Information Circular IC05-54
April 2005

CBOE

Updates to the Chicago Board Options Exchange Membership Meetings

Hybrid Trading Update

Remote Market Maker (RMM) Program Launched on April 26
On April 26, 2005, Remote Market Makers (RMMs) began trading through CBOE's Hybrid Trading System. RMM is a new class of CBOE membership designed to allow members to engage in market making at CBOE from any location, thereby adding additional liquidity and depth to CBOE's markets.

RMMs are able to "stream" quotes and trade electronically from any location. As another membership class of remote market makers, RMMs join Electronic Designated Primary Market Makers (e-DPMs), which were introduced on July 21, 2004. Initially, there are 59 Remote Market Makers participating in the program, and it is expected that in the future additional individuals and organizations will become part of the program as it rolls out.

Day one saw RMMs trade 13 classes. Initially, it is expected that RMMs will quote in the top 602 Hybrid-enabled options classes, with the roll-out continuing over a three-month period.

Registered RMMs are able to create individual, customized class appointments, called Virtual Trading Crowds (VTCs) which allow them to cover a range of classes of their own choosing, irrespective of the location of a class on the CBOE trading floor. CBOE has tiered and weighted eligible options classes based on national average trading volume for the last three months, and RMMs can compose their VTCs based on this scale. RMMs are required to have CBOE memberships commensurate with the number and weighting of classes chosen.

For more information on the RMM program, please refer to Information Circulars IC05-24, IC05-30 and IC-48 on the Legal website of CBOE.org at http://www.cboe.org/legal/crclInfo.aspx or contact the Market Quality Assurance Dept. at 312.786.7559.

Remote Access Program for Trading Floor Market Makers Launched on April 7
The remote access program for trading floor market makers was launched on Thursday, April 7. The remote access program allows trading floor market makers to "stream" quotes into Hybrid-enabled classes at their appointed post and station without requiring that they be present in their physical trading crowds.

The remote access program will be in effect for one year, at which time it will be re-evaluated.

For more information on the remote access program for trading floor market makers, please refer to Information Circulars IC05-25, IC05-30, IC05-36 and IC05-48 on the Legal website of CBOE.org at http://www.cboe.org/legal/crclInfo.aspx.

Hybrid 2.0 Classes Added
On April 8, an additional 79 classes became accessible for trading by e-DPMs on Hybrid 2.0.

Resources for More Information on Hybrid Trading and Programs
Members with questions on various aspects of the Hybrid Trading System, including the e-DPM, RMM, and Remote Access for Trading Floor Market Makers Programs, may contact the following individuals by phone or through the e-mail links listed:

OPEN INTEREST

- Rules Relating to Hybrid 1.0 or 2.0, including rules and regulations for e-DPMs and RMMs: Angelo Evangelou, Managing Senior Attorney, at 312.786.7464 or (mailto: evangelou@cboe.com)
- Getting connected to trade on Hybrid, either on or away from the trading floor: Curt Schumacher, Vice President and Chief Technology Officer, 312.786.7564 or (mailto: curt@cboe.com)
- General business issues such as Hybrid functionality, order routing and trading policies/procedures: Anthony Montesano, Vice President, Trading Operations, at 312.786.7365 or (mailto: montesan@cboe.com); Carol Zylius at 312.786.7174 or (mailto: zyliusc@cboe.com)
- Access issues for the RMM, e-DPM and Remote Access for Floor Traders Programs: Dan Hustad, Vice President of Market Quality Assurance, at 312.786.7715 or (mailto: hustadd@cboe.com); Angela Redell, Director of Market Quality Assurance, at 312.786.7559 or (mailto: redella@cboe.com).
- To arrange for a demonstration of the CBOE HyTS® Terminal, which provides electronic access and order routing to U.S. options exchanges, as well as complete access to market data streaming quotes and order management — all on a single screen: Andrew Lowenthal, CBOE Director, Business Development, at 312.786.7180 or (mailto: lowenthl@cboe.com)

Additional information is available at http://www.cboe.org/Hybrid.

CBOE Extends Offer to Purchase Exercise Rights

CBOE is moving forward with plans to purchase a number of CBOE exercise rights held by Chicago Board of Trade (CBOT) Full Members. The purchase offer was temporarily postponed while the Securities and Exchange Commission (SEC) reviewed a request by a CBOE member that the SEC reconsider its approval of CBOE's filing on the matter issued on February 25, 2005. On April 18, 2005, the SEC denied the request for reconsideration.

The purchase is being executed through a modified Dutch Auction process, with a price range of $60,000 to $100,000 for each "exercise right privilege," which is a transferable interest representing the CBOE exercise right component of a CBOT Full Membership. CBOT Full Members who choose to do so may offer to sell their exercise right privilege for any price within that range. At the conclusion of the offer period, CBOE will determine the clearing price and the number of exercise right privileges it will purchase. All CBOT members tendering at or below the clearing price whose exercise right privileges are purchased in the offer will receive the same price for their exercise right privilege. CBOT members may also offer to sell at the clearing price without specifying an individual sale price. CBOE is not obligated to purchase any minimum number of exercise right privileges. CBOE's offer to purchase exercise rights began on April 26, CBOE's 32nd anniversary, and will expire 30 days later unless extended by CBOE. The terms of the offer were distributed through written materials sent to every CBOT Full Member.

