

Chapter 40B

Flexible Options on Long-Term U.S. Treasury Bond Futures

40B00. SCOPE OF CHAPTER

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

40B01. OPTIONS CHARACTERISTICS

40B01.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.

40B01.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 for, and/or trade, 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.

40B01.C. Minimum Fluctuations

Option premium shall be quoted in terms of Long-Term U.S. Treasury Bond futures price points (Rule 40102.C.). One point equals \$1,000.00. Option premium shall be quoted in increments of one sixty-fourth (1/64) of one point (\$15.625 per contract).

However, a position may be initiated or liquidated in Long-Term U.S. Treasury Bond 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.).

40B01.D. Trading Hours

The hours of trading for flexible options on Long-Term U.S. Treasury Bond 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 Long-Term U.S. Treasury Bond futures contract.

40B01.E. Exercise Prices

Strike prices for flexible options must be specified in points and 32nds of points per Long-Term U.S. Treasury Bond futures contract. However, strike prices may be specified in 1/32nd point increments relative to the underlying futures contract. Strike prices cannot be outside the range of the currently listed strike prices for standard options.

40B01.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 40B01.G. will follow the expiration and exercise procedures as specified in the standard option rules.

40B01.G. Nature of Flexible Options on Long-Term U.S. Treasury Bond Futures

Flexible options on Long-Term U.S. Treasury Bond 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 Long-Term U.S. Treasury Bond 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 the Exchange's electronic trading system. All Flexible Option rules except as specified in Rules 40B01.F., 40B01.I., and 40B02.A. will apply to the options described in this paragraph. 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.

40B01.H. Exercise Style

Flexible options may be American or European exercise style.

40B01.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 40B01.G will follow the expiration and exercise procedures as specified in the standard option rules.

40B01.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.

40B02. 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 Long-Term U.S. Treasury Bond options.

40B02.A. Exercise of Option

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.

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.

Options which meet the criteria given in the second paragraph of Flexible Option Rule 40B01.G. will follow expiration and exercise procedures as specified in the standard option rules.

40B02.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.

40B03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701.).

40B04. [RESERVED]

40B05. 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 RFQs for any open series. However, in this situation no priority period (Rule 18B06.) will exist.

40B06.

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 RFQs individually ask for either a bid or an offer, but not both, and all the RFQs 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 RFQs is determined by submission to the RFQ official, except that all RFQs submitted before the open shall be treated equally.

40B07.

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.

40B08.

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 option pit reporter.