

Chapter 35

Narrow Based Stock Index Futures

35100. SCOPE OF CHAPTER

This chapter is limited in application to trading in any contract that is a security future (as such term is defined in Section 1a(31) of the Commodity Exchange Act ("CEA")) based on a "narrow-based security index" (as such term is defined in Section 1a(25) of the CEA)(each, a "Narrow-Based Stock Index Future"). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the other Rules of the Exchange.

35101. SPECIFICATIONS SUPPLEMENTS

The general specifications set forth in this Chapter shall be subject to, and qualified by, the specific terms applicable to trading, clearing or settlement of particular Narrow-Based Stock Index Futures, as provided in Specifications Supplements adopted by the Exchange. Each Specifications Supplement for a Narrow-Based Stock Index Future shall be substantially in the form set forth in Rule 35109. or such other form as the Exchange may approve. No Specifications Supplement shall become effective until the Exchange has submitted to the CFTC (i) a certification satisfying the requirements set forth in CFTC Regulation 41.22 and (ii) a filing satisfying the requirements set forth in CFTC Regulation 41.23, with respect to the Narrow-Based Stock Index Future to which it relates.

35102. CONTRACT SPECIFICATIONS

35102.A. Underlying Securities

Narrow-Based Stock Index Futures shall be based on such indices consisting of two or more underlying securities, which satisfy the requirements set forth in CFTC Regulation 41.21(b), as determined by the Exchange.

35102.B. Trading Hours

Narrow-Based Stock Index Futures shall be traded during such hours, as determined by the Exchange.

35102.C. Minimum Price Fluctuations

The minimum price fluctuation for Narrow-Based Stock Index Futures shall be \$0.01 per contract.

35102.D. Delivery Months

Narrow-Based Stock Index Futures shall be traded for delivery in such months, as determined by the Exchange.

35102.E. Position Limits

For purposes of Rule 559, the position limit applicable to positions in any physically settled Narrow-Based Stock Index Future held during the last five trading days of an expiring Narrow-Based Stock Index Future shall be the position limit adopted by the Exchange in accordance with CFTC Regulation 41.25. Pursuant to CFTC Regulation 41.25, the applicable position limit shall apply with respect to the security in the index underlying the Narrow-Based Stock Index Future having the lowest average daily trading volume. Each such position limit shall be published by the Exchange.

For purposes of Rule 559, the Exchange shall establish position limits for cash settled Narrow-Based Stock Index Futures held during the last five trading days of an expiring Narrow-Based Stock Index Future, according to the following methodology. The position limit for each cash settled Narrow-Based Stock Index Future shall be the number of contracts calculated according to formula (i) "Market Cap Position Limit" or (ii) "SSF Position Limit" below, whichever is less, rounded to the nearest multiple of 1,000 contracts; provided, however, that if formula (i) or (ii), whichever is less, calculates a number less than 500 but not less than 400 for any such Narrow-Based Stock Index Future, the position limit will be 1,000 contracts.

(i) "Market Cap Position Limit"

- (A) The Exchange will determine the market capitalization of the Standard & Poor's 500 index (the "S&P 500") as of the selection date for the component securities of the

index underlying the Narrow-Based Stock Index Future (the "Selection Date") (the "S&P 500 Market Cap"); then

- (B) The Exchange will calculate the notional value of a futures position in Chicago Mercantile Exchange Inc.'s ("CME") S&P 500 futures contract at its maximum limit (the "S&P 500 Notional Value Limit") by multiplying the S&P 500 by the position limit for CME's S&P 500 futures contract 20,000 contracts in all months combined) and by the S&P 500 contract multiplier (\$250) to calculate:

$$\text{S\&P 500 Notional Value Limit} = \text{S\&P 500} * 20,000 * \$250$$

then

- (C) The Exchange will divide the S&P 500 Market Cap by the S&P 500 Notional Value Limit to calculate the "Market Cap Ratio":

$$\text{Market Cap Ratio} = \frac{\text{S\&P 500 Market Cap}}{\text{S\&P 500 Notional Value Limit}}$$

then

- (D) The Exchange will calculate the market capitalization of the stock index underlying the Narrow-Based Stock Index Future by adding together the market capitalization of each stock comprising the stock index (the "Stock Index Market Cap"); then

- (E) The Exchange will calculate the notional value of the Narrow-Based Stock Index Future (the "Notional Value") as follows:

$$\text{Notional Value} = \text{Level of index underlying Narrow-Based Stock Index Future} * \text{contract multiplier}$$

