. By virtue of OCC having in place arrangements with the National Securities Clearing Corporation for the delivery of securities underlying physically settled security futures products, CFE believes that the payment and delivery of the securities underlying CFE's security futures products in accordance with the statutory requirements should be ensured.

Clause (C) of Section 6(h)(3) of the Act<sup>25</sup> provides that listing standards for security futures products must be no less restrictive than comparable listing standards for options traded on a national securities exchange or national securities association registered pursuant to Section 15A(a) of the Act<sup>26</sup>. For the reasons discussed above, notwithstanding specified differences between the

---

<sup>21</sup> 15 U.S.C. 78f(h)(3).

<sup>22</sup> 15 U.S.C. 78f(h)(3)(A).

<sup>23</sup> 15 U.S.C. 78l.

<sup>24</sup> 15 U.S.C. 78f(h)(3)(B).

<sup>25</sup> 15 U.S.C. 78f(h)(3)(C).

<sup>26</sup> 15 U.S.C. 78o-3(a).

Sample Listing Standards and the CFE Listing Standards, CFE believes that the latter are no less restrictive than comparable listing standards for exchange-traded options.

Clause (D) of Section 6(h)(3) of the Act<sup>27</sup> requires that each security future be based on common stock or such other equity securities as the Commission and the CFTC jointly determine appropriate. This requirement is addressed in Sections A(1)(i), C(1)(ii)(c), and D(1)(ii)(b) of CFE Policy and Procedure VIII.

Clause (E) of Section 6(h)(3) of the Act<sup>28</sup> requires that each security futures product be cleared by a clearing agency that has in place provisions for linked and coordinated clearing with other clearing agencies that clear security futures products, which permits the security futures product to be purchased on one market and offset on another market that trades such product. CFE notes that pursuant to Section 6(h)(7) of the Act<sup>29</sup>, the foregoing requirement is deferred until the "compliance date" (as defined therein). CFE expects OCC will have in place procedures complying with the requirements of clause (E) upon and after such compliance date.

Clause (F) of Section 6(h)(3) of the Act<sup>30</sup> requires that only a broker or dealer subject to suitability rules comparable to those of a national securities association registered pursuant to Section 15A(a) of the Act<sup>31</sup> may effect transactions in a security futures product. This requirement is addressed by CFE Rule 605 ("Sales Practice Rules"). CFE Rule 605 requires all security futures intermediaries entering into transactions on CFE to comply with the applicable sales practice rules from time to time promulgated by the National Futures Association ("NFA") (in the case of any Clearing Member, Trading Privilege Holder or Authorized Trader that is registered with the NFA)

---

<sup>27</sup> 15 U.S.C. 78f(h)(3)(D).

<sup>28</sup> 15 U.S.C. 78f(h)(3)(E).

<sup>29</sup> 15 U.S.C. 78f(h)(7).

<sup>30</sup> 15 U.S.C. 78f(h)(3)(F).

<sup>31</sup> 15 U.S.C. 78o-3(a).

or the NASD (in the case of any other Clearing Member, Trading Privilege Holder or Authorized Trader), both of which are national securities associations.

Clause (G) of Section 6(h)(3) of the Act<sup>32</sup> requires that each security futures product be subject to the prohibition against dual trading in Section 4j of the CEA<sup>33</sup> and the rules and regulations thereunder or the provisions of Section 11(a) of the Act<sup>34</sup> and the rules and regulations thereunder. Security futures intermediaries trading on CFE will be subject to the aforementioned statutory and regulatory prohibitions against dual trading by virtue of CFE Rule 604, which requires such intermediaries to comply with all applicable law. CFE Rules 610 through 613 contain customary provisions relating to the priority of customers' orders, trading against customers' orders, withholding orders and disclosing orders, consistent with CFTC Regulations §§ 155.2 through 155.4<sup>35</sup> under the CEA. CFE notes, however, that the prohibition of dual trading in security futures products as set forth in CFTC Regulation §41.27<sup>36</sup> adopted pursuant to Section 4j(a) of the CEA<sup>37</sup> by its terms only applies to a contract market operating an electronic trading system if such market provides participants with a time or place advantage or the ability to override a predetermined algorithm. Since those conditions do not exist on CFE, CFE has no specific rule prohibiting dual trading.

Clause (H) of Section 6(h)(3) of the Act<sup>38</sup> provides that trading in a security futures product must not be readily susceptible to manipulation of the price of such security futures product, nor to causing or being used in the manipulation of the price of any underlying security, option on such security, or option on a group or index including such securities. As discussed above, the

---

<sup>32</sup> 15 U.S.C. 78f(h)(3)(G).

<sup>33</sup> 7 U.S.C. 4j.

<sup>34</sup> 15 U.S.C. 78k(a).

<sup>35</sup> 17 CFR 155.2 – 155.4.

<sup>36</sup> 17 CFR 41.27.

<sup>37</sup> 7 U.S.C. 4ja.

eligibility and maintenance criteria for security futures products contained in the CFE Listing Standards have been designed to ensure that the products that will be listed on CFE and the underlying securities will not be readily susceptible to price manipulation. In addition, CFE Rules 415 ("Block Trading"), 603 ("Market Manipulation"), 614 ("Pre-Arranged Trades"), and 615 ("Simultaneous Buying and Selling Orders") either prohibit market manipulation outright (for example, Rule 603 forbids generating unnecessary volatility or creating a condition where prices do not or will not reflect fair market values) or contain standards and limitations that are designed to prevent market manipulation.

CFE's position limit standards set forth in CFE Rule 412 ("Position Limits") are designed to prevent market manipulation with respect to physically settled NBI futures through the adoption of the position limits established under CFTC Regulation § 41.25<sup>39</sup>. With respect to cash settled NBI futures, CFE Rule 1902(e) adopts the position limit standard set forth in OneChicago Rule 1002(e)(2) and applies that standard to all cash settled NBI futures traded on CFE.<sup>40</sup> Under CFE Rule 1902(e), CFE calculates two numbers: one is based on the market capitalization of each NBI future and the notional value compared to the market capitalization of the Chicago Mercantile Exchange Inc. ("CME") position limit for its futures contract on Standard & Poor's ("S&P") 500 Index (referred to herein as the "Market Cap Method"), and the other is based on the current position limit permitted for single stock futures under CFTC Regulation § 41.25<sup>41</sup> (referred to herein as the "SSF Limit Method"). CFE imposes a position limit on each cash settled NBI future equal to the lower number calculated by the two methods rounded to the nearest 1,000 contracts; provided, however, that if the result of either calculation

---

<sup>38</sup> 15 U.S.C. 78f(h)(3)(H).

<sup>39</sup> 17 CFR 41.25.

<sup>40</sup> Consistent with CFTC Regulation 41.25, position limits apply to positions in any cash settled NBI future held during the last five trading days of an expiring contract.

is less than 500, but not less than 400 for any such future, the position limit is rounded up to 1,000 contracts.

Under the Market Cap Method, CFE determines the market capitalization of the S&P 500 Index (as of the selection date for the component securities in the index underlying the NBI future), then calculates the notional value of a position at the limit of CME's S&P 500 Index futures contract ("S&P 500 Notional Value Limit")<sup>42</sup> and divides the first amount by the second to determine the market capitalization ratio ("Ratio").<sup>43</sup> CFE then determines the market capitalization and the notional value of the index underlying the NBI future. To calculate the Market Cap Method number, CFE divides the market capitalization of the index underlying the NBI future by the notional value of the NBI future multiplied by the Ratio.<sup>44</sup>

Under the SSF Limit Method, CFE calculates the notional value of the NBI future.<sup>45</sup> For each component security in the index underlying the NBI future, CFE multiplies the index weight of the component security<sup>46</sup> by the notional value to determine the security's proportion of the NBI future ("Share Weighting"). CFE then divides each security's Share Weighting by its price to calculate the number of shares of that security represented in the NBI futures contract ("Implied Shares"). CFE then, for each component security in the index underlying the NBI future, divides the Implied Shares by 100 to obtain the implied number of 100-share contracts of each component security in each NBI futures contract. CFE then divides the applicable single stock futures position

---

<sup>41</sup> 17 CFR 41.25.

<sup>42</sup> The speculative position limit for the CME's S&P 500 Index futures contract is 20,000 contracts (in all months combined) and the contract multiplier is \$250. S&P 500 Notional Value Limit = Index \* 20,000 \* 250.

<sup>43</sup> Ratio = Market Capitalization of S&P 500 Index / S&P 500 Notional Value Limit.

<sup>44</sup> Market Capitalization Methodology number = market capitalization of the index underlying the NBI future/(notional value of the NBI future \* Ratio).

<sup>45</sup> Notional value = index level \* contract multiplier.

<sup>46</sup> Index weight of the component security = (assigned shares \* price) of the component security/the sum of (assigned shares \* price) for each component security.

limit permitted under CFTC Regulation § 41.25(a)(3)<sup>47</sup> (either 13,500 or 22,500 contracts) for each component security by the number of implied 100-share contracts. This equals the number of NBI futures contracts that could be held without exceeding the speculative position limit on a futures contract on the component security ("Implied SSF Speculative Limit"). If a component security qualified for position accountability under CFTC Regulation § 41.25(a)(3)<sup>48</sup>, this step would be ignored for that security for purposes of this calculation. After calculating the Implied SSF Speculative Limit for each security in the index underlying the NBI future, CFE identifies the lowest Implied SSF Speculative Limit as the position limit for such futures contract under the SSF Limit Method.

CFE Rules 413(b) ("Price Limits; Final Settlement Prices") and 417 ("Regulatory Halts") implement the requirements contained in Rule 6h-1 under the Act<sup>49</sup> relating to settlement and regulatory halts with respect to security futures products.

With respect to final settlement prices, CFE Rule 1902(i) establishes how the final settlement price is determined for cash settled NBI futures. Under CFE Rule 1902(i), a special opening quotation ("SOQ") of the relevant index underlying the NBI future will be calculated using the opening price<sup>50</sup> of each component stock. When all of the component stocks have opened, the final SOQ will be calculated and disseminated.

---

<sup>47</sup> 17 CFR 41.25(a)(3).

<sup>48</sup> *Id.*

<sup>49</sup> 17 CFR 240.6h-1.

<sup>50</sup> Consistent with 17 CFR 41.1(j), CFE Rule 1902(i)(II)(C)(1) defines "opening price" as follows: "Opening price" means the official price at which a security opened for trading during the regular trading session of the national securities exchange or national securities association that lists the security. If the security is not listed on a national securities exchange or a national securities association, then 'opening price' shall mean the price at which a security opened for trading on the primary market for the security. Under this provision, if a component security is an [ADR] traded on a national securities exchange or national securities association, the opening price for the ADR would be derived from the national securities exchange or national securities association that lists it."

If the price of a component security or securities is not readily available<sup>51</sup> on the day scheduled for determination of the final settlement price, the price of the component security or securities shall be based on the next available opening price of that security unless the President or his designee for such purposes ("Designated Officer") determines that one or more component securities are not likely to open within a reasonable time. If the Designated Officer makes such a determination, the price of the relevant component security or securities for purposes of calculating the final settlement price, will be the price of the security or securities during the most recent regular trading session for such security or securities.

