



April 21, 2005

**Via Electronic Mail**

Ms. Jean A. Webb  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: CBOE Futures Exchange, LLC  
Certification of CBOE DJIA Volatility Index Futures Contract  
Submission Number CFE-2005-14

Dear Ms. Webb:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and §40.2 of the regulations promulgated by the Commodity Futures Trading Commission under the Act, CBOE Futures Exchange, LLC ("CFE" or "Exchange") hereby submits rules and terms and conditions for a new product to be traded on CFE, which are attached hereto along with a chart that summarizes the product specifications. The new product is the CBOE DJIA Volatility Index futures contract ("Product"), and the Product will be listed for trading on CFE commencing on April 25, 2005. The underlying index for the Product is the CBOE DJIA Volatility Index, which is based on real-time prices of options on the Dow Jones Industrial Average ("DJX options") listed on the Chicago Board Options Exchange, Incorporated, and is designed to reflect investors' consensus view of future (30-day) expected stock market volatility.

Specific information relating to the Product is as follows:

- The average daily volume of the DJX options between October 2004 and March 2005 is 30,549 contracts per day.
- The CBOE DJIA Volatility Index calculation generally uses quotes of option series from two nearby expiration months. Approximately 30 to 35 option series are used to calculate the CBOE DJIA Volatility Index at any given time.
- The source of Dow Jones Industrial Average price information used to calculate the CBOE DJIA Volatility Index is Dow Jones & Company.
- The underlying index for the Product qualifies as a broad-based security index pursuant to the Joint Order issued by the Securities and Exchange Commission and the Commodity Futures Trading Commission dated March 25, 2004 (Securities Exchange Act Release No. 49469).

CFE certifies that the Product complies with the Act and the rules thereunder.

Ms. Jean A. Webb  
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Questions regarding this submission may be directed to David Doherty at (312) 786-7466. Please reference our submission number CFE-2005-14 in any related correspondence.

CBOE Futures Exchange, LLC

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

Cc: Mark Baumgardner (OCC)

**Summary Product Specifications Chart for CBOE DJIA Volatility Index Futures**

<b>CONTRACT NAME:</b>	<b>CBOE DJIA Volatility Index (VXD) Futures</b>
<b>LISTING DATE:</b>	April 25, 2005
<b>DESCRIPTION:</b>	The CBOE DJIA Volatility Index is based on real-time prices of options on the Dow Jones Industrial Average (DJIA), listed on the Chicago Board Options Exchange (Symbol: DJX), and is designed to reflect investors' consensus view of future (30-day) expected stock market volatility.
<b>CONTRACT SIZE:</b>	The contract multiplier for the VXD futures contract is \$100 times the Cash Index Value (DVB).
<b>TRADING HOURS:</b>	8:30 a.m. – 3:15 p.m. Chicago time.
<b>TRADING PLATFORM:</b>	CBOE <i>direct</i> .
<b>CONTRACT MONTHS:</b>	Up to three near-term serial months and five months in the February quarterly cycle (February, May, August, November) may be listed for the VXD futures contract.
<b>TICKER SYMBOL:</b>	Futures: DV. Cash Index: DVB (10 times VXD).
<b>PRICING CONVENTIONS:</b>	Both futures prices and cash index levels are stated in decimal format.
<b>MINIMUM PRICE INTERVALS:</b>	0.10 of one CBOE DJIA Volatility Index point (equal to \$10.00 per contract).
<b>DOLLAR VALUE PER TICK:</b>	\$10.00 per contract.
<b>TERMINATION OF TRADING:</b>	The close of trading on the day before the Final Settlement Date. When the last trading day is moved because of a CFE holiday, the last trading day for expiring VXD futures contracts will be the day immediately preceding the last regularly-scheduled trading day.
<b>FINAL SETTLEMENT DATE:</b>	The Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the month in which the contract expires ("Final Settlement Date").
<b>FINAL SETTLEMENT VALUE:</b>	The final settlement value for VXD futures shall be ten times a Special Opening Quotation (SOQ) of VXD calculated from the sequence of opening prices of the options used to calculate the index on the settlement date. The opening price for any series in which there is no trade shall be the average of that option's bid price and ask price as determined at the opening of trading. The final settlement value will be rounded to the nearest \$0.01. If the final settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the final settlement value will be determined in accordance with the rules and bylaws of The Options Clearing Corporation.
<b>DELIVERY:</b>	Settlement of VXD futures contracts will result in the delivery of a cash settlement amount on the business day immediately following the Final Settlement Date. The cash settlement amount on the Final Settlement Date shall be the final mark to market amount against the final settlement value of the VXD

	futures multiplied by \$100.00.
<b>POSITION ACCOUNTABILITY:</b>	<p>A person may not own or control more than 5,000 contracts net long or net short.</p> <p>The foregoing position limit shall not apply to bona fide hedge positions meeting the requirements of Commission Regulation § 1.3(z)(1) and the rules of the Exchange, and shall not apply to arbitrage positions and spread positions as set forth in Rule 412.</p>
<b>MINIMUM REPORTABLE LEVEL:</b>	25 or more contracts.

