

Regulatory Circular RG99-233

To: Members and Member Firms

From: Index Floor Procedure Committee  
SPX Floor Procedure Committee

Date: December 21, 1999

Re: Special Closing Procedures on December 31, 1999

This Regulatory Circular sets forth the closing times and the procedures that will apply to the close of trading in domestic broad-based index options on December 31, 1999. This circular supersedes Information Circular IC99-70 (August 11, 1999) with respect to these broad-based index options.

The closing procedures set forth below are being implemented in response to a decision by the Chicago Mercantile Exchange (CME) to conduct a special settlement procedure for all domestic stock index futures and options on December 31, 1999. On that day only, the CME will stop trading in domestic stock index products at 12:05 p.m. (CST) - five minutes after the close of the stock market – instead of the usual 15 minutes after the close. The CME will then determine the settlement prices for all domestic stock index futures and options on the basis of their “fair value”<sup>1</sup> relative to the underlying cash indexes at 12:00 noon (CST).

In order to make the Exchange’s hours of trading in domestic broad-based index options on December 31, 1999, conform to the hours of trading in related futures and to assure that year-end values for the Exchange’s domestic broad-based index options are also based on “fair value” in a manner consistent with the determination of related futures values, the Exchange is implementing special year-end closing procedures, as described below.

**1. Closing of Certain Index Options at 12:05 p.m.**

On December 31, 1999 trading in the following index options will cease at 12:05 p.m. (CST):

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<sup>1</sup> “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 500 Index (SPX)  
S&P 100 Index (OEX)  
Nasdaq-100 Index (NDX)  
Russell 2000 Index (RUT)  
S&P/Barra Growth Index (SGX)  
S&P/Barra Value Index (SVX)  
S&P SmallCap Index (SML)  
Morgan Stanley Multinational Company Index (NFT)

As noted above, the Exchange has decided to make this change to the closing time because of the CME's decision to close all domestic index futures and options contracts on December 31, 1999 at 12:05 p.m. This represents a change from the Exchange's previous determination to close trading in these options at 12:15 p.m. It reflects the fact that options traders and investors use these futures and options contracts traded on CME to hedge their positions in the related index options traded on the CBOE.

## **2. Special "Closing Rotations" in these Index Options**

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, the Exchange has determined to deviate from the normal procedure for the conduct of closing rotations on December 31, 1999 only, for each of the index options listed above. Specifically, after the close of trading at 12:05 pm on that date, special "closing rotations" will be held for the sole purpose of determining theoretical fair values for the option contracts listed above. This action is being taken pursuant to authorization given to Floor Officials in consultation with the Order Book Officials under CBOE Rules 6.2 and 24.13 to deviate from ordinary rotation policies or procedures in the interest of a fair and orderly market.

**No orders, including orders resting in the Exchange's limit order book, will be allowed to be traded during these special closing rotations.**

**Please note that the option "fair values" determined during the special closing rotations may deviate from actual traded prices at the close.**

## **3. Closing Rotation in DJX**

It should be noted trading in Options on the Dow Jones Industrial Average (DJX) will cease at 12:15 p.m. on December 31, 1999. At some time shortly after 12:15 p.m., a regular closing rotation will be held in DJX in which, unlike the closing rotations for other broad-based index options, orders may be traded consistent with past practice.