



## Trading of FLEX Options on Cboe Options Exchange

Reference ID: C2019092500

### Overview

Upon migration to the Bats technology platform on October 7, 2019, *pending regulatory approval*, Cboe Options Exchange (Cboe Options) will introduce new functionality and procedures for electronic and open outcry processing of FLEX option orders via AIM, SAM, single-sided electronic auctions, and PAR (for open outcry handling). These features will better align functionality and procedures for FLEX options with those for non-FLEX options.

For additional market data details for FLEX Options on the Cboe Options ("C1") Exchange platform, see the [US Options FLEX Specification](#).

### Order Input

FLEX orders may be submitted electronically via FIX (see [US Options FIX Specification](#)) or via the Cboe Silexx front-end workstation.

### Highlights

- Up to 100 legs per order will be supported.
- Complex orders cannot include both a FLEX option leg and a listed option leg.
- Paired simple and complex orders may be submitted for AIM and SAM electronic auctions, with up to 10 contra orders.
- Un-paired simple and complex orders may be submitted into the Exchange's single-sided electronic auction.
- Simple and complex orders may be directed to a floor broker's PAR workstation for open outcry handling as described later in this notice.
- There will be no electronic book for resting FLEX orders.
- FLEX options will not be supported for VIX.
- SPX/SPXW FLEX orders will be permitted during both the Regular Trading Hours (RTH) and Global Trading Hours (GTH) sessions. FLEX orders for all other classes may be traded only during the RTH session.
- FLEX option trades will be reported to OPRA as text messages.

### Market-Maker Eligibility and Class Appointments

Market Makers (MMs) must have a separate financial guarantee from their clearing firm to be authorized for FLEX trading. If such a guarantee is in place, the MM will automatically be appointed in FLEX options for each class appointment entered in the customer web portal (i.e., there is no separate class appointment for FLEX options). Floor MMs who are not approved for FLEX will be programmatically blocked from PAR trade endorsements.

### **Broker and Give-up Eligibility**

Floor and routing brokers must have a separate financial guarantee in place with the Exchange to be authorized for FLEX trading and order routing. If such a guarantee is in place, the broker will be eligible to trade and route FLEX orders. Floor and routing brokers will be able to route and trade FLEX orders for each give-up firm which the broker is authorized to represent. It is not necessary for the give-up itself to be authorized for FLEX.

### **Valid Capacities**

The following order capacities will be supported: 'C' (Customer), 'F' (Firm), 'M' (Market Maker), 'N' (Away Market Maker), 'B' (Broker Dealer), 'L' (Non-TPH Affiliate), 'J' (Joint Back Office) and 'U' (Professional Customer).

- The 'U' (Professional Customer) capacity was not supported on Cboe's legacy technology platform but will be supported on the new technology platform.
- The 'D' capacity (Non-TPH Broker Dealer FLEX) which existed on Cboe's legacy technology platform will no longer be supported.

### **Order Input via Silexx**

Orders may also be submitted using Cboe's dynamic Silexx front-end application. Silexx functionality supports all aspects of Cboe FLEX option trading and may be used to route FLEX orders for electronic processing or directly to floor brokers for high-touch open outcry handling.

Silexx allows users to upload up to 100 FLEX legs into the FLEX order ticket via a spreadsheet template, which includes action, type, expiration strike, position, settlement type, quantity, package, and leg price information.

Additionally, leg prices calculated via the broker's own spreadsheets may be uploaded to the Silexx application from the broker's own hardware. This is an important feature, as individual leg prices will be required upon order entry for complex FLEX orders (described below). Note that Cboe administered tablets and PCs are not equipped with the Excel application necessary for such upload.

### **Electronic Processing**

The three choices available for electronic FLEX order processing are AIM, SAM, and single-sided auctions. The following apply to each:

- The minimum price increment is \$.01.
- Percentage orders are supported and allow the submitter to choose to determine the strike price and/or execution price as a percentage of the underlying price at the market close. For such

orders, the minimum increment is 0.01%, and the calculated strike and/or execution price will be rounded to the nearest penny.