CFE Rule 1902(i) also provides that the Rule shall not be used to calculate the final settlement price of a NBI future if OCC fixes the final settlement price of the NBI future in accordance with OCC's rules and by-laws and as permitted under the Commission's Rule 6h-1(b)(3)<sup>52</sup> and CFTC Regulation 41.25<sup>53</sup>.

Clause (I) of Section 6(h)(3) of the Act<sup>54</sup> requires that procedures be in place for coordinated surveillance among the market on which a security futures product is traded, any market on which any security underlying the security futures product is traded, and other markets on which any related security is traded to detect manipulation and insider trading. The relevant provisions are CFE Rules 601, 602 and 603, which prohibit fraudulent acts, fictitious transactions and market manipulation, respectively. CFE notes that it is an affiliate member of the Intermarket Surveillance Group ("ISG") and has executed (1) an Affiliate Agreement between CFE and the full ISG members, (2) the Agreement Among Affiliates to Share Market Surveillance and Regulatory

---

<sup>51</sup> Under CFE Rule 1902(i)(II)(C)(4), the price of a security is "not readily available" if the underlying market does not open on the date set for determination of the final settlement price or if the security does not trade on such securities exchange or national securities association during regular trading hours.

<sup>52</sup> 17 CFR 240.6h-1(b)(3).

<sup>53</sup> 17 CFR 41.25.

<sup>54</sup> 15 U.S.C. 78f(h)(3)(I).

Information between CFE and the affiliate ISG members, and (3) the Addendum for Security Futures Products between the full ISG members and the affiliate ISG members trading security futures products (including CFE). CFE Rule 215 ("Regulatory Cooperation") permits CFE to enter into agreements for the exchange of information and other forms of mutual assistance with domestic or foreign self-regulatory organizations, associations, boards of trade and their respective regulators. Under CFE Rule 215, CFE is authorized to provide information to any such organization, association, board of trade or regulator that is a party to an information sharing agreement with CFE, in accordance with the terms and subject to the conditions set forth in such agreement. Additional provisions related to coordinated surveillance are contained in Sections A(1)(x)(a), C(1)(ii)(g), and D(1)(ii)(f) of CFE Policy and Procedure VIII.

Clause (J) of Section 6(h)(3) of the Act<sup>55</sup> requires that a market on which a security futures product is traded have in place audit trails necessary or appropriate to facilitate the coordinated surveillance referred to in the preceding paragraph. The audit trail capability provided by *CBOEdirect*, CFE's trade matching engine, will create and maintain an electronic transaction history database that contains information with respect to all orders, whether executed or not, and resulting transactions on CFE. The information recorded with respect to each order includes: time received, terms of the order, order type, instrument and contract month, price, quantity, account type, account designation, user code and clearing firm. This information will enable CFE to trace each order back to the clearing firm by or through which it was submitted. If any question or issue arises as to the source of an order prior to submission by or through a clearing firm, CFE will request that the clearing firm provide an electronic or other record of the order.

---

<sup>55</sup> 15 U.S.C. 78f(h)(3)(J).

For orders that cannot be immediately entered into CFE systems, and therefore will not be recorded electronically by CBOE*direct* at the time they are placed, CFE Rule 403(b) ("Order Entry") requires that the Clearing Member or, if applicable, the Trading Privilege Holder or the Authorized Trader receiving such order must prepare an order form in a non-alterable written medium, which must be time-stamped, and include the account designation, date and other required information (*i.e.*, order terms, order type, instrument and contract month, price, and quantity). Each such form must be retained for at least five years from the time it is prepared. In addition, CFE Rule 501 establishes a general record keeping requirement pursuant to which each Clearing Member and Trading Privilege Holder must keep all books and records as required to be kept by it pursuant to the CEA, CFTC regulations, the Act, regulations under the Act, and CFE Rules. CFE Rule 501 also requires that such books and records be made available to CFE upon request. Current CFTC regulations require books and records to be maintained for a period of five years.

Pursuant to CFE Rule 415, block trades will be entered in CBOE*direct* by CFE's operations management after they are verbally reported by designated individuals at the Clearing Member for the selling party. At the time of each such verbal report, a trade identification number will be assigned and provided to the caller. Both the buyer and the seller in each trade will then follow up the verbal report by submitting a block trade reporting form via facsimile or email to CFE. The same procedures generally apply to exchange of future for related position ("EFP") transactions as provided in CFE Rule 414. Since block trades and EFP transactions involve orders that cannot be immediately entered into CFE's systems, the Clearing Members or, if applicable, CFE Trading Privilege Holders or CFE Authorized Traders, must comply with the procedures specified in the preceding paragraph.

Clause (K) of Section 6(h)(3) of the Act<sup>56</sup> requires that a market on which a security futures product is traded have in place procedures to coordinate trading halts between such market and any market on which any security underlying the security futures product is traded and other markets on which any related security is traded. CFE Rule 417 provides for trading in a security future to be halted at all times that a regulatory halt has been instituted for the relevant underlying security or securities.

Clause (L) of Section 6(h)(3) of the Act<sup>57</sup> requires that the margin requirements for a security futures product comply with the regulations prescribed pursuant to Section 7(c)(2)(B) of the Act<sup>58</sup>. CFE believes that its proposed CFE Rule 517 and CFE Policy and Procedure VII, which have been filed with the Commission pursuant to Section 19(b)(2) of the Act<sup>59</sup>, together with a written certification under Section 5c(c) of the CEA<sup>60</sup> regarding customer margin, are consistent with the requirements of the Act.

CFE Rules 1801-1806 and 1901-1906 set forth the contract rule specifications that relate to single stock futures and NBI futures, respectively. The contract rule specifications contain information that is specific to the trading of those products on CFE and some of the specification provisions provide additional detail with respect to issues addressed by rule provisions noted above.

For the reasons described above, CFE submits that the CFE Listing Standards satisfy the requirements set forth in Section 6(h)(3) of the Act<sup>61</sup>.

---

<sup>56</sup> 15 U.S.C. 78f(h)(3)(K).

<sup>57</sup> 15 U.S.C. 78f(h)(3)(L).

<sup>58</sup> 15 U.S.C. 78g(c)(2)(B).

<sup>59</sup> 15 U.S.C. 78s(b)(2).

<sup>60</sup> 7 U.S.C. 7a-2(c).

<sup>61</sup> 15 U.S.C. 78f(h)(3).

## **Statutory Basis**

CFE has filed these proposed rules pursuant to Section 19(b)(7) of the Act<sup>62</sup>. CFE believes the CFE Listing Standards are authorized by, and consistent with, Section 6(b)(5) of the Act<sup>63</sup> because they are designed to promote just and equitable principles of trade.

### **B. Self-Regulatory Organization's Statement on Burden on Competition**

CFE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Since this rule change in conjunction with other related regulatory filings being made by CFE will permit CFE to become authorized to provide a trading venue for security futures, this rule change serves to enhance and promote competition by allowing an additional exchange to list and trade security futures.

### **C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

No written comments were solicited or received with respect to the proposed rule change.

## **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Pursuant to Section 19(b)(7)(B) of the Act<sup>64</sup>, the proposed rule change became effective on [Date]. Within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of Section 19(b)(1) of the Act<sup>65</sup>.

## **IV. Solicitation of Comments**

---

<sup>62</sup> 15 U.S.C. 78s(b)(7).

<sup>63</sup> 15 U.S.C. 78f(b)(5).

<sup>64</sup> 15 U.S.C. 78s(b)(7).

<sup>65</sup> 15 U.S.C. 78s(b)(1).

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

**Electronic comments:**

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CFE-2005-01 on the subject line.

**Paper comments:**

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-CFE-2005-01. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of the CBOE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions

should refer to File Number SR-CFE-2005-01 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>66</sup>

Margaret H. McFarland  
Deputy Secretary

Dated: \_\_\_\_\_

---

<sup>66</sup> 17 CFR 200.30-3(a)(12).

**Exhibit 1**

- (a) None
- (b) None
- (c) None
- (d) None
- (e) None

**Exhibit 2**

None

**Exhibit 3**

The proposed rule change was approved by the President of CBOE Futures Exchange, LLC ("CFE" or "Exchange") pursuant to delegated authority on July 25, 2005. No further action is required. Please refer questions and comments on the proposed rule change to Arthur Reinstein, CBOE Futures Exchange, LLC, 400 South LaSalle, Chicago, IL 60605, (312) 786-7570 or David Doherty, (312) 786-7466. All of the following rule text, while currently part of CFE's rules, is newly filed here with the Securities and Exchange Commission ("SEC" or "Commission") for review in connection with CFE's plan to commence trading of security futures.

**Exhibit 4**

**CBOE Futures Exchange, LLC  
Rules**

\* \* \* \* \*

**Rule 215. Regulatory Cooperation**

The Exchange may from time to time enter into such agreements with domestic or foreign self-regulatory organizations, associations, boards of trade and their respective regulators providing for the exchange of information and other forms of mutual assistance for financial surveillance, routine audits, market surveillance, investigative, enforcement and other regulatory purposes as the Exchange may consider necessary or appropriate or as the Commission may require. The Exchange is authorized to provide information to any such organization, association, board of trade or regulator that is a party to an information sharing agreement with the Exchange, in accordance with the terms and subject to the conditions set forth in such agreement.

\* \* \* \* \*

**Rule 403. Order Entry**

(a) All Orders shall be entered into the CBOE System by electronic transmission through a CBOE Workstation, and the Exchange shall maintain an electronic record of those entries. Each Trading Privilege Holder (including its Authorized Traders) shall be responsible in every respect for any and all Orders entered by it (including its Related Parties) and for compliance by its Related Parties with this Rule 403. Prior to entering any Order, the relevant Related Party shall sign onto the CBOE System by inputting the user identification assigned for such purpose by the Exchange. Each Order must contain the following information: (i) whether such Order is a buy or sell Order; (ii) Order type; (iii) commodity; (iv) contract month; (v) price; (vi) quantity; (vii) account type; (viii) account designation (the number assigned by a Trading Privilege Holder to each of its accounts); (ix) in the case of Orders for Options, strike price, type of option (put or call) and expiration month; and (x) such additional information as may be prescribed from time to time by the Exchange.

(b) With respect to orders received by a Trading Privilege Holder (including its Authorized Traders) which are immediately entered into the CBOE System, no record needs to be kept by such Trading Privilege Holder, except as may be required pursuant to Rule 501 and Applicable Law. However, if a Trading Privilege Holder (including its Authorized Traders) receives orders which cannot be immediately entered into the CBOE System, such Trading Privilege Holder must prepare an order form in a non-alterable written medium, which shall be time-stamped and include the account designation, date and other required information. Each such form must be retained by the Trading Privilege Holder for at least five years from the time it is prepared. Any such Orders must be entered into the CBOE System, in the order they were received, as soon as they can be entered into the CBOE System.

\* \* \* \* \*

**Rule 412. Position Limits**

(a) Position limits shall be as established by the Exchange from time to time as permitted by Commission Regulation § 41.25 and other applicable Commission Regulations. Such position limits may be specific to a particular Contract or delivery month or may be established on an aggregate basis among Contracts or delivery months. Except as specified in paragraphs (b) and (c) below, Trading Privilege Holders shall not control, or trade in, any number of Contracts that exceed any position limits so established by the Exchange. Once established, any such position limits shall be deemed to constitute a part of each Trading Privilege Holder's account and clearing agreement. Except as specified in paragraphs (b) and (c) below, no Trading Privilege Holder shall be permitted to enter into any transaction on the Exchange that would cause such Trading Privilege Holder to exceed any position limits.

