



CFE Regulatory Circular RG05-04

Date: June 4, 2005
To: CFE Trading Privilege Holders
From: Regulatory Services Division
Re: Position Limits

CFE Rule 412 and the contract specifications rule chapter for each CFE futures contract govern position limits on CFE. In particular, the contract specifications rule chapter for each CFE futures contract sets forth the applicable position limit level for that futures contract.

CFE Rule 412 provides that CFE Trading Privilege Holders may not control, or trade in, any number of Contracts that exceed any position limits established by the Exchange, subject to the following exception. A Trading Privilege Holder may submit an application to the Exchange for an exemption from the applicable position limit for qualified hedge transactions, arbitrage transactions, or spread transactions. For example, a qualified hedge transaction for a volatility index future traded on CFE would include holding a position in the volatility index future and holding a related position in the strip of options underlying the volatility index future, in index futures, and/or in a group or basket of securities.

A single application may be submitted to obtain a position limit exemption for qualified hedge, spread, or arbitrage transactions in a CFE futures contract for up to a two-year period. An application for a position limit exemption for qualified hedge, arbitrage, or spread transactions must be submitted to and approved by the Exchange before execution of any transaction for which the exemption is requested. In granting any position limit exemption, the Exchange may impose such limitations or conditions upon the grant of the exemption as it may deem necessary or appropriate. Any position limit exemption granted by the Exchange shall remain in effect for the time period designated by the Exchange, unless the exemption is earlier rescinded by the Exchange. The Exchange may review and rescind, limit, or condition any position limit exemption granted by it at any time.

Trading Privilege Holders who desire to submit an application for a position limit exemption for qualified hedge, arbitrage, or spread transactions must complete the attached CFE Position Limit Exemption Application Form and submit the completed Form to the CFE Department of Market Regulation.

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

Any questions regarding this circular may be directed to Steve Slawinski at (312) 786-7744 or Bill Koch at (312) 786-7306 of the CFE Department of Market Regulation.



CFE Position Limit Exemption Application Form for Qualified Hedge, Arbitrage, or Spread Transactions

The Department of Market Regulation must be notified at (312) 786-7744 or (312) 786-7306 prior to the submission of this form.

Submit to:

CBOE Futures Exchange, LLC
Department of Market Regulation
111 West Jackson Street, 23rd Floor
Chicago, Illinois 60605
Fax: (312) 786-7982

Please refer to Rule 412, Position Limits, for CFE requirements related to position limits.

Reporting Trading Privilege Holder: _____ Clearing Number: _____

If filed on behalf of non-clearing firm, enter its name: _____

Product that is the subject of the exemption request: _____

Exemption Type Requested: Qualified Hedge Transaction(s) Arbitrage Transaction(s) Spread Transaction(s)

Account Information				Futures Position	
Tax I.D. Number (Soc. Sec. #)	Name	Address	Account Number	Maximum Number of Long Contracts TPH Intends To Enter Into	Maximum Number of Short Contracts TPH Intends To Enter Into
			TOTAL		

Trading Privilege Holder (TPH) represents to CFE as follows:

1. Each transaction or position for which a position limit is requested constitutes a qualified hedge transaction, an arbitrage or a spread transaction, as specified above, and is not used in an attempt to violate or avoid any CFE Rule.
2. Each transaction or position for which a position limit is requested is necessary or advisable as an integral part of the business of TPH. A description of the business of TPH is as follows: _____

3. The current or planned activity in the market underlying the Contract for which such exemption is requested is as follows: _____

4. The positions involved will be moved in an orderly manner and not initiated or liquidated in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes.
5. TPH has complied with any applicable federal requirement relating to hedging, arbitrage or spread transactions, as the case may be.
6. Each qualified hedge, arbitrage, or spread transaction is accurately described in detail as follows:
 - a. Type of position(s) hedged, arbitrated, or spread (include the dollar value of each position): _____

 - b. Calculation(s) utilized in determining the number and type of hedge, arbitrage, or spread requested: _____

 - c. Strategies which will be employed in the management of the requested positions: _____

 - d. Expressed policies or guidelines of the TPH regarding position management prior to or upon contract expiration: _____

e. Method of monitoring positions to ensure that all positions are executed pursuant to strategies described above and that the maximum limit is not exceeded: _____

f. Pre-determined levels of price movements, if any, that would cause a significant adjustment to the TPH's position: _____

7. TPH will comply with any additional limits on its trading as CFE may from time to time impose.

8. TPH agrees to promptly submit a supplemental statement explaining any change in circumstances that may affect the nature of its positions.

Report Date

Prepared by: _____

Signature _____