To: Trading Permit Holders
From: Business Development
Date: March 6, 2012
Re: System Issue with FLEX Minimum-Fill Size Day Orders

Trading Permit Holders submitting orders with a "minimum-fill" size greater than 1 and a time in force of "day" to the FLEX electronic trading platform should be aware that in certain market situations CBOE may not process the orders correctly. In particular, the system may incorrectly permit these orders to create a locked/crossed market and trade against other orders at prices that may violate the FLEX priority requirements set forth in Rule 24B.5.

> *Example:* A TPH initiates an electronic RFQ and indicates a minimum-fill size of 300. At the conclusion of response period (T1), the RFQ Market is $4.00 - $5.00, size 100X100. If during the reaction period (T2) the TPH that initiated the RFQ enters an order to buy at $5.50 with a minimum-fill size of 300, no execution would occur. If the TPH and RFQ responders indicate that the balance of their order and responses are to be automatically cancelled if not traded during the RFQ auction (which is accomplished by using a time in force of "IOC"), the orders/responses would properly cancel. However, if TPH and RFQ responders indicate that the balance of their order and responses are to be treated as "day" orders if not traded during the RFQ auction, the FLEX Book will display a crossed market of $5.50 bid for size of 300/$5.00 offer for size of 100. If subsequently an order is entered to sell at $5.50 for size of 300, the order would execute at a price of $5.50 against the resting $5.50 bid. This execution would incorrectly violate the priority of the resting $5.00 offer.

The Exchange anticipates that this issue will be addressed when trading in FLEX Options converts to the CBOE*direct* platform. Information about the schedule for converting to the new platform, which is currently planned to begin in March, will be announced in a separate circular. In the meantime, TPHs should discontinue entering orders with a minimum-fill size that is greater than 1 and a time in force of day. Instead, orders with a minimum-fill size that is greater than 1 should be entered with a time in force of IOC.

Any execution that takes place incorrectly in the circumstances described above may be nullified by FLEX Officials. Please contact the FLEX Help Desk with any inquiries about any such executions that may inadvertently occur.

Questions regarding this circular may be directed to the FLEX Help Desk at (312) 460-1941/ flex@cboe.com.