

## Updates to the Chicago Board Options Exchange Membership Meetings

### **CBOE and CFE to Launch “PowerPacks<sup>SM</sup>” on July 8**

CBOE has created a family of twelve new sector indexes, called “PowerPacks.<sup>SM</sup>” Both options and futures on all twelve PowerPacks indexes will launch on Friday, July 8, 2005.

This new family of sector indexes, or PowerPacks, was designed by CBOE to provide investors with a comprehensive set of trading tools to manage the risk of, or gain exposure to, a diversified group of stocks in certain industry groups. Both cash-settled index options and futures on these twelve new indexes will be offered, trading on CBOE and the CBOE Futures Exchange (CFE), respectively.

The twelve individual indexes included in the family of PowerPacks are: CBOE PowerPacks Bank, Biotechnology, Gold, Internet, Iron & Steel, Oil, Oil Services, Pharmaceuticals, Retail, Semiconductor, Technology and Telecom Indexes.

The new CBOE PowerPacks employ a consistent, objective methodology for component selection and calculation. Each index is comprised of 25 securities that are among the largest and most actively traded companies in their respective industry groups. Each index is calculated using a “modified” capitalization methodology that limits the weight of individual components to 10% initially, and on subsequent rebalancing dates. The indexes will be rebalancing quarterly, each on the same date.

Futures based on the PowerPacks sector indexes will trade electronically on CFE, via CBOE*direct*.<sup>®</sup> The options will trade at CBOE, electronically and via open-outcry, on the CBOE Hybrid Trading System.

The DPM for futures and options on the CBOE PowerPacks Biotech, Gold, Iron & Steel, and Pharmaceutical Indexes is Jane Street Specialists, LLC. The DPM for futures and options on the CBOE PowerPacks Retail and Telecom Indexes is LaBranche Structured Products, LLC. The DPM for the CBOE PowerPacks Bank, Internet, Oil, Oil Services, Semiconductor and Technology Indexes is Timber Hill, LLC.

For information on ticker symbols, expiration cycles, position limits, component stocks and other contract information, please visit <http://www.cboe.com/PowerPacks>.

### **Preferred DPM Program Enhances Customer Service**

In keeping with CBOE’s commitment to continually enhance customer service, CBOE recently launched a new order-execution feature, Preferred DPM. The primary objectives of the Preferred DPM Program are to further foster the relationships between the CBOE DPM community and order flow providers, and to attract additional order flow to CBOE.

Under the new program, an order provider may, if desired, identify its “Preferred” DPM on any market or marketable limit order (i.e., those eligible for automatic execution). If the Preferred DPM is on the NBBO, then the Preferred DPM will be allocated a favorable portion of the executed quantity. If the Preferred DPM is not on the CBOE market, then the order will “auto-ex” against those market makers and DPMs that do comprise the disseminated quote, and the Preferred DPM will not be allocated any contracts.

It is important to note that orders marked with a "Preferred" DPM are not delayed in the system or previewed in any fashion.

Some competing options exchanges are launching similar programs, so CBOE's Preferred DPM Program ensures that our members will be able to compete for orders on a "level playing field."

For more information on this program, members can refer to Information Circular IC05-71 at <https://www.cboe.org>. Firms with questions about message formats can contact Mike Trees at 312.786.8408 or the API Testing Group at 312.786.7300. For questions regarding business functionality, contact Anthony Montesano, Vice President, Trading Operations at 312.786.7365.

### **Disaster Recovery Site To Ensure Ongoing Trading**

Post 9/11, disaster recovery has taken on special significance. CBOE needs to be fully prepared in the event of an inability to operate out of its current facility. The Exchange is in the process of building a back-up facility, which would enable remote trading, with no physical "floor" necessary.

The new facility will be powered by the CBOE *direct* trading technology, which we own, and which now serves as the trading engine for the Hybrid, OneChicago, and the CBOE Futures Exchange. The facility will be rolled-out in phases, with the first phase expected to be operational by year-end. The first phase will provide the ability to electronically trade CBOE's proprietary index products.

CBOE currently has arrangements in place with the Philadelphia Stock Exchange (PHLX) that provide for back-up trading facilities at PHLX for CBOE's exclusively-listed options and singly-listed options. Members will be able to send orders in multiply-listed options to the other options exchanges, as is the case today. CBOE's longer-term objective is to implement enhancements to CBOE's disaster recovery site to preserve the marketplace for all of CBOE's products.

CBOE plans to provide testing support beginning in October 2005 for firms participating at the disaster site. To ensure a fully functional disaster site, it is imperative that all external interfaces are connected to the site. We encourage all firms with current connectivity to CBOE to establish a connection to the new disaster recovery site.