(b) On the basis of an application to the Exchange in accordance with paragraph (d) below, and such supplemental information as the Exchange may request, the Exchange will determine whether to grant a position limit exemption for a qualified hedge transaction or series of qualified hedge transactions. For purposes of this Rule 412, the term "qualified hedge transaction" shall include any transaction or position in a particular Contract that represents a substitute for

transactions to be made or positions to be taken at a later time in the commodity underlying such Contract or in other underlying or related instruments, provided the transaction(s) entered into or position(s) taken on the Exchange are economically appropriate to reduce risks arising from:

- (i) any potential change in the value of assets that a Person owns, produces, manufactures, processes or merchandises or anticipates owning, producing, manufacturing, processing or merchandising;
- (ii) any potential change in the amount of liabilities that a Person owes or anticipates incurring;
- (iii) any potential change in the value of services that a Person provides, purchases or anticipates providing or purchasing; or
- (iv) any other good cause shown, as determined by the Exchange in its sole discretion.

(c) On the basis of an application to the Exchange in accordance with paragraph (d) below, and such supplemental information as the Exchange may request, the Exchange will determine whether to grant a position limit exemption for a particular arbitrage transaction or spread transaction or series of arbitrage or spread transactions.

(d) Any application for a position limit exemption for a qualified hedge transaction, arbitrage transaction or spread transaction, or series of qualified hedge, arbitrage or spread transactions, must be made by the relevant Trading Privilege Holder to the Exchange in such form, and within such time limits, as the Exchange may from time to time prescribe. Without limiting the generality of the foregoing, any such application must include the following:

- (i) If a qualified hedge transaction, an arbitrage transaction or a spread transaction, a representation that such transaction or position constitutes a qualified hedge transaction, an arbitrage or a spread transaction, as the case may be, and is not used in an attempt to violate or avoid any Rule of the Exchange;
- (ii) If a qualified hedge transaction, a representation that such transaction or position is necessary or advisable as an integral part of the business of such Trading Privilege Holder, which representation shall also include a description of such business;
- (iii) If an arbitrage or spread transaction, an undertaking that the prospective arbitrageur or spreader will specify the extent of the Trading Privilege Holder's current or planned activity in the cash market underlying the Contract for which such exemption is requested;
- (iv) If an arbitrage or spread transaction, a representation that the positions involved are moved in an orderly manner and not initiated or liquidated in a manner calculated to cause unreasonable price fluctuations or unwarranted price

changes;

(v) A representation that such Trading Privilege Holder has complied with any applicable federal requirement relating to hedging, arbitrage or spread transactions, as the case may be;

(vi) A schedule of the maximum number of Contracts, long and short, that such Trading Privilege Holder intends to enter into for hedging, arbitrage or spread transaction purposes, as the case may be;

(vii) An agreement that such Trading Privilege Holder will comply with any additional limits on its trading as the Exchange may from time to time impose; and

(viii) An agreement by such Trading Privilege Holder to promptly submit a supplemental statement explaining any change in circumstances that may affect the nature of its positions.

(e) In determining whether any Trading Privilege Holder has exceeded the position limits established by the Exchange, all positions in accounts for which such Trading Privilege Holder, by power of attorney or otherwise, directly or indirectly controls trading (whether on a proprietary basis or on behalf of Customers) shall be included. Position limits shall apply to positions held by two or more Trading Privilege Holders acting pursuant to an express or implied agreement or understanding in the same manner as if such positions were held by a single Person.

(f) The application for a position limit exemption must be submitted to and approved by the Exchange before execution of any transaction for which the exemption is requested. In granting any position limit exemption, the Exchange may impose such limitations or conditions upon the grant of the exemption as it may deem necessary or appropriate. Factors to be taken into account by the Exchange in determining whether to limit or condition a position limit exemption may include, among others, the liquidity of the markets involved and the Trading Privilege Holder's financial condition and business circumstances. Any position limit exemption granted by the Exchange for a qualified hedge transaction, arbitrage transaction or spread transaction, or series of qualified hedge, arbitrage or spread transactions, shall remain in effect for the time period designated by the Exchange, unless the exemption is earlier rescinded by the Exchange. The time period for which a position limit exemption may be granted by the Exchange may be up to two years. The Exchange shall have the authority to review and rescind, limit or condition any position limit exemption granted by it at any time in its sole discretion. A Trading Privilege Holder shall promptly submit to the Exchange upon request such supplemental information requested by the Exchange in connection with the review of a position limit exemption granted to the Trading Privilege Holder.

(g) For purposes of paragraph (e) above, "control" exists when the Trading Privilege Holder or Authorized Trader in question makes investment decisions for the account or accounts in question or materially influences, directly or indirectly, the actions of any Person who makes such investment decisions. In addition, "control" will be presumed to exist in the following

circumstances:

- (i) Among all parties to a joint account who have authority to act on behalf of such account;
- (ii) Among all general partners to a partnership account;
- (iii) If a Person (A) holds an ownership interest of 10 percent or more in the Person holding the account or accounts in question, or (B) shares in 10 percent or more of the profits or losses related to such account or accounts;
- (iv) If the Persons holding the account or accounts in question have common directors or management; or
- (v) If a Person has the authority to execute transactions in the account or accounts in question.

Any presumption of control on the basis of the foregoing circumstances can be rebutted by proving that such circumstances do not exist or by showing other circumstances which negate the presumption of control. Initial determinations of "control" shall be made by the Chief Regulatory Officer or his or her designee.

\* \* \* \* \*

**Rule 413. Price Limits; Final Settlement Prices**

(a) The rules governing a particular Contract shall contain any price limits that apply to trading in such Contract.

(b) In the case of any Contract that is a cash-settled security futures product (as such term is defined in Section 1a(32) of the CEA), the rules governing such Contract shall establish principles for the determination of final settlement prices that are consistent with Commission Regulation §41.25(b).

\* \* \* \* \*

**Rule 414. Exchange of Future for Related Position**

(a) A *bona fide* Exchange of Future for Related Position may be entered into with respect to any Contract in accordance with the applicable trading increments set forth in the rules governing such Contract, at a price mutually agreed upon by the parties to such transaction. Each Exchange of Future for Related Position must contain the following three essential elements:

- (i) A Futures transaction and a transaction in a related position or an option on the related position (known as the "Related Position");

(ii) An exchange of Futures for the Related Position that involves an actual transfer of ownership, which must include (x) possession, right of possession, or right to future possession of each leg prior to the exchange, (y) an ability to perform the Exchange of Future for Related Position, and (z) a transfer of title of the Future and Related Position upon consummation of the exchange; and

(iii) Separate parties, such that the accounts involved on each side of the Exchange of Future for Related Position have different beneficial ownership or are under separate control, provided that separate profit centers of a futures commission merchant operating under separate control are deemed to be separate parties for purposes of this Rule 414.

(b) In every Exchange of Future for Related Position, one party must be the buyer of the Related Position and the seller of the corresponding Futures and the other party must be the seller of the Related Position and the buyer of the corresponding Futures. Further, the quantity of the Related Position traded in an Exchange of Future for Related Position must correlate to the quantity represented by the Futures portion of the transaction.

(c) Exchange of Future for Related Position transactions with respect to any Contract may occur during and outside of the Trading Hours set forth in the rules governing such Contract, unless otherwise specified in those rules.

(d) Each Exchange of Future for Related Position shall be designated as such, and cleared through the Clearing Corporation as if it were a transaction executed through the CBOE System.

(e) Each Clearing Member involved in any Exchange of Future for Related Position shall either maintain records evidencing compliance with the criteria set forth in this Rule 414 or be able to obtain such records from its Customer involved in the Exchange of Future for Related Position. Upon request, each such Clearing Member shall provide to the Exchange documentation related to Exchange of Future for Related Position transactions.

(f) For purposes of this Rule 414, the term "Related Position" shall include, but not be limited to, a security, an option, any commodity as that term is defined by the CEA, or a group or basket of any of the foregoing. The Related Position being exchanged need not be the same as the underlying of the Futures transaction being exchanged, but the Related Position must have a high degree of price correlation to the underlying of the Futures transaction so that the Futures transaction would serve as an appropriate hedge for the Related Position.

(g) The seller of the Futures leg of an Exchange of Future for Related Position transaction is obligated to call the Help Desk after the transaction is negotiated to notify the Exchange of the terms of the transaction. This notification to the Help Desk shall occur without delay and in no event later than ten minutes after the transaction is negotiated if the transaction occurs during the Trading Hours for the Contract that comprises the Futures leg of the transaction, unless otherwise specified in the rules governing the relevant Contract. If the transaction occurs outside of the Trading Hours for the Contract that comprises the Futures leg

of the transaction, this notification to the Help Desk must occur no later than ten minutes from the time that regular trading next commences on the Exchange. The notification to the Help Desk shall include (i) the identity, contract month, price or premium, quantity, and time of execution of the relevant Futures leg, (ii) the counterparty Clearing Member, and (iii) the identity, quantity and price of the Related Position. The Help Desk will provide the caller a Trade Identification ("Trade ID") for the Exchange of Future for Related Position transaction and report the Futures leg to the CBOE System. After reporting the Exchange of Future for Related Position transaction to the Help Desk, the buyer and seller of the Futures leg must each complete and transmit the prescribed Exchange of Future for Related Position Reporting Form via facsimile or e-mail to the Help Desk. Both sides must include the Trade ID given by the Help Desk to the seller of the Futures leg. It is the responsibility of the buying and selling parties to effect any subsequent allocations or necessary updates to non-critical matching fields utilizing a post-trade processing system designated by the Exchange.

\* \* \* \* \*

#### **Rule 415. Block Trading**

(a) Trading Privilege Holders may enter into transactions outside the CBOE System, at prices mutually agreed, with respect to Contracts that have been designated by the Exchange for such purpose, provided all of the following conditions are satisfied (such transactions, "Block Trades"):

(i) Each buy or sell order underlying a Block Trade must (A) state explicitly that it is to be, or may be, executed by means of a Block Trade and (B) be for at least such minimum number of Contracts as will from time to time be specified by the Exchange; *provided* that only (x) a commodity trading advisor registered under the CEA, (y) an investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation under the CEA and Commission Regulations thereunder and (z) any Person authorized to perform functions similar or equivalent to those of a commodity trading advisor in any jurisdiction outside the United States of America, in each case with total assets under management exceeding US\$25 million, may satisfy this requirement by aggregating orders for different accounts. For purposes of this Rule, the total quantity of the legs of a spread or a combination executed as a Block Trade must meet the designated minimum size set forth in the rules governing the relevant Contract.

(ii) Each party to a Block Trade must qualify as an "eligible contract participant" (as such term is defined in Section 1a(12) of the CEA); *provided* that, if the Block Trade is entered into on behalf of Customers by (A) a commodity trading advisor registered under the Act, (B) an investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation under the Act and Commission Regulations thereunder or (C) any Person authorized to perform functions similar or equivalent to those of a commodity trading advisor in any jurisdiction outside the United States of America, in each case with total assets under management exceeding US\$25 million, then only such commodity trading advisor or investment adviser, as the case may

be, but not the individual Customers, need to so qualify.

