SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85754; File No. SR-CBOE-2019-015)

April 30, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Order Approving a Proposed Rule Change to Allow $1 Strike Price Intervals Above $200 on Options on the QQQ and IWM Exchange-Traded Funds

On March 6, 2019, Cboe Exchange, Inc. ("Exchange" or "Cboe") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 ("Act")[2] and Rule 19b-4 thereunder,[3] a proposed rule change to allow Cboe to list QQQ and IWM options with $1 strike price intervals instead of $5 strike price intervals when the strike price of the option is greater than $200. The proposed rule change was published for comment in the Federal Register on March 18, 2019.[4] No comments on the proposed rule change have been received. This order approves the proposed rule change.

I. Description of the Proposed Rule Change

The Exchange's current rules provide that the interval between strike prices of series of options on exchange-traded funds may be $5.00 or greater where the strike price is greater than $200,[5] except that the interval between strike prices of series of options on SPY, IVV, and DIA may be $1 or greater where the strike price is greater than $200.[6] The Exchange proposes to expand that

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1 15 U.S.C. 78s(b)(1).

2 15 U.S.C. 78a.

3 17 CFR 240.19b-4.

4 See Securities Exchange Act Release No. 85295 (Mar. 12, 2019), 84 FR 9851 ("Notice").

5 See Interpretation and Policy .08(a) to Rule 5.5.

6 See id.

exception, also allowing $1 strike price intervals where the strike price is above $200 for options on IWM[7] and QQQ.[8]

The Exchange notes that "$1 intervals already exist below the $200 price point" for options on both ETFs, and further notes "in the midst of current price trends," that "both QQQ and IWM have consistently inclined in price toward the $200 level."[9] In light of this, the Exchange "believes that continuing to maintain the current $200 level (above which intervals increase 500% to $5), may have a negative effect on investing, trading and hedging opportunities, and volume" particularly to the extent it impacts the ability of market participants to roll their positions once strike prices pass $200.[10]

Accordingly, in light of the "slower movements of broad-based indices," the Exchange proposes to allow $1 strike intervals above $200 so that options on these two ETFs may be "more precisely aligned with the smaller, longer-term incremental increases in respective underlying ETFs."[11] In turn, the exchange believes that its proposal will "permit strikes to be set to more closely reflect the increasing values in the underlying indices and allow investors and traders to roll open

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7 According to the Exchange, IWM is an index-based ETF designed to track the price and performance of the Russell 2000 Index ("RUT"), which represents the small capitalization sector of the U.S. equity market, and the value of IWM is designed to approximate 1/10 the value of the underlying RUT. See id. Cboe states that IWM is among the most actively traded ETFs on the market. See id.

8 According to the Exchange, the QQQ is designed to closely track the price and performance of a the Nasdaq-100 Index ("NDX"), which represents the largest and most active non-financial domestic and international issues listed on The Nasdaq Stock Market based on market capitalization, and the value of QQQ is designed to approximate 1/40 the value of the underlying NDX. See Notice, supra note 4, 84 FR at 9852. The Exchange states that QQQ is among the most actively traded ETFs on the market. See id.

9 Id.

10 Id. For example, the Exchange notes that "to move a position from a $200 strike to a $205 strike under the current rule, an investor would need for the underlying product to move 2.5%" whereas rolling an open position from a $200 to a $201 strike represents "only a 0.5% move for the underlying." Id.

11 Id.

positions from a lower strike to a higher strike in conjunction with the price movements of the underlying ETFs."[12]

Cboe acknowledges that allowing series of QQQ and IWM options to be listed in $1 intervals between strike prices over $200 likely would increase the total number of options series available on the Exchange, but represents that: (1) it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change; (2) Trading Permit Holders would not have a capacity issue; and (3) the proposed expansion would not cause fragmentation of liquidity but, by providing more trading opportunities to market participants, instead would increase both available liquidity as well as price efficiency.[13]

II. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[14] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[15] which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, 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. The Commission believes that the proposed change accommodates the current levels of the respective indexes tracked by QQQ and IWM. In particular, permitting $1

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12 Id.

13 See id. at 9852-3

14 In approving the proposed rule change, the Commission has considered its impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

15 15 U.S.C. 78f(b)(5).

strikes above $200 in such ETFs may provide the investing public and other market participants with more flexibility in their investment and hedging decisions in QQQ and IWM options and is consistent with past precedent for other similar ETFs that track broad-based indexes.[16]

In approving this proposal, the Commission notes that the Exchange has represented that it and OPRA have the necessary systems capacity to handle the potential additional traffic associated with this proposed rule change.[17] The Exchange further stated that it believes its members will not have a capacity issue as a result of the proposal and that it does not believe this expansion will cause fragmentation of liquidity.[18]

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16 See, e.g., Securities Exchange Act Release Nos. 72949 (Aug. 29, 2014), 79 FR 53089 (Sept. 5, 2014) (SR-Phlx-2014-46) (Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options); and 72664 (Jul. 24, 2014), 79 FR 44231 (Jul. 30, 2014) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options).

17 See note 13 supra, and accompanying text.

18 See id.

III. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[19] that the proposed rule change (SR-CBOE-2019-015) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[20]

Eduardo A. Aleman
Deputy Secretary

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19 15 U.S.C. 78f(b)(2).

20 17 CFR 200.30-3(a)(12).