CBOE®

Regulatory Circular RG11-055

To: Trading Permit Holders
From: Finance and Administration
Date: April 28, 2011
Re: Additional Strategy Spreads Eligible for Fee Cap

Subject to SEC review, effective May 2, 2011 CBOE is modifying the strategy spreads fee cap program.

Reversals, Conversions and Jelly Rolls:
The Exchange currently caps market-maker and broker-dealer transaction fees at $1,000 for all reversals[1], conversions[2] and jelly roll[3] strategies executed on the same trading day in the same Flexible Exchange (FLEX) option class, excluding any option class on which the Exchange charges the Index License surcharge fee under Footnote 14 of the CBOE Fees Schedule. Such transaction fees are further capped at $25,000 per month per initiating member or firm. Floor brokerage fees assessed on these strategies are eligible for a full rebate (see below). To qualify transactions for the cap a rebate request with supporting documentation must be submitted to the Exchange within 3 business days of the transactions.

Effective May 2, 2011, the fee cap for reversals, conversions and jelly roll strategies will be expanded to also apply to non-FLEX options classes. Thus, reversals, conversions and jelly roll strategy transactions in non-FLEX options classes will also be eligible for the fee cap, except that any option class on which the Exchange charges the Index License surcharge fee under Footnote 14 of the CBOE Fees Schedule would continue to be excluded from the cap.

Other Strategy Fee Caps in Effect – Dividend, Merger and Short Stock Interest:
Market-maker, firm and broker-dealer transaction fees are capped at $1,000 for all dividend strategies[4], merger strategies[5] and short stock interest strategies[6] executed on the same trading day in the same options class. Transaction fees for strategies are further capped at $25,000 per month per initiating member or firm. Index License surcharge fees associated with dividend, merger and short stock interest strategies will

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[1] A reversal strategy is established by combining a short security position with a short put and a long call position that shares the same strike and expiration.
[2] A conversion strategy is established by combining a long position in the underlying security with a long put and a short call position that shares the same strike and expiration.
[3] A jelly roll strategy is created by entering into two separate positions simultaneously. One position involves buying a put and selling a call with the same strike price and expiration. The second position involves selling a put and buying a call, with the same strike price, but a different expiration from the first position.

be passed through to trading participants on these strategies on a pro-rata basis. These surcharge fees will not be included in the calculation of the $1,000 per day per class fee cap or the $25,000 per month fee cap. Floor brokerage fees assessed on these strategies are eligible for a full rebate (see below). No changes are proposed to the fee cap for dividend, merger and short stock interest strategies.

Only timely submitted rebate requests are eligible for fee caps and floor brokerage fees rebate (within 3 business days of transactions). All requests must be submitted electronically on a CBOE standard Strategies Rebate Form and must include supporting documentation (clearing firm trade confirmations (options and stock, if applicable) etc.). Forms should be submitted to CBOE's Help Desk (helptrade@cboe.com) for auditing and processing. Rebates will be processed as soon as practical via a credit to the Trading Permit Holder's clearing firm.

Please direct any questions to Help Desk Business Analyst Ron Felske at (312) 786-7184 or felsker@cboe.com or to John Mavindidze in Accounting at 312-786-7689 or mavindidze@cboe.com.

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[4] A dividend strategy is defined as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed prior to the date on which the underlying stock goes ex-dividend.

[5] A merger strategy is defined as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.

[6] A short stock interest strategy is defined as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class.