

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85328; File No. SR-CBOE-2019-014)

March 15, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Delete Rules that are No Longer Necessary in the Review of Large Positions in Broad-Based Index Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 4, 2019, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to delete rules that are no longer necessary in the review of large positions in broad-based index options. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule change is to delete rules that are no longer necessary in the review of large positions in broad-based index options. Specifically, the Exchange proposes to delete Interpretations and Policies .03 (Reporting Requirement) and .04 (Margin and Clearing Firm Requirements) to Rule 24.4. Currently, Interpretation and Policy .03 to Rule 24.4 requires a TPH or TPH organization that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts for OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, SPX, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance or Cboe S&P 500 Three-Month Realized Volatility and 1 million contracts for BXM (1/10th value) and DJX, for its own account or for the account of a customer, to report information to the Exchange as to whether and how the positions are hedged. Interpretation and Policy .04 to Rule 24.4 currently allows the Exchange to determine whether additional margin is warranted in light of the risks associated with under-hedged options position on the broad-based index products listed in Interpretation and Policy .03 to Rule 24.4.

The Exchange believes that the Large Option Position Reporting ("LOPR") system hosted by the Options Clearing Corporation ("OCC") currently functions as a centralized system

and streamlined process for all market participants industry-wide to report large options positions, including those in broad-based index options. This system allows TPHs and TPH organizations to submit their required LOPR files in compliance with Rule 4.13(a), which requires all TPHs to report to the Exchange aggregate long or short positions on the same side of the market of 200 or more contracts of any single class of option contracts. Essentially, OCC through the LOPR system acts as a centralized service provider for TPH compliance with position reporting requirements by collecting data from each TPH or TPH organization, consolidating the information, and ultimately providing detailed listings of each TPH's or TPH organization's report to the Exchange.⁵ Though Rule 24.4(a) (Position Limits for Broad-Based Index Options) provides that there shall be no position limits for broad-based index option contracts on Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, and SPX classes, Rule 4.13(a) still requires all TPHs to file a LOPR, which includes reporting on all options contracts dealt in on the Exchange. As stated, the Exchange currently receives⁶ a TPH's or TPH organization's LOPR submissions through OCC and its centralized LOPR submission system. The Exchange notes that OCC's administration of the LOPR submissions to the Exchange will enable the Exchange to better allocate its surveillance resources, focusing on enhanced

⁵ See Securities Exchange Act Release No. 79930 (February 2, 2017), 82 FR 9807 (February 8, 2017) (Notice of Filing and Order Approving and Declaring Effective an Amendment to the Plan for the Allocation of Regulatory Responsibilities Among Participating Organizations Concerning Options-Related Market Surveillance) (4-551) (Approving a multi-party 17d-2 agreement whereby member firms are allocated to the Exchange and other SROs for review for compliance with LOPR reporting requirements).

⁶ The Exchange itself, as well as Financial Industry Regulatory Authority, Inc. ("FINRA"), acting as its agent pursuant to a regulatory services agreement ("RSA"), receive and review LOPR submissions.

surveillance of trading to detect potential manipulation and larger, risky positions, rather than focusing on enforcement of requirements under Interpretation and Policy .03 to Rule 24.4. The Exchange believes that its enhanced surveillance will allow it to effectively assess LOPR submissions received through OCC and promptly respond to market concerns at an early stage. Additionally, under current Rule 15.1 (Maintenance, Retention and Furnishing of Books, Records and Other Information), TPHs are required to make available to the Exchange such books, records or other information as may be called for under the Rules or as may be requested in connection with an investigation by the Exchange.⁷ The Exchange believes the aforementioned processes and procedures eliminate the need for the Exchange to receive essentially duplicative position and hedge documentation for broad-based index options separately from a TPH or TPH organization in accordance with the current Interpretation and Policy .03 to Rule 24.4. Under the current LOPR information gathering and reporting regime and Rule 15.1, such efforts by the Exchange are duplicative and unduly burdensome for TPHs, TPH organizations, and the Exchange. The Exchange thus believes that the proposed rule change will remove duplicative and burdensome procedures.

