



To: Trading Permit Holders
From: Business Development
Date: April 20, 2012
Re: CFLEX 2.0 Rollout Schedule and Settings

In anticipation of the launch of CFLEX 2.0 on April 24, 2012 (see Information Circular IC12-015), CBOE is issuing this circular to inform Trading Permit Holders of the rollout schedule and applicable CFLEX 2.0 settings, and to highlight some differences between CFLEX 2.0 and CFLEX 1.0.

There will be three types of electronic auctions available in CFLEX 2.0: FLEX RFQ, FLEX Automated Improvement Mechanism ("FLEX AIM"), and FLEX AIM AON Solicitation Auction Mechanism ("FLEX SAM"). The electronic FLEX RFQ auction is a modified version of the existing electronic FLEX RFQ auction that existed on the CFLEX 1.0 platform. FLEX AIM and FLEX SAM are new electronic auctions that are modeled after the AIM and SAM auctions already available for Non-FLEX Options trading (see, e.g., Rules 6.74A and 6.74B). CBOE intends to initially launch CFLEX 2.0 without FLEX AIM and FLEX SAM capabilities activated. FLEX AIM and FLEX SAM activation, settings and trading procedures will be announced by separate circular.

CBOE will initially make two classes available for trading on CFLEX 2.0. The two classes will be SPX and SPY. These two classes will move to CFLEX 2.0 beginning April 24, 2012. Additional classes will begin moving from CFLEX 1.0 to CFLEX 2.0 over the next 1-3 weeks. The implementation dates will be announced by separate circular. Open outcry FLEX trading will remain in effect for all classes.

The CFLEX 2.0 settings are as follows (changes from CFLEX 1.0 are also noted):

- **Trading Increments:** \$0.01 for all FLEX Options
- **Crossing Entitlements:**
 - Electronic RFQs: CBOE has eliminated the "Intent to Cross" feature. Therefore, crossing entitlements are no longer applicable for electronic RFQs. (A crossing entitlement feature will be available when the FLEX AIM and FLEX SAM are activated.)
 - Open Outcry RFQs: Crossing entitlements will be standard across all classes and will be 40% for both solicitations and facilitations. (Please note that this change to the open outcry crossing entitlement will be effective in all FLEX classes, whether trading on CFLEX 2.0 or 1.0, beginning April 24, 2012.)
- **Electronic RFQ Timers:**
 - Response Period (T1): minimum of 3 seconds, maximum of 10 minutes
T1 is a variable period set by the submitting TPH that denotes when responses can be entered or canceled, including responses from the submitting TPH. Note that

responses for the account of non-TPH Market-Makers (origin code "N") are not permitted (this is not systematically enforced). (By comparison, the maximum T1 period on CFLEX 1.0 was 5 minutes.)

- Reaction Period (T2): maximum of 3 minutes
T2 is a period when the submitting TPH can decide to trade; responses can continue to be entered or cancelled during T2, but no trading will occur until the submitting TPH determines to accept or reject the RFQ responses. Note that if the submitting TPH enters a response during T2, the submitting TPH must wait a minimum of 3 seconds before entering a contra-side order.
 - Crossing Exposure Period: minimum of 3 seconds
This period applies in crossing scenarios; if the submitting TPH enters an order during T2 that improves the BBO or matches the BBO but exceeds the available size, the submitting TPH must wait a minimum of 3 seconds before entering a contra-side order. Note that this timer is not systematically enforced (T1 and T2 are systematically enforced).
- **Open Outcry RFQ Timers:**
 - Response Period for FLEX Index Options and FLEX Equity Options on exchange-traded products (e.g., ETFs and ETNs): minimum of 5 minutes
 - Response Period for all other FLEX Equity Options: minimum of 3 minutes

Differences between CFLEX 2.0 and CFLEX 1.0 include:

- CFLEX 2.0 is part of CBOE*direct*, whereas CFLEX 1.0 operated on a different technology platform.
- Special order origin codes requirements apply to FLEX Options and a new order origin code for non-TPH broker-dealers (code "D") will apply. For additional information, please refer to Regulatory Circular RG12-057.
- Under CFLEX 2.0, CBOE will report FLEX trades to OCC intraday, as compared to CFLEX 1.0, where CBOE reported FLEX trades to OCC at the end of the trading day.
- Responses to electronic RFQs in CFLEX 2.0 may only be submitted as "Immediate or Cancel," meaning that any remaining balance of responses at the conclusion of an RFQ auction are automatically cancelled. CFLEX 1.0 responders were permitted to choose between "Immediate or Cancel" responses and "End of Day" responses. ("End of Day" meant that any remaining balance of a response would be automatically entered into the FLEX electronic book at the conclusion of the auction.)
- There is no "cancel / replace" functionality for either responses or resting orders on CFLEX 2.0; instead, users would simply cancel an order / response and then re-enter a new order / response to achieve the same result.
- In CFLEX 1.0, an RFQ was required to start trading in any series on a given day, regardless of whether or not the series had open interest. In CFLEX 2.0, FLEX series with existing open interest will automatically open for trading soon after the 8:30 a.m. CST open. Once opened, users will be permitted to enter simple day orders directly into the FLEX electronic book in CFLEX 2.0 on series that have open interest. An RFQ is still required to start trading in a new series on a given day.
- The "Intent to Cross" crossing entitlement feature that was available in CFLEX 1.0 will not be available in CFLEX 2.0. A crossing entitlement feature will be available when FLEX AIM and FLEX SAM are activated.