- (F) The Exchange will calculate the Market Cap Position Limit of the Narrow-Based Stock Index Future by dividing the Stock Index Market Cap by the product of the Notional Value of the Narrow-Based Stock Index Future and the Market Cap Ratio:

$$\text{Market Cap Position Limit} = \frac{\text{Stock Index Market Cap}}{\text{Notional Value} * \text{Market Cap Ratio}}$$

(ii) SSF Position Limit"

- (A) The Exchange will calculate the notional value of the Narrow-Based Stock Index Future (same as (i)(E) above):

$$\text{Notional Value} = \text{Level of index underlying Narrow-Based Stock Index Future} * \text{contract multiplier}$$

- (B) For each component security in the index underlying the Narrow-Based Stock Index Future, the Exchange will multiply its index weight¹ by the Notional Value to determine that security's proportion of the Narrow-Based Stock Index Future.

- (C) For each component security, the Exchange will divide the result in (ii)(B) by the security's price. This equals the number of shares of that security represented in the Narrow-Based Stock Index Future.

- (D) For each component security, the Exchange will divide the number of shares calculated in (ii)(C) by 100 to obtain the implied number of 100-share contracts per Narrow-Based Stock Index Futures contract.

- (E) The Exchange will divide the applicable single stock futures contract speculative position limit set in CFTC Regulation 41.25(a)(3) (either 13,500 or 22,500 contracts) by the number of implied 100-share contracts. This provides the number of Narrow-Based Stock Index Futures contracts that could be held without violating the speculative position limit on a futures contract on that component security (if such single stock futures contract existed). If the security qualifies for position accountability under CFTC Regulation 41.25(a)(3), that security will be ignored for purposes of this calculation.

¹ Index weight of the component security = (assigned shares * price) of the component security / the sum of (assigned shares * price) for each component security.

(F) The Exchange will publicize the results of (ii)(D) and (ii)(E). The SSF Position Limit is the minimum number of implied contracts based on these results.

35102.F. Price Limits

There is no daily price limit for Narrow-Based Stock Index Futures.

35102.G. Last Trading Day

All trading in a particular Narrow-Based Stock Index Future shall terminate at the close of business on the third Friday of the contract month.

35103. DELIVERY

Delivery of the underlying securities upon termination of any physically settled Narrow-Based Stock Index Future, and payment of the price in respect thereof, shall be made in accordance with the Rules of the Exchange's Clearing House. As promptly as possible after the receipt of a notice of delivery from the Clearing House with respect to a Narrow-Based Stock Index Future held by a member firm for a customer, such member firm shall require such customer to deposit the underlying securities (in the case of a short position) or pay the aggregate price in respect thereof, in full and in cash (in the case of a long position), or in either case, if the transaction is effected in a margin account, to make the required margin deposit in accordance with the applicable regulations of the Federal Reserve Board.

35104. REGULATORY TRADING HALTS

Trading in a Narrow-Based Stock Index Future shall be halted at all times that a regulatory halt, as defined in CFTC Regulation 41.1(l), has been instituted for one or more underlying securities that constitute 50 percent or more of the market capitalization of the Narrow-Based Stock Index.

35105. DAILY SETTLEMENT PRICE

The daily settlement price for cash settled Narrow-Based Stock Index Futures will be calculated in the same manner as set forth in Rule 34105.

35106. FINAL SETTLEMENT PRICE

- (a) The final settlement price for cash settled Narrow-Based Stock Index Futures shall be determined on the third Friday of the contract month. If the Exchange is not open for business on the third Friday of the contract month, the final settlement price shall be determined on the Business Day prior to the third Friday of the contract month. The final settlement price for cash settled Narrow-Based Stock Index Futures shall be based on a special opening quotation of the underlying narrow-based securities index ("Narrow-Based Stock Index").
- (b) Notwithstanding paragraph (a) above, if an opening price for one or more securities underlying a Narrow-Based Stock Index Future is not readily available, the Exchange will determine whether the security or securities are likely to open within a reasonable time.
 - (i) If the Exchange determines that one or more underlying securities are not likely to open within a reasonable time, then for the underlying security or securities which the Exchange determined were not likely to open within a reasonable time, the last trading price of the underlying security or securities during the most recent regular trading session for such security or securities will be used to calculate the special opening quotation.
 - (ii) If the Exchange determines that the security or securities are likely to open within a reasonable time, then for the underlying security or securities which the Exchange determined were likely to open within a reasonable time, the next available opening price of such security or securities will be used to calculate the special opening quotation.
- (c) For purposes of paragraph (b) above:
 - (i) "Opening price" means the official price at which a security opened for trading during the regular trading session of the national securities exchange or national securities association that lists the security. If the security is not listed on a national securities exchange or a national securities association, then "opening price" shall mean the price at which a security opened for trading on the primary market for the security. If a component security is an American Depositary Receipt ("ADR") traded on a national

securities exchange or national securities association, the opening price for the ADR would be derived from the national securities exchange or national securities association that lists it.