- Orders will be accepted only when the regular (non-FLEX) class is in an open state; in any other state, the order will be rejected.
- Complex orders beyond a 3:1 ratio (largest to smallest leg) will be rejected.
- Complex orders must include both a net package price and an individual price for each leg, unlike regular electronic trading.
- Only single-sided auctions may be canceled by the initiating party prior to the completion of the auction.
- For each auction type, the sender must specify on the order an auction timer length anywhere from 3 to 300 seconds. The order will be rejected if the timer value is not included.
- Auction responses must be from FLEX-eligible EFIDs and must include a valid Auction ID.
- Only opposite side responses are accepted; same side responses will be rejected.
- Responses may be entered at multiple prices with each price level capped independently by EFID at the size of the auction order.
- MMs need not be appointed in the class to respond to any electronic auction.
- Price improvement will be allocated among the individual legs to be as close as possible to the leg prices provided by the sender.

## AIM

- Paired simple and complex orders may be routed via AIM, similar to regular orders.
- For simple (single-leg) AIM transactions, MMs appointed to the FLEX class cannot be the contra-side order of the paired order (not system enforced; sender beware).
- For complex (multi-leg) AIM transactions, MMs appointed to the FLEX class may be the contra-side order of the paired order.
- The auction message will not include price or capacity (see specifications for more information).
- At the final execution price, after priority customers, the contra order will be allocated 50% if matched by one other participant and 40% if matched by two or more others. All other participants will receive a pro-rata share of the remainder.

## SAM

- Paired simple and complex orders can be routed via SAM, similar to regular orders.
- The order must be marked as a SAM auction order: FIX MsgType=s.
- The SAM order must be for 500 contracts or more. For complex orders, the smallest leg must be for at least 500 contracts.
- For simple (single-leg) SAM transactions, MMs appointed to the FLEX class cannot be the contra-side order of the paired order (not system enforced; sender beware).
- For complex (multi-leg) SAM transactions, MMs appointed to the FLEX class may be the contra-side order of the paired order.
- The order may not be a facilitation. Orders where the agency-side and contra-side have the same EFID and 'F' capacity on the contra order will be rejected. However, orders using different EFIDs may still be facilitations and must not be entered as they are not within Exchange rules for SAM. It is the responsibility of the sender not to submit facilitation transactions into the SAM process, even if the Exchange system does not automatically reject such orders (sender beware).
- Orders between two customers ('C') will not be supported.
- The auction message will include price and capacity (see specifications for more information).

- The contra order will receive a 100% allocation unless quantity at better prices from all auction responses, collectively, can satisfy the entire agency-side order, or alternatively if there is a priority customer. In such cases, the contra order will be allocated nothing.

### **Single-sided Auctions**

- Simple and complex orders submitted into the single-sided auction will be exposed via an electronic auction.
- The auction message will not include price or capacity (see specifications for more information).
- If the auction is over-subscribed at the final execution price, all participants will receive a pro-rata share of the remainder. If the auction is under-subscribed, any remainder of the order will be automatically cancelled at the conclusion of the auction.

### **Open Outcry Handling**

FLEX orders may be direct routed to a PAR workstation for manual handling in open outcry. The floor access permits for the Floor Broker and the opposite side floor participant (Market-Maker or floor broker) must include FLEX eligibility in order to trade FLEX options. However, the give-up firm on the order need not be authorized for FLEX.

Open outcry rules for bidding/offering, participation entitlements, priority, and crowd response will be similar to that for regular option orders. The crowd will have a reasonable amount of time, at least three seconds, to respond to the FLEX open outcry RFQ.

Complex orders routed to PAR must include both a net package price and a price for each individual leg, unlike regular orders. Note that processing is expected to be modified in Q4 2019 to allow complex orders to route to PAR without leg prices.

Market Maker Trade Notifications (MMTNs), Fill Reports, and OPRA text messages will be generated following the PAR trade and endorsement process.

FLEX orders that are routed directly to PAR may be submitted during the pre-open and open states of the product.

Direct routed FLEX orders may have any ratio, while those submitted for electronic processing must have a ratio no greater than 3:1.

### **Additional Information**

Please contact any of the groups listed below with questions related to this notice.

Questions relating to Silexx and requests for a training session should be referred to Trading Floor Operations. Customers may also email [Silexx-sales@cboe.com](mailto:Silexx-sales@cboe.com) for more information or to be setup with production or certification Silexx logins.

Questions relating to floor access permits and FLEX eligibility should be referred to [membershipservices@cboe.com](mailto:membershipservices@cboe.com).

We appreciate your business and remain committed to powering your potential with Cboe products, technologies and solutions.

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