(b) Block Trade transactions with respect to any Contract may occur during and outside of the Trading Hours set forth in the rules governing such Contract, unless otherwise specified in those rules. Each party to a Block Trade shall comply with all applicable Rules of the Exchange other than those which by their terms only apply to trading through the CBOE System.

(c) Each Block Trade shall be designated as such, and cleared through the Clearing Corporation as if it were a transaction executed through the CBOE System. The price at which a Block Transaction is executed must be "fair and reasonable" in light of (i) the size of such Block Transaction, (ii) the prices and sizes of other transactions in the same Contract at the relevant time, (iii) and the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash and futures markets, at the relevant time, and (iv) the circumstances of the parties to such Block Transaction. The Exchange will publicize information identifying the trade as a Block Trade and identifying the relevant Contract, contract month, price or premium, quantity for each Block Trade and, if applicable, the underlying commodity, whether the transaction involved a put or a call and the strike price immediately after such information has been reported to the Exchange.

(d) Each Trading Privilege Holder that is party to a Block Trade shall record the following details on its order ticket: the Contract (including the delivery or expiry month) to which such Block Trade relates; the number of Contracts traded; the price of execution or premium; the time of execution; the identity of the counterparty; and, if applicable, details regarding the Customer for which the Block Trade was executed, the underlying commodity, whether the transaction involved a put or a call and the strike price. Upon request by the Exchange, such Trading Privilege Holder shall produce satisfactory evidence, including the order ticket referred to in the preceding sentence, that the Block Trade meets the requirements set forth in this Rule 415.

(e) Each Trading Privilege Holder executing a side of a Block Trade must have at least one designated person pre-authorized to report Block Trades. Only designated persons of Trading Privilege Holders with a clearing relationship at the Clearing Corporation will be allowed to report a Block Trade.

(f) The seller is obligated to call the Help Desk without delay, and in no event later than ten minutes after a Block Trade is negotiated to notify the Exchange of the terms of the trade if the transaction occurs during the Trading Hours for the relevant Contract, unless otherwise specified in the rules governing the relevant Contract. If the transaction occurs outside of the Trading Hours for the relevant Contract, notification to the Help Desk must occur no later than ten minutes from the time that regular trading next commences on the Exchange. The notification to the Help Desk with respect to a Block Trade shall include the relevant Contract, contract month, price or premium, quantity, time of execution, counterparty Clearing Member and, if applicable, the underlying commodity, whether the transaction involved a put or a call and the strike price, as well as any other information that is required to be set forth in the prescribed Block Trade Reporting Form. If the transaction is a spread or combination, such as when one party is rolling a position into the next contract month, the seller of the month closest to expiration is responsible for reporting the entire transaction to the Help Desk. The Help Desk will provide the caller a Trade

Identification ("Trade ID") for the Block Trade and report both sides of the trade to the CBOE System. After reporting the Block Trade to the Help Desk, the buyer and seller must each complete and transmit the prescribed Block Trade Reporting Form via facsimile or e-mail to the Help Desk. Both sides must include the Trade ID given by the Help Desk to the seller for the Block Trade. It is the responsibility of the buying and selling Trading Privilege Holders to effect any subsequent allocations or necessary updates to non-critical matching fields utilizing a post-trade processing system designated by the Exchange.

(g) A Trading Privilege Holder may execute an Order placed for a non-discretionary Customer account by means of a Block Trade only if the Customer has previously consented thereto.

(h) Any Block Trade in violation of these requirements shall constitute conduct which is inconsistent with just and equitable principles of trade.

\* \* \* \* \*

**Rule 417. Regulatory Halts**

(a) Trading in a Single Stock Future shall be halted at all times that a "regulatory halt" (as defined in Commission Regulation § 41.1(1)) has been instituted for the security underlying such Single Stock Future.

(b) Trading in a Narrow-Based Stock Index Future shall be halted at all times that a "regulatory halt" (as defined in Commission Regulation § 41.1(1)) has been instituted for one or more of the securities that constitute 50% or more of the market capitalization of the "narrow-based security index" (as such term is defined in Section 1a(25) of the CEA) underlying such Narrow-Based Stock Index Future.

\* \* \* \* \*

**Rule 501. Books and Records**

(a) Each Trading Privilege Holder and Clearing Member shall prepare and keep current all books, ledgers and other similar records required to be kept by it pursuant to the CEA, Commission Regulations, the Exchange Act, Exchange Act Regulations, and the Rules of the Exchange, and shall prepare and keep current such other books and records and adopt such forms as the Exchange may from time to time prescribe. Such books and records shall be made available to the Exchange upon request.

(b) With respect to each order, bid, offer or other message transmitted to the CBOE System by an Authorized Trader of a Trading Privilege Holder, the Trading Privilege Holder shall keep a record of which Authorized Trader of the Trading Privilege Holder caused that order, bid, offer or other message to be transmitted to the CBOE System.

\* \* \* \* \*

**Rule 601. Fraudulent Acts**

Neither a Trading Privilege Holder nor any of its Related Parties shall engage in any fraudulent act or engage in any scheme to defraud, deceive or trick, in connection with or related to any trade on or other activity related to the Exchange or the Clearing Corporation.

**Rule 602. Fictitious Transactions**

Neither a Trading Privilege Holder nor any of its Related Parties shall create fictitious transactions or execute any Order for a fictitious transaction with knowledge of its nature.

**Rule 603. Market Manipulation**

Any manipulation of the market in any Contract is prohibited. Orders entered into the CBOE System for the purpose of generating unnecessary volatility or creating a condition in which prices do not or will not reflect fair market values are prohibited and any Trading Privilege Holder (including its respective Related Parties) who makes or assists in entering any such Order with knowledge of the purpose thereof or who, with such knowledge, in any way assists in carrying out any plan or scheme for the entering of any such Order, shall be deemed to have engaged in an act detrimental to the Exchange.

**Rule 604. Adherence to Law**

No Trading Privilege Holder (including its Related Parties) shall engage in conduct in violation of Applicable Law, the Rules of the Exchange or the Rules of the Clearing Corporation (insofar as the Rules of the Clearing Corporation relate to the reporting or clearance of any transaction in Contracts).

**Rule 605. Sales Practice Rules**

Without limiting the generality of Rule 604, each Trading Privilege Holder (including its Related Parties) shall comply with any and all sales practice rules (including those relating to bunched orders, opening and approval of accounts, suitability, use of discretion, supervision of accounts, risk disclosure document delivery, communications, monthly statements and confirmations, registration, qualification and continuing education, customer complaints, prohibition against guarantees and profit sharing and money laundering) from time to time promulgated by the NFA or, in the case of Security Futures, from time to time promulgated by the NFA or the NASD, which rules are hereby incorporated by reference into this Rule 605.

\* \* \* \* \*

**Rule 610. Priority of Customers' Orders**

(a) No Trading Privilege Holder (including its Related Parties) shall knowingly buy a Contract for a personal or proprietary account of such Trading Privilege Holder or Related Party or

for an account in which such Trading Privilege Holder or Related Party has a proprietary interest, when such Trading Privilege Holder or Related Party has in hand Orders to buy the same Contract for any other Person at the same price or at the market price. No Trading Privilege Holder (including its Related Parties) shall knowingly sell a Contract for a personal or proprietary account of such Trading Privilege Holder or Related Party or for an account in which such Trading Privilege Holder or Related Party has a proprietary interest, when such Trading Privilege Holder or Related Party has in hand Orders to sell the same Contract for any other Person at the same price or at the market price.

(b) No Trading Privilege Holder (including its Related Parties) shall knowingly execute a discretionary Order for any Contract, including, without limitation, an Order allowing such Trading Privilege Holder (including its Related Parties) discretion as to time and price, for an immediate family member or for a personal or proprietary account of any other Trading Privilege Holder or Related Party, when such Trading Privilege Holder or Related Party has in hand any Customer Market Order for the same Contract open as to time and price.

(c) An Authorized Trader entering Orders into the CBOE System must enter all Customer Orders that the CBOE System is capable of accepting before entering an Order for a personal or proprietary account of such Authorized Trader or the related Trading Privilege Holder, an account in which such Authorized Trader or Trading Privilege Holder has a proprietary interest or an Order for a discretionary account, including an Order allowing such Authorized Trader or Trading Privilege Holder discretion as to time and price, for an immediate family member or for a personal or proprietary account of any other Trading Privilege Holder or Related Party.

(d) For purposes of this Rule 610, no Trading Privilege Holder that consists of more than one individual, shall be deemed to knowingly buy or sell a Contract or execute a discretionary Order if (i) such Trading Privilege Holder has in place appropriate “firewall” or separation of function procedures and (ii) the individual buying or selling the Contract or executing the discretionary Order in question has no direct knowledge of the Order to buy or sell the same Contract for any other Person at the same price or at the market price or of the Customer Order for the same Contract, as the case may be. Nothing in this Rule 610 shall limit the ability of an “eligible account manager” to bunch Orders in accordance with Commission Regulation § 1.35(a-1)(5).

**Rule 611. Trading Against Customers’ Orders**

No Trading Privilege Holder (including its Related Parties) shall enter into a transaction on behalf of a Customer in which such Trading Privilege Holder or Related Party or any Person trading for an account in which such Trading Privilege Holder or Related Party has a financial interest, intentionally assumes the opposite side of the transaction. The foregoing restriction shall not prohibit pre-execution discussions conducted in accordance with procedures established by the Exchange from time to time, and shall not apply to any Exchange of Future for Related Position, any Block Trade or any transaction meeting all of the following criteria (or such other criteria as may be established by the Exchange from time to time):

(a) the Customer has previously consented in writing to such transactions and such consent has not been revoked prior to the applicable transaction;

(b) if the Trading Privilege Holder desires to cross a Customer Order with an Order of the Trading Privilege Holder or Related Party and a bid and an offer for the relevant Contract are resting in the CBOE System, the Trading Privilege Holder may enter the Customer Order into the CBOE System and may immediately thereafter enter the opposing Order representing no more than 30% of the Customer Order's contract size (rounded up to the nearest whole contract);

(c) the Trading Privilege Holder or Related Party has waited for a period of five seconds after first entering the Order received from the Customer into the CBOE System before taking the opposite side of the transaction, or if the Trading Privilege Holder initially crossed 30% of the Customer Order as provided in Rule 611(b), the Trading Privilege Holder has waited for a period of five seconds after first entering the Customer Order into the CBOE System before entering an opposing Order for the remaining balance, if any, of the Customer Order;

(d) the Trading Privilege Holder maintains a record that clearly identifies, by appropriate descriptive words, all such transactions, including the time of execution, commodity, date, price, quantity and delivery month; and

(e) the Trading Privilege Holder provides a copy of the record referred to in clause (d) above to the Exchange upon request by the Exchange.

Because the Orders entered into the CBOE System pursuant to this Rule 611 are exposed to the market, there is no assurance that the Orders of the Trading Privilege Holder will be matched against the Customer Order.

**Rule 612. Withholding Orders**

No Trading Privilege Holder (including its Related Parties) shall withhold or withdraw from the market any Order or any part of an Order placed by any Customer, unless expressly instructed or authorized to do so by such Customer.

