



Information Circular IC05-67
June 2005

Updates to the Chicago Board Options Exchange Membership Meetings

Marketing Initiatives Support CBOE's Leadership Position

CBOE is on track to establish a yearly volume record surpassing last year's record volume if current trends continue. Surges in volume have already resulted in the busiest single trading day in the Exchange's 32-year history, when over 3.9 million contracts traded on April 15. April 2005 was the busiest month in CBOE's history as volume totaled over 40.7 million contracts traded, an increase of 29% over April 2004. During April, CBOE set 14 exchange and individual product trading records and CBOE Futures Exchange (CFE) set four.

Index trading continues strong with volume at CBOE in Standard & Poor's 500® Index options (SPX) for the week of May 16–20 topping two million contracts, the busiest week ever for SPX trading. On Friday, May 20 at CBOE, 503,528 SPX contracts traded.

CBOE's equity market share has been trending upward in 2005—with monthly market shares ranging from 23% to 26%. Increasing equity market share and member opportunities are major Exchange goals for the year.

We believe many factors are contributing to these favorable trends:

- Beginning January 13th, 2005, CBOE opened access to all equity and ETF Hybrid classes for "M" orders. "M" orders are orders from CBOE market makers, and they are now able to auto-ex at CBOE with no delay (provided CBOE is on the NBB0). As a result of this change, market makers can now access CBOE much in the same way as they can the ISE and BOX.
- CBOE introduced a new marketing fee program in November, which has been well received and has proven to be very competitive within the industry. The purpose of the program was to provide the members of the Exchange with the ability to compete for the opportunity to trade with those orders that might otherwise be routed to other exchanges. CBOE remains opposed to the practice of payment for order flow within the options industry, but in the absence of regulatory prohibition, CBOE found it necessary to institute a program in order to provide a level "playing field" for our members.
- CBOE has aggressively promoted its position as the premier marketplace for index options, and has continued to educate the investing public about the value of these products. Despite attempts by competing exchanges to pressure the SEC for multiple listing of our proprietary products, we will continue to vigorously protect CBOE's intellectual property and CBOE's exclusive licensing agreements.

Also, aggressive marketing and public relations efforts are supporting CBOE business development. Recent efforts have included:

- Placement of a full-page ad on the back cover of the May 16 issue of *Barron's*. The ad highlights CBOE's legacy of innovation and new initiatives such as Hybrid 2.0. The May 16 issue of *Barron's* was chosen for the additional exposure received from that edition's distribution at the recent Options Industry Conference in Florida. (See attached.)

- Publication of an ad in the April 26 edition of the *Wall Street Journal*, which focused attention on the launch of the Remote Market Maker (RMM) program and the participating RMMs. The same ad also ran in the April 25 issue of *Barron's*. (See attached.)
- Distribution to more than 30,000 financial professionals of a study by Ibbotson Associates on the performance of the CBOE S&P 500 BuyWrite Index (BXMSM). Since the study was published last summer, more than \$10 billion has been raised by new buy-write investment products, and the S&P 500 options open interest reached 6.9 million contracts (up 33% in the past year).
- Weekly e-mail distribution of colorful "mini-promotions" under a unifying, umbrella "Choose CBOE" theme. The "Choose CBOE" e-mails promote CBOE products and programs, e.g., Options on SPDRs, RMMs, and announce CBOE achievements, such as the CBOE website receiving a *Forbes* "Best of the Web" award four years running. The e-mails are sent to a growing list of 700 industry professionals. To be added to the list, send an e-mail to <mailto:moranol@cboe.com>.
- Production of a five-minute "flash" presentation piece, using the "Choose CBOE" theme. The "flash" presentation highlights CBOE's innovation and excellence, and was featured at the CBOE booth during this year's Options Industry Conference. The "flash" presentation will soon be available for viewing on CBOE's website, <http://www.CBOE.com>.
- Development of a four-page brochure, "CBOE Gazette," which recaps noteworthy achievements in trading volume, technology development, and new products over the course of last year. The brochure will be used as a hand-out at various CBOE events and at the CBOE booth during industry conferences. The "CBOE Gazette" will be accessible on <http://www.CBOE.com> shortly.
- Added media exposure through live television broadcasts, made possible through the recent installation of an in-house television camera at the back of the OEX[®] pit. As one example, every Monday and Wednesday, Bloomberg TV features a segment at 2:47 p.m. Chicago time featuring live market updates and commentary from traders. Special thanks are extended to the following individuals who have served frequently as commentators on the Bloomberg segments: Jeff Dalton, Westward Capital (DJX pit); Pat Kernan, SMC Options (SPX pit); Joe Kinahan, NOJ Trading (OEX pit); Doug Prskalo, Blue Capital Group (SPX pit); Chris Farry, Wellington Capital Management (SPX pit); and Jon Najarian, Najarian Capital.
- Held 79 educational events and educated 4,000 industry professionals through The Options Institute during the first four months of 2005.

