



Regulatory Circular RG06-21

Date: February 17, 2006  
To: Members, Member Firms and Member Organizations  
From: Trading Operations  
Re: Trading Procedures for FLEX Equity Options

The procedures for trading FLEX Equity Options (E-FLEX options) outlined in other circulars are being updated through this regulatory circular. The following summarizes the procedures that must now be followed for trading in E-FLEX options.

(This circular replaces Regulatory Circulars RG97-72 and RC97-127 with respect to E-FLEX options. The procedures for trading FLEX index options are not changing.)

**TRADING PROCEDURES FOR E-FLEX OPTIONS**

**Registration:**

1. To trade E-FLEX options, market-makers and brokers must file an amended letter of guarantee or authorization with CBOE's Membership Department (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 24A. 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.

**RFQ Process:**

2. The submitting member must notify the FLEX Post Official (or other designee appointed by the Exchange in accordance with Rule 24A.12(a)) about all terms of the Request for Quote (RFQ) **before notifying the trading crowd**. Notification can be made over the phone but **must** be followed by a written RFQ form. The forms are available at the FLEX post. The RFQ must also include a response time interval specified in minutes and, except as provided below, must be for a period of at least 5 minutes for E-FLEX options (the period for FLEX Index Options must at least 10 minutes). In the event of unusual market conditions, the FLEX Post Official will have the discretion to extend the request response time period. No RFQs can be submitted to the FLEX Post Official after 2:55 p.m. (all times noted are Central).
3. Upon receipt, the FLEX Post Official will disseminate the RFQ terms to the CBOE blackboard (starting on page 100) 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. The FLEX Post Official will also send out a pager message (the message will begin with FLEX-EQUITY followed by post and station followed by corresponding blackboard page; e.g., FLEX EQUITY-69100 would be for an E-FLEX RFQ occurring at Post 6 Station 9 and the terms of the trade can be found on page 100 of the blackboard).

4. After submitting an RFQ to the FLEX Post Official, the submitting member **must** then immediately bring the RFQ to the trading crowd where the listed option is traded. This communication must occur as soon as possible (and generally within 1 minute) following submission of the RFQ to the FLEX Post Official.
5. FLEX quotes responsive to the RFQ must be entered during the request response time by public outcry. Qualified market-makers who choose to participate must give 25 up markets (or the remaining underlying size on a closing transaction, whichever is less). Agents representing customer and/or firm accounts may also participate. Any customer interest in the RFQ should be left with the FLEX Post Official by placing an order with him/her. At the prescribed time, the submitting member will review all quotes for several seconds and will then report the best bid and offer ("BBO") and corresponding size to the Post Official. This information will be used by the FLEX Post Official in determining the BBO quote so that the quote can 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. **No trade shall take place sooner than the expiration of the request response time interval** (e.g., 5 minutes after the RFQ has been disseminated by the FLEX Post Official). By this time, any public interest in response to the RFQ will be prepared to give a quote along with the market-makers in the trading crowd.
7. 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.
8. If an RFQ does not trade, upon customer request to the FLEX Post Official, it can stay open and be put in 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. Orders may be cancelled by phone, 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. All orders will be purged at 3:00 p.m.

#### **Trade Entry and Trade Reconciliation:**

9. If a trade takes place, the submitting member will report to the FLEX Post Official all pertinent information including price, quantity and buy/sell account information. **All terms of each FLEX trade, including CMTA and Q-account, must be provided in a timely manner. Members risk the trade not clearing properly if this information is not provided.**
10. 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 that must be signed by the buyer and 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 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.

11. FLEX trade reports are available to member firm back-office personnel at the Trading Processing window at approximately 3:30 p.m. If any errors are discovered, the firm must contact the Trading Processing window no later than 4:00 p.m. **After 4:00 p.m. no changes will be made to FLEX trades.**
12. The intention of these procedures is to eliminate the incidence of errors that can cause mis-cleared trades. Please be advised that any member or member firm that fails to observe each of these procedures will be responsible for any errors or mis-clears that may result.

If you have any questions on the foregoing, please Thomas Foertsch (312-735-6339). Detailed rules governing FLEX trading are in Chapter 24A of the CBOE rule book.