**Rule 613. Disclosing Orders**

Except in accordance with any policies or procedures for pre-execution discussions from time to time adopted by the Exchange, no Trading Privilege Holder (including its Related Parties) shall disclose to any Person any Order placed by any other Person, except to the Exchange or the Commission.

**Rule 614. Pre-Arranged Trades**

No Trading Privilege Holder (including its Related Parties) shall enter any Order into the CBOE System which has been pre-arranged, except as expressly permitted by Rules 407, 414 and 415 or in accordance with any policies or procedures for pre-execution discussions from time to time adopted by the Exchange.

**Rule 615. Simultaneous Buying and Selling Orders**

(a) No Trading Privilege Holder (including its Related Parties) shall accept simultaneous buy and sell Orders from the same Customer for the same delivery month of a particular Future.

(b) A Trading Privilege Holder (including its Related Parties) holding Orders to buy and sell at the same time from different Customers for the same month of a particular Future may enter both Orders into the CBOE System.

\* \* \* \* \*

**Chapter 18  
Single Stock Futures**

**Rule 1801. Scope of Chapter**

This chapter applies to trading in any Contract that is a Security Future based on a single security (each, a “Single Stock Future”). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the other Rules of the Exchange.

**Rule 1802. Contract Specifications**

(a) Specifications Supplements. The general specifications set forth in this Rule 1802 shall be subject to, and qualified by, the specific terms applicable to trading, clearing or settlement of particular Single Stock Futures, as provided in supplements (each a “Specifications Supplement”) from time to time adopted by the Exchange. Each Specifications Supplement for a Single Stock Future shall be substantially in the form set forth in Rule 1806 or such other form as the Exchange may from time to time approve. No Specifications Supplement shall become effective until the Exchange has submitted to the Commission (i) a certification satisfying the requirements set forth in Commission Regulation § 41.22 and (ii) a filing satisfying the requirements set forth in Commission Regulation § 41.23, with respect to the Single Stock Future to which it relates.

(b) Underlying Securities. Each Single Stock Future shall be based on an underlying security (the “Underlying Security”), which satisfies the requirements set forth in Commission Regulations § 41.21(a), as may be determined from time to time by the Exchange.

(c) Trading Hours; Delivery Months and Termination Dates. Single Stock Futures shall be traded during such hours, for delivery in such months, and shall terminate on such dates, as may be determined from time to time by the Exchange.

(d) Trading Units. Each Single Stock Future shall represent 100 shares of the Underlying Security.

(e) Minimum Price Fluctuations. The minimum price fluctuation for each Single Stock Future shall be \$0.01 per share, which is equal to \$1.00 per Contract.

(f) Speculative Position Limits. For purposes of Rule 412, the position limit applicable to positions in any Single Stock Future held during the last five trading days of an expiring Single Stock Future shall be the position limit adopted by the Exchange in accordance with Commission Regulation § 41.25. Each such position limit shall be published by the Exchange.

(g) Last Day of Trading. All trading in a particular Contract shall terminate at the close of business on the termination date of such Contract.

(h) Contract Modifications. The specifications for a particular Single Stock Future shall be as set forth in the filing made with respect thereto pursuant to Commission Regulation § 41.23. If any U.S. governmental agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, including specifications set forth in any Specifications Supplement, such order, ruling, directive or law shall be deemed to take precedence over such specifications and become part of these Rules or of such Specification Supplement and all open and new Contracts shall be subject thereto.

(i) Contract Adjustments. Adjustments to Single Stock Futures related to actions or transactions by or affecting the issuer of the Underlying Securities shall be made under the circumstances and in the manner from time to time prescribed by the Clearing Corporation.

(j) Daily Settlement Price. (i) The daily settlement price for each Single Stock Future Contract will be the average of the final Bid and final Offer of the Single Stock Future Contract at the close of trading.

(ii) If there were no bid or offer at the close of trading, then the Exchange shall set a reasonable settlement price by adjusting the average of the last bid and offer disseminated to the market and captured by an independent price reporting system during the trading day by the difference between the consolidated price of the Underlying Security at the time that the last bid or offer was quoted on the Exchange and the consolidated price of the Underlying Security at the close of regular trading hours.

(iii) Notwithstanding the above, the Exchange may in its sole discretion establish a settlement price that it deems to be a fair and reasonable reflection of the market. The Exchange will consider all relevant factors, including those discussed in this provision, when establishing such a settlement price.

(k) Final Settlement Price. The final settlement price of a Single Stock Future shall be calculated in accordance with paragraph (j), unless the final settlement price is fixed in accordance with the Rules and By-Laws of the Clearing Corporation.

(l) Execution Priorities. Pursuant to Rule 406(a)(i), the base allocation method of price-time priority shall apply to trading in each Single Stock Future. Pursuant to Rule 406(b)(iii), a DPM trade participation right priority shall overlay the price-time priority base allocation method.

(m) Crossing Two Original Orders. The eligible size for an original Order that may be entered for a cross trade with another original Order pursuant to Rule 407 is one Contract. The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least five seconds under Rule 407(b) at least one of the original Orders that it intends to cross.

(n) Price Limits. Pursuant to Rule 413, Single Stock Futures are not subject to price limits.

(o) Block Trades. Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for each Single Stock Future shall be 100 contracts, unless otherwise set forth in the Specifications Supplement for that Single Stock Future. If the Block Trade is executed as a spread or a combination, one leg must meet the minimum Block Trade quantity for the particular Single Stock Future and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

No natural person associated with a Trading Privilege Holder or Authorized Trader that has knowledge of a pending Block Trade of such Trading Privilege Holder or Authorized Trader, or a Customer thereof in a Single Stock Future on the Exchange, may enter an Order or execute a transaction, whether for his or her own account or, if applicable, for the account of a Customer over which he or she has control, for or in the Single Stock Future to which such Block Trade relates until after (i) such Block Trade has been reported to and published by the Exchange and (ii) any additional time period from time to time prescribed by the Exchange in its block trading procedures or contract specifications has expired.

No natural person associated with a Trading Privilege Holder or Authorized Trader that has knowledge of a pending Block Trade of such Trading Privilege Holder or Authorized Trader, or a Customer thereof in a Single Stock Future on any other exchange or trading system, may enter an Order or execute a transaction on the Exchange, whether for his or her own account or, if applicable, for the account of a Customer over which he or she has control, for any Single Stock Future which has the same underlying security as the contract to which such block trade relates until after (i) such block trade is reported and published in accordance with the rules, procedures or contract specifications of such exchange or trading system and (ii) any additional time period prescribed by the Exchange in its block trading procedures or contract specifications has expired.

(p) No-Bust Range. Pursuant to Rule 416, the Exchange error trade policy may only be invoked for a trade price that is greater than 10% on either side of the market price of the applicable Single Stock Future contract. In accordance with Policy and Procedure III, the Help Desk will determine what the true market price for the relevant Contract was immediately before the potential error trade occurred. In making that determination, the Help Desk may consider all relevant factors, including the last trade price for such Contract, a better bid or offer price, a more recent

price in a different contract month and the prices of related contracts trading in other markets.

(q) Pre-execution Discussions. Pursuant to Policy and Procedure IV, the time period a Trading Privilege Holder or Authorized Trader must wait after engaging in pre-execution discussions with the other side of an Order is five seconds after that Order has been entered into the CBOE System.

**Rule 1803. Delivery**

Delivery of the Underlying Securities upon termination of a Single Stock Future, and payment of the price in respect thereof, shall be made in accordance with the Rules of the Clearing Corporation. As promptly as possible after the receipt of a notice of delivery from the Clearing Corporation with respect to a Single Stock Future held by a Trading Privilege Holder or Authorized Trader, such Trading Privilege Holder or Authorized Trader shall require the Customer to deposit the Underlying Security (in the case of a short position) or pay the aggregate price in respect thereof, in full and in cash (in the case of a long position), or in either case, if the transaction is effected in a margin account, to make the required margin deposit in accordance with the applicable regulations of the Federal Reserve Board.

**Rule 1804. Emergencies, Acts of God and Acts of Government**

If delivery or acceptance or any precondition or requirement of either, in respect of any Single Stock Future is prevented by a strike, fire, accident, act of God, act of government or any other event or circumstance beyond the control of the parties to such Contract, the seller or buyer of such Contract shall immediately notify the Exchange. If based on such notification, the President, or any individual designated by the President and approved by the Board, determines that an Emergency exists, he or she may take such action in accordance with Rule 418 as he or she may deem necessary under the circumstances, which action shall be binding upon both parties to the Contract in question; *provided* that any action taken in accordance with this sentence shall be reviewed by the Board as soon as practicable under the circumstances, and may be revoked, suspended or modified by the Board.

**Rule 1805. DPM Provisions**

(a) DPM Appointment. A Trading Privilege Holder will be appointed to act as a DPM for each Single Stock Future pursuant to Rule 515.

(b) DPM Participation Right. The DPM participation right percentage under Rule 406(b)(iii) for each Single Stock Future is 30%.

**Rule 1806. Form of Specifications Supplement**

Supplement No. \_\_\_\_\_

Title of Single Stock Future: \_\_\_\_\_

Underlying Security:

Type of Underlying Security: [common stock] [American Depositary Receipt]

	[share of exchange traded fund] [trust issued receipt] [share of closed-end management investment company] [other]								
Trading Hours:									
Delivery Months:									
Termination Dates:									
Trading Unit:	100 shares of the Underlying Security								
Minimum Price Fluctuation:	\$0.01 per share, equal to \$1.00 per Contract								
Threshold Width:	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Common Stock Price</u></th> <th style="text-align: center;"><u>Threshold Width</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">share price &lt; \$10</td> <td style="text-align: center;">\$0.50</td> </tr> <tr> <td style="text-align: center;">\$10 &lt; share price &lt; \$50</td> <td style="text-align: center;">\$1.00</td> </tr> <tr> <td style="text-align: center;">\$50 &lt; share price</td> <td style="text-align: center;">\$2.00</td> </tr> </tbody> </table>	<u>Common Stock Price</u>	<u>Threshold Width</u>	share price < \$10	\$0.50	\$10 < share price < \$50	\$1.00	\$50 < share price	\$2.00
<u>Common Stock Price</u>	<u>Threshold Width</u>								
share price < \$10	\$0.50								
\$10 < share price < \$50	\$1.00								
\$50 < share price	\$2.00								
Position Limit:	During the last five trading days, Contracts net long or short								
Reportable Position:	200 Contracts								
Daily Price Limit:									
Minimum Block Trade Quantity:									
Time Period for Reporting Block Trades:	Without delay, but no more than ten minutes after a Block Trade is negotiated.								
Last Day of Trading:									
Delivery Day:									
Depository for Underlying Security:									
Other Specifications:									

\* \* \* \* \*

## Chapter 19 Narrow Based Stock Index Futures

### Rule 1901. Scope of Chapter

This chapter applies to trading in any Contract that is a Security Future based on a “narrow-based security index” (as such term is defined in Section 1a(25) of the CEA) (each, a “Narrow-Based Stock Index Future”). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the other Rules of the Exchange.

