

## iii. Determination of the MAC for a Given Options Class

For purposes of determining the MAC for each options class listed by BOX, the

options classes listed by BOX would be divided into six classes, based on the total trading volume of each class across all U.S. options exchanges as determined by OCC data. The

classifications would be adjusted at least twice annually (in January and July, based on the average daily volume for the preceding six month period).

Class category	OCC average daily volume (# of contracts)	MAC per market maker per appointment per month
A .....	>100,000 .....	\$15,000
B .....	50,000 to 99,999 .....	3,000
C .....	25,000 to 49,999 .....	2,000
D .....	10,000 to 24,999 .....	750
E .....	5,000 to 9,999 .....	250
F .....	Less than 5,000 .....	100

The proposed MAC represents the OCC market share per Market Maker of approximately 1% with an implicit transaction fee per contract of \$0.20. For example, for options on Nasdaq 100 shares (QQQ) (Class Category A because of its high daily trading volume), the execution volume required by each Market Maker that results in an effective rate of \$0.20 per contract would be 3,750 contracts. This is equivalent to 0.9% of OCC volume on this class. The MAC for QQQ would be \$15,000 per month, which is equal to 3,750 contracts per day (\$15,000/\$0.20/20 trading days).

Although a Market Maker may not achieve enough trades to meet its MAC in a class in a given month, its implicit cost per contract would only increase by minimal amounts. For instance, if a Market Maker is assigned to all the currently proposed 250 classes, based on first and second quarter 2003 OCC volume, the monthly MAC for that Market Maker would be \$104,400. To reach an effective cost of \$0.20 per contract, this Market Maker would need to trade at least 522,000 contracts (and the Trading Fee, rather than the MAC, would apply). If the Market Maker traded only 400,000 contracts, his implicit cost per contract would be \$0.26. The MAC is totaled across all

classes assigned to a Market Maker so that volume for one class is fungible against other classes for that Market Maker. As a result, although the volume on a given class needed to reach an implicit cost of \$0.20 a contract may not be achieved, this can be compensated for by volume in excess of the MAC on another class, as the following table exemplifies.

In the example below, a Market Maker holds appointments on eleven options classes. The related MAC for each class is shown in the second column; the total of this column is the Market Maker's Total MAC for that month. The Market Maker's actual traded volume for each class for the month is provided in the third column. If the fees payable to BOX for his traded volume, at a rate of \$0.20 per contract, do not total to at least the total MAC for a given month, he would instead be billed the Total MAC (\$12,100).

Since the Total MAC in the above table is greater than the Total Trading Fee calculated from actual volume for the month, the Market Maker must pay the Total MAC. This gives him an implied trading fee per contract of slightly more than \$0.21 (\$12,100 divided by 57,500) which is, of course, still very competitive with the other

options exchanges, particularly when factoring in the substantial fixed costs of seat or bin memberships, either leased or owned that have no counterpart on BOX.

In summary, the "notional MAC" per options class is the building block for the determination of each Market Maker's monthly MAC. At the end of each month, a Market Maker would be obligated to pay the Total MAC, instead of the Total Trading Fee, if the per contract trading fee of \$0.20, when multiplied by the Market Maker's actual trade executions for the month, does not result in a Total Trading Fee payable to BOX at least equal to the MAC.

The MAC would not be applied during the first three calendar months following launch. Furthermore, the MAC would be "indexed" to BOX's overall market share as determined by OCC clearing volumes. At the beginning of each calendar month, BOX would calculate its market share for the previous month (market share equals the total BOX traded volume divided by the total OCC cleared volume for the classes that BOX has listed). If BOX's overall market share is less than 10%, BOX would reduce the MAC applicable for each Market Maker according to the following table:

TABLE A.—SAMPLE MONTHLY MAC FOR A MARKET MAKER

Appointed Class	MAC \$	Actual volume traded	Trading fee \$
A .....	3,000	15,000	3,000
B .....	2,000	12,000	2,400
C .....	2,000	10,000	2,000
D .....	2,000	7,000	1,400
E .....	750	2,000	400
F .....	750	2,000	400
G .....	750	2,500	500
H .....	250	1,500	300
I .....	250	1,000	200
J .....	250	2,500	500
K .....	100	2,000	400
Totals .....	12,100	57,500	11,500