CHICAGO BOARD OPTIONS EXCHANGE

400 S. La Salle
Chicago, IL 60605

Regulatory Circular RG10-22

To: Members

From: Trading Operations

Date: February 17, 2010

Re: CFLEX Settings and Trading Procedures (Revised)[1]

In light of the recent approval of two new FLEX pilots (see Regulatory Circular RG10-21), CBOE is issuing this circular to remind members of the applicable CFLEX settings and trading procedures.

The CFLEX settings are as follows:

- **Strike Price and Trading Increments:** $0.01 for all FLEX Options
- **Crossing Entitlements:**
  - Electronic RFQs: 20% for facilitations and solicitations in the following classes: DJX, DTX, DUX, DXL, FVX, GOX, INX, IRX, MVR, OEX, OIX, POU, SPX, TNX, TXX, TYX and XEO; for all other classes, the crossing entitlement shall be 40% for facilitations and solicitations
  - Open Outcry RFQs: Per the attached table
- **Electronic RFQ Timers:**
  - Response Period (T1): minimum of 10 seconds, maximum of 5 minutes
  - Reaction Period (T2): maximum of 5 minutes
  - Exposure Period (T3): minimum of 3 seconds
- **Open Outcry RFQ Timers:**
  - Response Period for FLEX Index Options and FLEX Equity Options on ETFs: minimum of 5 minutes
  - Response Period for all other FLEX Equity Options: minimum of 3 minutes

A detailed summary of the CFLEX trading procedures is attached.[2] For further information, please go to www.cboe.com/CFLEX or refer to Chapter XXIVB of the CBOE Rules located at www.cboe.org/Legal. Additional questions may also be directed to Lisa Morano at 312-786-7319 or to the CFLEX Helpdesk at 312-460-1941.

(Replaces Regulatory Circular RG07-130)

[1] This circular has been revised to include information on the applicable strike price increments for FLEX Options. No other changes were made from the original circular issued on February 2, 2010.

[2] This circular pertains only to FLEX Options. Please also note that Transfer Packages which are offered at the FLEX post subject to the transfer procedures under Rule 6.49A are traded in open outcry only and are not subject to the procedures described in this circular. For a detailed description of the transfer procedures, refer to Rule 6.49A.

CFLEX Crossing Participation Entitlements for Open Outcry RFQs[3]

- For the classes listed below, 40% for open outcry facilitations and solicitations:

ALL NON-ETF FLEX EQUITY OPTION CLASSES &

BBH	IEF	IYE	RKH	UTH
BDH	IGV	IYH	RSP	WMH
DVY	IWC	IYY	RTH	XLB
EFA	IWP	LQD	SHY	XLE
EEM	IWR	MDY	SMH	XLF
HHH	IWS	OIH	SML	XLK
IAH	IWV	ONEQ	SWH	XLP
IBB	IWW	OOO	TLT	XLU
IDU	IWZ	PPH	TTH	XLV

- For the classes listed below, 40% for open outcry facilitations (and not solicitations):

DGT	IGW	IWM	RMN
DIA	IWB	IWN	SPY
IGN	IWD	IWO	XLI
IGU	IWF	OEF	XLY

- For the classes listed below, 20% for open outcry facilitations (and not solicitations):

CYX	MUT	PVF	RPY
DJX	MVR	PVK	RUT
DTX	NDX	PVL	SPX
DUX	OEX	PVO	TNX
DXL	OIX	PVP	TXX
FVX	PFU	PVU	TYX
GOX	POQ	QQQQ	VIX
INX	POU	RLG	XEO
IRX	POY	RLV	XSP
MNX	PVC	RMC	

& ALL OTHER FLEX INDEX AND ETF OPTIONS CLASSES

[3] For all FLEX Index Option classes, the open outcry crossing participation entitlement is the larger of the percentage noted above, a proportional share, $1 million underlying equivalent value or the remaining underlying equivalent value on a closing transaction.

