



## CME Group Equity FLEX Options

American- and European-style flexible options enhancements are available on certain CME Group equity contracts. This document outlines contract specs, trading parameters and frequently asked questions regarding FLEX Options for CME Group Equity Products.

### Eligible Contracts

1. S&P 500 options
2. S&P MidCap 400 options
3. NASDAQ-100 options
4. Nikkei 225 USD options
5. S&P 500/Growth options
6. S&P 500 /Value options

### Contract Specifications

<b>Opening Date</b>	April 21, 1995
<b>Trading Hours</b> (All times listed in Central Time)	Nikkei 225 Flex options: 8:00 a.m. -3:15 p.m. All other Equity Flex options: 8:30 a.m. -3:15 p.m.
<b>Minimum Strike Price Interval</b> (in index points)	0.10 = S&P 500, S&P 500 / Growth and S&P 500 / Value 0.05 = S&P MidCap 400 and NASDAQ-100 5.00 = Nikkei 225
<b>Options and Exercise Style</b>	Call or Put American or European
<b>Expiration Date</b>	Any business day between creation of the option and expiration date of the underlying futures contract
<b>Underlying Contract</b>	Any underlying contract currently available for trading
<b>Request for Quote</b>	7. New RFQs can be submitted five minutes prior to the opening of trading until 15 minutes before the close 8. 10-contract minimum 9. 5-minute minimum response time interval required

### Frequently Asked Questions on Equity FLEX Options

**Q. What are CME FLEX options?**

- A.** CME flexible options are enhancements to the exchange's options on financial futures. Standard American-style CME Group options have predefined strike prices, listing procedures, and expiration dates. Flexible options allow users to more precisely tailor the following option contract terms to their specific needs:



- **Expiration Date.** Expiration dates for CME Group Equity FLEX options may be specified for any exchange business day up to and including the day of determination of the Final Settlement price of the underlying futures. A new flexible option series may not be opened on its last day of trading.
- **Underlying Futures.** The underlying futures contract may be chosen independent of the flexible option expiration date. Any equity futures contract eligible for trading may be specified as the underlying for a CME Group FLEX option. For example, an April 15, 2011 CME Group S&P 500 FLEX option could have a September 2011 S&P 500 futures contract as the underlying contract.
- **Strike Price.** Flexible option strike prices need not be within the standard option strike ranges. A wide range of strike prices and strike intervals, as fine as an underlying futures tick may be specified.
- **Exercise Style.** American- or European-style exercise may be specified.
- **Spreads and Combinations.** Flexible options may trade in CME Group recognized combinations, but not with standard options.
- **Minimum Order Sizes.** Because of the specialized nature of flexible options, CME Group equity flexible options require a minimum order of 10 CME Group FLEX options.

**Q. What are the CME FLEX options trading hours?**

- A.** CME Group FLEX options have the same trading hours as standard options, but with the following exceptions: No new Request-For-Quote (RFQ) may be initiated within the last 15 minutes of trading. An RFQ may be submitted up to 5 minutes before the opening of trading hours; however, trading may not begin until the standard options trading begins.

**Q. How is a flexible option trade initiated and executed?**

- A.** The specialized nature of flexible options trading requires several adjustments to the standard trade execution process. A five-step procedure for the trading and execution of CME Group FLEX options is outlined below:
- 1. Completing and submitting an RFQ card.** Trading of CME Group FLEX options is initiated by RFQs. A bid, offer or two-sided market may be requested. The RFQ card must be delivered to the exchange's designated flexible option official.
  - 2. Response Time Interval.** Once the RFQ is validated (i.e., the terms of the proposed RFQ qualify as a CME FLEX options trade), a Response Time Interval of five minutes is required, the interval between when the RFQ is validated and when open outcry trading can begin on that RFQ.

The Response Time Interval allows traders on the floor and other market participants to price the requested flexible option.



3. **Open outcry FLEX option trading.** Once the Response Time Interval has elapsed, open outcry trading can begin on the RFQ (bidding or offering may occur at any time during the RTH session). All exchange rules governing open outcry trading apply during this process.
4. **Post trade pit-side matching.** Once the mandatory FLEX option order form is submitted to the exchange, a flexible option confirmation printout will be generated. All parties to the trade must endorse this printout. Because a large variety of negotiable terms can be specified for a CME Group FLEX option trade, each party must verify the explicit terms of the trade before it is submitted for clearing. This confirmation procedure will minimize any potential out-trades for CME Group FLEX options.
5. **Back-office.** Following endorsement, the CME Group FLEX option trade is considered matched and the relevant information is transmitted to the clearing firm where the remaining trade information is submitted.