For more information, members can refer to Information Circular IC05-69 at <https://www.cboe.org> and/or contact Charles Hulihan, CBOE Disaster Site Trade Match Liaison, at 312.786.7176 or Dushone Embrey at 312.786.8816. Both individuals can also be reached at ([mailto: cboedr@cboe.com](mailto:cboedr@cboe.com)).

### **Options on DIAMONDS® Now Trading on CBOE Hybrid**

Options on DIAMONDS (DIA®) were added to CBOE's Hybrid Trading System on Thursday, June 23. There were 21 market makers quoting, and displayed size was more than 12,000 contracts in some series, with 60,798 DIA contracts trading through the system on that day. Open Interest in DIA options stood at 523,487 contracts on June 23.

Additionally, the hearing on the request by Dow Jones for a preliminary injunction to prevent the International Securities Exchange (ISE) from trading DIA options without a license concluded on June 13, 2005. The judge did not make a ruling on the request. The temporary restraining order precluding ISE from trading DIA options will remain in effect until the judge makes his ruling.

### **Remote Market Maker (RMM) Program Continues Roll-Out**

RMM is a new class of CBOE membership designed to allow members to engage in market making at CBOE from any location. Creation of the RMM class of membership was an important component of the Hybrid 2.0 roll-out.

With the recent addition of Geneva Stock as an RMM, there are now 59 Remote Market Makers participating in the program. It is expected that additional individuals and organizations will become part of the program as it rolls out.

As of June 13, there were 136 classes accessible for trading by RMMs. It is anticipated that RMMs eventually will quote in the top 602 Hybrid-enabled options classes.

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 <https://www.cboe.org/legal/crclInfo.aspx> or contact the Market Quality Assurance Dept. at 312.786.7559.

#### **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<sup>®</sup> 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 <https://www.cboe.org/Hybrid>.

#### **Volume Update for May 2005—Record-breaking Month for SPX and NDX**

*Exchange Volume, May 2005:*

Total Volume

- 34,689,801 contracts
- +24% vs year-ago (May 04)

Average Daily Volume

- 1,651,895 contracts
- +18% vs year-ago (May 04)

Year-To-Date Volume

- 179,666,991 contracts
- +17% vs YTD 2004

Open Interest

- 152,287,786 contracts
- +11% vs year-ago (May 04)

May highlights at CBOE included:

- Volume in index options totaled 14.5 million contracts, an increase of 14% over year-ago levels. The top five index options at CBOE during May were: S&P 500® Index (SPX); Nasdaq-100 Index Tracking Stock® (QQQ); S&P 100® Index (OEX); Standard & Poor's® Depository Receipts/SPDRs® (SPY); and iShares Russell 2000® Index Fund (IWM).
- In Nasdaq-100 Index® options (NDX), CBOE set a new record for monthly volume with 559,122 contracts traded in May, eclipsing the previous record of 521,566 contracts set the prior month. In Standard & Poor's 500 Index options (SPX), volume at CBOE for the week of May 16–20 was 2,081,537 contracts, the busiest week ever for SPX trading.
- Volume in stock option classes rose 33% over May 2004 as 20.2 million contracts were traded. The top five stock option classes at CBOE during May were: General Motors Corporation (GM), Google Inc. (GOOG), Apple Computer, Inc. (AAPL), Hewlett-Packard Co. (HPQ) and Microsoft Corp. (MSFT).

### Financial Update

For the first five months of 2005, CBOE reported a pre-tax profit of \$7.3 million, compared to a budgeted pre-tax profit of \$1.3 million. Strong volume allowed CBOE to post these positive results. Volume averaged 1,743,000 contracts per day during this time period, which is 24% 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 \$49.8 million during this time period. During the first five months CBOE recorded new capital expenditures of \$8.8 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, and also disbursed \$6.0 million for the purchase of CBOT exercise rights at the end of May.

CBOE's strong financial results are expected to continue. We are averaging over 1,719,600 contracts per day for the month of June (as of June 27th). CBOE continues to invest significant capital in technology as we continue our capacity and application upgrades.

### Washington Update

#### *SEC Chairman Nomination*

On June 2, 2005 President George W. Bush nominated Congressman Christopher Cox to serve as Chairman of the U.S. Securities and Exchange Commission. Congressman Cox has been a Republican member of Congress from California since 1988, and most recently served as Chairman of the Homeland Security Committee. Prior to election to Congress, he served as Senior Associate Counsel to President Ronald Reagan, and was a partner at Latham & Watkins. Congressman Cox's nomination is awaiting confirmation by the Senate Banking Committee and the full Senate.

