



To: Membership
From: Office of the Chairman
Date: October 21, 2008
Re: New Exchange Initiative

As the listed options business continues its expansion into new market models and platforms, Exchange consolidation has enabled major competitors, such as the NYSE/PCX/AMEX combination and the NASDAQ/PHLX combination, to control multiple, separate Exchange licenses. The ability to offer different execution venues (for instance, a traditional, floor-based market and an all-electronic exchange) under a single Exchange holding company enables these combined entities to appeal to option users across the entire customer spectrum.

CBOE, as the industry leader in the development of trading technology, is uniquely positioned to independently develop its own alternative trading solution for market participants. In this spirit, CBOE's Board of Directors has approved a plan, endorsed by the Floor Directors and management, to leverage our in-house expertise with the scalability and flexibility of the CBOE*direct* system and to continue reinvesting in the growth of our business by launching a new and separate options Exchange. This new Exchange, which we are currently referring to as "C2," will compliment our hybrid marketplace by expanding our customer reach, thus enhancing CBOE's competitive position overall.

C2 will operate under a separate exchange license with a separate access structure and fee schedule. C2 will be an all-electronic options marketplace, capable of eventually supporting listing and trading of all CBOE products using multiple market models and pricing structures. The new Exchange will have its own Board of Directors, rules, connectivity, and systems architecture, with its primary data center located in the New York metropolitan area.

While CBOE has commenced development of the initial systems requirements for C2, much else regarding how C2 will be organized and operated remains flexible. CBOE will begin discussions with its members and member firms to determine the most attractive and competitive structure for C2, with the expectation that C2 may launch in 2009, pending regulatory approval. Once complete, C2 would be a wholly owned subsidiary of CBOE, and would become a wholly owned subsidiary of CBOE Holdings, Inc. in the event of a CBOE demutualization.

We will continue to keep the Membership informed as this initiative progresses. We are committed to maintaining the highest competitive and technological standards for both exchanges, and we expect the addition of C2 to make a positive contribution to CBOE's performance in the years ahead. With your help, we look forward to providing our membership and customers with another leading marketplace on which to conduct their business.