



Regulatory Circular RG97-117

Date: December 7, 2007

To: Members and Member Organizations

From: Department of Strategic Planning

Re: Amendments to Rules 24A.5(e) and 24A.9(d) concerning Index FLEX Submitting Member Participation Entitlements and Index FLEX Maximum Bid-Offer Differentials

Amendments to CBOE Rules 24A.5(e) and 24A.9(d) were approved by the Securities and Exchange Commission on August 15, 1997 (File No. SR-CBOE-97-16) and involve the following issues:

- 1. Submitting Member Entitlement on Index FLEX Trades** Previously, Index FLEX Submitting Members specifying an intent to cross on their Request for Quote (RFQ) were entitled to 50 percent of an Index FLEX trade in the case where the Submitting Member matched the Best Bid or Offer (BBO) and 66.67 percent of an Index FLEX trade where the Submitting Member improved the BBO. *Submitting Member Index FLEX participation entitlements have been changed to the largest of 25 percent or a proportional share of an Index FLEX trade. (On Index FLEX closing transactions in which the remaining Underlying Equivalent Value is \$1 million or less, the submitting member is still entitled to the entire trade).* This means, for example, that if there are four market-makers participating on an Index FLEX trade in addition to the Submitting Member, then the Submitting Member is entitled to 25 percent of the Index FLEX trade even though this is greater than a proportional share (1/5) of the trade. However, if there were two market-makers participating on a trade along with a Submitting Member, the Submitting Member would be entitled to a proportional share of the trade, or 1/3 of the trade. Submitting Members for Equity FLEX are entitled only to 25 percent of the trade regardless of the number of participants to the Equity FLEX trade. Of course, in both Index and Equity FLEX, a submitting member may take more than these minimum entitlements if the participating market-makers agree.
- 2. Index FLEX Maximum Bid-Offer Requirements** Maximum bid-offer spreads for some Index FLEX classes with European style exercise have also been established. Previously, Market-Makers were not required to quote a minimum bid-offer spread in FLEX options. *However, maximum bid-offer spreads have been established for Appointed Market-Makers (AMMs) and Qualified Market-Makers (QMMs) when quoting European exercise Index FLEX options overlying the S&P 100 Index or the S&P 500 Index with a time to expiration of more than two weeks and less than two years.* The maximum bid-offer spreads established for European exercise options overlying the S&P 100 Index and S&P 500 Index are listed below.

- European exercise options with a time to expiration greater than two weeks and less than or equal to one year shall have the following maximum bid-offer spreads:

Where the bid Is	The Maximum Bid-Offer Spread Is
Less than \$5	$\frac{3}{4}$ of \$1.00
At least \$5 but not more than \$10	\$1.00
At least \$10 but not more than \$20	\$1.50
At least \$20	\$2.00

- European exercise options with a time to expiration greater than one year and less than two years shall have the following maximum bid-offer spreads:

Where the bid Is	The Maximum Bid-Offer Spread Is
Less than \$10	\$1.50
At least \$10 but not more than \$20	\$2.00
At least \$20 but not more than \$40	\$3.00
At least \$40	\$4.00

If you have any questions regarding the aforementioned rule amendments, you may contact Rob Gibson at 312-786-7255 or Bill Barclay at 312-786-7707.