#### *CFTC Reauthorization*

CBOE and the U.S. Securities Markets Coalition have been closely monitoring this year's Congressional hearings on the reauthorization of the Commodity Futures Trading Commission. These hearings take place approximately every five years for the purpose of re-assessing the agency's mission and effectiveness. The CFTC has sent a proposal containing recommendations for legislation to the House Agriculture Committee. The recommendations include proposed new definitions for broad-based security indexes. In addition to the proposal, there have also been discussions of a margin pilot program for single stock futures.

CBOE has been meeting with members of both the U.S. House Financial Services Committee as well as the agriculture committees to discuss the potential impact on equity options. The SEC has also been notified of the suggested changes and has said they will oppose any changes to the Commodity Futures Modernization Act of 2000.

#### *CBOE Washington D.C. Reception*

CBOE hosted a reception for members of Congress while in Washington D.C. for the June CBOE Board of Directors meeting. The reception, which was held in the Capitol, was attended by members of Congress and their staffs, as well as commissioners and staff from the SEC and CFTC. Members from all relevant committees to CBOE attended and had the opportunity to speak with our Board of Directors. Members of Congress who attended included House Speaker J. Dennis Hastert (R-IL), Congresswoman Nancy Pelosi (D-CA), Congresswoman Judy Biggert (R-IL), Congressman Rahm Emmanuel (D-IL), Congressman Tom Reynolds (R-NY), as well as many others.

#### **Spotlight on: CBOE Futures Exchange**

With the launch of the CBOE Futures Exchange on March 26, 2004, CBOE paved the way for the introduction of some of the most innovative products in the industry. The first product offered for trading on CFE was futures on the CBOE Volatility Index® (VIX®). When VIX itself was first introduced in 1993, it was a landmark CBOE innovation, offering the industry the first reliable gauge of market sentiment. Today, it is often referred to as the “fear gauge” by investors and media analysts. Futures on the VIX gave investors, for the first time, a viable instrument for trading market volatility itself, and only a few months after the launch, the futures on VIX product captured the Most Innovative Index Derivative Award at the Ninth Annual Super Bowl of Indexing® Conference in December 2004. Today, VIX futures continue to be CFE’s most actively-traded product, and we are seeing increasing volume, especially from European firms.

During the past 15 months, CFE has launched several additional products, including futures on CBOE S&P 500 Three-Month Variance, Russell 1000 Index, Mini Russell 2000 Index, CBOE China Index and DJIA® Volatility Index.

As investors become more familiar with the existing products and new products are added, we expect CFE to grow steadily. We are encouraged by the record-breaking months CFE has experienced as the new Exchange matures.

For instance, during May, CBOE Futures Exchange volume rose 32% over the previous month and set a new CFE monthly trading record as 27,692 contracts traded, breaking the previous high of 20,958 contracts traded in April. CFE’s May average daily volume, also a new record, was 1,319 contracts. On May 18, CFE set a new open interest record of 17,772 contracts. At the end of May, open interest stood at 15,566 contracts, up 10% from the previous month.

Additionally, CFE set two single-day trading records on May 4: total exchange, single-day volume: 4,531 futures contracts traded; and single-day volume, CBOE Volatility Index (VIX) futures: 4,004 futures contracts.

According to Patrick Fay, CFE Managing Director, “This is an exciting time for CFE as we explore new product possibilities and widen our educational outreach. CBOE has a long history of innovation, and CFE presents great opportunities to carry on that long-standing tradition.”

CBOE members can learn more about CFE by visiting <http://www.cboe.com/CFE> or contacting Mr. Fay at 312.786.7925.

**The Options Institute Launches Master Session**

The Options Institute Master Session (OIMS) is a new offering for the serious trader and investor. The goal of the two-day intensive session on September 29–30, 2005 is to provide a high quality educational experience for active traders and investors seeking to refine their trading and investing ability.

Price Headley of BigTrends.com will lead the session and will define his Big Trends options trading approach. Mr. Headley will review his top-down method for defining the best trends in both bull and bear markets; it begins with market analysis, then moves to stock selection, and then focuses on the best options to trade.

Tuition is \$1495 per person. Additional information is available at <http://www.cboe.com> under the "Learning Center" tab. Please call 1-877-THE-CBOE to register.

**OneChicago Volume 91% ahead of 2004 YTD**

In May 2005, 258,654 contracts traded at OneChicago, LLC, an increase of 165% over May 2004 trading volume and the fourth consecutive month of year-over-year volume increases. Average daily volume in May was 12,313 contracts. Year-to-date 2005 volume is 91% ahead of the same period in 2004. Each single stock futures contract is equivalent to 100 shares of the underlying stock or exchange-traded fund.

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 ([mailto: SPO@OneChicago.com](mailto:SPO@OneChicago.com)).

**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.

Please feel free to contact us directly with feedback on any of the topics presented in this newsletter. We welcome your thoughts, ideas and recommendations.



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