

market capitalization, as opposed to full market capitalization, is used to reflect only the number of shares that are actually available to investors.

In calculating the market capitalization of each underlying issuer, the Float-adjusted market capitalization methodology reduces each underlying issuer's market share by the market capitalization value represented by

those shares held through block ownership. The following are considered block ownership for the purposes of float-adjusted market capitalization: (1) Cross ownership—shares that are owned by other companies; (2) government ownership—shares that are owned by governments or their agencies; (3) private ownership—shares that closely held by

individuals, families or charitable trusts and foundations; and, (4) restricted shares—shares that are not allowed to be traded during a certain period of time.

The following chart illustrates the pertinent differences between the old index methodology and the Revised Index methodology.

Security class eligible for inclusion	Old methodology	New methodology
Common Stocks .....	Yes .....	Yes.
ADRs .....	Yes .....	Yes.
Tracking Stocks .....	Yes .....	Yes.
REITs .....	Yes .....	Yes.
Closed-end funds .....	Yes .....	No.
ETFs .....	Yes .....	No.
Preferred stocks .....	No .....	No.
Derivatives .....	Yes .....	No.
Shares of beneficial interest .....	Yes .....	No.
Trust units .....	Yes .....	No.
Limited partnerships .....	Yes .....	No.
Weighting .....	Full market capitalization .....	Float-adjusted market cap.
Base Date .....	December 31, 1965 .....	December 31, 2002.
Base Value .....	50 .....	5,000.
Maintained/Calculated by .....	Securities Industry Automation Corp. (SIAC) .....	Dow Jones Indexes.
Reconstitution/Rebalancing .....	Ongoing .....	Ongoing.
Share Updates (<10%) .....	Daily .....	Quarterly.
Available Indexes .....	Price return index .....	Price and total return indexes.

### Index Calculation

The NYSE has calculated the Revised Index to a base value of 5,000 as of December 31, 2002. Due to the extremely large contract size (\$500,000) that would result from pairing the standard contract multiplier (\$100) with such a high underlying index level, the CBOE proposes to list and trade options based on one-tenth (1/10th) of the value of the Revised Index. Options on the Reduced Value NYSE Composite will provide investors with product offerings consistent with those available for the Old Index.

All option series on the old NYSE Composite Index have expired and no new series in old NYSE Composite Index options have been added or will be added. Options on the Reduced Value Index will trade under a new root ticker symbol.

In order to avoid confusion, the CBOE will notify market participants of both the Revised Index and the details of the new options series that the CBOE will list on the Reduced-Value Index. In its notification, the CBOE will include a discussion of the float adjusted market capitalization method. The Reduced-Value Index levels will be disseminated throughout the trading day at 15-second intervals through OPRA.

### Index Option Trading

The Exchange believes that listing options on the Reduced Value Index will attract a greater source of customer business than if options were based on the full value of the Revised Index. The Exchange also believes that options on the Reduced Value Index will provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising this broad-based Index. Further, by reducing the value of the Revised Index, such investors will be able to utilize this trading vehicle, while extending a smaller outlay of capital. The CBOE believes that this should attract additional investors, and, in turn, create a more active and liquid trading environment.

In addition to regular index options, the Exchange has the authority to list long-term index option series ("LEAPS®"), as well as reduced-value LEAPS,<sup>6</sup> in accordance with CBOE Rule 24.9(b)(1). The CBOE's rules specifically permitted the listing of reduced-value LEAPS on the "old" NYSE Composite Index.<sup>7</sup> The Exchange similarly intends

<sup>6</sup> CBOE Rule 24.1(g) provides that the current index value for a reduced-value LEAP is one-tenth (1/10th) of the current index value of the related index option. The "closing index value" shall be the last index value reported on a business day.

<sup>7</sup> See CBOE Rule 24.9(b)(2) (Reduced-Value LEAPS).

to allow for the listing of LEAPS or reduced-value LEAPS on the Reduced Value Index in order to provide investors with product offerings consistent with those that were available for the "old" NYSE Composite index. The Exchange will make a timely determination, based on contemporaneous market factors, as to when and if either LEAPS or reduced-value LEAPS shall be listed. In deciding whether to list LEAPS or reduced-value LEAPS, the Exchange will consider which type of series provides the most appropriate vehicle for customers to use as a long-term hedge.

The option settlement value on the Reduced Value Index will be based on the opening prices of the component securities as reported by the NYSE. For options on the Reduced Value Index, strike prices will be set to bracket the Reduced Value Index in 2.5-point increments for strikes below \$200 and 5-point increments above \$200, as will be reflected in CBOE Rule 24.9. The trading hours for options on the Reduced Value Index will be from 8:30 a.m. to 3:15 p.m. Chicago time.

Options shall be European-style exercise and A.M.-settled, as currently reflected in CBOE Rule 24.9(a)(3), and position limits will remain the same for options traded on the Reduced Value Index as those established on the old Index; 45,000 contracts on either side of