The Exchange notes that it has found no occasion necessary to impose additional margin requirements pursuant to the current Interpretation and Policy .04 to Rule 24.4, as a result of the reporting and review process in connection with Interpretation and Policy .03 to Rule 24.4. The Exchange has found that unhedged or under-hedged large option positions have generally not been identified. The Exchange believes this eliminates the need for the receipt of information and documentation from TPHs or TPH organizations as to whether and how their broad-based

⁷ The Exchange notes that “in connection with an investigation” broadly encompasses any request made by the Exchange for information which may lead to the initiation of a formal investigation.

index option positions are hedged under Interpretation and Policy .03 to Rule 24.4, and any need for the Exchange to raise additional margin in light of under-hedged positions under Interpretation and Policy .04 to Rule 24.4. Further, under Rule 12.10 (Margin Required Is Minimum) the Exchange currently may impose higher margin requirements when it deems such higher margin requirements to be advisable. As a result, the Exchange believes that the proposed rule changes will serve to benefit investors by removing duplicative and burdensome procedures.

Additionally, the Exchange believes that risk review and controls, including hedge strategy implementation and assessment of credit and margin, are most efficient and effective at the TPH level. Currently, the Exchange understands TPHs and TPH organizations generally have their own internal risk management processes and procedures in place for reviewing, identifying and controlling risk of large option positions, including hedges for those positions. Moreover, under Rule 15.8A (Risk Analysis of Portfolio Margin Accounts), TPH organizations that maintain any portfolio margin accounts for customers are currently required to establish and maintain a comprehensive written risk analysis methodology for assessing and monitoring the potential risk to the TPH organization's capital over a specified range of possible market movements of positions maintained in such accounts. Specifically, Rule 15.8A(c) requires a TPH organization that maintains any portfolio margin accounts for customers to incorporate specific and thorough procedures and guidelines into its written risk methodology for monitoring credit risk exposure to the TPH organization on both an intra-day and end of day basis, managing the impact of credit extension on the TPH organization's overall risk exposure, the appropriate response by management when limits on credit extensions have been exceeded, determining the need to collect additional margin, and so on. The Exchange believes that the rules described above pursuant to which it can receive information from TPHs regarding hedges of their

positions in broad-based index options are less burdensome and more efficient than the process used pursuant to Interpretations and Policies .03 and .04 of Rule 24.4, making those rule provisions redundant and no longer necessary.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁹ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁰ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that removing the duplicative and burdensome processes in connection with Interpretations and Policies .03 and .04 to Rule 24.4 will serve to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ Id.

system, and benefit investors. Specifically, the Exchange believes that the receipt of LOPR reports from OCC and other Exchange Rules provide it with a more efficient means to receive the same information as it receives, and take the same action it may take, pursuant to Rule 24.4, Interpretations and Policies .03 and .04. As stated, the Exchange believes that its receipt of LOPR submissions through OCC will allow for it to allocate enhanced surveillance resources to assessing the LOPR submissions and detecting and deterring any concerning market behavior or trading abuses at an early stage, thereby protecting investors by removing impediments to and perfecting the mechanism of a free and open market and national market system. The Exchange further believes that removing the reporting requirement under Interpretation and Policy .03 to Rule 24.4 will benefit investors by removing a duplicative and thus unnecessary reporting and documentation step.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act,¹¹ which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by the Exchange's Trading Permit Holders and persons associated with its Trading Permit Holders with the Act, the rules and regulations thereunder, and the rules of the Exchange.

In particular, the Exchange currently has the capacity under other Exchange Rules to be able to enforce compliance by TPH and TPH organizations related to submission of appropriate hedge information and imposing sufficient margin on large broad-based-index options positions. The Exchange believes that removing redundant and unnecessary rules will allow for the Exchange to be organized and better able to carry out the purposes of the Act and enforce compliance.

¹¹ 15 U.S.C. 78f(b)(1).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. In particular, the proposed rule changes are not intended to address competitive issues but rather are concerned with facilitating less burdensome and more efficient regulatory compliance. The Exchange believes the proposed rule changes reduces reporting burdens on all market participants equally.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6)¹³ thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-014 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2019-014. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2019-014 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Eduardo A. Aleman
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).