Regulatory Circular RG12-088

DATE: June 29, 2012

TO: Trading Permit Holders

FROM: Business Development

RE: Automation of Stock-Option Strategy Orders

Effective July 2, 2012, CBOE will begin rollout of new functionality to automate the handling of complex orders containing a stock leg through the use of the Complex Order Auction (COA), the Complex Order Book (COB), the Automated Improvement Mechanism (AIM), and the AIM AON Solicitation Auction Mechanism (SAM). The initial rollout schedule is provided below. Floor-wide activation in all equity option classes, including options on exchange-traded products (e.g., ETFs and ETNs), is expected as soon as possible thereafter and will be announced via subsequent circular(s).

Product	Activation Date
F (Ford Motor Company)	July 2, 2012
T (AT&T Inc.)	July 6, 2012
HLF (Herbalife LTD)	July 6, 2012

Details of Functionality

Automated Order Eligibility – To be eligible, orders must comply with the Qualified Contingent Trade (QCT) Exemption under Rule 611(a) of Regulation NMS. Trading Permit Holders (TPHs) submitting such orders represent that the orders comply with the QCT Exemption. In addition, orders may have up to 3 option legs and 1 stock leg. CBOE systems require that, for orders with multiple option legs, the ratio of the quantity on the largest-to-smallest option leg must not exceed 3-to-1. Furthermore, the ratio of the quantity on the smallest option leg to that of the stock leg must not exceed 8 options-to-100 shares.

Orders that do not meet these ratio requirements are ineligible for automated processing and will be routed for manual handling. Orders for which all option legs and the stock leg have the same delta direction are ineligible for automated processing and will be routed for manual handling.

Finally, if the stock leg of an order is a sell order, then the stock leg must be marked “long,” “short,” or “short exempt” in accordance with Regulation SHO. Please refer to Rule 6.53C(a)(2) and .06 for further details.

Net Limit Price Protection – If all legs are to buy(sell), orders and auction responses will be rejected if the net limit price on the option leg(s) of the order is zero, a credit(debit), or a debit(credit) of less than the minimum price increment times the sum of the ratio of the option legs. (See Rule 6.53C.08(d).)

Automated Stock Clearing Requirements - To be eligible for automated processing, orders and auction responses must contain an ID to be used for stock clearing. This ID may be either a Market Participant Identification (MPID) or, for those users that do not have an MPID, a CBOE-assigned CBOE Client ID. Orders that do not contain a stock MPID or CBOE Client ID will be ineligible for automated processing and will be routed for manual handling.

A TPH must also enter into a brokerage agreement with one or more broker-dealers that have been designated by the Exchange to process the stock leg of the complex order. Currently, the Exchange has designated ConvergEx Execution Services LLC (“ConvergEx”) to perform this function. Please note that ConvergEx may execute these stock orders on off-exchange trading venues, including ones that may be affiliated with ConvergEx.

IMPORTANT: Please see “permissioning” below for registration requirements.

Permissioning – All stock IDs must be registered in advance with CBOE. CBOE rules also require all TPHs submitting stock-option orders which may be eligible for electronic processing to have a brokerage agreement in place with the Exchange's designated broker (ConvergEx).

TPHs interested in submitting stock-option orders for automated processing must contact the Registration Department at (312) 786-7449 or registration@cboe.com and complete an Electronic Stock-Option Execution Registration Form.

Order Processing and Execution Summary - In summary, complex orders with a stock leg will trade only with opposing complex orders and auction responses, with the exception of certain orders priced at the market that are eligible for "splitting" (described further below).

When an execution occurs, CBOE will report a last sale on the option leg(s) and send orders representing the stock leg to a designated third-party broker (ConvergEx), which will handle stock execution and submission for clearing.

Market Width Protection - Strategy products will be placed "on hold" if the Exchange BBO for any of the individual option legs of the strategy have a bid/ask width that is not within an acceptable price range (APR) setting. (Please reference Regulatory Circulars RG12-040 and RG12-046 and Rule 6.53C.08(a) for current APR settings and related order handling when a product is placed on hold.)

Valid Execution Price - The applicable net price increment for complex orders with a stock leg will be $0.01. Executions must occur at a price at or inside the derived net market for the strategy, which is comprised of the option BBO and stock NBBO. Further, if public customers are part of the BBO on all option legs, then the execution price on the smallest option leg must improve the BBO by at least $.01.

COB - Orders for origin codes "C" (Public Customer), "W" (Professional Customer), "F" (OCC clearing member firm proprietary account) and "B" (Broker-Dealer) are eligible to rest in the COB. Orders for origin codes "M" (CBOE Market-Maker) and "N" (Non-CBOE Market-Maker) must have a contingency type of "OPG" to access the COB near the open or "IOC" to trade with resting COB orders after the open and are not permitted to rest in the COB intra-day. Any un-executed portion of an "OPG" order will be automatically cancelled shortly after the opening of the COB.

COA and Re-COA - Incoming orders that are eligible for COA will initiate an electronic auction. The auction interval will be set to 1 second. Market-Maker Trading Permit Holders appointed in the class and TPHs acting as agent for orders at the BBO are eligible to respond. Responses are permitted in $.01 increments. In addition, a 40% participation entitlement will apply to a Preferred Market-Maker (PMM) if the PMM is present at the execution price and on the BBO in any applicable option leg at the start of the auction.

An order that is resting in the COB will Re-COA once it is within 3 ticks of the derived net market for the strategy (calculated using the option BBO and the stock NBBO).

- If un-executed after the initial Re-COA, the order will be eligible to Re-COA a second time one minute later only if an option BBO or stock NBBO update is received after that 1-minute interval expires resulting in the order being within 3 ticks of the derived net market.
- If un-executed after the second Re-COA, the order will be eligible to Re-COA after a 15-minute "sleep timer" expires, and then only if an option BBO or stock NBBO update is received after that sleep timer expires resulting in the order being within 3 ticks of the derived net market.
- Re-COA timers are reset anytime there is a price change at the top of the strategy book.

Any un-executed portion of an initiating order that is marketable at the conclusion of a COA or re-COA auction will be routed for manual handling (see exception below for the splitting of certain market orders).

"Splitting" of Certain Market Orders - At the conclusion of COA or re-COA, the un-executed portion of an initiating market order may be eligible for "splitting," with an option market order being sent to CBOE and a stock market order being sent to the designated stock broker, ConvergEx. To be eligible for splitting, the following must be met:

- ✓ Each individual option leg of the order must have a quantity that does not exceed that of the option BBO or 20 contracts, whichever is less.
- ✓ If the option leg is to sell, the option NBBO must be bid $0.25 or higher.
- ✓ The stock leg of the order must have a quantity that does not exceed that of the stock NBBO or 2000 shares, whichever is less.
- ✓ The splitting functionality is not available within 3 minutes of the close of the underlying security or when the underlying security is subject to a short sale circuit breaker under Rule 201 of Regulation SHO.

AIM and SAM - Paired orders are eligible for execution via AIM and SAM. The Opt "Out" feature described in CBOE Regulatory Circular RG12-65 will be available for AIM. Complex orders with a stock leg must have an option quantity of 500 or greater to be eligible for SAM.

The AIM and SAM auction interval will be set to 1 second. Responses are permitted in $.01 increments. For information on eligible responders, please refer to Rules 6.74A and 6.74B.

Fees – Related fees have been announced in Regulatory Circular RG12-087.

Questions regarding this circular may be directed to:

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