



To: Members and Member Firms

From: Research & Planning

Date: January 25, 2001

Re: Monthly "Fair Value" Settlement of CME Stock Index Futures and Options

On Friday, January 12, 2001, the Chicago Mercantile Exchange (CME) announced that starting Wednesday, January 31st, special "fair value"¹ settlement procedures for domestic stock index futures and options will be employed on the last business day of each month. Previously, these special procedures were applied only on the last business day of each quarter.

Consistent with past practices, the CME will calculate a "fair value" for each domestic stock index futures and options contract based on underlying index values observed at 3:15 p.m. (Chicago time). In addition, trading in stock index futures and options at the CME will cease at 3:05 p.m. rather than the normal closing time of 3:15 p.m.

Currently, CBOE conducts special "closing rotations" on the days in which special settlement procedures are employed at the CME in order to allow the Exchange's domestic broad-based index options to be valued on the same "fair value" basis as related index futures. Specifically, on the last business day of each calendar quarter, trading in the following index options is closed at 3:05 p.m. rather than the normal closing time of 3:15 p.m.:

S&P 500 Index (SPX)
S&P 100 Index (OEX)
Nasdaq-100 Index (NDX)
Russell 2000 Index (RUT)
S&P/Barra Growth Index (SGX)

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

S&P/Barra Value Index (SVX)
S&P SmallCap Index (SML)
Morgan Stanley Multinational Company Index (NFT)

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

In response to the decision by the CME to employ “fair value” settlement procedures on a monthly basis, CBOE has determined to conduct special closing rotations in the options contracts listed above - previously used on a quarterly basis only - on the last business day of each month beginning January 31, 2001.

Additionally, CBOE has been advised that the CME is considering plans to extend the trading of stock index futures and options from 3:05 p.m. to 3:15 p.m. on the days in which “fair value” settlement procedures are used.

Questions regarding this Circular may be directed to Bill Speth at (312) 786-7141.