CFLEX Trading Procedures

- **Market Participants:** There are Qualified Market-Makers ("QMMs") appointed to each class (see Rule 24B.9 for requirements); there are currently no Appointed Market-Makers ("AMMs"). QMMs and brokers seeking to trade FLEX must file an amended letter of guarantee or authorization with CBOE's Membership Department (6th Floor). You may obtain a form for such amended letter from the Membership Department. For those QMMs and brokers seeking to trade in open outcry on the Exchange's trading floor, "E-FLEX" and/or "I- FLEX" will be printed on your badge. Only Market-Makers and brokers with these indicators on their badges may trade in open outcry. In addition, members' customers seeking to have direct electronic access to the CFLEX system (referred to as "Sponsored Users") must file a Sponsored User Agreement with the Membership Department (see Rule 6.20A). To confirm whether you have the current paperwork on file or to obtain the necessary forms, contact the Membership Department.

- **Product Terms & Specs:** These are described in Rule 24B.4. Please note the following:[4]
  - The minimum values size requirements for all FLEX Options and pm-settlement restrictions for FLEX Index Options have been eliminated on a pilot basis until March 28, 2011 (see Rule 24B.4.01 and Regulatory Circular RG10-21 for further information).
  - FLEX Options that expire on or within two business days of a third Friday-of-the-month expiration (referred to as the old "blackout period") are subject to additional requirements (see Rule 24B.4.02 and Regulatory Circular RG10-23 for further information).
  - FLEX Options on Volatility Indexes (e.g., CBOE Volatility Index (VIX)) may only expire on business days that non-FLEX options on Volatility Indexes expire (see Regulatory Circular RG09-55 for further information).
  - Strike price increments on all new FLEX Options may be expressed down to the nearest $0.01. Existing FLEX Equity Option series with strike prices in one-eighth of a dollar increments may continue to trade.
  - The minimum trading increment is $0.01 for all FLEX Options.

- **Position & Exercise Limits, Reporting Requirements:** For the applicable position and exercise limits, as well as reporting requirements, please refer to Rules 24B.7 and 24B.8.

- **Crossing Participation Entitlements:** The applicable crossing participation entitlements (after yielding to certain trading interests) will be as follows:
  - Electronic RFQs: 20% for facilitations and solicitations in the following classes: DJX, DTX, DUX, DXL, FVX, GOX, INX, IRX, MVR, OEX, OIX, POU, SPX, TNX, TXX, TYX and

[4] All transactions must also be in compliance with Section 11(a)(1) of the Exchange Act and the rules promulgated thereunder. Section 11(a)(1) prohibits a member from effecting transactions on the Exchange for the member's own account, the account of an associated person, or an account over which the member or its associated person exercises investment discretion (collectively referred to as "proprietary" orders), unless an exception applies. In this regard, Market-Makers effecting transactions in a market-making capacity are generally exempt from the restrictions of Section 11(a)(1). In addition, with respect to the FLEX electronic book: (i) a FLEX Order submitted on behalf of the proprietary account of a member that satisfies the requirements of the "G" exemption may only be entered to "hit" the electronic book. To the extent such a FLEX Order is not executed in whole or in part as soon as it hits the electronic book, it must be immediately cancelled by the FLEX Trader; and (ii) a member that satisfies the requirements of the "effect versus execute" exemption may use the System to submit a proprietary order originating from off the Exchange's trading floor into the electronic book. For further information on the applicable exception requirements, please refer to Section 11(a)(1) and CBOE Rule 24B.5(d)(4).

XEO; for all other classes, the crossing entitlement shall be 40% for facilitations and solicitations

- Open Outcry RFQs: Per the table above

It should be noted that the initiator of an RFQ (referred to as the "Submitting Member" or "SM") utilizing the electronic or open outcry RFQ mechanics cannot cross an order with a QMM unless certain conditions are satisfied (see Rule 24B.5(d)(2)(i)(C)). It should also be noted that an agency order cannot be crossed with a principal or solicited order via the book unless the agency order is first subject to an RFQ and the agency order is exposed for at least 3 seconds or, in the case of a principal order being executed against an agency order, the SM has been bidding (offering) for at least 3 seconds prior to receiving the agency order (see Rule 24B.5(b)(3)).

- **Electronic RFQs:** To initiate a FLEX transaction using the electronic RFQ process, the SM submits an electronic RFQ containing the applicable contract terms. If the SM is seeking a crossing participation entitlement (discussed below), the SM must check the "intent to cross" box as part of the RFQ request. Various timers apply during an electronic RFQ:

    - **Response Period (T1):** minimum of 10 seconds, maximum of 5 minutes
      T1 is a variable period set by the SM that denotes when responses can be entered, modified or canceled, including responses from the SM. Note that responses for the account of non-member Market-Makers (origin code "N") are not permitted and responses for the account of a non-member broker-dealer must be submitted using the origin code "C."

