



## **Regulatory Circular RG01-30**

**Date:** March 7, 2001

**To:** Members and Member Organizations

**From:** Membership Department

**Re:** Option Trading Permit Lease Pool Procedures

In connection with the transfer of the New York Stock Exchange (NYSE) option program to the CBOE, the Exchange created and issued seventy-five Option Trading Permits. The Permit gives the holder limited member status by entitling the holder to only the following trading rights and privileges:

1. To be admitted to the trading area on the second floor for the purpose of engaging in the activity of a Market Maker, DPM and/or Floor Broker in the option classes that are located in that area, which classes are the former NYSE option classes that are not also traded on the CBOE main trading floor, and any classes which are subsequently allocated to the second floor trading area; and
2. To trade by order as principal those classes of equity options that were traded on both the CBOE and the NYSE immediately prior to the relocation of the NYSE option program to the CBOE; and
3. To trade by order as principal all classes of options traded on the CBOE in addition to those described in paragraphs 1 and 2 above, provided that the Permit holder's total contract volume in such classes of options during any calendar quarter may not exceed twenty percent (20%) of the sum of such Permit holder's total in person contract volume as principal effected pursuant to paragraph 1 above and the Permit holder's contract volume pursuant to paragraph 2 above; and
4. To be admitted to the main CBOE trading floor for the purpose of trading any NYSE Option (as defined in CBOE Rule 3.27) located on the main trading floor and for the purpose of responding to the call of a Board Broker or Order Book Official pursuant to Rule 7.5 in respect of any class of options in which a transaction has been effected for the Permit holder's account on the day of the call.

### Operation of the Lease Pool

The Exchange deposited into a "lease pool" those Option Trading Permits not issued to NYSE option members, plus any Option Trading Permits which, following their issuance to NYSE option members, were surrendered by those members. There are currently twenty-eight Permits in the lease pool. These Permits were allocated to leases pursuant to a competitive bidding process. **All current Option Trading Permit leases expire April 30, 2001.**

The Permits in the lease pool will be re-allocated through a competitive bidding process which operates as follows:

1. The Exchange will accept from members and non-members who have qualified for membership sealed bids equal to the monthly rent that the bidder is willing to pay for a six month Permit lease from May 1, 2001 through October 31, 2001. All bids must be submitted in writing to the Membership Department and will be accepted until 4:00 p.m. on Friday, March 30, 2001.
2. Upon the close of the bidding period, Permits in the pool will be awarded to the highest bidders in a number equal to the total number of Permits in the pool at that time. In the event that there is more than one bid at the lowest successful bid level, the bid received first in time will have priority.
3. The monthly rent to be paid by each successful bidder will be the dollar value of the lowest successful bid (a method known as a "Dutch auction."). Lease payments will be collected by the Exchange at the beginning of each month.
4. Following each Dutch auction, bids for Permit leases for the current six month lease period will continue to be accepted, provided that the amount of the bid is at least as high as the lease rate established in the most recent Dutch auction ("minimum qualifying bid"). Any bid submitted during the most recent Dutch auction which was not matched with a Permit, and which is equal to the minimum qualifying bid, or which is replaced with a bid that is equal to or greater than the minimum qualifying bid, shall remain an active bid for the current six month lease period until the bid is canceled, the bid is matched with a Permit, or the current six month lease period expires. The high bid will be posted without the identity of the bidder attached.
5. A lessee may terminate the lessee's Permit lease during the six month lease period by providing written notice to the Membership Department during its normal business hours. All permit lease termination notices shall be irrevocable. Upon receipt of notice of termination of a Permit lease, the Membership Department will post notice of the availability of the Permit for at least two business days on the Exchange bulletin board. The Permit will be transferred to the highest bidder whose bid is received by the Membership Department by 3:30 p.m. on the first Wednesday after notice of the Permit's availability has been posted for at least two business days. The successful bidder ("new lessee") shall pay rent at a monthly lease price equal to the new lessee's bid for the remainder of the six month lease period.
6. A lessee who gives up a Permit prior to the end of the six month lease period ("old lessee") will remain responsible for lease payments on the Permit up to the day when the Permit is transferred to a new lessee. If the Permit is transferred during a month for which the old lessee has already paid the monthly lease payment, the old lessee will be reimbursed the old lessee's payment for that month prorated from the day the Permit was transferred to the new lessee.
7. All Permits in the lease pool will be Dutch auctioned in the manner described in items #1 through #3 above every six months. No priority will be given to current lessees.
8. Bidding restrictions:
  - a. Bids may be submitted by an individual member, a member organization, or an individual or organization qualified to become a member at the time the bid is placed. Permits shall be transferable among qualified nominees of a member organization, so long as proper notification is provided to the Membership Department in a manner prescribed by the Exchange.
  - b. An individual can only lease one Permit from the lease pool at a time. Therefore, an individual who is already a Permit lessee may not submit a Permit bid during

the six month lease period (except to bid in the next Dutch auction) unless and until the lessee first terminates the lessee's current lease.

- c. Any bid submitted on behalf of an individual or organization that becomes ineligible to receive a Permit shall be automatically canceled.
- d. A bidder shall pay the Exchange a non-refundable fee of \$500 each time the bidder submits a bid between Dutch auctions.
- e. A bidder shall pay the Exchange a non-refundable fee of \$500 each time the bidder submits a bid in one of the Exchange's bi-annual Dutch auctions. However, this \$500 fee shall not be required when a current individual Permit lessee submits a bid in one of the Dutch auctions. Additionally, when a member organization currently leasing one or more Permits from the lease pool bids for one or more additional leases in one of the Dutch Auctions, the member organization shall only be assessed the \$500 fee for each bid in excess of the number of Permits which the member organization currently leases from the lease pool.
- f. Any bid may be canceled or replaced at no charge.
- g. The minimum bid for any Dutch Auction will be \$1,000 per month. Minimum bid increments will be \$50.

Questions concerning the terms of the Permits or the operation of the Permit lease pool may be directed to Rae Pancake at 312-786-7460. Questions concerning the steps necessary to obtain "qualified" status for the purposes of submitting a bid for a Permit lease may be directed to the Department of Membership at 312-786-7449.