



To: Prospective C2 Trading Permit Holders
From: Trading Operations and Business Development Divisions
Date: August 31, 2010
Re: Connectivity and Trading Permit Information for the C2 Options Exchange

It is currently expected that the C2 Options Exchange (“C2”) will launch in late October 2010. The following is a summary of frequently asked questions regarding C2. All fees and the specifics of the access model are subject to regulatory approval.

Membership

1) Who can apply for trading permit holder status on C2? Is it only for existing CBOE Trading Permit Holders (TPHs) and TPH organizations?

Any registered broker/dealer can apply for trading permit holder status on C2 regardless of whether or not they are a trading permit holder on CBOE. For regulatory purposes, all C2 trading permit holders must be members or trading permit holders of CBOE or another options exchange. For details, contact Stan Leimer in the CBOE Registration Services Department at (312) 786-7299.

2) How does one apply for trading permit holder status on C2?

Applications for C2 TPH status will be processed by the CBOE Registration Services Department, which will also serve as the Registration Services Department for C2. Forms are available for download at <http://www.cboe.com/C2>.

3) Is there an application fee for C2, and are a background check and/or trading permit holder test required?

There is no C2 application fee if the applicant is a CBOE trading permit holder. The C2 application fee for a non-CBOE permit holder applicant will be \$4,000 for an organization and \$3,000 for a sole proprietor. TPH organizations on C2 are required to designate at least one individual as a “responsible person”. Each responsible person is subject to a background check, required to submit fingerprints and to pass the appropriate trading exam(s).

4) What is the trading permit structure for C2?

There will initially be two types of trading permits for use on C2. These permit fees are only applicable for access to multiply listed classes.

- Market Maker Permit (MMP) – Gives the holder the ability to stream quotes and submit orders into the C2 trading engine. This permit will cost \$5,000/mo.

- Electronic Access Permit (EAP) – Gives the holder the ability to submit orders into the C2 trade engine. This permit will cost \$1,000/mo.

- 5) **Will clearing firms need to submit a separate guarantee for trading permit holders on C2 if they already guarantee an applicant trading permit holder on CBOE?**

Clearing firms will need to submit a separate guarantee for C2.

- 6) **Will there be Sponsored Users on C2?**

Yes. C2 will allow for sponsored users, with the approval of the Registration Services Department.

- 7) **How do I obtain connectivity information for C2?**

Please see C2 Information Circular C2-IC10-01. (<https://www.cboe.org/legAL/C2/C2-IC10-001.pdf>)

Market Model

- 8) **What will be the exchange code for C2?**

OPRA has assigned C2 the exchange code W, while the FIX Exchange ID will be "C2OX".

- 9) **What classes will C2 list?**

Initially, C2 plans to list all or substantially all of the multiply-listed, penny pilot option classes.

- 10) **Will SPX and/or other exclusive classes from CBOE also be listed on C2?**

C2 will have the capability to list all option classes available on CBOE. It is our intention to have C2 ready for listing on exclusive classes by early 2011.

- 11) **When will the C2 rollout schedule be available?**

C2 will publish the initial class rollout schedule in early October. The first stage rollout will include 25-50 multiply listed classes over a period of several weeks, with other rollouts to follow through early 2011.

- 12) **What will be the procedure for C2 market makers to build appointments?**

C2 intends to utilize the same process as CBOE for class appointments. Market maker permit holders will be able to manage their appointments online, and each market maker permit will entitle the holder to an appointment credit of 1.0. Each option class on C2 will have a specific class cost (for example: Apple, Inc. (AAPL) may cost .01) and the user may add class appointments up to the full amount of their credit. At the time of launch, C2 intends to set all class costs at such a level that one market maker permit will be sufficient for appointments, if desired, in all multiply listed, penny pilot classes on C2.

- 13) **How will C2 distribute bandwidth for quoting and/or order entry?**

Each market maker permit on C2 will entitle the holder to a standard bandwidth allowance, and users may purchase additional quoting and order entry (QOE) bandwidth packets for \$1,000/mo that will be equivalent to 1/5 the allowance granted each C2 market maker permit. Each EAP for C2 will also grant a standard bandwidth allowance, and users may purchase additional order entry (OE) bandwidth packets at a nominal rate of \$1,000/mo for the first five packets, \$500/mo for the 6th to 8th packets, \$250/mo for the 9th to 13th packets and \$125 for packets 14 and above. For order entry packets assigned to sponsored users, the rate will be

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\$1,000/mo for the first six packets, \$500/mo for the 7th to 9th packets, \$250/mo for the 10th to 14th packets and \$125 for packets 15 and above.

14) Will there be any complex order and/or electronic auction capabilities at C2?

Initially, C2 will not offer complex order processing nor any other of CBOE's electronic auctions with the exception of the HAL-on-the-Open (HALO) process.

15) What will be the matching algorithm on C2?

C2 will utilize a customer priority, preferred market maker (PMM), price/time matching algorithm for multiply listed, penny pilot classes.

16) Will there be Designated Primary Market Makers (DPMs) or any other such role on C2?

C2 will not be allocating multiply listed, penny pilot classes to specific DPMs at this time.

Fees and Billing

17) Will C2 billing be consolidated with CBOE billing?

No. C2 billing will be separate from CBOE billing.

18) Will C2 billing be any different than CBOE billing?

Yes. C2 will be the initial roll-out of CBOE's new Online Billing Portal. This state-of-the-art system provides users with pre-defined reports and 24/7 export functionality for the scheduling and export of trade history to a CSV file. Transaction detail will be updated daily. Set up will be handled by Brian Killian at (312) 786-7044 or killian@cboe.com. Questions can be directed to Brian or David Reynolds at (312) 786-7034 or reynolds@cboe.com.

19) Will C2 activity be counted for purposes of volume tiers and discounts on CBOE?

No. There will be no consolidation of fees between CBOE and C2.

20) When will the C2 fee schedule be published?

The C2 fee schedule will be very brief. Transaction and routing fees will be announced in early October. Application and trading permit fees are noted in questions 3 and 4 above, and bandwidth fees are noted in question 13. All fees are subject to regulatory approval.

21) Will C2 utilize the Professional Customer Designation?

C2 will use the professional customer designation, but for priority purposes in the matching algorithm only. No separate fee for professional customers is planned.

22) Will C2 charge the Options Regulatory Fee (ORF)?

There are no plans to include an ORF in the C2 fee schedule.

Please direct any questions to Anthony Montesano at (312) 786-7365 or montesan@cboe.com or to Eric Frait at (312) 786-7747 or frait@cboe.com.