

Date: December 31, 2004
To: The Membership
From: Financial Planning Committee
Subject: Fee Changes Effective January 1, 2005

The Financial Planning Committee recommended and the Board of Directors recently approved the following fee changes, including a new Communication Review Fee. The fee changes will be effective January 1, 2005.

1. **Order Routing System (ORS) Order Cancellation Fee** – Previously, CBOE's policy was to assess an executing clearing firm \$1 per cancelled ORS order if the number of cancelled ORS orders exceeded the number of executed ORS orders in the same month. The fee assessment methodology has been revised to only assess the cancel fee to each ORS order cancellation in excess of the total number of ORS orders executed. Similar to the previous policy, the cancel fee will not be assessed if less than 500 orders are cancelled in a month.
2. **Customer Large Trade Discount Program** - This program caps the quantity of customer contracts that are assessed transaction fees. This program has operated as a pilot that was scheduled to end December 31, 2004. The program has been made permanent, with an enhancement for Dow Jones products. The contract volume fee cap for Dow Jones products will be lowered to 5,000 from 7,500 contracts. Details of the program are as follows:

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

- S&P 500 and Dow Jones indexes (including Diamonds) – charged for the first 5,000 contracts
- S&P 100 (including XEO & OEF), NDX & other indexes – charged for the first 3,000 contracts

MNX is not included in the program since MNX customer fees were significantly reduced to \$.20 per contract (including a \$.05 trade match fee) in June 2002. Floor brokerage fees are not subject to the cap on fees.

3. **Indexes and DPMs Floor Broker Workstation (FBW) Fee** – CBOE will soon be incurring significant capital expenditures in support of the rollout of FBWs to its index options products. The FBWs will help CBOE members comply with the SEC mandated Consolidated Options Audit Trail System (COATS) requirements.

To partially recover the Exchange's costs, a \$100 fee per month per login ID will be assessed for FBWs used in index option trading crowds and by DPMs. CBOE currently assesses \$100 per month for the FBW application in booths that already utilize an ILX or TNT device.

4. Regulatory Fees:

- a. **Annual FOCUS Report Filing Fee** – Previously, annual FOCUS report filing fees were \$100 for a paper filing and \$25 for an electronic filing. The vast majority of reports are filed electronically. The annual filing fee has been increased to \$150 for a paper filing and \$50 for an electronic filing.
- b. **Communication (advertising) Review Fee** - CBOE's Department of Financial and Sales Practice Compliance (DFSPC) reviews member options-related advertisements, educational material and sales literature for compliance with applicable rules of the CBOE, SEC and the Securities Investor Protection Corporation. CBOE will initiate a fee for this service as follows:
 - i. Regular review – 1) for printed material reviewed, \$75 per submission, plus \$10 for each page reviewed in excess of 10 pages; and 2) for video and audio media reviewed, \$75 per submission, plus \$10 per minute for each minute of tape reviewed in excess of 10 minutes.
 - ii. Expedited review – 1) for printed material reviewed, \$500 per submission, plus \$25 for each page reviewed in excess of 10 pages; and 2) for video and audio media reviewed, \$500 per submission, plus \$25 per minute for each minute of tape reviewed in excess of 10 minutes.

Expedited review will be completed within three business days, not including the date the item is received by DFSPC, unless a shorter or longer period is agreed to by DFSPC. DFSPC may, in its sole discretion, refuse requests for expedited review.

Similar to other Exchange fees, this fee will be assessed and collected via a member's clearing firm.

- **Minimum Monthly Designated Examining Authority (DEA) Fee** - Firms and DPMs that are subject to the SEC Net Capital Rule and for which the Exchange is the DEA are currently assessed \$.40 per \$1,000 of gross revenue as reported on the firm's FOCUS report (excluding commodity commission revenue). This fee is subject to monthly minimum fees for clearing firms and non-clearing member firms. The monthly minimum fee for non-clearing member firms has been increased by \$25 to \$275. The monthly minimum fee for clearing firms is unchanged at \$1,000.

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