CFE
CBOE FUTURES EXCHANGE

March 22, 2006

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 S&P 500 Twelve-Month Variance Futures Contracts
Submission Number CFE-2006-05

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") 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 S&P 500 Twelve-Month Variance futures contract ("Product"), and the Product will be listed for trading on CFE commencing on March 24, 2006.

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

Questions regarding this submission may be directed to David Doherty at (312) 786-7466. Please reference our submission number CFE-2006-05 in any related correspondence.

CBOE Futures Exchange, LLC

By: ______________________
Edward J. Joyce
President

Cc: Mark Baumgardner (OCC)
Edward Dasso (NFA)

Summary Product Specifications Chart for CBOE S&P 500 Twelve-Month Variance Futures

CONTRACT NAME:	**CBOE S&P 500 Twelve-Month Variance Futures**
DESCRIPTION:	CBOE S&P 500 Twelve-Month Variance Futures are exchange-traded futures contracts based on the realized variance of the S&P 500 Composite Stock Price Index ("S&P 500"). The final settlement value for the contract will be determined based on a standardized formula for calculating the twelve-month realized variance of the S&P 500.
CONTRACT SIZE:	The contract multiplier for the CBOE S&P 500 Twelve-Month Variance futures contract is $50 per variance point. For example, using a price quotation of 633.50 variance points, the contract size of one variance futures contract would be $31,675.00 (633.50 x $50).
TRADING HOURS:	8:30 a.m. – 3:15 p.m. Chicago time.
TRADING PLATFORM:	CBOE*direct.*
CONTRACT MONTHS:	Up to six contract months may be listed for trading on CBOE S&P 500 Twelve-Month Variance futures.
TICKER SYMBOLS:	VA <u>Indicative Values</u>: All March expirations: • Realized variance indicator – RIK • Implied variance indicator – IIK All June expirations: • Realized variance indicator – RIU • Implied variance indicator – IIU All September expirations: • Realized variance indicator – RTJ • Implied variance indicator – ITJ All December expirations: • Realized variance indicator – RZW • Implied variance indicator – IZW
PRICING QUOTATION:	The CBOE S&P 500 Twelve-Month Variance futures contract is quoted in terms of variance points. Variance points are defined as realized variance multiplied by 10,000. For example, a variance calculation of 0.06335 would have a corresponding price quotation in variance points of 633.50.
PRICING CONVENTIONS:	The futures prices are stated in decimal format.
MINIMUM PRICE INTERVALS:	0.50 of one variance point (equal to $25 per contract).
DOLLAR VALUE PER TICK:	$25.00 per contract.
TERMINATION OF TRADING:	The close of trading on the day before the final settlement date. When the last trading day is a CFE holiday, the last trading day for expiring CBOE S&P 500 Twelve-Month Variance futures contracts will be the business day immediately preceding the last regularly-scheduled trading day.
FINAL SETTLEMENT DATE:	The third Friday of the expiring month.

FINAL SETTLEMENT VALUE:	The final settlement value for CBOE S&P 500 Twelve-Month Variance futures contracts is based on a standardized calculation of the realized variance for the S&P 500. This calculation uses continuously compounded daily returns for a twelve-month period assuming a mean daily price return of zero. The calculated variance is then annualized assuming 252 business days per year. For purposes of calculating the settlement value, the twelve-month realized variance is calculated from a series of values of the S&P 500 beginning with the Special Opening Quotation ("SOQ") of the S&P 500 on the first day of the twelve-month period, and ending with the S&P 500 SOQ on the last day of the twelve-month period. All other values in the series are closing values of the S&P 500. For example, the final settlement value for a CBOE S&P 500 Twelve-Month Variance futures contract expiring on Friday, September 15, 2006 would be calculated using the S&P 500 SOQ on Friday, September 16, 2005, the closing prices of the S&P 500 from Monday, September 19, 2005 through Thursday, September 14, 2006 and the S&P 500 SOQ on Friday, September 15, 2006.
DELIVERY:	Settlement of CBOE S&P 500 Twelve-Month Variance 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 CBOE S&P 500 Twelve-Month Variance futures contract multiplied by $50.00.
POSITION ACCOUNTABILITY:	A person may not own or control more than 5,000 contracts net long or net short in all CBOE S&P 500 Twelve-Month Variance futures contracts combined. The foregoing position limits shall not apply to positions that are subject to a position limit exemption meeting the requirements of Commission Regulations and CFE Rules.
MINIMUM REPORTABLE LEVEL:	25 or more contracts.
VARIANCE FORMULA:	Variance is a statistical measure of the variability of price returns relative to an average (mean) price return. For purpose of CBOE S&P 500 Twelve-Month Variance Futures, twelve-month realized variance is calculated using a standard formula that uses continuously compounded daily S&P 500 returns for a twelve-month period assuming a mean daily price return of zero, and is annualized assuming 252 business days per year. The term "daily return" refers to a calculation that uses two reference values, an initial value (P_i) and a final value (P_{i+1}), as formulated below. The initial value for the first daily return in the twelve-month period is the SOQ of the S&P 500 on the first day of the twelve-month period and the final value for the first daily return is the closing value of the S&P 500 on the following trading day. The initial value for the last daily return in the twelve-month period is the closing value of the S&P 500 on the trading day immediately prior to the final settlement date and the