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**Rule Chapter Setting Forth Contract Specifications for the CBOE DJIA Volatility Index  
Futures Contract**

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**CHAPTER 17  
CBOE DJIA VOLATILITY INDEX  
FUTURES CONTRACT SPECIFICATIONS**

**1701. Scope of Chapter**

This chapter applies to trading in futures on the CBOE DJIA Volatility Index ("VXD"). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the generally applicable rules of the Exchange. VXD futures contracts were first listed for trading on the Exchange on April 25, 2005.

**1702. Contract Specifications**

(a) *Multiplier.* Each VXD futures contract is valued at \$100.00 times an underlying value that will be disseminated by the Exchange to market vendors. This underlying value ("Increased-Value VXD ") is valued at ten times the VXD value.

(b) *Schedule.* The Exchange may list for trading up to three near-term serial months and five months in the February quarterly cycle (February, May, August, November). The final settlement date for the VXD futures contract shall be the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the month in which the applicable VXD futures contract expires.

The trading days for VXD futures contracts shall be the same trading days of options on the Dow Jones Industrial Average Index, as those days are determined by CBOE.

The trading hours for VXD futures contracts are from 8:30 a.m. Chicago time to 3:15 p.m. Chicago time.

(c) *Minimum Increments.* The minimum fluctuation of the VXD futures contract is 0.10, which has a value of \$10.00.

(d) *Position Limits.* A person may not own or control more than 5,000 contracts net long or net short.

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding shall be cumulated.

The foregoing position limit shall not apply to bona fide hedge positions meeting the requirements of Commission Regulation §1.3(z)(1) and the rules of the Exchange.

(e) *Termination of Trading.* Trading in VXD futures contracts terminates on the business day immediately preceding the final settlement date of the VXD futures contract for the relevant spot month.

(f) *Contract Modifications.* Specifications are fixed as of the first day of trading of a contract. If any U.S. government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, 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.

(g) *Execution Priorities.* Pursuant to Rule 406(a)(i), the base allocation method of price-time priority shall apply to trading in VXD futures contracts. Pursuant to Rule 406(b)(iii), a DPM trade participation right priority shall overlay the price-time priority base allocation method.

(h) *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.

(i) *Price Limits.* Pursuant to Rule 413, VXD futures contracts are not subject to price limits.

(j) *Exchange of Future for Related Position.* Exchange of Future for Related Position transactions, as set forth in Rule 414, may not be entered into with respect to VXD futures contracts.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VXD futures contract is 100 contracts. If the Block Trade is executed as a spread or a combination, one leg must meet the minimum Block Trade quantity for the VXD futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

(l) *No-Bust Range.* Pursuant to Rule 416, the CFE 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 VXD futures 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.

(m) *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.

(n) *Reportable Position.* Pursuant to Commission Regulation §15.03 and Commission Regulation Part 17, the position level that is required to be reported to the Commission is any open position in VXD futures contracts at the close of trading on any trading day equal to or in excess of twenty-five contracts on either side of the market.

**1703. Settlement**

Settlement of VXD futures contracts will result in the delivery of a cash settlement amount on the business day immediately following the settlement date. The cash settlement amount on the final settlement date shall be the final mark to market amount against the final settlement price of the VXD futures contract multiplied by \$100.00. The final settlement price of the VXD futures contract will be rounded to the nearest \$0.01.

Clearing Members holding open positions in VXD futures contracts at the termination of trading in that Contract shall make payment to or receive payment from the Clearing Corporation in accordance with normal variation and performance bond procedures based on the final settlement amount.

If the settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value will be determined in accordance with the Rules and By-Laws of The Options Clearing Corporation.

**1704. DPM Participation Rights and Obligations**

(a) *DPM Appointment.* A Trading Privilege Holder will be appointed to act as a DPM for VXD futures contracts pursuant to Rule 515.

(b) *DPM Participation Right.* The DPM participation right percentage under Rule 406(b)(iii) for VXD futures contracts is 30%.

Adopted April 25, 2005 (05-14).