

Chicago Board Options Exchange, Incorporated  
Rules

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RULE 24B.5A - FLEX Automated Improvement Mechanism

RULE 24B.5A. Notwithstanding the provisions of Rule 24B.5, a FLEX Trader that represents agency orders may electronically execute an order it represents as agent (“Agency Order”) against principal interest and/or against solicited orders provided it submits the Agency Order for execution into the automated improvement mechanism auction (“AIM Action”) pursuant to this Rule.

(a) AIM Auction Eligibility Requirements. A FLEX Trader (the “Initiating Trading Permit Holder”) may initiate an AIM Auction provided all of the following are met:

(1) the Agency Order is in a FLEX class designated as eligible for AIM Auctions as determined by the Exchange and within the designated AIM Auction order eligibility size parameters as such size parameters are determined by the Exchange; and

(2) the Initiating Trading Permit Holder must stop the entire Agency Order as principal and/or with a solicited order(s) at the better of the BBO or the Agency Order’s limit price.

(b) AIM Auction Process: Only one AIM Auction may be ongoing at any given time in a series and AIM Auctions in the same series may not queue or overlap in any manner. In addition, unrelated FLEX Orders may not be submitted to the electronic book for the duration of an AIM Auction. The AIM Auction may not be cancelled and shall proceed as follows:

(1) AIM Auction Period and Request for Responses (“RFR”).

(i) To initiate the AIM Auction, the Initiating Trading Permit Holder must mark the Agency Order for AIM Auction processing, and specify (A) a single price at which it seeks to cross the Agency Order (with principal interest and/or a solicited order(s))(a “single-priced submission”), or (B) that it is willing to automatically match as principal the price and size of all AIM Auction responses (“auto-match”) in which case the Agency Order will be stopped at the better of the BBO or the Agency Order’s limit price. Once the Initiating Trading Permit Holder has submitted an Agency Order for processing pursuant to this paragraph, such submission may not be modified or cancelled.

(ii) When the Exchange receives a properly designated Agency Order for AIM Auction processing, an RFR detailing the side and size of the order will be sent to all FLEX Traders that have elected to receive RFRs.

(iii) The duration of the RFR period will be established by the Exchange on a class-by-class basis and shall not be less than three (3) seconds.

(iv) RFR responses may be submitted by FLEX Traders.

(v) RFR responses shall specify price and size and cannot cross the BBO on the opposite side of the market.

(vi) RFR responses shall not be visible to other AIM Auction participants, and shall not be disseminated to OPRA.

(vii) The minimum price increment for RFR responses and for an Initiating Trading Permit Holder’s single price submission shall be determined by the Exchange, but may not be smaller than one cent.

(ix) RFR responses may be modified or cancelled.

(2) AIM Auction Conclusion. The AIM Auction shall conclude at the sooner of (i) through (ii) below with the Agency Order executing pursuant to paragraph (3) below.

- (i) The end of the RFR period; or
- (ii) Any time an RFR response matches the BBO on the opposite side of the market from the RFR responses.

(3) Order Allocation. At the conclusion of the AIM Auction, the Agency Order will be allocated at the best price(s) and contra-side interest will be ranked and matched based on price-time priority, subject to the following:

- (i) Such best prices may include non-AIM Auction FLEX Orders.
- (ii) Public customers and non-Trading Permit Holder broker-dealers shall have priority.

(iii) No FLEX Appointed Market-Maker participation entitlement shall apply to orders executed pursuant to this Rule.

(iv) If the best price equals the Initiating Trading Permit Holder's single-price submission, the Initiating Trading Permit Holder's single-price submission shall be allocated the greater of one contract or a certain percentage of the order, which percentage will be determined by the Exchange and may not be larger than 40%. However, if only one other FLEX Trader matches the Initiating Trading Permit Holder's single price submission, then the Initiating Permit Holder may be allocated up to 50% of the order.

(v) If the Initiating Trading Permit Holder selected the auto-match option of the AIM Auction, the Initiating Trading Permit Holder shall be allocated its full size at each price point until a price point is reached where the balance of the order can be fully executed. At such price point, the Initiating Trading Permit Holder shall be allocated the greater of one contract or a certain percentage of the remainder of the Agency Order, which percentage will be determined by the Exchange and may not be larger than 40%.

