



**CFE Regulatory Circular RG06-008
CBOE Regulatory Circular RG06-131**

Date: December 19, 2006

To: CFE Trading Privilege Holders
CBOE Members

From: Regulatory Services Division

Re: Exchange of Future for Related Position
Transactions in VIX and VXD Futures

CFE recently amended its rules to permit Exchange of Future for Related Position (EFRP) transactions in CBOE Volatility Index (VIX) futures and CBOE DJIA Volatility Index (VXD) futures. An EFRP transaction involving a CFE product and a CBOE product must satisfy the requirements of both CFE Rules and CBOE Rules. The purpose of this circular is to summarize the CFE requirements related to EFRP transactions and the CFE and CBOE rule requirements that are applicable to EFRP transactions that involve both CFE and CBOE products.

Applicable CFE Rules

CFE Rules 1202(j) and 1702(j) were recently amended to permit EFRP transactions in VIX and VXD futures. The only other CFE product in which EFRP transactions are permitted is the S&P 500 BuyWrite Index futures contract. CFE Rule 414 governs EFRP transactions on CFE, and all of the requirements of Rule 414 must be satisfied in order to enter into an EFRP transaction on CFE.

Pursuant to CFE Rule 414, an EFRP transaction must contain the following three essential elements: (1) a futures transaction and a transaction in a related position or an option on the related position (referred to as the "Related Position"); (2) the actual transfer of ownership; and (3) separate parties. In every EFRP transaction, one party must be the buyer of the Related Position and the seller of the corresponding future and the other party must be the seller of the Related Position and the buyer of the corresponding future. A Related Position need not be the same as the underlying of the future being exchanged, but the Related Position must have a high degree of price correlation to the underlying of that future so that the futures transaction would serve as an appropriate hedge for the Related Position. Additionally, the quantity of the Related Position traded in an EFRP transaction must correlate to the quantity represented by the futures portion of the transaction. Rule 414 also contains other requirements related to EFRP transactions, including requirements relating to the reporting of EFRP transactions to CFE.

EFRP Transactions Involving CFE and CBOE Products

When an EFRP transaction includes a CFE product and a CBOE product, the parties to the transaction need to satisfy both the requirements of CFE Rule 414 and the applicable requirements under CBOE rules. One example of such a transaction is an exchange between one party holding a long position in VIX futures contracts and a short position in VIX options

contracts and another party holding a short position in VIX futures contracts and a long position in VIX options contracts. In sum, if an EFRP transaction involves a CFE product and a CBOE product on each side of the transaction, the requirements of CFE Rule 414 must be satisfied and the transaction can be consummated on CBOE in accordance with CBOE rules and then reported to CFE pursuant to CFE Rule 414.

Applicable CBOE Rules

Under current CBOE rules, an EFRP transaction can be accomplished as a regular option order with a futures contingency or as a crossed order in accordance with the following rules:

- **CBOE Rule 6.9**, which sets forth rules governing solicited transactions, including the disclosure of any contingencies of the order.
- **CBOE Rule 6.45**, which sets forth the rules of priority with respect to bids and offers and governs allocation of trades in non-CBOE Hybrid System classes.
- **CBOE Rule 6.45B**, which sets forth rules of priority and governs allocation of trades in index options and options on ETFs on the CBOE Hybrid System.
- **CBOE Rule 6.74**, which sets for the crossing procedure for public and non-public customer orders and any applicable participation entitlement.

Refer to Underlying Rules for Additional Detail

This circular is not intended to provide a comprehensive description of the provisions related to EFRP transactions, and CFE Trading Privilege Holders and CBOE members should refer to the applicable CFE rules and CBOE rules for additional detail.

Contact Information

Any questions regarding this circular may be directed to Edward Dasso of the National Futures Association at (312) 658-6551 or Steven Slawinski of the Department of Market Regulation at (312) 786-7744.