### Rule 1902. Contract Specifications

(a) Specifications Supplements. The general specifications set forth in this Rule 1902 shall be subject to, and qualified by, the specific terms applicable to trading, clearing or settlement of particular Narrow-Based Stock Index Futures, as provided in Specifications Supplements from time to time adopted by the Exchange. Each Specifications Supplement for a Narrow-Based Stock Index Future shall be substantially in the form set forth in Rule 1906 or such other form as the Exchange may from time to time approve. No Specifications Supplement shall become effective

until the Exchange has submitted to the Commission (i) a certification satisfying the requirements set forth in Commission Regulation § 41.22 and (ii) a filing satisfying the requirements set forth in Commission Regulation § 41.23, with respect to the Narrow-Based Stock Index Future in question.

(b) **Underlying Securities.** Narrow-Based Stock Index Futures shall be based on such indices consisting of two or more Underlying Securities, which shall satisfy the requirements set forth in Commission Regulation § 41.21(b), as may be determined from time to time by the Exchange.

(c) **Trading Hours; Delivery Months and Termination Dates.** Narrow-Based Stock Index Futures shall be traded during such hours and for delivery in such months, and shall terminate on such dates, as may be determined from time to time by the Exchange.

(d) **Minimum Price Fluctuations.** The minimum price fluctuation for Narrow-Based Stock Index Futures shall be \$0.01 per Contract.

(e) **Speculative Position Limits.**

For purposes of Rule 412, the position limit applicable to positions in any physically settled Narrow-Based Stock Index Future held during the last five trading days of an expiring Narrow-Based Stock Index Future shall be the position limit adopted by the Exchange in accordance with Commission Regulation § 41.25. Commission Regulation § 41.25 applies the applicable position limit with respect to Narrow-Based Stock Index Futures to the security in the Narrow-Based Stock Index Future having the lowest average daily trading volume. Each such position limit shall be published by the Exchange.

Pursuant to Rule 412(a), the Exchange shall establish speculative position limits for each cash settled Narrow-Based Stock Index Future held during the last five trading days of an expiring Narrow-Based Stock Index Future according to the following methodology:

The position limit for each cash settled Narrow-Based Stock Index Future shall be the number of contracts calculated according to formula (i) “Market Cap Position Limit” or (ii) “SSF Position Limit” below, whichever is less, rounded to the nearest multiple of 1,000 contracts; provided, however, that if formula (i) or (ii), whichever is less, calculates a number less than 500 but not less than 400 for any such Security Future, the position limit will be 1,000 contracts.

(i) “Market Cap Position Limit”

(A) The Exchange will determine the market capitalization of the Standard & Poor’s 500 index (the “S&P 500”) as of the selection date for the component securities of the index underlying the Narrow-Based Stock Index Future (the “Selection Date”) (the “S&P 500 Market Cap”); then

(B) The Exchange will calculate the notional value of a future position in Chicago Mercantile Exchange’s (“CME”) S&P 500 futures contract at its maximum limit (the “S&P 500 Notional Value Limit”) by multiplying the S&P 500 by the position limit for CME’s S&P 500 futures

(20,000 contracts in all months combined) and by the S&P 500 contract multiplier (\$250) to calculate:

$$\text{S\&P 500 Notional Value Limit} = \text{S\&P 500} * 20,000 * \$250;$$

then

(C) The Exchange will divide the S&P 500 Market Cap by the S&P 500 Notional Value Limit to calculate the “Market Cap Ratio”:

$$\text{Market Cap Ratio} = \text{S\&P 500 Market Cap} / \text{S\&P 500 Notional Value Limit}$$

then

(D) The Exchange will calculate the market capitalization of the stock index underlying the Narrow-Based Stock Index Future by adding together the market capitalization of each stock comprising the stock index (the “Stock Index Market Cap”); then

(E) The Exchange will calculate the notional value of the Narrow-Based Stock Index Future (the “Notional Value”) as follows:

$$\text{Notional Value} = \text{Level of index underlying Narrow-Based Stock Index Future} * \text{contract multiplier}$$

(F) The Exchange will calculate the Market Cap Position Limit of the Narrow-Based Stock Index Future by dividing the Stock Index Market Cap by the product of the Notional Value of the Narrow-Based Stock Index Future and the Market Cap Ratio:

$$\text{Market Cap Position Limit} = \text{Stock Index Market Cap} / \text{Notional Value} * \text{Market Cap Ratio}$$

(ii) “SSF Position Limit”

(A) The Exchange will calculate the notional value of the Narrow-Based Stock Index Future (same as (i)(E) above):

$$\text{Notional Value} = \text{Level of index underlying Narrow-Based Stock Index Future} * \text{contract multiplier}$$

(B) For each component security in the index underlying the Narrow-Based Stock Index Future, the Exchange will multiply its index

weight<sup>67</sup> by the Notional Value to determine that security's proportion of the Narrow-Based Stock Index Future.

(C) For each component security, the Exchange will divide the result in (ii)(B) by the security's price. This equals the number of shares of that security represented in the Narrow-Based Stock Index Futures contract.

(D) For each component security, the Exchange will divide the number of shares calculated in (ii)(C) by 100 to obtain the implied number of 100-share contracts per Narrow-Based Stock Index Futures contract.

(E) The Exchange will divide the applicable single stock futures contract speculative position limit set in Commission Regulation § 41.25(a)(3) (either 13,500 or 22,500 contracts) by the number of implied 100-share contracts. This provides the number of Narrow-Based Stock Index Futures contracts that could be held without violating the speculative position limit on a futures contract on that component security (if such single stock futures contract existed). If the security qualifies for position accountability, ignore that security for purposes of this calculation.

(F) The Exchange will list the results of (ii)(D) and (ii)(E). The SSF Position Limit is the minimum number of implied contracts based on this list.

(f) Last Day of Trading. All trading in a particular Contract shall terminate at the close of the last Business Day preceding the termination date of such Contract.

(g) Contract Modifications. The specifications for a particular Narrow-Based Stock Index Future shall be as set forth in the filing made with respect thereto pursuant to Commission Regulation § 41.23. If any U.S. governmental agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, including specifications set forth in any specifications supplement, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

(h) Contract Adjustments. Adjustments to Narrow-Based Stock Index Futures related to actions or transactions by or affecting any issuer of Underlying Securities shall be made under the circumstances and in the manner from time to time prescribed by the Clearing Corporation.

(i) Settlement Price.

---

<sup>67</sup> Index weight of the component security = (assigned shares \* price) of the component security/the sum of (assigned shares \* price) for each component security.

(I) Daily Settlement Price. The daily settlement price for cash settled Narrow-Based Stock Index Futures will be calculated in the same manner as Rule 1802(j).

(II) Final Settlement Price.

(A) The final settlement price for cash settled Narrow-Based Stock Index Futures shall be determined on the third Friday of the contract month. If the Exchange is not open for business on the third Friday of the contract month, the final settlement price shall be determined on the Business Day prior to the third Friday of the contract month. The final settlement price for cash settled Narrow-Based Stock Index Futures shall be based on a special opening quotation of the underlying stock index (“Stock Index”).

(B) Notwithstanding subparagraph (II)(A) of this Rule, if an opening price for one or more securities underlying a Narrow-Based Stock Index Future is not readily available, the President of the Exchange or his designee for such purpose (referred to hereafter in this Rule 1902(i) as the “Designated Officer”) will determine whether the security or securities are likely to open within a reasonable time.

(1) If the Designated Officer determines that one or more component securities are not likely to open within a reasonable time, then for the component security or securities which the Designated Officer determined were not likely to open within a reasonable time, the last trading price of the underlying security or securities during the most recent regular trading session for such security or securities will be used to calculate the special opening quotation.

(2) If the Designated Officer determines that the security or securities are likely to open within a reasonable time, then for the component security or securities which the Designated Officer determined were likely to open within a reasonable time, the next available opening price of such security or securities will be used to calculate the special opening quotation.

(C) For purposes of this provision:

(1) “Opening price” means the official price at which a security opened for trading during the regular trading session of the national securities exchange or national securities association that lists the security. If the security is not listed on a national securities exchange or a national securities association, then “opening price” shall mean the price at which a security opened for trading on the primary market for the security. Under this provision, if a component security is an American Depositary Receipt (“ADR”) traded on a national securities exchange or national securities association, the opening price for the ADR would be derived from the national securities exchange or national securities association that lists it.

(2) “Special opening quotation” means the Stock Index value that is derived from the sum of the opening prices of each security of the Stock Index.

(3) “Regular trading session” of a security means the normal hours for business of a national securities exchange or national securities association that lists the security.

(4) The price of a security is “not readily available” if the national securities exchange or national securities association that lists the security does not open on the day scheduled for determination of the final settlement price, or if the security does not trade on the securities exchange or national securities association that lists the security during regular trading hours.

(D) Notwithstanding any other provision of this Rule, this Rule shall not be used to calculate the final settlement price of a Narrow-Based Stock Index Future if The Option Clearing Corporation fixes the final settlement price of such Narrow-Based Stock Index Future in accordance with its rules and by-laws and as permitted by Commission Regulation § 41.25(b) and SEC Rule 6h-1(b)(3).

(j) Execution Priorities. Pursuant to Rule 406(a)(i), the base allocation method of price-time priority shall apply to trading in each Narrow Based Stock Index Future. Pursuant to Rule 406(b)(iii), a DPM trade participation right priority shall overlay the price-time priority base allocation method.

(k) Crossing Two Original Orders. The eligible size for an original Order that may be entered for a cross trade with another original Order pursuant to Rule 407 is one Contract. The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least five seconds under Rule 407(b) at least one of the original Orders that it intends to cross.

(l) Price Limits. Pursuant to Rule 413, Narrow Based Stock Index Futures are not subject to price limits.

(m) Block Trades. Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for each Narrow Based Stock Index Future shall be 100 contracts, unless otherwise set forth in the Specifications Supplement for that Narrow Based Stock Index Future. If the Block Trade is executed as a spread or a combination, one leg must meet the minimum Block Trade quantity for the particular Narrow Based Stock Index Future and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

No natural person associated with a Trading Privilege Holder or Authorized Trader that has knowledge of a pending Block Trade of such Trading Privilege Holder or Authorized Trader, or a Customer thereof in a Narrow-Based Stock Index Future on the Exchange, may enter an Order or execute a transaction, whether for his or her own account or, if applicable, for the account of a Customer over which he or she has control, for or in the Narrow-Based Stock Index Future to which such Block Trade relates until after (i) such Block Trade has been reported to and published

by the Exchange and (ii) any additional time period from time to time prescribed by the Exchange in its block trading procedures or contract specifications has expired.

No natural person associated with a Trading Privilege Holder or Authorized Trader that has knowledge of a pending Block Trade of such Trading Privilege Holder or Authorized Trader, or a Customer thereof in a Narrow-Based Stock Index Future on any other exchange or trading system, may enter an Order or execute a transaction on the Exchange, whether for his or her own account or, if applicable, for the account of a Customer over which he or she has control, for any Narrow-Based Stock Index Future which has the same underlying index as the contract to which such block trade relates until after (i) such block trade is reported and published in accordance with the rules, procedures or contract specifications of such exchange or trading system and (ii) any additional time period prescribed by the Exchange in its block trading procedures or contract specifications has expired.

(n) **No-Bust Range.** Pursuant to Rule 416, the Exchange error trade policy may only be invoked for a trade price that is greater than 10% on either side of the market price of the applicable Narrow-Based Stock Index Future. In accordance with Policy and Procedure III, the Help Desk will determine what the true market price for the relevant Contract was immediately before the potential error trade occurred. In making that determination, the Help Desk may consider all relevant factors, including the last trade price for such Contract, a better bid or offer price, a more recent price in a different contract month and the prices of related contracts trading in other markets.

