

Date: June 30, 2003  
To: The Membership  
From: Financial Planning Committee (FPC)  
Subject: **Fiscal 2004 (FY04) Fee Changes**

The FPC recommended and the Board of Directors approved the FY04 budget on June 18, 2003. Included in the budget are various fee changes. Subject to SEC approval, the changes, summarized below, will be effective July 1, 2003.

- 1) **Index Order Book Official (OBO) Execution Fees** – Exchange-wide average index OBO rates will be reduced by approximately 33%. In addition, the index OBO rate schedule will be streamlined by significantly reducing the quantity of rate tiers. Rates per contract will be as follows:
  - Premium > or = \$2, the new rate will be \$.60 per contract. Previous rates ranged from \$.63 to \$1.25 per contract.
  - Premium < \$2, the new rate will be \$.40 per contract. Previous rates ranged from \$.28 to \$.63 per contract.

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 be in effect for the six month period ending December 31, 2003. The FPC determined the contract size at which the cap would be implemented after reviewing recent trading activity in each of the index products. MNX will not be included in the program. Trade match and 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) **Non-OCC Firm Booth Fees and Booth Rental Incentive Plan** – Rates for non-OCC firms rental of perimeter and Green Room booths will be reduced by \$250 to \$300 per month. OCC firms are assessed \$165 per month. While a rate differential will still exist versus OCC firms, this rate reduction will move rates closer to parity. FPC will revisit this rate differential again later in FY04.

In an effort to increase booth space rentals, a booth rental incentive plan will be in effect for the period July 2003 through June 2004. All Members and Member Firms, both OCC and non-OCC, may lease additional perimeter and Green Room 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, 2003. For new Members and Member Firms, the first four booths will be assessed at the rate schedule effective July 1, 2003, 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 July 1, 2004.

- 4) **Market Share Incentive Program (MIP)** – The MIP pilot program was initiated March 1, 2003 (Information Circular IC03-18). The program will be extended for an additional six-month period through December 31, 2003. The program reduces transaction fees for Market Makers and DPMs in the top 300 equities and QQQs if certain monthly market share targets or increases in market share in these option classes are achieved.
- 5) **Prospective Fee Reduction Program** - The Prospective Fee Reduction Program in indexes will not be reinstated in FY04, in part to recover the costs of the new OEX and SPX Auto-quote Subsidy program. The MIP pilot program replaced the Prospective Fee Reduction Program in equities and QQQ options in March 2003. FPC will be reviewing the results of this program later in FY04.
- 6) **Dow Jones Products Market Maker Transaction Fees** – Market Maker fees in this product-line (including DJX, DIA, DTX, DUX, etc.) will increase by \$.10 per contract. Market Maker transaction fees had been \$.19 per contract.
- 7) **Non-member Market Maker Fee** – Currently equal to firm and market maker rates in equities and the QQQ options (\$.19), and equal to customer rates in proprietary index products (\$.15 to \$.40), rates will increase by \$.02 per contract.
- 8) **RAES Access Fees** – In March 2003, the \$.30 per contract RAES Access Fee was suspended for firm and broker-dealer transactions in all equity options classes through June 30, 2003. This fee will be reinstated July 1, 2003.
- 9) **Data Lines Installation, Relocation and Removal** – Fees for this service have not changed since FY93. Fees will be increased in this area in order to fully recover labor costs associated with this service. Fees will be as follows:
  - Installation for 1) lines from local carrier to trading floor and 2) lines between Communications Center and trading floor - \$350 (was \$263)
  - Installation between local carrier and Communications Center - \$200 (was \$158)
  - Relocation on the trading floor - \$425 (was \$315)
  - Removal of 1) lines from local carrier to trading floor and 2) lines between Communications Center and trading floor - \$200 (was \$158)
  - Removal of lines between local carrier and Communications Center - \$100 (was \$79)
- 10) **Floor Broker Workstation (FBW)** – The new FBW will be assessed a monthly fee of \$425 for applications on desktop terminals, equal to the rate assessed for ILX devices. If the application resides on a workstation that has the ILX, TNT and FBW functionality, an additional \$100 fee will be assessed. As of now mobile FBWs will not be assessed a fee, but FPC intends to review this issue again in FY04.

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 6<sup>th</sup> 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.