



**Cboe Options Regulatory Circular 18-027**  
**C2 Options Regulatory Circular 18-014**

**BZX Regulatory Circular 18-013**  
**EDGX Regulatory Circular 18-013**

**Date: August 14, 2018**

**To: Trading Permit Holders and Options Members**

**From: Regulatory Division**

**RE: FLEX Conversion – Impact on Position and Exercise Limits**

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### **Background**

Under Cboe Exchange, Inc. (“Cboe Options”) Rule 24A.4.02 and as described in Regulatory Circular RG10-102, the following fungibility and trading procedures requirements currently apply to “look-alike” FLEX and Non-FLEX Options that have a third Friday-of-the-month expiration:

- As long as the options on an underlying security or index are otherwise eligible for FLEX trading, FLEX Options are permitted in any series that is not already available for trading as a Non-FLEX Options series (i.e., a FLEX Option put (call) series as long as it does not have the same expiration date, exercise style, and same exercise price as any Non-FLEX Option put (call) series that is already available for trading on the same underlying security or index).
- In addition, FLEX Options are permitted before the options are listed for trading as Non-FLEX Options. Once and if a “look-alike” option series is listed for trading as a Non-FLEX Options series, (i) all existing options positions established under the FLEX trading procedures will be fully fungible with the transactions in the look-alike Non-FLEX Option series (i.e., the FLEX Option position would convert over to a Non-FLEX Option position); and (ii) any further trading in the series would be as Non-FLEX Options subject to the Non-FLEX trading procedures and rules. However, for American-style options only, in the event a Non-FLEX look-alike series is added intra-day, a position established under the FLEX trading procedures would be permitted to be closed using the FLEX trading procedures for the balance of the trading day on which the Non-FLEX series is added against another closing only FLEX position.<sup>1</sup>

As announced in Trade Desk Notice [C2018072002](#), Cboe Options recently amended its rules to expand these fungibility and trading procedures to all look-alike FLEX Options and Non-FLEX Options (not just third Friday-of-the-month expirations). The Options Clearing Corporation (“OCC”) made a corresponding change to its rules too. These rule changes will go into effect after the close on Tuesday, August 21, 2018. Going forward after August 21st, the fungibility and trading procedures under Cboe

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<sup>1</sup> For such FLEX series, the FLEX Official will make an announcement that the FLEX series is now restricted to closing transactions; a FLEX Request for Quotes may not be disseminated for any order representing a FLEX series having the same terms as a Non-FLEX series, unless such FLEX Order is a closing order (and it is the day the Non-FLEX series has been added); and only responses that close out an existing FLEX position are permitted. Any transactions in a restricted series that occur that do not conform to these requirements will be nullified by the FLEX Official pursuant to Rule 24B.14.



Options Rule 24A.4.02 outlined above will be applicable to all FLEX Options, regardless of their expiration date.

Please note that, as of the close on August 21st, Cboe Options will cease trading in any existing FLEX Options series that has a corresponding look-alike Non-FLEX Option series (e.g., any FLEX Options series with a quarterly, short-term, weekly or end-of-month expiration that has the same terms as Non-FLEX Options). On the evening of August 21st, OCC will convert open interest in any such existing FLEX Option series into interest in the corresponding look-alike Non-FLEX Option series. Any further trading in those series would be as Non-FLEX Options subject to the Non-FLEX trading procedures and rules.

### Position and Exercise Limits

The Cboe-affiliated Options Exchanges are issuing this circular to remind Trading Permit Holders (“TPHs”) and Options Members that, upon conversion of a FLEX Option to a Non-FLEX Option, the Non-FLEX Option position and exercise limits apply.<sup>2</sup> TPHs/Options Members should consider this impact moving forward for all FLEX Options that potentially could become fungible with Non-FLEX Options, but in particular with respect to the upcoming August 21st conversion.

For example, hypothetical option class XYZ is an equity option with a position limit of 250,000 contracts. Assume a Non-FLEX XYZ 07SEP18 50.00 Call and a FLEX XYZ 07SEP18 50.00 Call are both listed for trading as of August 21st.

Firm ABC Positions	Position Before 8/21/2018 Conversion	Position After 8/21/2018 Conversion
Non-FLEX XYZ 07SEP18 50.00 C	249,000 LC/SP	251,000 LC/SP
FLEX XYZ 07SEP18 50.00 C	2,000 LC/SP	N/A

As shown above, prior to the conversion on August 21st, the Non-FLEX XYZ position was below the position limit of 250,000 (*i.e.*, 249,000 LC/SP); however, once the FLEX Option was converted to a Non-FLEX Option the total Non-FLEX position was over the limit (*i.e.*, 249,000 + 2,000 = 251,000 LC/SP).

### Additional Information

Please refer to Cboe Options Rule Filing [SR-CBOE-2018-008](#) and OCC Rule Filing [SR-OCC-2018-010](#), as well as Trade Desk Notice [C2018072002](#).

For any other questions regarding this circular, please email [RegInterps@cboe.com](mailto:RegInterps@cboe.com) or call (312) 786-8141.

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<sup>2</sup> Please also note that FLEX Options are subject to separate position limit, exercise limit and reporting requirements. FLEX Options are also subject to certain aggregation requirements with Non-FLEX Options. See Cboe Options Rule 24A.7 for FLEX Option position limit and reporting requirements, and 24A.7(d) specifically for rules related to aggregation of FLEX Option and Non-FLEX Option positions. See Cboe Options Rule 24A.8 for FLEX Option exercise limits.