

Regulatory Circular 97-28

Date: March 3, 1997

To: Members and Member Organizations

From: Membership Department

Re: NYSE Option Program Relocation Project -  
Option Trading Permit Lease Pool Procedures

In connection with the transfer of the New York Stock Exchange option program to the CBOE, the Exchange has filed a rule (SR-CBOE-97-14) with the SEC which would allow the issuance of seventy-five Option Trading Permits. Pursuant to that filing, the Permit gives the holder limited member status and entitled to only the following trading rights and privileges:

1. To be admitted to the trading area on the second floor for the purpose of engaging in the activity of a Market Maker, DPM and/or Floor Broker in the option classes that are located in that area, which classes are the former NYSE option classes that are not also traded on the CBOE main trading floor, and any classes which are subsequently allocated to the second floor trading area and;
2. To trade by order as principal those classes of equity options that were traded on both the CBOE and the NYSE immediately prior to the relocation of the NYSE option program to the CBOE and;
3. To trade by order as principal all classes of options traded on the CBOE in addition to those described in paragraphs 1 and 2 above, provided that the Permit holder's total contract volume in such classes of options during any calendar quarter may not exceed twenty percent (20%) of the sum of such Permit holder's total in person contract volume as principal effected pursuant to paragraph 1 above and the Permit holder's contract volume pursuant to paragraph 2 above and;
4. To be admitted to the main CBOE trading floor for the purpose of responding to the call of a Board Broker or Order Book Official pursuant to Rule 7.5 in respect of any class of options in which a transaction has been effected for the Permit holders account on the day of the call.

Upon SEC approval of the rule proposal, the Exchange will deposit into a "lease pool" any of the seventy-five Option Trading Permits not issued to NYSE option members, plus any Option Trading Permits which, following their issuance to NYSE option members, are surrendered by those members. **It should be noted that the rules allowing the issuance of the Permits and the procedures for the operation of the lease pool (as described below) will not become effective until the SEC approves the proposed rule.** The membership will be notified when such approval has been granted.

Operation of the Lease Pool

As part of the aforementioned rule filing, the CBOE is also seeking approval of a procedure to allocate the Permits from the lease pool. The procedures as filed call for the Permits to be allocated through a competitive bidding process to operate as follows:

1. During the week of April 7 through April 11 (immediately following the April new member orientation), and every six months thereafter, the Exchange will accept from members and non-members who have qualified for membership sealed bids equal to the monthly rent that the bidder is willing to pay for a month-to-month lease.
2. Upon the close of the bidding period, Permits in the pool will be awarded to the highest bidders in a number equal to the total number of Permits in the pool at that time. In the event that there is more than one bid at the cut-off level, the bid received first in time will have priority.
3. The monthly rent to be paid by a lessee will be the dollar value of the bid submitted by that lessee. Lease payments will be collected by the Exchange at the beginning of the month.
4. Following each auction, bids for Permit leases will continue to be accepted. The high bid will be posted without the identity of the bidder attached.
5. Should any lessee desire to give up his Permit prior to the next auction, the Permit will be immediately transferred to the highest bidder at a monthly lease price equal to the new lessee's bid for the remainder of the six month auction cycle.
6. A lessee who gives up his Permit prior to the end of the month will be reimbursed in the amount of the new lessee's prorated lease payment for the balance of that month.
7. All Permits in the lease pool will be auctioned in the manner described in #1 and #2 above every six months. No priority will be given to current lessees.
8. Bidding restrictions:
  - a. Bids may be submitted by individuals or organizations on behalf of identified individuals.
  - b. The person proposed to occupy a Permit must be a member or qualified to become a member at the time the bid is placed.
  - c. A non-refundable fee of \$500 will be required at any time a bid is submitted.
  - d. No minimum bid price will be set. Minimum bid increments will be \$50.
  - e. No lease of a Permit in the lease pool will become effective until there has been deposited with the Membership Department of the Exchange a Letter of Guarantee from a Clearing Member in the amount equal to the last sale price of a Permit, except that during the first year of the Permits (during which no Permits may be bought or sold) the amount shall be \$50,000.

Questions concerning the terms of the Permits or the operation of the Permit lease pool may be directed to Edward L. Provost at 312-786-7717. Questions concerning the steps necessary to obtain "qualified" status for the purposes of submitting a bid for a Permit lease may be directed to the Department of Membership at 312-786-7460.