

To: The Membership

Information Circular IC06-144

From: CBOE Stock Exchange (CBSX)

Date: October 23, 2006

Re: Obligations and Solicitation for CBSX Designated Primary Market Makers (DPMs) and Remote Market Makers (RMMs)

The Chicago Board Options Exchange (CBOE) is planning to launch the CBOE Stock Exchange (CBSX) in early 2007, pending final regulatory approval from the Securities and Exchange Commission (SEC). The CBSX will feature a market model that will combine elements of both screen and floor-based trading and will provide a new venue for trading the most active New York Stock Exchange, NASDAQ Stock Market, and American Stock Exchange listed securities. The purpose of this circular is to provide certain details of the proposed Designated Primary Market Maker (DPM) and Remote Market Maker (RMM) programs on CBSX, and to provide information for those persons and organizations interested in becoming CBSX DPMs and/or RMMs.

It is anticipated that approximately 2800 securities will initially be traded on CBSX, each of which will be assigned to one of up to eight approved DPM organizations (the physical location for trading these securities will be limited to Post 10). It is expected that several RMMs will be assigned to each security as well. In order to launch CBSX as soon as possible, DPM appointments will be made pursuant to current CBOE stock trading rules (Chapter 53).

CBSX DPM OBLIGATIONS

CBOE anticipates the filing of rules that will allow for the creation of CBSX access permits for organizations that are not CBOE members. Until such rules have been approved, all CBSX DPM applicants must be CBOE member organizations. Each DPM will be assigned a specific trading station at the CBSX post on the CBOE trading floor, which must be sufficiently staffed by approved personnel. In their appointed securities, CBSX DPMs will have the responsibility for maintaining a fair and orderly market by among other things, ensuring that there is a continuous two-sided market and by responding to RFQs.

CBSX RMM OBLIGATIONS

Until a CBSX permit program has been approved, CBSX RMM applicants must be CBOE member organizations. RMMs will have specific appointments that may include up to all of the securities traded on CBSX. RMMs will have the right to quote or enter orders in any and all securities on CBSX, but must trade 75% of their CBSX share volume in their appointed securities. RMMs will be obligated to respond to RFQs in their appointed securities when they are quoting those securities.

CBSX LIQUIDITY PROVIDER GUIDELINES

Liquidity Provider Guidelines (“LPGs”) are standards that set forth the bid/ask spreads and sizes that will be disseminated by CBSX. LPGs obligate DPMs and RMMs to make principal, two-sided, two-tiered markets whenever the CBSX markets would become wider than those allowed by the LPGs. Under the LPGs, CBSX DPMs and RMMs will be required to make principal two-sided, two-tiered markets by

posting an inside market that will satisfy smaller orders seeking a narrow bid/ask spread, and an outside market that will accommodate executions for larger orders at a wider spread. The price characteristics and size requirements of the LPGs will be structured according to volume and the unique price qualities of each security. **The LPGs, which will be reviewed with prospective applicants as part of the application process, will be published prior to the start of trading on CBSX.**

CBSX DPM and RMM FEE INCENTIVE PROGRAM

DPMs and RMMs who meet the LPGs will be entitled to higher liquidity rebates relative to those participants with no market making responsibilities. In order to be eligible for the higher rebates, DPMs must meet the LPGs each day at the opening of the primary markets. Furthermore, in return for the higher rebates, DPMs are required to meet the LPGs in at least 90% of the instances when CBSX quotes do not otherwise meet the LPGs in each DPM's assigned security. DPMs' compliance with the LPGs will be measured over a calendar quarter. Although RMMs have no opening obligations, in order to receive the higher RMM rebate, RMMs are required to meet the LPGs in at least 50% of the instances when CBSX quotes do not otherwise meet the LPGs in the RMMs' appointed securities. RMM performance will also be measured over a calendar quarter. If a DPM or RMM fails to meet these standards, DPM and RMM rebates for adding liquidity will be reduced for the following calendar quarter. These guidelines may be modified from time to time.

Applicants should note that failure to adhere to the DPM or RMM obligations stated above and/or continued failure to meet the LPGs may result in the removal of the DPM's or RMM's appointment.

Option market makers, including DPMs, RMMs, e-DPMs as well as individual Market Makers who trade stock on more than an occasional basis, whether on CBSX or any other stock market, or trade stock for reasons other than to hedge market-maker option activity, may become subjected to the provisions of the Securities and Exchange Commission's ("SEC") Rule 15c3-1 (the "Net Capital Rule") and should consult with their Financial and Operations Principal, legal counsel and others to review the consequences of having to compute net capital under the Rule. A CBOE option market making firm that currently computes its net capital under the provisions of paragraph (a)(6) of SEC Rule 15c3-1 should consult with its Financial and Operations Principal and legal counsel as to the application of paragraph (a)(6) of SEC Rule 15c3-1 to conducting a stock trading business on CBSX. DPMs and RMMs on CBSX will be subject to the provisions of SEC Rule 15c3-1. Questions regarding the net capital rule as it applies to DPMs and MMs can be directed to Mr. Robert Gardner, Director, Member Firm Regulation at (312) 786-7937 or via an e-mail inquiry at Gardner@cboe.com.

Individuals and organizations interested in trading on CBSX should contact Mr. Stanley Leimer, Director of the Membership Department at (312) 786-7715 or via e-mail at Leimer@cboe.com.

Organizations interested in becoming DPMs and/or RMMs on CBSX should contact either Ms. Allison Kile or Ms. Angela Redell. Contact Ms. Kile at (312) 786-7210, or contact Ms. Redell at (312) 786-7559. You may send Ms Kile or Redell an e-mail inquiry at mqa@cboe.com.

Parties interested in becoming DPMs on CBSX must submit their applications by November 13, 2006. DPM applications are included in this mailing and may be returned to mqa@cboe.com by the above deadline. DPM and RMM applications are also available on CBOE's web site at www.cboe.com/cbsx under the Liquidity Providers tab. RMM applications will be accepted at any time.

If you have any questions, please feel free to contact Mr. Daniel Hustad, Vice President of Market Quality Assurance at 312-786-7715, hustadd@cboe.com.