

Date: June 30, 2004

To: The Membership

From: Financial Planning Committee (FPC)

Subject: **Fiscal 2005 (FY05) Fee Changes**

The FPC recommended and the Board of Directors approved the FY05 budget on June 10, 2004. Included in the budget are various fee changes. Subject to SEC approval, the changes, summarized below, will be effective July 1, 2004.

- 1) **Indexes Order Book Official (OBO) Execution Fees** – Exchange-wide average OBO rates will be reduced by approximately 50%. In addition, the OBO rate schedule will be streamlined by eliminating the tiered rate structure. The revised rate will be \$.25 per contract. Prior to the revision, rates were \$.60 per contract if the premium was > or = \$2 or \$.40 per contract if the premium was < \$2.

As in prior years, OBO fees will continue to be waived for market orders sent to the book prior to the opening and executed during opening rotation. In OEX, fees will continue to be waived for market and limit orders sent to the book prior to the opening and executed during opening rotation. Cabinet trades will continue to be charged \$.10 per contract.

- 2) **Customer Large Trade Discounts** – A customer large trade discount pilot plan in the form of a cap on customer transaction fees will continue to be in effect for the six month period ending December 31, 2004. The pilot plan has been in effect for all of the current fiscal year (July 2003 through June 2004). MNX is not included in the program since customer fees were significantly reduced in recent years. Floor brokerage fees are not subject to the cap on fees.

Regular customer transaction fees will only be charged up to the following quantity of contracts per order, based on the following underlying indexes:

- Dow Jones indexes (including Diamonds) – charge only the first 7,500 contracts,
- SPX – charge only the first 5,000 contracts,
- OEX (including XEO & OEF), NDX & other indexes – charge only the first 3,000 contracts.

- 3) **Dividend Spread Transaction Fees Cap** – Market maker, firm and broker-dealer transaction fees will be capped at \$2,000 per dividend spread. A dividend spread is defined as any trade done within a defined time frame in which a dividend arbitrage can be achieved between any two deep-in-the-money options. To receive the cap benefit, a rebate request with supporting documentation must be submitted to Don Patton in Accounting (312-786-7026 or patton@cboe.com) within thirty days of the trade date.
- 4) **ETFs and Structured Products Transaction Fees** – Customer fees will be eliminated and member firm proprietary and market maker/specialist fees will be capped at \$100 per order. Rates per 100 shares will be as follows, subject to a \$100 cap per order:

• Customer	\$.00 (was \$.25)
• Member firm proprietary	\$.10 (no change)
• Market maker/specialist	\$.05 (no change)
- 5) **Floor Broker Fees for Crossed Orders** - The 4-cent per contract floor brokerage fee will be reduced by 50% when a floor broker crosses an order. Currently, in a crossed order, a floor broker is charged either 4 cents or 8 cents per contract, the lower amount if one side of the crossed order is an Equity or

QQQ options customer. To be eligible for the discounted rate, the executing broker acronym, executing firm number and order ID data must be the same on both the buy and sell side of an order.

- 6) **Technology Fee and Member Dues** – The technology fee (\$200 per month) and member dues (\$250 per month) are currently assessed separately on monthly invoices from CBOE. The two fees will be combined under member dues at \$450 per month. A separate billing for the technology fee will be eliminated.
- 7) **Trading Floor Booth Fees and Booth Rental Incentive Plan** – The current fee schedule includes certain booth fees based on a firm's membership status at the Options Clearing Corporation (OCC). The reason for imposing this fee differential no longer exists, and as a result, the FPC recommended the elimination of the OCC member firm differential where previously imposed. Perimeter booths will be assessed \$185 per month (were \$165 for OCC member firms and \$300 for non-OCC member firms). Booths in the OEX pit will be assessed \$330 per month (were \$330 per month for OCC member firms and \$700 for non-OCC member firms).

In an effort to increase booth space rentals, a booth rental incentive plan will continue to be in effect for the period July through December 2004. All members and member firms may lease additional perimeter booth space at a rate of \$100 per month per booth. The discounted price is only applicable to booths leased in excess of the quantity leased as of June 1, 2004. For new members and member firms, the first four booths will be assessed at the rate schedule effective July 1, 2004, and any additional booths in excess of the initial four will be assessed at the reduced lease rate during the incentive period. All booth fees discounted under the incentive plan will revert to regular rates on January 1, 2005.