    - **Reaction Period (T2):** maximum of 5 minutes
      T2 is a period when the SM can decide to trade; responses can continue to be entered, modified or cancelled during T2, but no trading will occur until the SM determines to accept or reject the RFQ responses. Note that if the SM enters a response during T2, the SM must wait a minimum of 3 seconds before entering a contra-side order.

    - **Exposure Period (T3):** minimum of 3 seconds
      T3 is a period that applies in crossing scenarios; if the SM enters an order during T2 that improves the BBO or matches the BBO but exceeds the available size, the SM must wait a minimum of 3 seconds before entering a contra-side order.

- **Open Outcry RFQs:** The following summarizes the FLEX open outcry RFQ procedures:

    - The SM must notify the FLEX Official (or other designee appointed by the Exchange in accordance with Rule 24B.14(a)) about all terms of the 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 FLEX Index Options and FLEX Equity Options on ETFs, and a period of at least 3 minutes for all other FLEX Equity Options. No RFQs can be submitted to the FLEX Official after 2:57 p.m. in a FLEX Equity Option class or 3:10 p.m. in a FLEX Index Option class (all times noted are Central).

    - After submitting an RFQ to the FLEX Official, the SM must then immediately announce the terms and specifications of 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 Official.

    - FLEX quotes responsive to the RFQ may be provided to the SM and must be entered during the request response time by public outcry. QMMs and agents representing customer and/or firm accounts may participate. At the prescribed time, the SM will review all quotes for several seconds and will then announce the best bid and offer ("BBO"). Once the BBO is announced, the SM 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.

- No trade shall take place sooner than the expiration of the request response time interval (e.g., 5 minutes after an RFQ for a FLEX Index Option has been announced to the trading crowd). By this time, any public interest in response to the RFQ will be prepared to give a quote along with the QMMs in the trading crowd.
- If the SM does not intend to cross or act as principal with respect to any part of the FLEX trade, the SM shall promptly accept or reject the BBO; provided, however, that if the SM either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX Traders present in the trading crowd (other than the SM) will have an opportunity during the BBO Improvement Interval in which to match or improve, as applicable, the BBO. At the expiration of any such BBO Improvement Interval, the SM must promptly accept or reject the BBO.
- If the SM indicates an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the SM must announce to the trading crowd the price at which the SM expects to trade. In these circumstances, the SM may participate with all other FLEX Traders present in the trading crowd in attempting to improve or match the BBO during the BBO Improvement Interval. At the expiration of the BBO Improvement Interval, the SM must promptly accept or reject the BBO.
- If the SM accepts the best bid or offer, highest bid (lowest offer) shall have priority. Allocation among multiple best bids (offers) at the same price shall be as follows:
  - any crossing participation entitlement will have first priority; then
  - all other FLEX responses submitted in response to an open outcry RFQ will have second priority based on the sequence in which they are submitted; to the extent that two or more best bid (offer) responses are submitted in open outcry at the same time and same price, or the SM cannot reasonably determine the sequence in which the open outcry bid (offer) responses were made, priority will be apportioned equally among the open outcry bids (offers); then
  - trading interested represented in the book will have third priority.

  All transactions must be in compliance with Section 11(a)(1) of the Securities Exchange Act of 1934 and the rules promulgated thereunder.[5] In this regard, notwithstanding the priority provisions described above, bids (offers) submitted in open outcry on behalf of the proprietary account of a member relying on the "G" exemption must yield priority to any bid (offer) at the same price that is represented in the book and all other bids (offers) represented in the trading crowd that have priority over the book.
- If the SM decides not to accept the best bid or offer made in response to the RFQ, any floor broker or QMM may accept the best bid or offer up to the size currently represented. If the SM accepts the best bid or offer, but there is excess size available, any floor broker or QMM may trade the balance available.
- Please refer to Regulatory Circular RG09-114 for additional information regarding trade entry and trade reconciliation.

[5] See footnote 4 above.