CBOE Purchases Exercise Rights

The 30-day period during which CBOE received offers from CBOT Full Members who offered to sell their CBOE exercise rights ended on May 25, 2005. CBOE has purchased 68 CBOE exercise rights held by CBOT Full Members for \$100,000 each. All tender offers were accepted and the aggregate of 68 offers represents approximately 5% of the total number of CBOT Full Members' exercise right privileges.

In addition, CBOE looks forward to the purchase of additional exercise right privileges. Toward that goal, with the auction process now concluded, CBOE has established a bid for \$100,000 to purchase additional exercise right privileges from CBOT Full Members. CBOE's bid is available to CBOT Full Members through the CBOT seat market in accordance with CBOT rules.

The ability to purchase exercise rights increases CBOE's ability to control the number of members on our floor, and provides CBOT members with a way to monetize the value of their assets.

Remote Market Maker (RMM) Program

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.

As another membership class of remote market makers, RMMs join Electronic Designated Primary Market Makers (e-DPMs), which were introduced on July 21, 2004. There are 58 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.

As of May 25, there were 88 classes accessible for trading by RMMs. It is expected that RMMs eventually will quote in the top 602 Hybrid-enabled options classes. Roll-out is 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, 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 IC05-48 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

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 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>.

Options on DIAMONDS® to Trade on CBOE Hybrid

Options on DIAMONDS (DIA®) will trade on the CBOE Hybrid Trading System beginning shortly, pending regulatory approval. The addition of DIAMONDS options brings the number of index options available for trading on the CBOE Hybrid Trading System to 36, including options on the S&P 500 Depositary Receipts® (SPY), Mini-Nasdaq 100 Index (MNIX®) and Nasdaq-100 Index Tracking StockSM (QQQ).

DIAMONDS (ticker symbol DIA) represent shares in an exchange-traded fund designed to track the performance of the Dow Jones Industrial AverageSM (DJIA®), that trades like a stock.

CBOE is monitoring an attempt by the International Securities Exchange (ISE) to list options on DIAMONDS without a license. CBOE has had an exclusive license agreement with Dow Jones & Co., the publisher and owner of the Dow Jones Industrial Average, to trade DIA options since May of 2002. Dow Jones has obtained a Temporary Restraining Order (TRO) precluding ISE from listing or trading options on DIA. In a hearing held on May 27, 2005, the judge kept in effect the TRO citing the need for further review before deciding this matter. For more information, please see Information Circulars IC05-63 and IC05-64 at <https://www.CBOE.org>.

Resources Available 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:
- 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](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](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](mailto:montesan@cboe.com)); Carol Zylus at 312.786.7174 or ([mailto: zylusc@cboe.com](mailto:zylusc@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](mailto:hustadd@cboe.com)); Angela Redell, Director of Market Quality Assurance, at 312.786.7559 or ([mailto: redella@cboe.com](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, Director, Business Development, at 312.786.7180 or ([mailto: lowenthl@cboe.com](mailto:lowenthl@cboe.com))

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

Volume Update for April 2005—the Busiest Month in CBOE's History

Total Volume

- 40,713,355 contracts
- +29% vs year-ago (Apr 04); +8% vs previous month (Mar 05)

Average Daily Volume

- 1,938,731 contracts
- +29% vs year-ago (Apr 04)

Year-To-Date Volume

- 144,977,190 contracts
- +15% vs YTD 2004

Open Interest

- 146,560,735 contracts
- +13% vs year-ago (Apr 04); +4% vs previous month (Mar 05)

Fourteen volume records set in April include:

1. Total Exchange, Single-Day Trading: 3,983,059 contracts, Friday, April 15.
2. Total Exchange, Busiest Consecutive Trading Days: Fri, April 15 and Thur, April 14: 6,945,258 contracts.
3. Total Exchange, Single-Month Trading: 40,713,355 contracts, April 2005.
4. Total Exchange, Monthly Average Daily Volume: 1,938,731 contracts, April 2005.
5. Total Index Volume, Monthly Trading: 17,118,799 contracts, April 2005.
6. Total Index Volume, Single-Day Trading: 1,925,840 contracts, Friday, April 15.
7. Monthly Trading, SPX Volume (S&P 500 Index): 5,989,760 contracts, April 2005.
8. Monthly Trading, SPDR® Volume: 1,612,890 contracts, April 2005.
9. Single-Day Trading, SPDR Volume: 305,445 contracts, Friday, April 15.
10. Monthly Trading, NDX Volume (Nasdaq-100 Index): 521,566 contracts, April 2005.
11. Single-Day Trading, NDX Volume: 111,959 contracts, Wednesday, April 13.
12. Monthly Trading, IWM Volume (iShares Russell 2000 Index Fund): 1,418,918 contracts, April 2005.
13. Single-Day Trading, IWM Volume: 156,731 contracts, Friday, April 15.
14. Single-Day Trading, MNXSM Volume (Mini-Nasdaq-100 Index): 84,871 contracts, Monday, April 18.