Busiest Single Trading Day in CBOE's History on April 15

Total trading volume at CBOE on Friday, April 15 was 3,983,059 contracts, setting a new volume record for the busiest single trading day in the Exchange's 32-year history. This was the second consecutive day that CBOE set a new single-day trading record as April 15's volume surpassed April 14's volume of 2,962,199 contracts traded, the previous all-time record for single-day trading volume at CBOE. Volume on both days surpassed the previous all-time single-day volume record of 2,726,267 contracts traded at CBOE on April 18, 2001.

Through the first three months of 2005, CBOE's year-to-date average daily volume has been 1.71 million contracts traded, which is 12% ahead of 2004, a record year at CBOE. For the week of April 11th through 15th, CBOE average daily volume was 2.72 million contracts, an increase of 59% over the 2005 year-to-date average daily volume and 90% higher than 2004's average daily volume of 1.43 million contracts.

March Volume Update
Exchange Volume, March 2005:
Total Volume
- 37,826,646 contracts
- +15% vs year-ago (Mar 04)
- +20% vs previous month (Feb 05)

Average Daily Volume
- 1,719,393 contracts
- +20% vs year-ago (Mar 04)

Open Interest
- 140,684,865 contracts
- +12% vs year-ago (Mar 04)
- +9% vs previous month (Feb 05)

Year-To-Date Volume
- 104,263,835 contracts
- +10% vs YTD 2004

March highlights at CBOE included:
- Volume in index options totaled 14.4 million contracts, an increase of 4% over year-ago levels. The top five index options at CBOE during March were: S&P 500 Index (SPX); Nasdaq-100 Index Tracking Stock (QQQ); S&P 100 Index (OEX); iShares Russell 2000 Index Fund (IWM); and Standard & Poor's Depositary Receipts/SPDRs (SPY).

- Volume in stock option classes rose 23% over 2004 as 23.4 million contracts were traded. The top five stock option classes at CBOE during March were: General Motors Corporation (GM), Microsoft Corp. (MSFT), Apple Computer, Inc. (AAPL), Elan Corporation, plc (ELN) and Citigroup, Inc. (C).

CBOE Signs MOUs with Three Chinese Exchanges
On March 16, 2005, CBOE announced the signings of Memorandums of Understanding (MOU) with three futures exchanges in The People's Republic of China: the Shanghai Futures Exchange, the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange.

The MOUs provide the opportunity for ongoing educational initiatives designed to enhance the understanding of each other's products, markets, technologies and regulations, while laying the foundation for the sharing of information for the potential development of options and other derivatives products with the exchanges.

The MOUs were signed by exchange executives in ceremonies held at the Futures Industry Association Conference in Boca Raton, Florida.

Financial Update
For the first three months of 2005, CBOE reported a pre-tax profit of $4.2 million, compared to a budgeted pre-tax profit of $0.5 million. Strong volume allowed CBOE to post these positive results. Volume averaged 1,707,700 contracts per day during this time period, which is 17% more than the 1,408,300 contracts that CBOE averaged for the six months ended December 31, 2004. Working

capital for the Exchange increased from $42.4 million to $51.3 million during the first calendar quarter. During the quarter, CBOE recorded new capital expenditures of $4.5 million, mostly related to the implementation of our Hybrid trading system and systems capacity upgrades. CBOE also received $5.0 million from the National Stock Exchange (NSX) in January, representing the first installment of the sale of our interest in NSX.

CBOE's strong financial results are expected to continue. We are averaging over 1,963,000 contracts per day for the month of April (as of April 27th). CBOE continues to invest significant capital in technology as we continue our capacity and application upgrades.

Washington Update

Commodity Futures Trading Commission Reauthorization

Both chambers of Congress have held CFTC reauthorization hearings. The CFTC is expected to present Congress with specific recommendations for legislative action in the coming weeks.

CBOE and the U.S. Securities Markets Coalition continue to monitor the reauthorization process, with special attention to changes to the Commodity Futures Modernization Act and security futures. The issues of dual regulation and portfolio margining have been raised by the futures exchanges as well as by the CFTC. We have been actively working with the members and staff of both the Agriculture committee and Banking and Financial Services committee to ensure there is parity with regard to securities futures and securities options.

Congressional Visitors

CBOE has hosted several Congressional visits in the past month. Members who have toured the trading floor and met with CBOE PAC Co-Chairs include: Senator Charles Schumer (D-NY), House Speaker J. Dennis Hastert (R-IL), Senator Tom Carper (D-DE), Chairman Richard Baker (R-LA) of the Capital Markets Subcommittee and Senator Kent Conrad (D-ND).

CBOE also co-hosted a Capital Markets Subcommittee "Exchange Trip" with the Chicago Board of Trade, Chicago Mercantile Exchange and the Chicago Stock Exchange. Members who attended the trip are: Congresswoman Melissa Bean (D-IL), Congressman Joe Crowley (D-NY), Congressman Rahm Emanuel (D-IL), Congressman Frank Lucas (R-OK), Congresswoman Sue Kelly (R-NY), Congresswoman Carolyn McCarthy (D-NY) and Congressman Pat Tiberi (R-OH).