- (ii) "Special opening quotation" means the Narrow-Based Stock Index value that is derived from the sum of the opening prices of each component security in the Narrow-Based Stock Index.
 - (iii) "Regular trading session" of a security means the normal hours for business of a national securities exchange or national securities association that lists the security.
 - (iv) The price of a security is "not readily available" if the national securities exchange or national securities association that lists the security does not open on the day scheduled for determination of the final settlement price, or if the security does not trade on the national securities exchange or national securities association that lists the security during the regular trading session.
- (d) Notwithstanding any other provision of this Rule, this Rule shall not be used to calculate the final settlement price of a security futures product if the Exchange's Clearing House fixes the final settlement price of such security futures product in accordance with its rules and as permitted by CFTC Regulation 41.25(b) and SEC Rule 6h-1(b)(3).

35107. CONTRACT MODIFICATIONS

The specifications for a particular Narrow-Based Stock Index Future shall be as set forth in the filing made with respect thereto pursuant to CFTC Regulation 41.23. If any U.S. governmental agency or body issues a law, order, ruling or directive that conflicts with the requirements of this Chapter or specifications set forth in any Specifications Supplement, such law, order, ruling or directive shall be deemed to take precedence over such requirements or specifications and shall become part of this Chapter or of such Specifications Supplement and all open and new contracts shall be subject thereto.

35108. CONTRACT ADJUSTMENTS

Adjustments to Narrow-Based Stock Index Futures related to actions or transactions by or affecting any issuer of the underlying securities shall be made under the circumstances and in the manner prescribed by the Exchange or its Clearing House.

35109. FORM OF SPECIFICATIONS SUPPLEMENT

Supplement No. _____
Title of Narrow-Based Stock Index Future: _____
Underlying Securities (including numbers of values thereof): _____
Weighting Methodology: _____
Trading Hours: _____
Delivery Months: _____
Last Trading Day: _____
Delivery Day: _____
Minimum Price Fluctuation: _____
Reportable Position: _____
Position Limit in Expiring Contract during Last Five Trading Days: _____
Other Specifications: _____

35110. LISTING STANDARDS

- (a) Initial listing standards for Narrow-Based Stock Index Futures
- For a Narrow-Based Stock Index Future to be eligible for initial listing, the underlying index must:
- (1) Meet the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act ("CEA") and Section 3(a)(55) of the Securities Exchange Act of 1934 (as amended from time to time, the "Exchange Act"); and
 - (2) Meet the following requirements:
 - (A) It must be capitalization-weighted, modified capitalization-weighted, price-weighted, share-weighted, equal dollar-weighted, approximately equal dollar-

weighted, or modified equal-dollar weighted.

- (i) In the case of a Narrow-Based Stock Index Future based on an approximately equal dollar-weighted index composed of one or more securities, each component security will be weighted equally based on its market price on the index selection date, subject to rounding up or down the number of shares or receipts evidencing such security to the nearest multiple of 100 shares or receipts.
 - (ii) In the case of a modified equal-dollar weighted index, each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index.
 - (iii) In the case of a share-weighted index, the index is calculated by multiplying the prices of the component securities by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the Specifications Supplement for the Narrow-Based Stock Index Future. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components.
- (B) Its component securities must be registered under Section 12 of the Exchange Act.
 - (C) Subject to (E) and (O) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements for listing a Single Stock Future, as set forth in Rule 34110.(a).
 - (D) Each component security in the index must have a minimum market capitalization of at least \$75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only \$50 million.
 - (E) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 45,500 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares or receipts for each of the last six months.
 - (F) Each component security in the index must be (i) listed on a national securities exchange or traded through the facilities of a national securities association and (ii) reported as a "national market system" security as set forth in Rule 242.600 under the Exchange Act ("NMS security").
 - (G) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.
 - (H) The current underlying index value must be reported at least once every 15 seconds during the time the Narrow-Based Stock Index Future is traded on the Exchange.
 - (I) An equal dollar-weighted index must be rebalanced at least once every calendar quarter, except that an approximately equal dollar-weighted index underlying a Narrow-Based Stock Index Future need only be rebalanced as provided in (L) below.
 - (J) A modified equal-dollar weighted index must be rebalanced quarterly.
 - (K) A share-weighted index will not be rebalanced.
 - (L) An approximately equal dollar-weighted index underlying a Narrow-Based Stock Index Future must be rebalanced annually on December 31 of each year if the notional value of the largest component is at least twice the notional value of the smallest component for 50% or more of the trading days in the three months prior