(o) **Pre-execution Discussions.** Pursuant to Policy and Procedure IV, the time period a Trading Privilege Holder or Authorized Trader must wait after engaging in pre-execution discussions with the other side of an Order is five seconds after that Order has been entered into the CBOE System.

### **Rule 1903. Delivery**

Delivery of the Underlying Securities upon termination of a Narrow-Based Stock Index Future, and payment of the price in respect thereof, shall be made in accordance with the Rules of the Clearing Corporation. As promptly as possible after the receipt of a notice of delivery from the Clearing Corporation with respect to a Narrow-Based Stock Index Future held by a Trading Privilege Holder or Authorized Trader, such Trading Privilege Holder or Authorized Trader shall require such Customer to deposit the Underlying Securities (in the case of a short position) or pay the aggregate price in respect thereof, in full and in cash (in the case of a long position), or in either case, if the transaction is effected in a margin account, to make the required margin deposit in accordance with the applicable regulation of the Federal Reserve Board.

### **Rule 1904. Emergencies, Acts of God and Act of Government**

If delivery or acceptance, or any precondition or requirement of either, in respect of any Narrow-Based Stock Index Future is prevented by a strike, fire, accident, act of God, act of government or any other event or circumstance beyond the control of the parties to such Contract, the seller or buyer of such Contract shall immediately notify the Exchange. If based on such notification, the President, or any individual designated by the President and approved by the

Board, determines that an Emergency exists, he or she may take such action in accordance with Rule 418 as he or she may deem necessary under the circumstances, which action shall be binding upon both parties to the Contract in question; *provided* that any action taken in accordance with this sentence shall be reviewed by the Board as soon as practicable under the circumstances, and may be revoked, suspended or modified by the Board.

**Rule 1905. DPM Provisions**

(a) DPM Appointment. A Trading Privilege Holder will be appointed to act as a DPM for each Narrow Based Stock Index Future pursuant to Rule 515.

(b) DPM Participation Right. The DPM participation right percentage under Rule 406(b)(iii) for each Narrow Based Stock Index Future is 30%.

**Rule 1906. Form of Specifications Supplement**

Supplement No. \_\_\_\_  
Title of Narrow-Based Stock Index Future: \_\_\_\_\_

Underlying Securities (including numbers of values thereof):  
Weighting Methodology:  
Trading Hours:  
Delivery Months:  
Termination Dates:  
Minimum Price Fluctuation:                   \$0.01 per Contract  
Threshold Width:  
Position Limit:                                   During the last five trading days,       Contracts  
Reportable Position:  
Daily Price Limit:  
Minimum Block Trade Quantity:  
Time Period for Reporting Block Trades:                                   Without delay, but no more than ten minutes after a Block Trade is negotiated  
Last Day of Trading:  
Delivery Day:  
Depository for Underlying Security:  
Other Specifications:

\* \* \* \* \*

**CFE Policies and Procedures**

\* \* \* \* \*

**CFE Policy and Procedure VIII. Eligibility And Maintenance Criteria For Security Futures.**

**A. Initial Listing Standards for Single Stock Futures**

1. For a Single Stock Future that is physically settled to be eligible for initial listing, the security underlying the futures contract must meet each of the following requirements:
  - (i) It must be a common stock, an American Depositary Receipt (“ADR”) representing common stock or ordinary shares, a share of an exchange traded fund (“ETF Share”), a trust issued receipt (“TIR”) or a share of a registered closed-end management investment company (“Closed-End Fund Share”).
  - (ii) It must be registered under Section 12 of the Exchange Act, and its issuer must be in compliance with any applicable requirements of the Exchange Act.
  - (iii) It must be listed on a national securities exchange (a “National Securities Exchange”) or traded through the facilities of a national securities association (“Association”) and reported as a “national market system” security as set forth in Rule 11Aa3-1 under the Exchange Act (“NMS security”).
  - (iv) There must be at least seven million shares or receipts evidencing the underlying security outstanding that are owned by persons other than those required to report their security holdings pursuant to Section 16(a) of the Exchange Act.

**Requirement (iv) as Applied to Restructure Securities:**

In the case of an equity security that a company issues or anticipates issuing as the result of a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction (“Restructure Security”), the Exchange may assume that this requirement is satisfied if, based on a reasonable investigation, it determines that, on the product’s intended listing date: (A) at least 40 million shares of the Restructure Security will be issued and outstanding; or (B) the Restructure Security will be listed on a National Securities Exchange or automated quotation system that is subject to an initial listing requirement of no less than seven million publicly owned shares.

In the case of a Restructure Security issued or distributed to the holders of the equity security that existed prior to the ex-date of a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction (“Original Equity Security”), the Exchange may consider the number of outstanding shares of the Original Equity Security prior to the

spin-off, reorganization, recapitalization, restructuring or similar corporate transaction (“Restructuring Transaction”).

- (v) In the case of an underlying security other than an ETF Share, TIR or Closed-End Fund Share, there must be at least 2,000 security holders.

Requirement (v) as Applied to Restructure Securities:

If the security under consideration is a Restructure Security, the Exchange may assume that this requirement is satisfied if, based on a reasonable investigation, the Exchange determines that, on the product’s intended listing date: (A) at least 40 million shares of the Restructure Security will be issued and outstanding; or (B) the Restructure Security will be listed on a National Securities Exchange or automated quotation system that is subject to an initial listing requirement of at least 2,000 shareholders. In the case of a Restructure Security issued or distributed to the holders of the Original Equity Security, the Exchange may consider the number of shareholders of the Original Equity Security prior to the Restructuring Transaction.

- (vi) In the case of an underlying security other than an ETF Share, TIR or Closed-End Fund Share, it must have trading volume (in all markets in which the underlying security is traded) of at least 2,400,000 shares in the preceding 12 months.

Requirement (vi) as Applied to Restructure Securities:

Look-Back Test: In determining whether a Restructure Security that is issued or distributed to the shareholders of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies this requirement, the Exchange may “look back” to the trading volume history of the Original Equity Security prior to the ex-date of the Restructuring Transaction if the following Look-Back Test is satisfied:

- (a) The Restructure Security has an aggregate market value of at least \$500 million;
- (b) The aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage (defined below) of the aggregate market value of the Original Equity Security;
- (c) The aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or

- (d) The revenues attributed to the business represented by the Restructure Security equal or exceed \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

For purposes of determining whether the Look-Back Test is satisfied, the term “Relevant Percentage” means: (i) 25%, when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; and (ii) 33-1/3%, when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

In calculating comparative aggregate market values, the Exchange will use the Restructure Security’s closing price on its primary market on the last business day prior to the date on which the Restructure Security is selected as an underlying security for a Security Futures product (“Selection Date”), or the Restructure Security’s opening price on its primary market on the Selection Date, and will use the corresponding closing or opening price of the related Original Equity Security.

Furthermore, in calculating comparative asset values and revenues, the Exchange will use the issuer’s (i) latest annual financial statements or (ii) most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

Limitation on Use of Look-Back Test: Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, the Exchange will not rely upon the trading volume history of an Original Equity Security for any trading day unless it also relies upon the market price history for that trading day.

In addition, once the Exchange commences to rely upon a Restructure Security’s trading volume and market price history for any trading day, the Exchange will not rely upon the trading volume and market price history of the Original Equity Security for any trading day thereafter.

- (vii) In the case of an underlying security that is an ETF Share, TIR or Closed-End Fund Share, it must have had a total trading volume (in all markets in which the underlying security has traded) of at least 2,400,000 shares or receipts evidencing the underlying security in the preceding 12 months.

- (viii) If the underlying security is a “covered security” as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous five consecutive business days preceding the date on which the Exchange submits a certificate to The Options Clearing Corporation for listing and trading. For purposes of this provision, the market price of such underlying security is measured by the closing price reported in the primary market in which the underlying security is traded.

Requirement (viii) as Applied to Restructure Securities:

Look-Back Test: In determining whether a Restructure Security that is issued or distributed to the shareholders of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies this requirement, the Exchange may “look back” to the market price history of the Original Equity Security prior to the ex-date of the Restructuring Transaction if the following Look-Back Test is satisfied:

- (a) The Restructure Security has an aggregate market value of at least \$500 million;
- (b) The aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage (defined below) of the aggregate market value of the Original Equity Security;
- (c) The aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or
- (d) The revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

For purposes of determining whether the Look-Back Test is satisfied, the term “Relevant Percentage” means: (i) 25%, when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; and (ii) 33-1/3%, when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

In calculating comparative aggregate market values, the Exchange will use the Restructure Security's closing price on its primary market on the last business day prior to the Selection Date, or the Restructure Security's opening price on its primary market on the Selection Date, and will use the corresponding closing or opening price of the related Original Equity Security.

Furthermore, in calculating comparative asset values and revenues, the Exchange will use the issuer's (i) latest annual financial statements or (ii) most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

Restructure Securities Issued in Public Offering or Rights Distribution: In determining whether a Restructure Security that is distributed pursuant to a public offering or a rights distribution satisfies requirement (viii), the Exchange may look back to the market price history of the Original Equity Security if: (i) the foregoing Look-Back Test is satisfied; (ii) the Restructure Security trades "regular way" on a National Securities Exchange or automatic quotation system for at least five trading days immediately preceding the Selection Date; and (iii) at the close of trading on each trading day on which the Restructure Security trades "regular way" prior to the Selection Date, as well as at the opening of trading on Selection Date, the market price of the Restructure Security was at least \$3.00.

Limitation on Use of Look-Back Test: Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, the Exchange will not rely upon the market price history of an Original Equity Security for any trading day unless it also relies upon the trading volume history for that trading day. In addition, once the Exchange commences to rely upon a Restructure Security's trading volume and market price history for any trading day, the Exchange will not rely upon the trading volume and market price history of the related Original Equity Security for any trading day thereafter.

- (ix) If the underlying security is not a "covered security" as defined under Section 18(b)(1)(A) of the Securities Act of 1933, it must have had a market price per security of at least \$7.50, as measured by the lowest closing price reported in any market in which it has traded, for the majority of business days during the three calendar months preceding the date of selection.

Requirement (ix) as Applied to Restructure Securities:

Look-Back Test: In determining whether a Restructure Security that is issued or distributed to the shareholders of an Original Equity Security (but

not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies this requirement, the Exchange may “look back” to the market price history of the Original Equity Security prior to the ex-date of the Restructuring Transaction if the following Look-Back Test is satisfied:

- (a) The Restructure Security has an aggregate market value of at least \$500 million;
- (b) The aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage (defined below) of the aggregate market value of the Original Equity Security;
- (c) The aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or
- (d) The revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

For purposes of determining whether the Look-Back Test is satisfied, the term “Relevant Percentage” means: (i) 25%, when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; and (ii) 33-1/3%, when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

In calculating comparative aggregate market values, the Exchange will use the Restructure Security’s closing price on its primary market on the last business day prior to the Selection Date, or the Restructure Security’s opening price on its primary market on the Selection Date, and will use the corresponding closing or opening price of the related Original Equity Security.