	final value for the last daily return is the SOQ of the S&P 500 on the final settlement date. For all other daily returns, the initial and final values are the closing values of the S&P 500 on consecutive trading days. Formula: $$\text{Realized Variance} = 252 \times \left(\sum_{i=1}^{N_a - 1} R_i^2 \Big/ (N_e - 1) \right)$$ Where: $R_i = \ln\left(P_{i+1} / P_i\right)$ - Daily return of the S&P 500 from P_i to P_{i+1}. $P_{i+1} =$ The final value of the S&P 500 used to calculate the daily return. $P_i =$ The initial value of the S&P 500 used to calculate the daily return. N_e = Number of expected S&P 500 values needed to calculate daily returns during the twelve-month period. The total number of daily returns expected during the twelve-month period is $N_e - 1$. N_a = The actual number of S&P 500 values used to calculate daily returns during the twelve-month period. Generally, the actual number of S&P 500 values will equal the expected number of S&P 500 values (represented by N_e). However, if one or more "market disruption events" occurs during the twelve-month period, the actual number of S&P 500 values will be less than the expected number of S&P 500 values by an amount equal to the number of market disruption events that occurred during the twelve-month period. The total number of actual daily returns during the twelve-month period is $N_a - 1$.
MARKET DISRUPTION EVENT	A "market disruption event" with respect to the CBOE S&P 500 Twelve-Month Variance futures contract and as determined by CFE, means (i) the occurrence or existence, on any trading day during the one-half hour period that ends at the Scheduled Close of Trading, of any suspension of, or limitation imposed on, trading on the primary exchange(s) of the companies comprising the S&P 500 in one or more securities that comprise 20 per cent or more of the level of the S&P 500; or (ii) if on any trading day the one or more primary exchange(s) determines to change the Scheduled Close of Trading by reducing the time for trading on such day, and either no public announcement of such reduction is made by such exchange or the public announcement of such change is made less than one hour prior to the Scheduled Close of Trading; or (iii) if on any trading day one or more primary exchange(s) fails to open and if in the case of either (i) or (ii) above, in the determination of CFE, such suspension, limitation, or reduction is deemed material. "Scheduled Close of Trading" means that time scheduled by each applicable exchange, as of the opening for trading in the applicable equity security, as the closing time for the trading of such equity security comprising the S&P 500 on the trading day. Generally, if CFE determines that a market disruption event has

	occurred on a trading day, then the value of the S&P 500 on that day will be omitted from the series of values used to calculate twelve-month realized variance. For each such market disruption event, the value represented by N_a in the standardized formula will be reduced by one. If a market disruption event occurs on the final settlement date, the final settlement value for CBOE S&P 500 Twelve-Month Variance futures will be determined in accordance with the Rules and By-Laws of The Options Clearing Corporation ("OCC"). These Rules and By-Laws list actions that may be taken if a final settlement value is unavailable or the normal settlement procedures cannot be utilized. Such actions include, but are not limited to, postponing the final settlement date until the first succeeding trading day in which a market disruption event has not occurred. It is intended that the value of the S&P 500 on the final day in the twelve-month period, which is used in the calculation of the twelve-month realized variance for the CBOE S&P 500 Twelve-Month Variance futures contract, will equal the corresponding final settlement price for expiring series of S&P 500 options listed on the Chicago Board Options Exchange. Once the calculation period for twelve-month realized variance begins, the value represented by N_e will not change regardless of the number of market disruption events that occur during the twelve-month period, even if the final settlement date is postponed. If the final settlement date of the expiring futures contract is postponed, the calculation period for the next twelve-month realized variance will be shortened by the number of market disruption events that occurred at the beginning of the period. Likewise, the value represented by N_e will be reduced by the number of market disruption events that occurred at the beginning of the period. The first daily return of the shortened period for the next twelve-month realized variance will be calculated using the same procedure as described above (the initial value for the first daily return is the SOQ of the S&P 500 on the first day of the period and the final value for the first daily return is the closing value of the S&P 500 on the following trading day). For example, if the final settlement date for the previous twelve-month realized variance is postponed to Tuesday, the initial value for the first daily return of the next twelve-month realized variance would be calculated using the SOQ of the S&P 500 on Tuesday morning and the closing value of the S&P 500 on Wednesday. As soon as practical under the circumstances, CFE shall endeavor to notify Trading Privilege Holders of the existence of a market disruption event. Failure to provide such notice will have no effect on the determination by CFE that a market disruption event has occurred.

