



## Special Executive Report

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S-4208

February 2, 2005

### **CME to Launch E-Mini Russell 2000 Options On CME® Globex®**

As approved by the Executive Committee on January 14, 2005, CME will be launching options on the E-Mini Russell 2000 futures contract for trading on CME® Globex® on **Sunday, February 13, 2005**.

The contract specifications and associated rules follow.

*For more information, please do not hesitate to call Tom Boggs, Associate Director, Equity Products at 312-930-3038, Brett Vietmeier, Associate Director, Equity Products at 312-930-3394 or Ariel Hantin, Senior Research Analyst, Research & Product Development at 312-559-4951.*

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	<b>Futures</b>	<b>Options on Futures</b>
<b>Contract Size</b>	\$100 times Russell 2000 Stock Price Index	One E-Mini Russell 2000 Index Futures Contract
<b>Contract Months</b>	Two months in the March Quarterly	Same as Futures plus 1 <sup>st</sup> Two "Serial" or Non Quarterly Cycle Months
<b>Trading Hours</b>	Mon/Thurs 3:30 p.m.-3:15 p.m.; Shutdown period from 4:30 p.m. to 5:00 p.m. nightly; Sun & Hol 5:00 p.m.-3:15 p.m.	Same as Futures
<b>Minimum Price Fluctuation</b>	0.10 Index Points or \$10.00	0.10 Index Points; Cabinet = 0.05 Index Points or \$5.00
<b>Price Limits</b>	5%, 10%, 15% and 20% Limits - see Rulebook for Details	No Limits
<b>Position Limits</b>	5,000 Standard Sized Russell 2000 Contracts or the Combined Futures Equivalent	5,000 Standard Sized Russell 2000 Contracts or the Combined Futures Equivalent
<b>Final Settlement Date</b>	The third Friday of the Contract Month	-
<b>Last Trading Day</b>	Trades until 8:30 a.m. (Chicago time) on Final Settlement Date.	Trades until 8:30 a.m. (Chicago time) on Final Settlement Date.
<b>Final Settlement Price</b>	Based upon a Special Opening Quotation of the Russell 2000 Index referencing the opening values of Constituent Stocks	-
<b>Exercise Price Interval (Index Points)</b>	-	5 Index Points (American Style)
<b>Strike Listings</b>	-	10% above and below previous quarter's settlement of underlying Index

**Chapter 361A**  
**Options on E-Mini Russell 2000 Futures**

**361A00. SCOPE OF CHAPTER**

This chapter is limited in application to trading in put and call options on the E-Mini Russell 2000 Stock Price Index futures contract ("E-Mini Russell 2000 options"). The procedures for trading, clearing, inspection, delivery and settlement and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

**361A01. OPTION CHARACTERISTICS**

**361A01.A. Contract Months, Trading Hours, and Trading Halts**

Options contracts shall be listed for such contract months and scheduled for trading during such hours, except as indicated below, as may be determined by the Board of Directors, subject to the requirement that all such determinations be submitted to the Commodity Futures Trading Commission in accordance with the provisions of Section 5a(a)(12)(A) of the Commodity Exchange Act and all Commission regulations thereunder.

There shall be no trading in any option contract when the E-Mini Russell 2000 Stock Price Index primary futures contract is limit bid or offered at any price limit except at the total daily price limit on an option's last day of trading.

There shall be no trading in any option contract during a period when trading in the primary futures contract is terminated pursuant to Rule 361A01.I.

For purposes of this rule, the primary E-Mini futures contract shall be defined as the nearest E-Mini Russell 2000 futures contract month.

For purposes of this rule, the Equity Price Limit Committee shall have the responsibility of determining whether the primary E-Mini futures contract is trading at its limit during Regular Trading Hours (RTH). During Electronic Trading Hours (ETH), the determination shall be made by the GLOBEX® Control Center.

**361A01.B. Trading Unit**

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, one E-Mini Russell 2000 Stock Price Index futures contract as specified in Chapter 361.

**361A01.C. Minimum Fluctuations**

The price of an option shall be quoted in index points, except as provided in Rule 584 (GLOBEX® Volatility Quotes). Each .01 index point (1 basis point) shall represent \$1.00. The minimum fluctuation shall be 0.10 index points (also known as one tick).

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Trades may also occur at a price of 0.05 index points \$5.00, also known as one-half tick, whether or not such trades result in the liquidation of positions for both parties to the trade.

If options are quoted in volatility terms, the minimum fluctuation shall be 0.05 percent.

**361A01.D. Underlying Futures Contract**

**1. Options in the March Quarterly Cycle**

For options that expire in the March quarterly cycle (i.e., March, June, September, and December), the underlying futures contract is the futures contract for the month in which the option expires. For example, the underlying futures contract for an option that expires in March is the March futures contract.

**2. Options Not in the March Quarterly Cycle**

For options that expire in months other than those in the March quarterly cycle (i.e., January, February, April, May, July, August, October, and November), the underlying futures contract is the next futures contract in the March quarterly cycle that is nearest the expiration of the option. For example, the underlying futures contract for options that expire in January or February is the March futures contract.

**361A01.E. Exercise Prices**

The exercise prices shall be stated in terms of the E-Mini Russell 2000 Stock Price Index futures contract which is deliverable upon exercise of the option. The exercise prices shall be integers divisible by 5 without remainder, e.g., 500, 510, 520, etc.

