



Regulatory Circular RG09-112

DATE: October 13, 2009

TO: Members

FROM: Legal Division and Trading Operations

RE: Penny Pilot Extension and Expansion

The Penny Pilot currently is scheduled to expire on October 31, 2009. The SEC recently approved a proposal by the NYSEArca to continue the Pilot Program until December 31, 2010, and expand the Pilot Program by adding the 300 most actively-traded, multiply-listed option classes that are not currently in the Pilot Program, excluding option classes with "high premiums." In light of the SEC's approval of the NYSEArca proposal, CBOE intends to file a rule change copying the expansion the SEC has approved.

Previously, as you know, CBOE had filed its own proposal to extend and significantly expand the Pilot Program to all equity and ETF option classes, such that at the end of a brief roll-out period all equity and ETF option classes would be included in the Penny Pilot Program. Under CBOE's proposal, option series of less than \$1 premium value would be quoted in penny increments, and series at \$1 or above would be quoted in nickel increments. CBOE's proposal was endorsed by SIFMA, and CBOE believed then and continues to believe that extending and expanding the Penny Pilot Program as it had proposed was balanced, responsible, and reasonable.

As described below, the expansion will begin on Monday, November 2, 2009 with the addition of 75 of the most actively-traded, multiply-listed option classes that are not currently in the Pilot Program. CBOE will issue another circular once it has determined which classes will be added to the Pilot Program. The matching algorithm in all Penny Pilot classes is pro-rata with a 50% market turnover overlay. Also, CBOE's marketing fee is \$.25 per contract in all Penny Pilot classes, except for DIA and SPY in which the fee is \$.10 per contract. (The fee is not assessed in QQQQ and IWM.)

Questions regarding this circular may be directed to Tom Knorr, Trading Operations, at 312-786-7363, or to Patrick Sexton, Legal Division, at 312-786-7467.

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Summary of Penny Pilot Expansion

- The 300 most actively-traded, multiply-listed option classes that are not currently in the Pilot Program, excluding option classes with "high premiums," will be added.
 - **Roll-Out Schedule.** The 300 option classes will be added in groups of 75 classes each quarter on the following dates: Monday, November 2, 2009, Monday, February 1, 2010, Monday, May 3, 2010, and Monday, August 2, 2010. The option classes will be identified based on national ADV in the six calendar months preceding¹ their addition to the Pilot Program, using OCC data.²

¹ The month immediately preceding their addition to the Pilot Program would not be utilized for purposes of the six-month analysis.

- **High Premium Classes.** An option class will be designated as “high premium” if, at the time of selection, the underlying security was priced at \$200 per share or above, or the underlying index level was at 200 or above. These determinations will be based on the price at the close of trading on expiration Friday prior to the class being added to the Pilot Program.
- **Delisted Classes.** If an option class included in the Pilot Program is delisted, it may be replaced on a semi-annual basis with the next most actively-traded, multiple-listed option class that is not yet participating in the Pilot Program, based on national ADV in the preceding six months. Any replacement class would be added on the second trading day following January 1, 2010 and July 1, 2010.
- IWM and SPY. In its proposal to expand the Pilot Program, the NYSEArca proposed to quote the IWM and SPY option classes entirely in pennies (like the QQQQs). This aspect of the NYSEArca proposal was not approved by the SEC. Instead, the SEC requested further comment on this aspect of the NYSEArca proposal. CBOE intends to submit a comment letter against quoting these two classes entirely in pennies. The comment period expires on October 19, 2009.

² Option classes in which the issuer of the underlying security is subject to an announced merger or is in the process of being acquired by another company, or if the issuer is in bankruptcy, will be excluded.