April highlights at CBOE included:

- Volume in index options totaled 17.1 million contracts, an increase of 48% over year-ago levels. The top five index options at CBOE during April were: S&P 500 Index (SPX); Nasdaq-100 Index Tracking Stock (QQQ); S&P 100 Index (OEX); Standard & Poor's Depositary Receipts/SPDRs (SPY), and iShares Russell 2000 Index Fund (IWM).
- Volume in stock option classes rose 17% over April 2004 as 23.6 million contracts were traded. The top five stock option classes at CBOE during April were: Apple Computer, Inc. (AAPL), General Motors Corporation (GM), Elan Corporation, plc (ELN), Google Inc. (GOOG), and Pfizer, Inc. (PFE).

Financial Update

For the first four months of 2005, CBOE reported a pre-tax profit of \$7.0 million, compared to a budgeted pre-tax profit of \$1.0 million. Strong volume allowed CBOE to post these positive results. Volume averaged 1,766,700 contracts per day during this time period, which is 25% more than the 1,408,300 contracts that CBOE averaged for the six months ending December 31, 2004. Working capital for the Exchange increased from \$42.4 million to \$53.9 million during this time period. During the first four months of 2005 CBOE recorded new capital expenditures of \$6.3 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 1,754,200 contracts per day for the month of May (as of May 23). CBOE continues to invest significant capital in technology as we continue our capacity and application upgrades.

Washington Update

On May 17, 2005, President George Bush nominated Reuben Jeffrey III to fulfill the remaining years of the CFTC Chairman term, which will expire in 2007. Mr. Jeffrey is currently a special assistant to the president and a senior director for international economic affairs at the White House's National Security Council. He also worked on Iraq policy at the Defense Department and for Goldman Sachs in various locations around the world. Mr. Jeffrey's nomination is awaiting full confirmation by the Senate.

Congressman Dan Lipinski (D-IL), one of the newest Congressmen from Illinois, visited the Exchange on June 1. The Congressman met with the CBOE PAC Board and toured the trading floor.

Congresswoman Stephanie Herseth (D-SD) will visit the Exchange on June 7th. Congresswoman Herseth is currently serving her second term in Congress and is a member of the House Agriculture Committee. She will meet with the PAC Board and then take a tour of the trading floor.

CFE Volume Update

During April, CBOE Futures Exchange (CFE) volume rose 21% over the previous month and set a new CFE monthly trading record as 20,958 contracts traded, breaking the previous high of 17,386 contracts traded in March 2005. CFE's March average daily volume, also a new record, was 998 contracts. Open interest stood at 14,243 contracts at the end of April, up 26% from the previous month. CFE set three additional volume records recently: total exchange, single-day trading: 4,531 contracts on Wednesday, May 4; single-day trading in futures on the CBOE Volatility Index (VIX): 4,004 contracts on Wednesday, May 4; and single-day trading in futures on Mini-Russell 2000 Index: 1,210 contracts on Monday, April 18.

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

OneChicago

In April 2005, 290,034 contracts traded at OneChicago, LLC in April, an increase of 180% over April 2004 trading volume. Average daily volume was 13,811 contracts. Each single stock futures contract is equivalent to 100 shares of the underlying stock or exchange-traded fund.

OneChicago is looking for a strategic partner and has retained the services of Mesirow Financial, an investment banking firm, to conduct the search.

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.

Options Industry Council (OIC) Study Offers Profile of Options Users

During the May 2005 Options Industry Conference, the OIC released its 2005 study—"Profile of the Options Investor." The OIC commissioned Harris Interactive, Inc. to complete a comprehensive analysis of options investors and update OIC's research from their 1995 and 2000 studies. Investors were surveyed between December 2004 and February 2005. The study is posted on the OIC website at <http://www.optionscentral.com>.

Bloomberg TV at CBOE

A new service is being provided to CBOE members and visitors to the Exchange Building at 400 S. LaSalle in Chicago. Through an agreement with Bloomberg, TV screens broadcasting the Bloomberg channel have been installed in the lobby, along the retail concourse, and along the walls next to each of the elevators going from the lobby to the second floor.