A referencing index shall be determined each quarter on the expiration day of the March quarterly futures. The referencing index shall equal the previous day's settlement price of the lead month E-Mini Russell 2000 Index futures contract. The chosen referencing index will then be used to calculate the index points for the 10% range for various contract month options as specified below. The index points are rounded down to the nearest integer.

At the commencement of trading for the second nearest-contract months in the March quarterly cycle, the Exchange shall list all eligible exercise prices in a range of 10% of the referencing index above and below the previous day's settlement price of the underlying futures contract.

The Exchange shall add exercise prices at an interval that is a number divisible by 2.5 in a range of 15 index points above and below the previous day's settlement price of the underlying futures contract. If the previous day's settlement price equals an eligible exercise price, then that exercise price shall also be listed, if not previously listed.

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Thereafter, for all contract months, when a daily settlement price in the underlying futures contract occurs at, or passes through, any exercise price, the Exchange shall list on the next trading day put and call options with all eligible exercise prices in the above ranges.

The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate, subject to the provisions of Section 5a(a)(12)(A) of the Commodity Exchange Act and CFTC regulations thereunder.

### **361A01.F. Position Limits**

No person shall own or control a combination of options and underlying futures contract that exceeds 5,000 Russell 2000 Stock Price Index futures-equivalent contracts net on the same side of the market in all contract months combined. For the purpose of this rule, each E-Mini Russell 2000 futures-equivalent contract shall be deemed equal to one-fifth (0.20) of an Russell 2000 Stock Price Index futures-equivalent contract.

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

### **361A01.G. Accumulation of Positions**

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, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, shall be cumulated.

### **361A01.H. Exemptions**

The foregoing position limits shall not apply to commercially appropriate risk reducing option positions defined in accordance with Regulation 1.3(z)(1) of the CFTC and meeting the requirements of Rule 543.A. and shall not apply to other option positions exempted pursuant to Rule 543.

### **361A01.I. Termination of Trading**

#### **1. Options in the March Quarterly Cycle**

For options that expire in the March quarterly cycle, options trading shall terminate at the same date and time as the underlying futures contract.

#### **2. Options Not in the March Quarterly Cycle**

For options that expire in months other than those in the March quarterly cycle, options trading shall terminate on the third Friday of the contract month. If that day is not an Exchange business day, options trading shall terminate on the first preceding business day.

**361A01.J. Contract Modification**

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the US government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling directive, or law shall be construed to become part of these rules and all open new options contracts shall be subject to such governmental orders.

**361A02. EXERCISE**

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of E-Mini Russell 2000 options.

**361A02.A. Exercise of Option by Buyer**

An option may be exercised by the buyer on any business day that the option is traded. Exercise of an option is accomplished by the clearing member representing the buyer presenting an exercise notice to the Clearing House by 7:00 p.m. on the day of exercise.

An option in the March quarterly cycle that is in the money and has not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 p.m. on the business day following the termination of trading by the clearing member representing the option buyer, be exercised automatically.

In-the-money options that expire in months other than those in the March quarterly cycle and have not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 p.m. on the day of the termination of trading by the clearing member representing the option buyer, be exercised automatically.

Corrections to option exercises may be accepted by the Clearing House after the 7:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to; (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

**361A02.B. Assignment**

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members with open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such

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notice is assigned by the Clearing House, but not later than 45 minutes prior to the opening of trading in the underlying futures contract on the following business day.

The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call was exercised or a long position if a put was exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call was exercised and a short position if a put was exercised.

All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day following acceptance by the Clearing House of the exercise notice.

### **361A03. EMERGENCIES, ACTS OF GOD, ACTS OF GOVERNMENT**

If exercise or assignment or any precondition or requirement of either is prevented by a strike, fire, accident, act of government or act of God, the seller or buyer shall immediately notify the Exchange President. If the President determines that emergency action may be necessary, he shall call a special meeting of the Board of Directors and arrange for the presentation of evidence respecting the emergency condition. If the Board determines that an emergency exists, it shall take such action as it deems necessary under the circumstances and its decision shall be binding upon all parties to the contract.

### **INTERPRETATIONS AND SPECIAL NOTICES RELATING TO CHAPTER 361A**

The Exchange has entered into agreements with the Russell Corporation which permit it to utilize the Russell trade names and trademarks solely and only in connection with the creation, marketing and trading of contracts based on the Russell 2000 Index. The Russell Corporation owns trade name and trademark rights to "Russell 2000".

The Russell Corporation has no obligation or liability in connection with the trading of any contract based on the Russell 2000 Stock Price Index. The compilation and composition of the Russell 2000 Stock Price Index is in the exclusive control of the Russell Corporation. The Russell Corporation does not guarantee the accuracy and/or completeness of the Russell 2000 Stock Price Index or any data included therein.

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**CLARIFICATION OF NEW NON-AGRICULTURAL OPTION SPECULATIVE  
POSITION LIMIT RULE**

(Special Executive Report S-1618, March 31, 1986)

Please note that the new non-agricultural option speculative position limit rule supersedes the speculative position rule for the underlying futures contract. Therefore, for example, a trader may hold a gross futures position that exceeds the futures position limit rule if that gross position is part of spread with options, such that the net position across options and futures is less than the applicable limit set in the options rule.