(vi) Any remaining RFR responses and FLEX Orders will be allocated based on time priority. The Initiating Trading Permit Holder may not participate on any such balance unless the Agency Order would otherwise go unfilled.

(vii) If the final AIM Auction price locks a public customer or non-Trading Permit Holder broker-dealer order in the electronic book on the same side of the market as the Agency Order, then, unless there is sufficient size in the AIM Auction responses to execute both the Agency Order and the booked public customer order or non-Trading Permit Holder broker-dealer order (in which case they will both execute at the final AIM Auction price), the Agency Order will execute against the RFR responses at one minimum RFR response increment worse than the final AIM Auction price against the AIM Auction participants that submitted the final AIM Auction price and any balance shall trade against the public customer or non-Trading Permit Holder broker-dealer order in the book at such order's limit price.

... Interpretations and Policies:

.01 The AIM Auction may be used only where there is a genuine intention to execute a bona fide transaction.

.02 It will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 to engage in a pattern of conduct where the Initiating Trading Permit Holder breaks-up an Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Initiating Trading Permit Holder would have otherwise received in accordance with the allocation procedures contained in paragraph (b)(3) above.

.03 Initially, and for at least a Pilot Period expiring on July 18, 2012, there will be no minimum size requirement for orders to be eligible for the AIM Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the AIM Auction. Any data which is submitted to the Commission will be provided on a confidential basis.

.04 Any solicited orders submitted by the Initiating Trading Permit Holder to trade against the Agency Order may not be for the account of a FLEX Market-Maker assigned to the option class.

.05 The Exchange may determine on a class-by-class basis to make the AIM Auction available for complex orders. In such classes, complex orders may be executed through the AIM Auction at a net debit or net credit price provided the AIM Auction eligibility requirements in paragraph (a) of this Rule are satisfied and the Agency Order is eligible for the AIM Auction considering its complex order type, order origin code (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Complex orders will only be eligible to trade with other complex orders through the AIM Auction. Order allocation shall be the same as provided in paragraph (b)(3). In the event there are bids (offers) in any of the individual component series legs represented in the electronic book when an Agency Order is submitted to the AIM Auction, the AIM Auction will not commence. In the event an unrelated FLEX Order in any of the individual series legs is received during the duration of RFR response period, such FLEX Order will not be considered in the AIM Auction allocation.

.06 Any determinations made by the Exchange pursuant to this Rule such as eligible classes, order size parameters and the minimum price increment shall be communicated in a Regulatory Circular.

This rule supersedes Exchange Rule 6.74A.

#### Rule 24B.5B - FLEX Solicitation Auction Mechanism

RULE 24B.5B. A FLEX Trader that represents agency orders may electronically execute orders it represents as agent ("Agency Order") against solicited orders provided it submits the Agency Order for electronic execution into the solicitation auction mechanism (the "SAM Auction") pursuant to this Rule.

(a) SAM Auction Eligibility Requirements. A FLEX Trader (the "Initiating Trading Permit Holder") may initiate a SAM Auction provided all of the following are met:

(1) The Agency Order is in a FLEX class designated as eligible for SAM Auctions as determined by the Exchange and within the designated SAM Auction order eligibility size parameters as such size parameters are determined by the Exchange (however, the eligible order size may not be less than 500 contracts);

(2) Each order entered into the SAM Auction shall be designated as all-or-none; and

(3) The minimum price increment for an Initiating Trading Permit Holder's single price submission shall be determined by the Exchange on a series basis and may not be smaller than one cent.

(b) SAM Auction Process. Only one SAM Auction may be ongoing at any given time in a series and SAM Auctions in the same series may not queue or overlap in any manner. In addition,

unrelated FLEX Orders may not be submitted to the electronic book for the duration of a SAM Auction. The SAM Auction may not be cancelled and shall proceed as follows:

(1) SAM Auction Period and Requests for Responses (“RFR”).

(i) To initiate the SAM Auction, the Initiating Trading Permit Holder must mark the Agency Order for SAM Auction processing, and specify a single price at which it seeks to cross the Agency Order with a solicited order.

(ii) When the Exchange receives a properly designated Agency Order for SAM Auction processing, an RFR message indicating the price and size will be sent to all FLEX Traders that have elected to receive such messages.

(iii) FLEX Traders may submit responses to the RFR (specifying prices and sizes) during the response period, except that responses may not be entered for the account of an options Market-Maker from another options exchange. The duration of the RFR period will be established by the Exchange on a class-by-class basis and shall not be less than three (3) seconds.

