CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG10-21

To: Members

From: Trading Operations & Legal Divisions

Date: February 2, 2010

Subject: Approval of FLEX Pilots
- Elimination of Minimum Value Sizes For All FLEX Options
- Elimination of PM-Settlement Restrictions for FLEX Index Options

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The SEC has approved a rule change that introduces two new pilot programs for FLEX Options (see Release 34-61439, SR-CBOE-2009-087). The pilot programs provide the following:

- **Elimination of Minimum Value Sizes for All FLEX Options:** Previously, minimum value size requirements applied for all FLEX Options and varied depending upon various factors including the type of FLEX Option (e.g., FLEX Equity or FLEX Index), whether the transaction was opening or closing, whether the transaction was in a new or existing series, and whether the party initiated the trade or was a responder (see, e.g., Rule 24B.4). Under the pilot program, all minimum value size requirements have been eliminated.

- **Elimination of PM Settlement Restriction for FLEX Index Options:** Previously, FLEX Index Options that expire on or within two business days of a "third Friday-of-the-month" expiration (referred to as the "blackout period") were only permitted to have an am settlement. Pm settlements were not permitted for FLEX Index Options that expired during the blackout period. Under this pilot program, the pm settlement restriction has been removed. Thus, FLEX Index Options that expire within the blackout period can be am- or pm-settled.[1]

These pilot programs will be in effect until **March 28, 2011**. CBOE anticipates that it will eventually seek to extend or make these pilots permanent. However, should CBOE determine to let the pilots expire, any positions established under the respective pilots would not be impacted by the expiration of the pilot. For example, a position in a pm-settled FLEX Index Option series that expires on Expiration Friday in January 2015 could be established during the pm settlement pilot. If the pm settlement pilot were not extended, then the position could continue to exist. Please note, however, that any further trading in the series would be restricted to transactions where at least one side of the trade is a closing transaction.

[1] Under the pilot, average price settlements are also now permitted for FLEX Index Options that expire during the blackout period. However, the average price settlement methodology has not been actively utilized on CBOE. Questions about average price settlement parameters and requirements should be referred to the CFLEX Helpdesk at 312-460-1941. Please also note that additional conditions apply for FLEX Options that expire during the blackout period (see Rule 24B.4.02 and Regulatory Circular RG10-23).

As part of the pilot programs, CBOE must provide the SEC with certain pilot data and analysis. For example, to extend or make the minimum value size pilot permanent, CBOE must submit a report to the SEC that provides (among other things) analysis on the types of investors that initiated opening FLEX Options transactions (i.e., institutional, high net worth, or retail, if any). Under the pm settlement pilot, CBOE must submit a report that provides (among other things) certain information on market participants' trading habits. Member firms should note that, in order for CBOE to provide the data and analysis related to the pilot reports, we may need to contact you at some point during the pilots to gather information. We appreciate your cooperation in this regard in advance.

Questions regarding this circular may be directed to Jennifer Lamie, Legal Division, at 312-786-7576, Lisa Morano, Business Development, at 312-786-7319, or to the CFLEX Helpdesk at 312-460-1941. For additional information on FLEX settings, trading procedures and trade processing, please refer to Regulatory Circulars RG10-22. For additional information on the conditions that apply to FLEX Options that expire during the blackout period, please refer to Regulatory Circular RG10-23. This information is available at www.cboe.org/legal.

(Supersedes Regulatory Circular RG08-41)