



EXECUTE SUCCESS<sup>SM</sup>

## Regulatory Circular RG12-141

**Date:** October 25, 2012

**To:** Trading Permit Holders

**From:** Business Development Division

**RE:** Automated Improvement Mechanism in CFLEX 2.0

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CBOE will introduce the Automated Improvement Mechanism in CFLEX 2.0 ("FLEX AIM") on November 1, 2012. FLEX AIM is a mechanism where a FLEX Trader can electronically execute an agency order against principal interest and/or against solicited orders<sup>1</sup> (the "match order") provided the FLEX Trader submits the agency order for the FLEX AIM auction.

FLEX AIM will be available for all FLEX Options classes, for both simple and complex orders.

### CFLEX Surcharge

Pending SEC review, effective with the launch of FLEX AIM, CBOE will eliminate the \$0.10 CFLEX surcharge fee on all FLEX trades, except that the CFLEX surcharge fee will continue to be charged on SPX, OEX, XEO, XSP, DJX, and volatility index option trades.

### CFLEX AIM Credit Program

Pending SEC review, CBOE is implementing, for November 2012 and December 2012, the CFLEX AIM Credit Program (the "Program"). Pursuant to the Program, CBOE will credit the executing broker \$0.10 per contract on trades executed through FLEX AIM on series for which the underlying has a multi-listed non-FLEX Options class. The credit applies to the Primary Order only and is capped at 2,500 contracts. Executing brokers can only receive the credit one time per day on a particular class and the credit will apply to the smallest order. For purposes of calculating the credit, individual legs within complex orders will be treated as separate orders.

The CFLEX AIM Credit Program will only be available during November and December 2012.

### Other Fee Features

Similar to AIM for Non-FLEX Options on multi-list underlyings, for FLEX AIM:

- The FLEX AIM facilitation contra order is free.
- Volume from the FLEX AIM facilitation contra order counts towards the proprietary products sliding scale.

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<sup>1</sup> Please note that solicited orders submitted by the Initiating TPH to trade against the agency order may not be for the account of a FLEX Market-maker assigned to the option class.

- Customer volume executed through the FLEX AIM mechanism on multi-list underlyings counts towards CBOE's VIP program.

### FLEX AIM Settings & Messaging

The following are the applicable settings for FLEX AIM.

Exposure period	3 seconds
Minimum size requirement	1 contract
Minimum price increment	\$0.01 for fixed strikes; 0.01% for percentage strikes
Initiating TPH's match order allocation percentage when RFR responses match the single price submission	50% if only one other RFR response; 40% if multiple RFR responses <sup>2</sup>

Auction RFR messages will be sent to all FLEX Traders that have elected to receive RFRs. The messages will include the underlying, option type, expiration date, exercise style, strike price, strike type and settlement type, as well as details for the side and size of the order.

Responses may be submitted by FLEX Traders. Responses are only permitted on the same side of the market as the match order, and must specify price and size and cannot cross the BBO on the opposite side of the market.

For complex orders, the single price submission and RFR responses are expressed as net debits or net credits.

The verification process for transitioning %-strikes into fixed strikes, and for defining individual leg prices on complex orders, will be the same in FLEX AIM as it is for a regular FLEX RFQ auction – the review period is 10 minutes (see RG12-056).

FLEX AIM AON, also known as FLEX Solicitation Auction Mechanism (SAM), will be launched at a later date. FLEX AIM AON settings will be announced by separate circular.

### Additional Information

For additional information, please refer to Rule 24B.5A. Questions about FLEX AIM should be directed to [reginterps@cboe.com](mailto:reginterps@cboe.com) or (312) 786-8141. For information on how to use FLEX AIM on the CFLEX 2.0 GUI, contact Matt McFarland at (312) 786-7978.

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<sup>2</sup>FLEX AIM permits the Initiating TPH to specify a single price at which it seeks to cross the Agency Order or to select an optional auto-match feature where the contra order automatically matches the price and size of all RFR responses. Under the auto-match feature, the Initiating TPH will be allocated its full size at each price point until a price point is reached where the balance of the order can be fully executed. At such price point, the Initiating TPH will be allocated the greater of one contract or 40% of the remainder of the Agency Order.