Regulatory Circular #RG 05-125

Date: December 9, 2005

To: Members and Member Firms

From: Board of Directors

Re: New Payment for Order Flow Plan

After reviewing the competitive situation as it applies to payment for order flow, the Board of Directors has determined to revise CBOE's current Payment for Orderflow (PFOF) program. At its meeting on December 8, 2005, the Board determined that the following plan will become effective on Monday, December 12, 2005:

Under the new program, CBOE will charge liquidity providers (including DPMs, e-DPMs, RMMs and MMs) $0.65/contract when:

1) The liquidity provider trades with any "directed order" for less than 1000 contracts;

2) The liquidity provider trades with any "non-directed" orders of less than 1,000 contracts from a firm that accepts payment for order flow.

Under the program, the Exchange will not collect $0.65 on any non-directed orders from non-payment accepting firms, will not collect on inbound linkage orders and will not collect on any market maker to market maker transactions.

The money collected at each station will be divided into two types of pools. The first pool-type will contain the $0.65 collected for each executed contract of all directed orders. That pool will then be sub-divided for use by the liquidity provider that is the "preferred market maker" on a directed order (there will be separate pools for each preferred market maker). The preferred market maker's pool will be credited $0.65 for each contract of an order on which that liquidity provider is designated as the preferred market maker, regardless of whether the preferred market maker interacted with that order and conditioned upon the fact that the liquidity provider has met the quoting obligations required under the program. That preferred market maker would then direct the Exchange as to the disbursement of its pool. Unused funds in the preferred market maker's pool will be handled in two ways: 1) For any pool where at least 80% of the money is disbursed, any remaining money will roll into the next month's pool for use by that preferred market maker. At the end of three payment periods, all of the remaining money in the pool will be rebated to the liquidity providers who contributed to the pool, on a pro-rata basis, and; 2) if a preferred market maker disburses less than 80% of its pool during any one payment period, all unused monies will be rebated on a pro-rata basis.

The second pool will contain the $0.65 collected on the executed non-directed payment accepting orderflow. This pool will be disbursed at the discretion of the DPM for the order flow sent to that station. Unused money in the DPMs' pools will be handled in the same manner as the unused money in pools of the preferred market maker.

The result of this change is projected to increase the overall size of the PFOF pool by an average of 25%.

Any questions regarding this payment for order flow program may be directed to Daniel Hustad, Vice President, Market Quality Assurance at (312) 786-7715