

What are FLEX Options?

FLexible **EX**change[®] Options (FLEX Options) are powerful, customizable portfolio management tools that allow users to specify key contract terms, including exercise prices, exercise styles, and expiration dates, on major stock indexes (SPX[®], XSPSM, RUTSM, DJXSM, MXEASM, and MXEFSM) as well as individual equities and ETFs/ETPs.

What are FLEX Micro Index options?

New FLEX Micro Index options provides more flexibility and precision for managing exposure to larger-valued broad-based indexes. With a contract multiplier of 1, rather than the conventional 100, insurers can more precisely hedge a portfolio based on notional value, which may equal a fraction of a standard contract.

What are the differences between FLEX and FLEX Micro options?

There are two important distinctions between FLEX Index options with a multiplier of 100 and FLEX Micro options, due to the difference in multipliers.

Term	FLEX Index Option Multiplier of 100	FLEX Micro Option Multiplier of 1
Strike Price	4330	4330
Bid or Offer	32.05	32.05
Total Notional	\$433,000	\$4,330
Total Value of Contract	\$3,205	\$32.05

What degree of customization is allowed for the suite of FLEX options?

	Index FLEX	Index FLEX Micro	Equity FLEX
Options Available for FLEX Trading	S&P 500 (SPX) Mini-S&P 500 (XSP) Russell 2000 (RUT) Dow Jones Industrial Average (DJX) MSCI EAFE (MXEA) MSCI Emerging Markets (MXEF)		All Cboe-listed equity options
Mini-S&P 500 (XSP)	\$100	\$1	\$100
Russell 2000 (RUT)	Up to 15 years from trade date		
Dow Jones Industrial Average (DJX)	Put or call		
MSCI EAFE (MXEA)	American or European		
MSCI Emerging Markets (MXEF)	Index value, percent of index value or other methods		A dollar amount, percent of stock

Use Cases for embedded FLEX options

FLEX options can be used in various product wrappers such as:

- A Target Outcome ETFs (Exchange-Traded Funds)
- UITs (Unit Investment Trusts)
- VITs (Variable Insurance Trusts)
- RILAs (Registered Index-Linked Annuities)

Can you explain how to calculate how many contracts I need?

Unlike OTC where size is expressed in notional amounts, FLEX size is expressed in contract amounts.

For example, suppose an investor holds a security portfolio of \$10,000,000 and desires to hedge its portfolio with SPX options. Assume the S&P 500 Index value is 4,327.70. Since each SPX options contract has a 100 multiplier (i.e. 100 units), the notional for each contract equals 100 times the level of the index. So, if the index is at 4,327.70, one contract equals \$432,770 notional. To hedge the entire portfolio with SPX options, the investor would need to trade 23.11 contracts (\$10,000,000/\$432,770). Cboe does not trade fractional contracts, therefore the nearest whole number of contracts would be 23 contracts, which would have a total notional value of \$9,953,710. As a result, the investor could only hedge within \$46,290 of its portfolio value with SPX options with an index multiplier of 100 and would be underhedged.

Can you explain how to calculate how many contracts I need (cont)?

If the investor needs more granularity, they can trade SPX FLEX Micro options. The investor would need to trade 2,310.70 contracts (\$10,000,000/\$4,327.70). The nearest whole number of contracts would be 2,311 SPX FLEX Micro options, 6 which would have a total notional value of \$10,001,314.70. This will allow the investor to hedge within \$1,315 of its portfolio value. Therefore, utilizing FLEX Micro options provide far greater precision to effectively hedge a portfolio.

How do you submit a FLEX order?

FLEX orders are submitted by Cboe Trading Permit Holders (TPHs) and brokers. The order must include all required terms of a FLEX option series, such as strike price, settlement, expiration date, and exercise style as required. As well as the underlying equity security or index (i.e., the FLEX option class) and whether the index option has an index multiplier of 100 or 1.

The FLEX trader goes through a competitive process for best price discovery and execution.

Does the exchange have exotic options?

Insurance companies for example that write indexed annuity contracts often have exotic option liabilities embedded within those annuity contracts. Cboe offers two types of exotic options, Asian and Cliquet FLEX Index options. Asian and Cliquet FLEX Index options provides insurers with an alternative hedging tool to OTC market products, coupled with traditional exchange-traded benefits like enhanced price discovery, transparency and centralized clearing. Asian and Cliquet settlements will not be supported for FLEX Micro options.

Can FLEX accommodate point-to-point with a cap?

Yes, Cboe refers to “point-to-point with a cap” trades as call spreads.

Who is the counter-party when trading FLEX options?

As with any other Exchange-traded option, the counter-party is the Options Clearing Corporation (OCC). Trades may be made with any number of other market participants, but then it is renovated to the OCC who stands as the buyer to every seller and the seller to every buyer.

What is the impact on FLEX[®] of extending standard SPX expiries to 5 years?

All market participants should benefit from more transparent pricing in long-dated options, LEAPS[®] (Long-Term Equity Anticipation Securities). Because the OCC nets positions for risk purposes across FLEX[®] and standard listed options, extending the standard listed maturities should be helpful for price efficiency in FLEX[®]. Liquidity providers that sell FLEX[®] options will get offsets from any standard options they own. Having a standard 5 year option will help liquidity providers match the risks more efficiently for longer dated FLEX[®] options.

For more information, visit Cboe.com/Flex

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