



Information Circular IC05-08

DATE: January 13, 2005
TO: The Membership
FROM: Office of the Chairman
RE: Options on SPDRs

Last week we apprised you of the situation with respect to the possible listing of options on SPDRs, an exchange-traded fund based on the S&P 500 Index. This memo provides further background regarding the events leading up to commencement of trading on Monday.

As we mentioned in our earlier memo, on Wednesday, January 5, the OCC Board determined that OCC would clear options on SPDRs for ISE, even though ISE did not have a license from Standard & Poor's. Given the potential that ISE would commence trading in options on SPDRs without a license, and prior to knowing whether the court would issue a temporary restraining order, CBOE and S&P entered into negotiations regarding the circumstances under which CBOE would relinquish our claim that CBOE has an exclusive license that precludes other securities markets from trading standardized option contracts based on S&P 500-Indexed Funds.

Although it would have been possible for CBOE to require S&P to litigate the issue, litigation is always risky. It was our assessment that changing circumstances had increased the risk of a negative outcome. These changes included the SEC's publicly stated preference for multiple listing of this product, the Department of Justice's ongoing inquiry into the fact that this product was not listed for trading, a recent court decision in a dispute between Archipelago and NASDAQ regarding the QQQs, and the decision of The Options Clearing Corporation Board that they would clear the product for ISE.

As a result of the changed circumstances, we concluded that CBOE's best interest would be served by relinquishing CBOE's exclusivity in exchange for economic and contractual concessions on our existing products offered by S&P. On Thursday, January 6, we reached an agreement with S&P which allowed S&P to grant licenses to other exchanges to trade options on SPDRs. This agreement applies only to options on ETFs and not to SPX or any cash-settled option on the index. S&P immediately started granting licenses and the six U.S. options exchanges all began trading on Monday, January 10, 2005. It remains to be seen whether ISE or another exchange will still try to assert that it can trade options on SPDRs without a license from S&P.

SPDR Option Volume - First Three Days

	<u>AMEX</u>	<u>%</u>	<u>BOX</u>	<u>%</u>	<u>CBOE</u>	<u>%</u>	<u>ISE</u>	<u>%</u>	<u>PCX</u>	<u>%</u>	<u>PHLX</u>	<u>%</u>	<u>Total</u>
1/10/05	21,875	9.1%	71,971	29.9%	63,634	26.4%	25,923	10.8%	17,426	7.2%	40,057	16.6%	240,886
1/11/05	9,905	6.4%	31,845	20.7%	67,436	43.8%	23,506	15.3%	8,699	5.6%	12,682	8.2%	154,073
1/12/05	6,190	4.7%	29,625	22.5%	31,347	23.8%	34,121	25.9%	9,639	7.3%	20,685	15.7%	131,607

SPDR Option Volume - Customer

	<u>AMEX</u>	<u>%</u>	<u>BOX</u>	<u>%</u>	<u>CBOE</u>	<u>%</u>	<u>ISE</u>	<u>%</u>	<u>PCX</u>	<u>%</u>	<u>PHLX</u>	<u>%</u>	<u>Total</u>
1/10/05	3,453	7.4%	14,017	30.2%	17,463	37.6%	4,374	9.4%	6,932	14.9%	214	0.5%	46,453
1/11/05	7,151	24.2%	3,879	13.2%	6,917	23.5%	4,408	14.9%	6,731	22.8%	408	1.4%	29,494
1/12/05	1,260	4.3%	3,239	11.0%	6,331	21.6%	10,761	36.6%	283	1.0%	7,499	25.5%	29,373