



Regulatory Circular RG00-131

TO: Members

FROM: Legal Division

DATE: August 24, 2000

**RE: SEC Approval of DPM Transfer Fee and
Seat Ownership Requirement**

The Securities and Exchange Commission (SEC) has approved CBOE's rule filing (SR-CBOE-99-37) to implement a DPM transfer fee and seat ownership requirement, effective on August 21, 2000.

DPM Transfer Fee

The provisions relating to the DPM transfer fee are contained in CBOE Rule 8.89.02 and provide that:

- Any DPM allocated, after June 29, 1999, one or more option classes traded CBOE prior to that date shall be subject to a transfer fee in the event of a change in the capitalization of the DPM during the five year period following the allocation of the first such option class to the DPM.
- For purposes of this transfer fee, a change in the capitalization of a DPM includes any sale, transfer, or assignment of any ownership interest in the DPM or any change in the DPM's capital structure, voting authority, or distribution of profits or losses.
- The transfer fee shall be equal to the larger of the following two amounts:
 - (i) (the applicable percentage set forth below) x (the actual dollar value of the change in capitalization of the DPM as determined by the Exchange) x (the percentage of the DPM's Market-Maker trading volume in its capacity as a DPM in the previous 12 months attributable to option classes allocated to the DPM after June 29, 1999 that were traded on CBOE prior to that date)
 - (ii) (the applicable percentage set forth below) x (the current level of overall DPM profitability per contract as determined by the Exchange based on DPM financial reporting) x (the DPM's Market-Maker trading volume in the previous 12 months in option classes allocated to the DPM after June 29, 1999 that were traded on CBOE prior to that date) x (2) x (the percentage change in the DPM's capitalization as determined by the Exchange).
- The applicable percentage to be used in the formulas above to determine the transfer fee to be assessed to a DPM shall be 50% in the first year of the five year period during

(over)

which the DPM is subject to this transfer fee, 40% in the second year, 30% in the third year, 20% in the fourth year, and 10% in the fifth year.

DPM Seat Ownership Requirement

The provisions relating to the DPM seat ownership requirement are contained in CBOE Rule 8.85(e) and provide that:

- Each DPM is required to own at least one Exchange membership.
- Each DPM has until February 21, 2002 (18 months from the date of the SEC's approval of Rule 8.85(e)) to satisfy this ownership requirement.
- An Exchange membership includes a transferable regular membership or a Chicago Board of Trade full membership that has effectively been exercised pursuant to Article Fifth(b) of the Certificate of Incorporation.
- A DPM shall be deemed to satisfy this ownership requirement if the DPM or a senior principal of the DPM owns an Exchange membership.
- No single Exchange membership may be used to satisfy this ownership requirement for more than one DPM.

Any questions regarding the DPM transfer fee or seat ownership requirement may be directed to Arthur Reinstein at (312) 786-7570.

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