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Rule Chapter Setting Forth Contract Specifications for the CBOE S&P 500 Twelve-Month Variance Futures Contract

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CHAPTER 23
CBOE S&P 500 TWELVE-MONTH VARIANCE FUTURES CONTRACT SPECIFICATIONS

2301. Scope of Chapter

This chapter applies to trading in CBOE S&P 500 Twelve-Month Variance futures contracts. 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. The CBOE S&P 500 Twelve-Month Variance futures contract was first listed for trading on the Exchange on March 24, 2006.

2302. Contract Specifications

(a) *Multiplier*. The contract multiplier for the CBOE S&P 500 Twelve-Month Variance futures contract is $50.00 per variance point. For example, a contract size of one CBOE S&P 500 Twelve-Month Variance futures contract would be $31,675.00 if the price quotation of the CBOE S&P 500 Twelve-Month Variance futures contract were 633.50 (633.50 x $50.00).

(b) *Schedule*. The Exchange may list for trading up to six contract months for CBOE S&P 500 Twelve-Month Variance futures. The final settlement date for a CBOE S&P 500 Twelve-Month Variance futures contract shall be on the third Friday of the expiring futures contract month.

The trading days for CBOE S&P 500 Twelve-Month Variance futures contracts shall be the same trading days of options on the S&P 500 Composite Stock Price Index, as those days are determined by CBOE.

The trading hours for the CBOE S&P 500 Twelve-Month Variance futures contract is from 8:30 a.m. Chicago time to 3:15 p.m. Chicago time.

(c) *Minimum Increments*. The minimum fluctuation of the CBOE S&P 500 Twelve-Month Variance futures contract is .50 of one variance point, which is equal to $25.00 per contract.

(d) *Position Limits*. A person may not own or control more than 5,000 contracts net long or net short in all CBOE S&P 500 Twelve-Month Variance futures contracts combined.

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 limits shall not apply to positions that are subject to a position limit exemption meeting the requirements of Commission Regulations and CFE Rules.

(e) *Termination of Trading*. Trading on the CBOE S&P 500 Twelve-Month Variance futures contract terminates on the third Friday of the expiring futures contract 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 CBOE S&P 500 Twelve-Month Variance 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 and Circuit Breaker Halts*. Pursuant to Rule 413, CBOE S&P 500 Twelve-Month Variance 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 CBOE S&P 500 Twelve-Month Variance futures contracts.

(k) *Block Trades*. Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the CBOE S&P 500 Twelve-Month Variance futures contract is 100 contracts if there is only one leg involved in the trade. If the Block Trade is executed as a spread or a combination, one leg must meet the minimum Block Trade quantity for the CBOE S&P 500 Twelve-Month Variance 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 CBOE S&P 500 Twelve-Month Variance 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 CBOE S&P 500 Twelve-Month Variance 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.

2303. Settlement

Settlement of the CBOE S&P 500 Twelve-Month Variance futures contract 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 CBOE S&P 500 Twelve-Month Variance futures contract multiplied by $50.00. The final settlement price of the CBOE S&P 500 Twelve-Month Variance futures contract will be rounded to the nearest $.01.

Clearing Members holding open positions in CBOE S&P 500 Twelve-Month Variance 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.

2304. DPM Provisions

(a) *DPM Appointment*. A Trading Privilege Holder will be appointed to act as a DPM for the CBOE S&P 500 Twelve-Month Variance futures contract pursuant to Rule 515.

(b) *DPM Participation Right.* The DPM participation right percentage under Rule 406(b)(iii) for the CBOE S&P 500 Twelve-Month Variance futures contract is 30%.