**Q. What information must be specified for a CME Group FLEX option RFQ?**

- A.** In all cases, each CME Group FLEX option and all legs of a CME Group FLEX option combination must be explicitly specified. Generally, the following information is required:
- Quantity
  - Commodity and underlying contract month
  - CME Group FLEX option expiration date
  - Exercise style
  - Futures contracts legs and quantity for futures/option combinations
  - Strike price may be specified explicitly (e.g., 1100.10) or as a number of ticks away from the at-the-money strike (e.g., 5 ticks out-of-the money).

**Q. Can CME Group FLEX options trade in combinations and spreads?**

- A.** CME Group FLEX options trading is permitted in any CME recognized option/option or option/futures combinations involving puts, calls, or futures, provided that any combination containing CME Group FLEX options does not contain standard listed options already available for trading.

**Q. Once a CME FLEX option is opened, can it ever be offset with the CME Group's other standard options?**

- A.** If the contract specifications of an existing FLEX option completely match the contract specifications of a newly listed standard option, then the two options are of the same option series and may be offset. However, because of the unique terms of FLEX options, in most cases FLEX options may not be offset with a standard listed option.

**Q. Can CME Group FLEX options turn into standard options?**

- A.** It is possible for a flexible option to be converted into a standard option. Any open flexible option with the exact same contract terms as a standard option will be converted to a standard option once that standard option is eligible for trading. If the price of the underlying future moves so that an option will be listed as a standard option, the CME Group FLEX option is automatically converted into a standard option. A CME Group FLEX option that is converted into a standard option can then trade only as a standard option.

**Q. How can a CME FLEX option be offset?**

- A.** Once a CME FLEX option position is opened it can only be offset or liquidated by entering into a reverse transaction in a flexible option with the same exact contract terms or, in the case of American style flexible options, by exercising the option.



**Q. How are open CME Group FLEX options settled on a daily basis?**

- A.** The exchange publishes FLEX option settlements every day. The pit committees responsible for settling standard options have the authority and responsibility to determine daily flexible option settlements. In order to settle flexible options in a timely manner, manual procedures may not always be feasible. The Exchange has developed several calculation tools to assist the pit committees.

These calculations use appropriate option pricing models that take into account exercise style, strike price, underlying futures, and time to expiration for each CME Group FLEX option. CME Group FLEX options settlement procedures use implied volatilities based upon related standard option settlements to derive a volatility estimate for each CME Group FLEX option.

**Q. How are CME Group FLEX options affected by price limits?**

- A.** For markets with price limits, CME Group FLEX options trading is determined by price limits and halts in the respective underlying primary markets. If standard options trading is halted, CME Group FLEX options trading also is halted.

**Q. How do CME Group FLEX option exercise and assignment work?**

- A.** CME Group FLEX option exercise and assignment work the same as for standard options; however, CME Group FLEX options have special forms.

- As with standard options at expiration, all in-the-money CME Group FLEX options will be automatically exercised and out-of-the-money CME Group FLEX options automatically abandoned, unless explicit instructions have been submitted to the contrary. A CME Group FLEX option with European-style exercise may be exercised by the buyer only on the day that the option expires.
- CME Group FLEX option with American-style exercise may be exercised by the buyer on any business day that the option is available for trading and also on its expiration date. To exercise the option, the clearing member representing the buyer shall present an exercise notice to the CME Clearing by 7:00 p.m. Central Time on the day of exercise.

**Q. What time of day can a CME Group FLEX option be exercised?**

- A.** The owner of an American-style CME Group FLEX option may exercise the option at any time of the day, but assignment of that exercised option takes place following the RTH session. Remember, the underlying of a CME Group FLEX option is a futures contract. Exercising a CME Group FLEX option takes place under similar procedures as standard options; exercise and assignment take place after the RTH session.

**Q. How is performance bond calculated for CME FLEX options? Are there any modifications to SPAN?**

- A.** CME Group FLEX option positions are included in the portfolios processed using SPAN. For example, the total portfolio performance bond requirement for the S&P 500 futures and options will reflect positions in:
- S&P 500 futures
  - Standard American options on those futures
  - Flexible American options on those futures
  - Flexible European options on those futures

There are absolutely no changes to the SPAN methodology resulting from the introduction of CME Group FLEX options. There are, however, some minor changes to the layout of the daily SPAN risk parameter file, and a new version of PC-SPAN is available.



**Q. Will CME Group FLEX options have an impact on position limits?**

**A.** Yes, all CME Group FLEX options positions are aggregated with positions held in standard products; the aggregate position will then be used for position limit purposes

**Q. How can interested parties find out which RFQs are available?**

**A.** RFQs are transmitted as a text message over the CME Group ticker system. Dedicated monitors in the relevant pits on the trading floor also display the RFQ information.

**Q. How can I obtain CME Group Equity FLEX Option quotes?**

**A.** CME Group Equity FLEX Option quotes are available on the following quotation service:

Reuters: FLEXOPT

(provides information on how to retrieve all of the Exchange's flexible options)

For example, to retrieve individual CME flexible options:

SP/FLX(A-Z)