- The minimum size field that was available in CFLEX 1.0 will not be present in CFLEX 2.0. (The removal of the FLEX minimum value size requirements remains under pilot. The current pilot period is set to expire the earlier of November 2, 2012 or the date on which the pilot program is approved on a permanent basis.)
- The allocation algorithm of CFLEX 1.0 provided for electronic RFQ executions to occur at a single clearing price at the auction's completion. CFLEX 2.0 will allow for multiple price points to trade following an electronic RFQ. For instance, if multiple responses resulted in 100 offered at \$1.10 and 100 more offered at \$1.20, and the TPH that initiated the entered an RFQ order to buy 200 at \$1.20, the CFLEX 1.0 allocation algorithm would result in all 200 contracts trading at \$1.20. Under the same set of circumstances in CFLEX 2.0, 100 contracts would trade at \$1.10 and 100 would trade at \$1.20.
 - The CFLEX 2.0 allocation algorithm for electronic RFQs can result in a single clearing price in the case of locked or crossed RFQ markets.
 - The CFLEX 2.0 allocation algorithm for electronic RFQs is price-time, but with a customer and non-TPH broker dealer priority overlay.
 - Please see Rule 24B.5 for more details.
- Only simple orders can rest in the CFLEX 2.0 electronic book. CFLEX 2.0 will not allow for booking of complex orders. Complex orders can trade electronically only within electronic RFQ auctions in CFLEX 2.0.
- For electronic transactions, the means for confirming %-strikes¹ and complex trade leg prices resides with users (rather than the CFLEX Help Desk) in CFLEX 2.0.
 - For %-strikes, the initiator of the RFQ must specify how the %-strike will be resolved at submission time. Initiating TPHs can choose to fix the strike based on the following four parameters (these fields are optional):
 - Close
 - Spot Now
 - VWAP
 - Limit
 - Following a trade, the submitter must input the appropriate underlying price to enable the transition from %-strike to fixed strike. Once the initiating TPH has input the underlying price, responders are given an opportunity to review. The review period is 10 minutes. Responders can comment on the inputted underlying price by sending an electronic message to the CFLEX Help Desk within the review period. Lack of a response during the review period amounts to a confirmation of the fixed strike price.
 - For complex orders, it is the submitter's responsibility to input individual leg prices that match the contracted net credit or debit price (users are systematically prevented from inputting leg prices that do not match the net credit or debit). Once the submitter has inputted leg prices, a 10 minute review period ensues where responders are given an opportunity to comment on the prices by sending a message to the CFLEX Help Desk. Lack of response during the review period amounts to a confirmation of the leg prices.
 - Please see the CFLEX 2.0 User Guide for more details at <https://systems.cboe.com/Auth/CFLEX2Download.aspx>.

¹ FLEX Index Option strike prices may be specified in terms of a specified index value number. Alternatively, FLEX Index Option strike prices may be specified in terms of (i) a method for fixing such a number at the time a FLEX RFQ or FLEX Order is traded or (ii) a percentage of the index value as of the close of trading on CBOE on the trade date. FLEX Equity Option strike prices may be specified in terms of a dollar amount. Alternatively, FLEX Equity Option strike prices may be specified in terms of (i) a method for fixing such a number at the time a FLEX RFQ or FLEX Order is traded or (ii) a percentage of the underlying security at the time of the trade or as of the close of trading on CBOE on the trade date. See Rule 24B.4(b)(2) and (c)(2). For each of reference, these alternatives are referred to as “%-strikes” above.

- The GUI is downloaded via a different URL:
 - <https://systems.cboe.com/Auth/CFLEX2Download.aspx> (please see Informational Circular 12-015 on how to obtain logins for the GUI).

FLEX-eligible classes:

TPHs are generally permitted to trade FLEX options on all index and equity options that are listed by CBOE for non-FLEX Option trading, except as noted below. Moreover, CBOE may determine to approve and open for trading FLEX series on any index or security that is eligible for non-FLEX trading, even if CBOE does not list non-FLEX Options on the index or security. (Please note that a 1-2 day period is required before these types of FLEX options would become available for trading.)

The following types of options are currently NOT available for FLEX trading:

- Binary Options
- Credit Event Binary Options
- Range Options
- Corporate Debt Security Options

For information on logins and registration requirements, and API certification, please refer to Information Circular IC12-015. To confirm whether you have the current paperwork on file, contact the Registration Services Department (312) 786-7449 or registration@cboe.com. For further information, please go to www.cboe.com/CFLEX or refer to Chapter XXIVB of the CBOE Rules located at www.cboe.org/Legal. Additional questions may also be directed to Matt McFarland at 312-786-7978 or to the CFLEX Help Desk at 312-460-1941.

(Replaces Regulatory Circular RG10-22)