

Regulatory Circular RG05-53

Date: May 31, 2005
To: The Membership
From: Accounting
Subject: Merger Spreads Fee Cap Pilot Program

The Financial Planning Committee recently recommended and the Board of Directors approved a merger spreads fee cap pilot program.

Details of the pilot program are described below:

1. The merger spreads pilot program is in effect for the period May 23 through August 31, 2005.
2. Market-maker, firm and broker-dealer transaction fees are capped at \$2,000 for all merger spread transactions executed on the same trading day in the same options class.
3. A merger spread is defined as a transaction executed pursuant to a strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but with different strike prices, followed by the exercise of the resulting long options position, 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.
4. To qualify transactions for the cap, a rebate request with supporting documentation must be submitted to the Accounting Department of the Exchange within 30 days of the transactions.

Rebate request forms are available on the CBOE members website (cboe.com) or on the 6th floor in Accounting.

Rebates will be processed via a credit to the member's clearing firm at month-end. Clearing firms will see the rebate credits as a separate item on monthly CBOE billing statements.

The \$2,000 fee cap applies to CBOE transaction fees and excludes any marketing fee assessments. As you are aware, certain marketing fees are rebated when a market maker trades with another market maker. This market maker-to-market maker marketing fee rebate is processed separately.

As a reminder, the Exchange also has a dividend spreads \$2,000 fee cap pilot program in effect until September 1, 2005. Please see Regulatory Circular RG05-36 for details.

Please contact Don Patton at 312-786-7026 or patton@cboe.com if you have any questions.