



TO: Trading Permit Holders
FROM: CBOE Product Development
DATE: June 19, 2012
RE: **SPX Variance Strips**

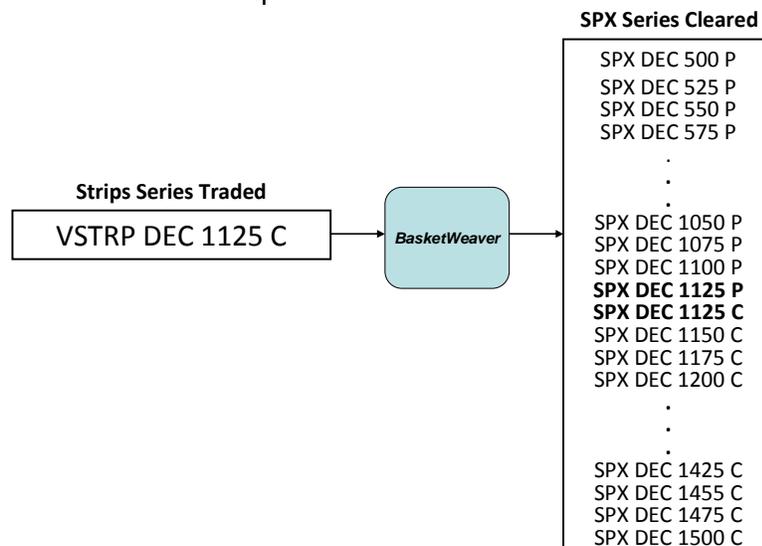
On July 27, 2012, CBOE plans to introduce a new process for trading SPX Variance Strips – a large and complex portfolio (“strip”) of S&P 500® Index (SPX) options intended to replicate *S&P 500 implied variance* exposure -- in a single transaction.

Trading in SPX Variance Strips will be fully electronic, and will use a special quoting convention, similar to the OTC convention for quoting variance swaps. Specifically, the price of a variance strip will be stated in volatility points (e.g., 25.00). Trade quantity will be in contracts; each “contract” will have a non-standard multiplier (e.g., \$25,000 or \$50,000) that reflects the aggregate “vega notional” amount of the SPX options comprising the variance strip portfolio.

SPX Variance Strips are intended for qualified, professional investors. Trading Permit Holders must complete a product certification before routing SPX Variance Strip orders. CBOE will reject SPX Variance Strip orders from Trading Permit Holders that have not completed the product certification.

SPX variance strips will have a unique trading symbol (“VSTRP”), a strike price intended to represent the “at-the-money” SPX series - otherwise known as the “K₀” strike price - and standard, third Friday expiration dates. All variance strip orders must be entered with a “call” identifier. Only “limit” and “day” orders will be accepted.

Immediately after execution, matched SPX Variance Strip trades will be broken up into individual transactions in SPX option series. The conversion process (“BasketWeaverSM”), which uses the formula for the CBOE Volatility Index (VIX), determines the quantity and price for each SPX option comprising the matched variance strip.



Following conversion, the matched VSTRP transaction will cease to exist, and only SPX option transactions will be sent to the OCC for clearing. End-of-day position reports to clearing firms and individual account statements will reflect activity in these SPX option series only.

Each day after the market close, CBOE will publish on its website the SPX option series that will comprise the SPX variance strips available for trading on the following business day. The composition of each variance strip will then be in effect for the entire next trading day.

More Information

A detailed description of the SPX Variance Strip process, as well as a link to daily updates of information on the SPX options comprising SPX Variance Strips, may be found on the CBOE website:

<http://www.cboe.com/VarianceStrips>

For Product Certification, please contact Charlie Hulihan at 312-786-7176 or e-mail Hulihan@cboe.com.

For general questions and additional information, please contact Bill Speth at 312-786-7141 or e-mail spethw@cboe.com.