In addition to providing a service to CBOE members and visitors, as well as enhancing the value of the facility, viewers can watch the live reports from CBOE's trading floor on Bloomberg TV.

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 requests, including member name, firm name (if applicable) and desired e-mail address to ([mailto: members@cboe.com](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](mailto:members@cboe.com)), or contact the Membership Department to begin receiving this weekly update.



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Every innovative idea starts with
an insight.



It's called an "Aha! moment."

From that point forward, the marketplace will be decidedly different, usually better. And if you are fortunate enough to capitalize on this moment, it's one filled with opportunity.

Since its inception, the Chicago Board Options Exchange, the creator of listed options, has led the options industry with vision and innovated with passion. The following are just a few of the innovative ideas that make CBOE the best choice for trading options.

Innovative Products

From the CBOE S&P 500 BuyWrite Index (BXMSM), which was named Most Innovative Benchmark Index, to the CBOE Volatility Index[®] (VIX[®]) Futures, which is traded on the CBOE Futures Exchange and has won the most Innovative Index Derivative award at the 2004 Super Bowl of Indexing Conference, CBOE has developed market-defining investment opportunities.

CBOE Hybrid 2.0

CBOE continues to enhance its market structure with CBOE Hybrid 2.0, the trading platform that provides choice between auto-execution and open outcry. By adding electronic DPMs and Remote Market Makers to Hybrid 2.0, CBOE welcomes electronic market participants to the low-cost, easily accessed and immediate CBOE Hybrid trading environment.

CBOE.com

Forbes has named CBOE.com "Best of the Web" for four consecutive years. With an array of trading tools, commentary from insightful professional investors, and a wealth of other valuable content, CBOE.com is the definitive source for options trading information.

The Options Institute

Celebrating its 20th anniversary, CBOE's The Options Institute is recognized as the worldwide thought leader in options education.

Choosing CBOE

Providing choice is a good idea, and the marketplace agrees. In the spring of 2005, CBOE had back-to-back record volume days, with a combined total of nearly seven million contracts reported. In the same quarter, it also traded, according to data from the Options Clearing Corporation, more contracts in Options on SPDRs than any other exchange.

With innovations like these, CBOE will continue to seek insights that provide improved market quality and enhanced options trading experience. And that's a notion worthy of exclamation.

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CBOE
CHICAGO BOARD OPTIONS EXCHANGE



Today, April 26, 2005, the Chicago Board Options Exchange celebrates its 32nd anniversary. On this occasion, the creator of listed options begins the next phase of our innovative market model CBOE Hybrid 2.0, and welcomes the following organizations and individuals as Remote Market Makers (RMMs):

Andrie Trading LLC
 Ares Investment Fund LLC
 Blue Capital Group LLC
 BNP Paribas Securities Corp.
 Brian S. Stutland
 Caesaron II Fund LP
 Capstone Trading LLC
 Centurion Securities LLC
 Citadel Derivatives Group LLC
 Citigroup Derivatives Markets Inc.
 Consolidated Trading LLC
 Cool Breeze Inc.
 Cornerstone Trading LLC
 Credit Suisse First Boston LLC
 CSS LLC
 CTC LLC
 Cutler Group LP
 DND Trading LLC
 DRO WST Trading LLC
 Equitec Proprietary Markets LLC
 EWT LLC
 Fawcett Trading LLC
 Gary S. Bell
 G-Bar Limited Partnership
 Geneva Trading LLC
 Group One Trading LP
 Hardcastle Trading USA LLC
 Holland Trading House LLC
 Jackson Financial Group Inc.
 Jane Street Options LLC

Jump Trading LLC
 Keiwana-Lime Investment Company LLC
 Lehman Brothers Inc.
 Link Strategies LP
 McGowan Investors LP
 Merrill Lynch Professional Clearing Corp.
 Mont R. Wickham
 Morgan Stanley & Co. Inc.
 Northern Access LLC
 Optiver US LLC
 Patrick R. Bruce
 PFTC LLC
 Prospect Trading LLC
 Quiet Light Securities LLC
 Roepe Rosenfeld Trading LLC
 Ronin Capital LLC
 Samurai Trading LLC
 SLK-Hull Derivatives LLC
 SMC Option Management LLC
 StoneHedge Securities LLC
 TD Options LLC
 Terrance G. Boyle
 Third Millennium Trading LLC
 Tim R. Wipert
 Timber Hill LLC
 W.H. Trading LLC
 Wellington Capital Markets LLC
 Westward Capital LLC
 Wolverine Trading LLC