Furthermore, in calculating comparative asset values and revenues, the Exchange will use the issuer’s (i) latest annual financial statements or (ii) most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

Restructure Securities Issued in Public Offering or Rights Distribution: In determining whether a Restructure Security that is distributed pursuant to a public offering or a rights distribution satisfies requirement (ix), the Exchange may look back to the market price history of the Original Equity Security if (i) the foregoing Look-Back Test is satisfied; (ii) the Restructure Security trades “regular way” on a National Securities Exchange or automatic quotation system for at least five trading days immediately preceding the Selection Date; and (iii) at the close of trading on each trading day on which the Restructure Security trades “regular way” prior to the Selection Date, as well as at the opening of trading on Selection Date, the market price of the Restructure Security was at least \$7.50.

Limitation on Use of Look-Back Test: Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, the Exchange will not rely upon the market price history of an Original Equity Security for any trading day unless it also relies upon the trading volume history for that trading day. In addition, once the Exchange commences to rely upon a Restructure Security’s trading volume and market price history for any trading day, the Exchange will not rely upon the trading volume and market price history of the related Original Equity Security for any trading day thereafter.

- (x) If the underlying security is an ADR:
  - (a) The Exchange must have in place an effective surveillance sharing agreement with the primary exchange in the home country where the stock underlying the ADR is traded;
  - (b) The combined trading volume of the ADR and other related ADRs and securities in the U.S. ADR market, or in markets with which the Exchange has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock over the three-month period preceding the dates of selection of the ADR for futures trading (“Selection Date”);
  - (c) (1) The combined trading volume of the ADR and other related ADRs and securities in the U.S. ADR market, and in markets with which the Exchange has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the Selection Date;

- (2) The average daily trading volume for the ADR in the U.S. markets over the three-month period preceding the Selection Date is at least 100,000 receipts; and
- (3) The daily trading volume for the ADR is at least 60,000 receipts in the U.S. markets on a majority of the trading days for the three-month period preceding the Selection Date; or
- (d) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing.
- (xi) The Exchange will not list for trading any Security Futures product where the underlying security is a Restructure Security that is not yet issued and outstanding, regardless of whether the Restructure Security is trading on a “when issued” basis or on another basis that is contingent upon the issuance or distribution of securities.

**B. Maintenance Standards for Single Stock Futures.**

1. The Exchange will not open for trading any Single Stock Future that is physically settled with a new delivery month, and may prohibit any opening transactions in the Single Stock Future already trading, to the extent it deems such action necessary or appropriate, unless the underlying security meets each of the following maintenance requirements; provided that, if the underlying security is an ETF Share, TIR or Closed-End Fund Share, the applicable requirements for initial listing of the related Single Stock Future (as described in A.1. above) shall apply in lieu of the following maintenance requirements:
  - (i) It must be registered under Section 12 of the Exchange Act.
  - (ii) There must be at least 6,300,000 shares or receipts evidencing the underlying security outstanding that are owned by persons other than those who are required to report their security holdings pursuant to Section 16(a) of the Exchange Act.
  - (iii) There must be at least 1,600 security holders.
  - (iv) It must have had an average daily trading volume (across all markets in which the underlying security is traded) of least 82,000 shares or receipts evidencing the underlying security in each of the preceding 12 months.

Requirement (iv) as Applied to Restructure Securities:

If a Restructure Security is approved for a Security Futures product trading under the initial listing standards in Section A, the average daily trading volume history of the Original Equity Security (as defined in Section A)

prior to the commencement of trading in the Restructure Security (as defined in Section A), including “when issued” trading, may be taken into account in determining whether this requirement is satisfied.

- (v) The market price per share of the underlying security has not closed below \$3.00 on the previous trading day to the Expiration Day of the nearest expiring Contract on the underlying security. The market price per share of the underlying security will be measured by the closing price reported in the primary market in which the underlying security traded.

Requirement (v) as Applied to Restructure Securities:

If a Restructure Security is approved for Security Futures product trading under the initial listing standards in Section A, the market price history of the Original Equity Security prior to the commencement of trading in the Restructure Security, including “when-issued” trading, may be taken into account in determining whether this requirement is satisfied.

- (vi) If the underlying security is an ADR and was initially deemed appropriate for Security Futures product trading under paragraph (x)(b) or (x)(c) in Section A, the Exchange will not open for trading Security Futures products having additional delivery months on the ADR unless:
  - (a) The percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which the Exchange has in place an effective surveillance sharing agreement for any consecutive three-month period is: (1) at least 30%, without regard to the average daily trading volume in the ADR; or (2) at least 15% when the average U.S. daily trading volume in the ADR for the previous three months is at least 70,000 receipts;
  - (b) The Exchange has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or
  - (c) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing.

2. The Exchange will not open trading in a Single Stock Future with a new delivery month unless:

- (i) The issuer of the underlying security satisfies applicable Exchange Act reporting requirements, or corrects any failure within 30 days after the date the report was due to be filed; and

- (ii) The underlying security is listed on a National Securities Exchange or is principally traded through the facilities of a national securities association and is designated as an NMS security.
- 3. If prior to the withdrawal from trading of a Single Stock Future covering an underlying security that has been found not to meet the Exchange's requirements for continued approval, the Exchange determines that the underlying security again meets the Exchange's requirements, the Exchange may open for trading new delivery months in such Security Futures product and may lift any restriction on opening transactions.
- 4. Whenever the Exchange announces that approval of an underlying security has been withdrawn for any reason or that the Exchange has been informed that the issuer of an underlying security has ceased to be in compliance with Exchange Act reporting requirements, each Clearing Member and Exchange Member (as such terms are defined in the Rules of the Exchange as in effect from time to time) shall, prior to effecting any transaction in Security Futures products with respect to such underlying security for any customer, inform such customer of such fact and that the Exchange may prohibit further transactions in such Security Futures products as it determines is necessary and appropriate.

**C. Initial Eligibility Criteria for a Security Futures Product Based on an Index Composed of Two or More Securities.**

- 1. For a Security Futures product based on an index composed of two or more securities to be eligible for initial listing, the index must:
  - (i) Meet the definition of a narrow-based security index in Section 1a(25) of the CEA and Section 3(a)(55) of the Exchange Act; and
  - (ii) Meet the following requirements:
    - (a) It must be capitalization-weighted, modified capitalization-weighted, price-weighted, equal dollar-weighted or, in the case of an index underlying physically settled Security Futures products only, approximately equal dollar-weighted.

**Weighting Methodology for Approximately Equal Dollar-Weighted Indices Underlying Physically Settled Security Futures Products:**

In the case of a physically settled Security Futures product based on an approximately equal dollar-weighted index composed of one or more securities, each component security will be weighted equally based on its market price on the Selection Date, subject to rounding up or down the number of shares or receipts evidencing such security to the nearest multiple of 100 shares or receipts.

- (b) Its component securities must be registered under Section 12 of the Exchange Act.
- (c) Subject to (e) and (1) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements for listing a single-security future, as set forth in Section A.
- (d) Each component security in the index must have a minimum market capitalization of at least \$75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only \$50 million.
- (e) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 45,500 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares or receipts for each of the last six months.
- (f) Each component security in the index must be (1) listed on a National Securities Exchange or traded through the facilities of an Association and (2) reported as an NMS security.
- (g) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.
- (h) The current underlying index value must be reported at least once every 15 seconds during the time the Security Futures product is traded on the Exchange.
- (i) An equal dollar-weighted index must be rebalanced at least once every calendar quarter, except that an approximately equal dollar-weighted index underlying a physically settled Security Futures product need only be rebalanced as provided in (j) below.
- (j) An approximately equal dollar-weighted index underlying a physically settled Security Futures product must be rebalanced annually if the aggregate value (i.e., the original number of shares multiplied by their current price) of the security position with the highest value is two or more times greater than the aggregate value

of the security position with the lowest value in the index for any period of 10 consecutive trading days within the last month preceding the date of determination. In addition, the Exchange may from time to time, but no more frequently than quarterly, elect to rebalance any approximately equal dollar-weighted index underlying a physically settled Security Futures product depending on several factors, including the relative price changes of the component securities, the levels of volume and open interest in the contracts and input from market participants.

Procedure for Rebalancing under (j):

The date of determination for the mandatory annual rebalancing of an approximately equal dollar-weighted index underlying a physically settled Security Futures product as described in the first sentence of (j) will be the last trading day of the year. New contracts issued on or after a date on which the corresponding index is rebalanced in accordance with (j) will be based on an index consisting of the original component securities, weighted applying the methodology described under (a) above on the basis of security prices on the rebalancing date. Outstanding contracts will not be affected by any rebalancing.

- (k) If the underlying index is maintained by a broker-dealer, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer must have in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index.
- (l) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares or receipts over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of securities in the index each have had an average daily trading volume of at least 90,000 shares or receipts over the past six months.

**D. Maintenance Standards for a Security Futures Product Based on an Index Composed of Two or More Securities.**

1. The Exchange will not open for trading Security Futures products based on an index composed of two or more securities with a new delivery month unless the underlying index:

- (i) Meets the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; and
- (ii) Meets the following requirements:
  - (a) Its component securities must be registered under Section 12 of the Exchange Act.
  - (b) Subject to (d) and (k) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements for listing a single-security future, as set forth in Section A.
  - (c) Each component security in the index must have a market capitalization of at least \$75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only \$50 million.
  - (d) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 22,750 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of at least 18,200 shares or receipts for each of the last six months.
  - (e) Each component security in the index must be (1) listed on a National Securities Exchange or traded through the facilities of an Association and (2) reported as an NMS security.
  - (f) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.
  - (g) The current underlying index value must be reported at least once every 15 seconds during the time the Security Futures product is traded on the Exchange.
  - (h) An equal dollar-weighted index must be rebalanced at least once every calendar quarter, except that an approximately equal dollar-weighted index underlying a physically settled Security Futures product need only be rebalanced as provided in (i) below.

- (i) An approximately equal dollar-weighted index underlying a physically settled Security Futures product must be rebalanced annually if the aggregate value (i.e., the original number of shares multiplied by their current price) of the security position with the highest value is two or more times greater than the aggregate value of the security position with the lowest value in the index for any period of 10 consecutive trading days within the last month preceding the date of determination. In addition, the Exchange may from time to time, but no more frequently than quarterly, elect to rebalance any approximately equal dollar-weighted index underlying a physically settled Security Futures product depending on several factors, including the relative price changes of the component securities, the levels of volume and open interest in the contracts and input from market participants.

Procedure for Rebalancing under (i):

See under C. 1.(ii)(j) above.

- (j) If the underlying index is maintained by a broker-dealer, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer must have in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index.
- (k) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 45,500 shares or receipts over the past six months; and (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average daily trading volume of at least 45,500 shares or receipts over the past six months.
- (l) The total number of component securities in the index must not increase or decrease by more than 33-1/3% from the number of component securities in the index at the time of its initial listing.

- 2. If the foregoing maintenance standards are not satisfied, the Exchange will not open for trading a Security Futures product based on an index composed of two or more securities with a new delivery month, unless it receives the approval of the Securities and Exchange Commission and the Commodity Futures Trading Commission.

A copy of the rule change certification submitted to the CFTC pursuant to CEA Section 5c(c)<sup>68</sup> that contains the CFE rule changes being submitted herewith is attached.

---

<sup>68</sup> 7 U.S.C. 7a-2(c).