Prospective Fee Reduction Program

The Prospective Fee Reduction Program will be continued in fiscal year 2005 and **will begin on August 1, 2004**. The Program is intended to limit fees in periods of high volume. Fee reductions will be in effect August 1, 2004 under the following scenarios:

- If CBOE volume exceeds predetermined average contracts per day (CPD) thresholds at the end of the any month on a fiscal year-to-date (YTD) basis, market maker and DPM transaction fees, as well as floor brokerage fees, will be reduced in the subsequent month according to the schedule presented below:

FY05 YTD AVG. CPD	FEES DISCOUN T	EQUITIES MRKT. MAKER REDUCTIONS	QQQ/INDEXES MRKT. MAKER REDUCTIONS	DPM TRANS. FEES REDUCTIONS	FLOOR BROKERAGE REDUCTIONS
1,300,000	10%	\$.022	\$.024	\$.012	\$.004
1,400,000	15%	\$.033	\$.036	\$.018	\$.006
1,500,000	20%	\$.044	\$.048	\$.024	\$.008
1,600,000	25%	\$.055	\$.060	\$.030	\$.010
1,700,000	30%	\$.066	\$.072	\$.036	\$.012
1,800,000	35%	\$.077	\$.084	\$.042	\$.014
1,900,000	40%	\$.088	\$.096	\$.048	\$.016
2,000,000	45%	\$.099	\$.108	\$.054	\$.018

A circular will be distributed notifying the Membership of any fee reduction that may be in effect.

The threshold for fee reductions are reviewed and adjusted each year to account for the anticipated working capital needs of the Exchange for the coming year.

EQUITY OPTIONS REVISED FEE SCHEDULE RE LAUNCH OF HYBRID 2.0 (H2.0)

As previously communicated at Membership meetings and subject to SEC approval, below is an itemization of the new fee schedule in equity options. Please note the fees itemized below will be assessed to all equity options classes, whether or not a class is included in H2.0. Excluding e-DPM rates, the revised fee schedule will begin July 1, 2004. Subject to SEC approval, e-DPM rates will begin on the first day of the month after e-DPM rollout begins. If e-DPM trading begins after July 1, 2004 (intra-month in July), market maker rates will be assessed for e-DPM activity until the first of the following month.

QQQ options will have a separate fee schedule, itemized below. QQQ rates have not changed.

In an effort to simplify the fee schedule, effective July 1, 2004 and included below, trade match fees will be bundled with transaction fees.

OPTIONS TRANSACTION FEES:

PER CONTRACT

EQUITY OPTIONS (EXCLUDES QQQ OPTIONS):		
I	CUSTOMER	\$.00
II	MARKET MAKER (standard rate)	\$.22
III	DESIGNATED PRIMARY MARKET MAKER (DPM)	\$.12
IV	ELECTRONIC DPM (e-DPM) (assessed market maker rates if intra-month implementation)	\$.25
V	MEMBER FIRM PROPRIETARY:	
	▪ FACILITATION OF CUSTOMER ORDER	\$.20
	▪ NON-FACILITATION ORDER	\$.24
VI	BROKER-DEALER	\$.25
VII	NON-MEMBER MARKET MAKER (not eligible for Prospective Fee Reduction Program)	\$.24

Fixed Fee Alternative for DPMs and e-DPMs – DPMs and e-DPMs may elect to pay a fixed annual fee of \$1.75 million. By paying the fixed annual fee, DPMs and e-DPMs will not be assessed any per contract transaction fees incurred as a DPM or eDPM. This fixed annual fee will become effective and is available as an option to DPMs and e-DPMs on October 1, 2004 and is only applicable to trading in equity options classes. The fixed fee is not applicable to any floor brokerage or on-floor market maker fees.

QQQ OPTIONS (no change from prior year):		
I	CUSTOMER	\$.00
II	MARKET MAKER AND DPM (standard rate)	\$.24
III	MEMBER FIRM PROPRIETARY:	
	▪ FACILITATION OF CUSTOMER ORDER	\$.20
	▪ NON-FACILITATION ORDER	\$.24
VII	BROKER-DEALER	\$.25
VIII	NON-MEMBER MARKET MAKER (not eligible for Prospective Fee Reduction Program)	\$.24

An updated Exchange Fee Schedule will be distributed on July 1. Additional copies may be obtained by calling Ermer Love at (312) 786-7032 or Nancy Weber at (312) 786-7038. In addition, copies will be available in the Accounting Department on the 6th floor, and can also be accessed by visiting the CBOE website (CBOE.com).

Please call Ermer Love at (312) 786-7032, Nancy Weber at (312) 786-7038, or Robert Corne at (312) 786-7450 if you have any questions.

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