



REGULATORY CIRCULAR NO. 97- 72

June 10, 1997

TO: Members and Member Organizations

FROM: Department of Strategic Planning

SUBJECT: Equity FLEX (E-FLEX) Trading Procedures

Due to the increased interest in equity FLEX (E-FLEX) a number of operational issues have arisen. The following summarizes the procedures that must be followed when trading in Equity FLEX.

EQUITY FLEX TRADING PROCEDURES

1. Market makers and brokers seeking to trade E-FLEX must file an amended letter of guarantee or authorization with CBOE's Membership Dept (6th Fl). You may obtain a form for such amended letter from Membership. Membership will also ask that you have read and understood the E-FLEX trading rules in chapter 24.A. You will then be given a sticker for your badge (you must pick up this sticker in person); only market makers and brokers with these stickers may trade E-FLEX.
2. Any class on which CBOE lists options is available for E-FLEX. However, a class must be certified to be eligible. Certification is an overnight process. In other words you must notify the Exchange today to do the trade tomorrow. If a multiply listed class is certified by one of the listing exchanges it is considered certified for all exchanges on which the class trades (you must still become qualified to trade it, however). Any class that is already eligible does not have to be recertified. The list of eligible classes is available at the FLEX post adjacent to the SPX pit. If you have a request to trade FLEX on a class that has not been certified, either the Broker representing the request or a representative from the trading crowd where the listed options trade should contact the FLEX Post Officials at ext. 4575. The FLEX Post Officials will begin the certification process and will inform all appropriate parties.
3. Submitting members will bring a Request for Quote ("RFQ") to the trading station where the listed option is traded and hand the form to the OBO or DPM. The forms will be available at the FLEX post.
4. Upon receipt, the FLEX Post Official will disseminate the RFQ terms to the CBOE blackboard as well as via OPRA to data vendors who carry FLEX messages. The FLEX Post Official will attach a time for quotes to be submitted along with the RFQ terms. Upon completion of dissemination of the message, the FLEX Post Official will send out a pager message. **(The message will begin with F followed by post and station followed by corresponding blackboard page; i.e. F6960 would be for an E- FLEX RFQ occurring at Post 6 Station 9 and the terms of the trade can be found on page 60 of the blackboard.)** It is anticipated that the response time will normally be 3 - 10 minutes from the time it was submitted. In the event of unusual market conditions, the FLEX Post Official will have the discretion to extend this time period. This time period is to be used by the Qualified Market Makers to price the Request for Quote.

5. At the prescribed time, the FLEX Post Official will run a short trading session at the trading station where the listed option trades analogous to opening a series during a busy rotation. All Qualified Market Makers who choose to participate must give 100 up markets. Agents representing customer and/or firm accounts may also participate. The Post Official will review all quotes for several seconds and will then establish the best bid and offer and corresponding size. This quote will then be disseminated. Once the quote is disseminated, the submitting member will have a reasonable amount of time to convey this information to the customer and determine if the customer will hit the bid or the offer, better the market or decline to trade.

6. If the Submitting Member decides not to accept the best bid or offer made in response to the RFQ, any Floor broker or market maker may accept the best bid or offer up to the size currently represented. If the Submitting Member accepts the best bid or offer, but there is excess size available, any floor broker or market maker may trade the balance available.

7. If a trade takes place, the FLEX Post Official will gather all pertinent trading information including price, quantity and buyer/seller account information. A last sale message will be disseminated and trade information will be entered by Exchange staff into the FLEX PC. After the trade information has been entered, the FLEX PC will generate a FLEX Trade Confirmation ticket which must be signed by the buyer and the seller. One ticket is generated for every combination of buyer and seller on a given trade. **It is imperative to read carefully the Trade Confirmation ticket as it is the vehicle for sending all trade information to the OCC for clearing and settlement.** In normal market conditions, the Trade Confirmation tickets will be available for signing approximately 15 minutes after the trade has been completed. In unusual market conditions, the FLEX Post Official will notify the parties when the tickets will be available for signing. At approximately 3:15, all participants in any FLEX trade executed that day must appear at a FLEX trade checking session located at the FLEX pit adjacent to the SPX. This short session is a chance to reconfirm with exchange staff the terms of the trades.

8. If an RFQ does not trade, upon customer request, it can stay open and be put into the FLEX order file. The FLEX Post Official will have discretion as to whether an order can be put in the order file. Initially only customer orders with a limit price, regardless if the order is some type of combination order, will be accepted. No all-or -none or contingency orders will be accepted. All orders will be purged at 3:00 p.m. Orders may be canceled by telephone, but a physical cancel order must follow the telephone request. All orders in the FLEX order file will be traded on a first come, first serve basis. Orders must be traded on the established minimum contract sizes stated in the FLEX rules.

If you have any questions on the forgoing please contact either Bill Barclay (7707) or Rob Gibson (7255). Detailed rules governing FLEX trading are in Chapter 24.A of the CBOE rule book.