CFE
CBOE FUTURES EXCHANGE

May 25, 2006

Via Electronic Mail

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: CBOE Futures Exchange, LLC Rule Certification
Submission Number CFE-2006-09

Dear Ms. Webb:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission ("Commission") under the Act, CBOE Futures Exchange, LLC ("CFE" or "Exchange") hereby submits this rule change ("Amendment") to amend CFE Rule 1202(d) to change the position limit in CBOE Volatility Index ("VIX") futures and to amend CFE Rule 1202(n) to change the reportable position in VIX futures.

The Amendment changes the position limit in VIX futures from 5,000 to 10,000 contracts net long or net short in all VIX futures contract months combined and also provides for a position limit in the expiring VIX futures contract month. Specifically, the Amendment includes a position limit of 5,000 contracts net long or net short in the expiring VIX futures contract month commencing on the Wednesday prior to the final settlement date of the expiring VIX futures contract month. CFE is taking an incremental approach to increasing the position limit in VIX futures by initially coupling the increase in the all months combined limit with a spot month limit instead of simply moving to a higher all months combined limit. CFE intends to evaluate its experience with the limits provided for in the Amendment and may then determine to eliminate the spot month limit.

CFE took the following into consideration in determining to change the position limit in VIX futures in the manner set forth in the Amendment.

The VIX future is a futures contract on a broad-based security index in that the VIX satisfies the conditions of the Joint Order Excluding Indexes Comprised of Certain Index Options from the Definition of Narrow-Based Security Index pursuant to Section 1a(25)(B)(vi) of the Commodity Exchange Act and Section 3(a)(55)(C)(vi) of the Securities Exchange Act of 1934 issued by the Commodity Futures Trading Commission and Securities and Exchange Commission on March 25, 2004 in Release No. 34-49469 (69 FR 16900, March 31, 2004).

Average daily volume and open interest in VIX futures have been at record levels. The average daily volume in VIX futures to date in May 2006 exceeds 2,500 contracts per day and open interest in VIX futures currently exceeds 31,000 contracts.

Additionally, in equivalent risk terms, the average daily volume in Standard & Poor's ("S&P") 500 Index ("SPX") options (which are used to calculate the VIX) is much greater than the average daily volume in VIX futures. The SPX option market is the most liquid domestic index options market. Average daily volume in SPX options during the past six months (from November 2005 through April 2006) exceeded 338,000 contracts per day.

SPX options settle based on a special calculation of the S&P 500 Index level, using the opening prices of the 500 stocks included in the S&P 500 Index. VIX futures settle based on a special calculation of the VIX index level, using traded prices and quotations of S&P 500 Index options. Although the two contracts settle based on different underlying values, they share exposure to a common risk, namely changes in the volatility of the S&P 500 Index implied by current option prices. In options market parlance, this risk is known as Vega and is usually expressed as the change in value of a particular options contract for a change in the level of implied volatility. For example, an at-the-money SPX option with one month to go before expiration recently had a Vega of around 1.33. Therefore, for a change of 1% in the level of implied volatility, the option premium would change by $1.33 and the option would change in value by $1,330 ($100 times the change in premium). The Vega of an SPX option can vary and is mainly dependant upon the time to maturity of the option and its strike price. VIX futures have a constant Vega exposure of $1,000 for every 1% change in implied volatility.

In equivalent terms (measured by exposure to changes in implied volatility), SPX option volume would equate to an average daily volume in VIX futures of approximately 35,000 contracts per day. Allowing a position limit of 10,000 contracts, with no more than 5,000 contracts during the last week before settlement in the expiring contract month, would equate to allowing a market participant to assume a VIX futures position equivalent to less than 15% of the daily SPX volume in terms of Vega risk.

The Amendment also changes the reportable position in VIX futures from 25 to 200 contracts. This change is consistent with Commission Regulation 15.03(b) which provides for a reporting level of 200 contracts for futures on broad-based securities indexes like VIX futures. CFE also notes that, consistent with the Commission's published guidance with respect to large trader reporting, a reporting level of 200 contracts in VIX futures would cover in excess of 70% of the total open interest in VIX futures. Specifically, based on data from May 16, 2006, a reporting level of 200 contracts in VIX futures would have covered 92% of the long open interest in VIX futures (31,110 out of 33,705) and 95% of the short open interest in VIX futures (31,912 out of 33,705).

The Amendment will become effective on May 30, 2006.

CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder.

The Amendment, marked to show additions in <u>underlined</u> text and deletions in [bracketed] text, consists of the following:

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Rule 1202. CBOE Volatility Index Futures Contract Specifications

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(d) *Position Limits*. A person may not own or control at any time more than 10,000 [5,000] contracts net long or net short in all VIX futures contract months combined. Commencing on the Wednesday prior to the final settlement date of the expiring VIX futures contract month, a person may not own or control more than 5,000 contracts net long or net short in the expiring VIX futures contract month.

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 shall be cumulated.

The foregoing position limits shall not apply to positions that are subject to a position limit exemption meeting the requirements of Commission Regulations and CFE Rules.

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(n) *Reportable Position*. Pursuant to Commission Regulation §15.03 and Commission Regulation Part 17, the position level that is required to be reported to the Commission is any open position in VIX futures contracts at the close of trading on any trading day equal to or in excess of 200 [twenty-five] contracts on either side of the market.

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Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570. Please reference our submission number CFE-2006-09 in any related correspondence.

CBOE Futures Exchange, LLC

By: ______________
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cc: Thomas Leahy
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