(iv) Responses shall not be visible to other SAM Auction participants, and shall not be disseminated to OPRA.

(v) The minimum price increment for responses shall be the same as provided in paragraph (a)(3) of Rule 24B.5B.

(vi) Responses may be modified or cancelled.

(2) SAM Auction Conclusion. The SAM Auction shall conclude at the sooner of (i) through (ii) below with the Agency Order executing pursuant to paragraph (3) below.

(i) The end of the RFR period; or

(ii) Any time an RFR response matches the BBO on the opposite side of the market from the RFR responses.

(3) Order Allocation. At the conclusion of the SAM Auction, the Agency Order will be automatically executed in full or cancelled and allocated subject to the following:

(i) The Agency Order will be executed against the solicited order at the proposed execution price, provided that:

(A) The execution price must be equal to or better than the BBO. If the execution would take place outside the BBO, the Agency Order and solicited order will be cancelled;

(B) There are no public customers or non-Trading Permit Holder broker-dealers on the opposite side of the Agency Order at the proposed execution price. If there are public customers or non-Trading Permit Holder broker-dealers and there is sufficient size (considering all RFR responses and resting FLEX Orders) to execute the Agency Order, the Agency Order will be executed against these interests and the solicited order will be cancelled. If there are public customers or non-Trading Permit Holder broker-dealers and there is not sufficient size (considering all RFR responses and resting FLEX Orders), both the Agency Order and the solicited order will be cancelled; and

(C) There is insufficient size to execute the Agency Order at an improved price(s). If there is sufficient size (considering all RFR responses and resting FLEX Orders) to execute the Agency Order at an improved price(s) that is equal or better than the BBO, the Agency Order will execute at the improved price(s) and the solicited order will be cancelled.

(D) In the event the Agency Order will be executed against RFR responses and resting FLEX Orders pursuant to paragraph (B) or (C) above, the allocation will be as follows:

(I) RFR responses and FLEX Orders for the account of public customers and non-Trading Permit Holder broker-dealers will participate in the execution based on time priority;

(II) any RFR responses and FLEX Orders that are subject to a FLEX Appointed Market-Maker participation entitlement will participate in the execution pursuant to Rule 24B.5(d)(2)(ii); then

(III) all other RFR responses and FLEX Orders will participate in the execution based on time priority.

... Interpretations and Polices:

.01 The Exchange may determine on a class-by-class basis to make the SAM Auction available for complex orders. In such classes, complex orders may be executed through the SAM Auction at a net debit or net credit price provided the SAM Auction eligibility requirements in paragraph (a) of this Rule are satisfied and the Agency Order is eligible for the SAM Auction considering its complex order type, order origin code (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Complex orders will only be eligible to trade with other complex orders through the SAM Auction. Order allocation shall be the same as provided in paragraph (b)(3). In the event there are bids (offers) in any of the individual component series legs represented in the electronic book when the Agency Order is submitted to the SAM Auction, the SAM Auction will not commence. In the event an unrelated FLEX Order in any of the individual series legs is received during the duration of RFR response period, such FLEX Order will not be considered in the SAM Auction allocation.

.02 Prior to entering Agency Orders into the SAM Auction on behalf of customers, Initiating Trading Permit Holders must deliver to the customer a written notification informing the customer that his order may be executed using the Exchange's SAM Auction. The written notification must disclose the terms and conditions contained in this Rule and be in a form approved by the Exchange.

.03 Under this Rule 24B.5B, FLEX Traders may enter contra orders that are solicited. The SAM Auction provides a facility for FLEX Traders that locate liquidity for their customer orders. FLEX Traders may not use the SAM Auction to circumvent provisions in Rule 24B.5 limiting principal transactions. This may include, but is not limited to, FLEX Traders entering contra orders that are solicited from (a) affiliated broker-dealers, or (b) broker-dealers with which the FLEX Trader has an arrangement that allows the FLEX Trader to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal. Additionally, solicited contra orders entered by FLEX Traders to trade against Agency Orders may not be for the account of a FLEX Market-Maker assigned to the options class.

.04 Any determinations made by the Exchange pursuant to this Rule such as eligible classes, order size parameters and the minimum price increment shall be communicated in a Regulatory Circular.

This rule supersedes Exchange Rule 6.74B.