

## **Chapter 20B**

### **Flexible Options on Medium-Term U.S. Treasury Note Futures**

#### **20B00. SCOPE OF CHAPTER**

This chapter is limited in application to Flexible put and call options on the Medium-Term U.S. Treasury Note futures contract. In addition to the rules of this chapter, transactions in options on Medium-Term U.S. Treasury Note futures shall be subject to the general rules of the Exchange insofar as applicable.

#### **20B01. OPTIONS CHARACTERISTICS**

##### **20B01.A. Contract Months**

Trading may be conducted in flexible options in any month up through the most distant underlying futures contract listed for trading.

The underlying futures contract for a flexible option shall be the same as the underlying futures contract month of the nearest quarterly cycle standard futures option expiring on or after the expiration of the flexible option.

##### **20B01.B. Trading Unit**

The minimum size for requesting a quote and/or trading in a flexible option series is 50 contracts, where each contract represents one of the underlying futures contracts at the Exchange. Parties may request a quote and/or trade for less than 50 contracts in order to entirely close out a position in a flexible series.

For a flexible options series, respondents to a request for quote must be willing to trade at least 50 contracts, with the exception that a respondent may trade less than 50 contracts if the respondent is entirely closing out a position in the series.

##### **20B01.C. Minimum Fluctuations**

The premium for Medium-Term U.S. Treasury Note Flexible futures options shall be in multiples of one sixty-fourth (1/64) of one percent (1%) of a \$100,000 Medium-Term U.S. Treasury Note futures contract which shall equal \$15.625 per 1/64 and \$1,000 per full point.

However, a position may be initiated or liquidated in Medium-Term U.S. Treasury Note Flexible futures options at a premium ranging from \$1.00 to \$15.00, in \$1.00 increments per option contract.

If options are quoted in volatility terms, the minimum fluctuation shall be .10 percent (i.e. -10.0%, 10.1%, 10.2%, etc.)

##### **20B01.D. Trading Hours**

The hours of trading for flexible options on Medium-Term U.S. Treasury Note futures contracts shall be determined by the Exchange.

On the last day of trading in an expiring option, the expiring option shall cease trading at the time of the close of the open outcry trading session for the underlying Medium-Term U.S. Treasury Note futures contract.

##### **20B01.E. Exercise Prices**

Strike prices for flexible options must be specified in points and 64th's of points per Medium-Term U.S. Treasury Note futures contract. However, strike prices may be specified in 1/64th point increments relative to the underlying futures contract. Strike prices cannot be outside the range of the currently listed strike prices for standard options.

##### **20B01.F. Expiration Date**

Flexible option expiration may be specified for any Monday through Friday that is not an Exchange holiday except that expiration may not occur following the last Friday that precedes by at least two business days the last business day of the calendar month preceding the underlying futures contract month. Flexible options expire at 7:00 p.m. on the last trading day.

However, options which meet the criteria given in the second paragraph of Flexible Option Rule 20B01.G will follow expiration and exercise procedures as specified in the standard option rules.

##### **20B01.G. Nature of Flexible Options on Medium-Term U.S. Treasury Note Futures**

Flexible options on Medium-Term U.S. Treasury Note futures shall be permitted in puts and

calls which do not have the same underlying futures contract, same strike price, same exercise style, and same last day of trading as standard options.

However, Flexible Options on Medium-Term U.S. Treasury Note futures shall also be permitted in puts and calls which have the same underlying futures contract, same strike price, same exercise style, and same last day of trading as standard options that are not at the time listed for trading in the standard options pit or on e-cbot. All Flexible Option rules except those covered in Rules 20B01F, 20B01I, and 20B02.A., will pertain for these options. Once and if these options are listed for trading as standard options, they will be traded subject to standard options trading requirements. Upon such listing, all existing open positions established under flexible options trading procedures shall be fully fungible with transactions in the respective standard option series for all purposes under these rules.

Trading shall be permitted in any recognized option/option or option/futures spread involving puts, calls or futures.

#### **20B01.H. Exercise Style**

Flexible options may be American or European exercise style.

#### **20B01.I. Termination of Trading**

The last day of trading in a flexible option shall be the expiration day.

However, options which meet the criteria given in the second paragraph of Flexible Option Rule 20B01.G will follow the expiration and exercise procedures as specified in the standard option rules.

#### **20B01.J. Contract Modification**

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.

### **20B02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise and assignment of Flexible Medium-Term U.S. Treasury Note Options.

#### **20B02.A. Exercise of Option**

After the close on the last day of trading, all in-the-money flexible options will be automatically exercised unless notice to cancel automatic exercise is given to the Clearing House by 5:00 p.m., or by such other time designated by the Exchange, on that day.

Notification of the intent to exercise a flexible option must be received by the Clearing House by 5:00 p.m. Chicago time, or by such other time designated by the Exchange. No exceptions to the 5:00 p.m. exercise deadline, or such other deadline designated by the Exchange, shall be permitted.

However, options which meet the criteria given in the second paragraph of Flexible Option Rule 20B01.G will follow expiration and exercise procedures as specified in the standard option rules.

#### **20B02.B. Assignment**

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.

The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.

All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.

### **20B03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES**

(Refer to Rule 701.).

**20B04. [RESERVED]**

**20B05. INITIATING A FLEXIBLE OPTION CONTRACT SERIES**

The opening of trading in any flexible option series shall occur through the submission of an RFQ or at such time that a trade takes place in the particular flexible option series. If so desired, participants can submit additional RFQ's for any open series. However, in this situation no priority period (Rule 20B06.) will exist.

**20B06. RFQ TRADING INTERVAL**

If the submitter of the first RFQ of the day in a flexible series requests either a bid or an offer, but not both, then he shall have up to a one minute priority period during which he shall have the sole right to either buy or sell as specified in his RFQ. The length of the priority period shall be determined by the Exchange.

If more than one RFQ is the first RFQ of the day in a flexible series, all the RFQ's individually ask for either a bid or an offer, but not both, and all the RFQ's collectively are for the same side of the market (all bids or all offers) then the submitters shall jointly share priority during the period.

Priority for RFQ's is determined by submission to the RFQ official, except that all RFQ's submitted before the open shall be treated equally.

**20B07. EXPIRATION OF AN RFQ**

Trading in a given flexible option series following an RFQ shall remain open for the remainder of the trading session. Trading in a given flexible option series following a transaction in that series shall remain open through the remainder of the trading session in which the transaction was executed and through each subsequent session in which there is open interest in the flexible option series.

**20B08. REPORTING OF FLEXIBLE OPTIONS TRADES**

It shall be the responsibility of the participants in a flexible option trade to promptly report the quantities and prices to the flexible pit reporter.