CBOE Futures Exchange (CFE) Launches Futures on CBOE DJIA Volatility Index

CFE launched futures on the new CBOE DJIA Volatility Index (VXD) on Monday, April 25, 2005. Under an agreement with Dow Jones & Company, CFE has created the first tradable volatility product based on volatility in the benchmark Dow Jones Industrial Average℠. Chicago Trading Company (CTC) was selected as the Designated Primary Market Maker (DPM) for VXD futures.

The CBOE DJIA Volatility Index (ticker symbol VXD) is designed to reflect investors' consensus view of expected volatility over the next 30 days in the Dow Jones Industrial Average, and as such, can be used as a benchmark of investor sentiment. VXD is calculated from prices of near-term Options on the Dow℠ (DJX) traded at the CBOE. For more information on methodology, historical data and charts for VXD, please visit www.cboe.com/IndexSites.

CFE Volume Update

CFE celebrated its one-year anniversary on March 26, 2005. Total volume for CFE's first full year of trading was 132,296 contracts. CFE currently trades six futures products — CBOE Volatility Index (VIX), CBOE S&P 500® Three-Month Variance Futures (VT), CBOE China Index (CX), Russell 1000® Index (RN), Mini-Russell 2000® Index (RT) and the CBOE DJIA Volatility Index (VXD).

During March, CFE volume rose 15% over the previous month and set a new CFE trading record as 17,386 contracts traded, breaking the previous high of 15,157 contracts from February 2005. CFE's March average daily volume was 790 contracts, while open interest stood at 11,280 contracts at the end of March, up 8% from the previous month.

On April 18, CFE set two new records — one for single-day trading volume (2,630 contracts) and one for single-day trading volume on futures on the Mini-Russell 2000 Index (1,210 contracts).

CFE is a wholly-owned subsidiary of CBOE, and operates as an all-electronic exchange using CBOE*direct*® as the trading platform. Trading Privilege Holder (TPH) permits are available to CBOE members and other eligible parties. TPH applications are available on the CBOE website at http://www.cboe.com/CFE or through the CBOE Membership Department. CBOE members trading on CFE are charged reduced fees, as opposed to non-CBOE members. The Options Clearing Corporation (OCC) is clearing all CFE trades.

For contract specifications and more information, visit http://www.cboe.com/CFE or contact Patrick Fay, CFE Managing Director, at 312.786.7925.

Professional Traders Program

The Professional Traders Program, offered through The Options Institute, is a six seminar (12 hour) series, designed to upgrade the capabilities of traders who are involved in option market making and whose profitability and risk are largely dependent on volatility considerations.

This is not an introductory program. Rather, it is intended to build upon traders skills and experiences, broadening perspectives while challenging some views and habits traders' might have developed. There will be considerable discussion of risks and trading pitfalls that newer traders might not yet have experienced.

CBOE members and their employees receive a discount of $200. To receive this discount, enrollees must register by phone at 1-877-THE-CBOE, and press 2.

OneChicago

OneChicago, LLC had a record month in March, eclipsing previous monthly volume, average daily volume and open interest records. The exchange saw a total of 765,424 contracts trade in March, which is 104% higher than the old monthly record of 375,463 set in March 2004. Average daily volume was 34,792 contracts and open interest reached 551,501 contracts before the quarterly expiration. Year-to-date volume is 64% ahead of first quarter 2004. Each single stock futures contract is equivalent to 100 shares of the underlying stock or exchange-traded fund.

OneChicago lists a total of 160 single stock futures, including futures on the DIAMONDS trust.

All CBOE members with trading privileges on CBOE have member access and rights to trade on OneChicago. However, members need to have the appropriate guarantee and clearing designation forms in place prior to trading on OneChicago. Forms are available online at http://www.cboe.com/Institutional/pdf/RG02-083.pdf or through the CBOE Membership Department at 312.786.7449.

For additional information on products or services available at OneChicago, visit http://www.onechicago.com or call 312.424.8500. To learn more about single stock futures, members should also contact Mark Esposito, OneChicago Project Coordinator, at 312.424.8527 or SPO@OneChicago.com.

OneChicago, the single-stock futures joint venture of CBOE, CME, and CBOT, has retained the services of Mesirow Financial. This investment banking firm has begun a search to find a strategic partner who will provide additional funds for the continued operation of the futures exchange and enhance the overall success of the futures contracts traded.

E-mails to Members

CBOE members who prefer to receive the OPEN INTEREST newsletters via e-mail rather than by U.S. Mail should send their request, including member name, firm name (if applicable) and desired e-mail address to (mailto: members@cboe.com), or contact the CBOE Membership Department directly at 312.786.7449.

Also available: MEMBER E-NEWS, a weekly update for CBOE members that is being distributed via e-mail only and posted on the CBOE Member website. Please be sure to submit your e-mail address to (mailto: members@cboe.com), or contact the Membership Department to begin receiving this weekly update.

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