to December 31 of each year. For purposes of this provision the “notional value” is the market price of the component times the number of shares of the underlying component in the index. In addition, the Exchange reserves the right to rebalance quarterly at its discretion.

- (M) An underlying index may be rebalanced on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the Narrow-Based Stock Index Future, outstanding Narrow-Based Stock Index Futures contracts are unaffected by rebalancings.
- (N) If the underlying index is maintained by a broker-dealer, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer must have in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index.
- (O) In a capitalization-weighted index, the lesser of: (i) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares or receipts over the past six months; or (ii) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of securities in the index each have had an average daily trading volume of at least 90,000 shares or receipts over the past six months.
- (P) If a Narrow-Based Stock Index Future is cash settled, it must be designated as AM-settled.

In addition, the Exchange will not list a Narrow-Based Stock Index Future that is physically-settled until it has arrangements in place with a registered clearing agency for the payment and delivery of the underlying securities pursuant to Section 6(h)(3)(B) of the Exchange Act, and has made a rule submission required by the Securities and Exchange Commission (“SEC”) regarding such arrangements.

(b) Maintenance standards for Narrow-Based Stock Index Futures

- (1) The Exchange will not open for trading a Narrow-Based Stock Index Future with a new delivery month unless the underlying index:
 - (A) Meets the definition of a narrow-based security index in Section 1a(25) of the CEA and Section 3(a)(55) of the Exchange Act; and
 - (B) Meets the following requirements:
 - (i) Its component securities must be registered under Section 12 of the Exchange Act.
 - (ii) Subject to (iv) and (xiii) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements for listing a Single Stock Future, as set forth in Rule 34110(a).
 - (iii) Each component security in the index must have a market capitalization of at least \$75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only \$50 million.
 - (iv) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 22,750 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of at least 18,200 shares or receipts for each of the last six months.
 - (v) Each component security in the index must be (I) listed on a national securities exchange or traded through the facilities of a national securities association and (II) reported as an NMS security.
 - (vi) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.

- (vii) The current underlying index value must be reported at least once every 15 seconds during the time the Narrow-Based Stock Index Future is traded on the Exchange.
 - (viii) An equal dollar-weighted index must be rebalanced at least once every calendar quarter, except that an approximately equal dollar-weighted index underlying a Narrow-Based Stock Index Future need only be rebalanced as provided in (ix) below.
 - (ix) An approximately equal dollar-weighted index underlying a Narrow-Based Stock Index Future must be rebalanced annually on December 31 of each year if the notional value of the largest component is at least twice the notional value of the smallest component for 50% or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. In addition, the Exchange reserves the right to rebalance quarterly at its discretion.
 - (x) In a modified equal-dollar weighted index the Exchange will re-balance the index quarterly.
 - (xi) If a share-weighted index fails to meet the maintenance listing standards under paragraph (b) of this Rule, the Exchange will not re-balance the index and will not list a Narrow-Based Stock Index Future for new delivery months based on that index.
 - (xii) If the underlying index is maintained by a broker-dealer, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer must have in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index.
 - (xiii) In a capitalization-weighted index, the lesser of: (I) the five highest weighted component securities in the index each have had an average daily trading volume of at least 45,500 shares or receipts over the past six months; or (II) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average daily trading volume of at least 45,500 shares or receipts over the past six months.
 - (xiv) The total number of component securities in the index must not increase or decrease by more than 33-1/3% from the number of component securities in the index at the time of its initial listing.
- (2) If the foregoing maintenance standards in paragraph (b)(1) are not satisfied, the Exchange will not open for trading a Narrow-Based Stock Index Future with a new delivery month, unless it receives the approval of the Securities and Exchange Commission and the Commodity Futures Trading Commission.