

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-88232; File No. SR-CBOE-2020-010)

February 18, 2020

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to Adopt Flexible Exchange Options (“FLEX Options”) with a Contract Multiplier of One (“FLEX Micro Options”)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 4, 2020, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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 adopt flexible exchange options (“FLEX options”) with a contract multiplier of one (“FLEX Micro 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.

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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 proposed rule change adopts FLEX Micro Options, which are FLEX Options with a contract multiplier of one. Rule 4.21(b) provides that a FLEX Trader<sup>3</sup> must include all terms of a FLEX Option series when submitting a FLEX Order.<sup>4</sup> Currently, the contract multiplier for all FLEX Options is 100.<sup>5</sup> The proposed rule change amends Rule 4.21(b)(1) to state that when identifying the underlying security or index, the FLEX Trader must also include whether the contract multiplier is one or 100, and defines FLEX Options with a multiplier of one as FLEX Micro Options. In other words, 100 FLEX Micro Options are equivalent to one standard FLEX Option.<sup>6</sup> Because non-FLEX Options have multipliers of 100, FLEX Micro Options will not be

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<sup>3</sup> A "FLEX Trader" is a Trading Permit Holder the Exchange has approved to trade FLEX Options on the Exchange.

<sup>4</sup> These terms include the underlying equity security or index, the type of options (put or call), exercise style, expiration date, settlement type, and exercise price. See Rule 4.21(b). A FLEX" Order" is an order submitted in FLEX Options. The submission of a FLEX Order makes the FLEX Option series in that order eligible for trading. See Rule 5.72(b).

<sup>5</sup> Rule 4.21(b)(1). The proposed rule change clarifies in Rule 4.21(b)(1) that the contract multiplier for both FLEX Equity and Index Options is 100, as the current rule only provides that the index multiplier is 100 for FLEX Index Options. This is not a substantive change and merely a clarification in the Rules regarding the current multiplier for FLEX Options.

<sup>6</sup> The proposed rule change also amends Rule 5.74(a)(4) to provide that the minimum size of an agency order for a FLEX solicitation auction mechanism ("SAM") will be 50,000 FLEX Micro Option contracts, which is equivalent to 500 standard FLEX option contracts, the current minimum size of agency orders for SAM auctions. This corresponds to the minimum size of 5,000 mini-options.

fungible with any non-FLEX Options, and thus will only be available for trading pursuant to FLEX trading procedures in Chapter 5, Section F of the Rules.<sup>7</sup>

For example, on January 28, 2020, the S&P 500 Index was at 3273.76 intraday. Therefore, at that time, one S&P 500 Index option (“SPX option”) contract had a notional value of \$327,376 (100 times 3273.76). The SPX Feb 3300 call option was trading at \$30.20, making the cost of the standard contract overlying 100 units of the index was be \$3,020. Proportionately equivalent FLEX Micro Option contracts on SPX would provide investors with the ability to manage and hedge their positions and portfolio risk on their underlying investment, at a price of \$30.20 per contract. The table below demonstrates the proposed differences between a FLEX Micro Options contract and a standard FLEX Option contract with an exercise price of \$3025 and a bid or offer of \$3.20:

Term	Standard	Micro
Contract Multiplier	100	1
Strike Price	3025	3025
Bid/offer	3.20	3.20
Total Value of Deliverable	\$302,500	\$3,025
Total Value of Contract	\$320	\$3.20

The Exchange believes there is a demand from investors for FLEX Micro Options, and that the proposed rule change will expand investors’ choices and flexibility with respect to the trading of FLEX Options. These options will provide investors with additional granularity with respect to the prices at which they may execute and exercise their FLEX Options on the Exchange, as investors may execute and exercise over-the-counter options with this smaller contract multiplier. The Exchange believes this additional granularity will appeal to investors, as

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<sup>7</sup> See proposed Rule 4.22(d).

it will provide them with an additional tool to manage their positions based on notional value, which currently may equal a fraction of a standard contract.

For example, suppose a FLEX Trader holds a security portfolio of \$10,000,000. The FLEX Trader desires to hedge its portfolio with FLEX SPX Options. Assume the current value of the S&P 500 Index is 3,253.82. With a 100 multiplier, a standard FLEX SPX Option contract would have a notional value of \$325,382.00. In order to hedge the entire portfolio, the FLEX Trader would need to trade 30.73 contracts ( $\$10,000,000/\$325,382$ ). The nearest whole number of contracts would be 31 contracts, which would have a total notional value of \$10,086,842. As a result, the FLEX Trader could only hedge within \$86,842 of its portfolio value with standard FLEX Options. With a one multiplier, a FLEX SPX Micro Option contract would have a notional value of \$3,253.82. In order to hedge the entire \$10,000,000 portfolio, the FLEX Trader would need to trade 3,073.3 ( $\$10,000,000/\$3,253.82$ ). The nearest whole number of contracts would be 3,073 FLEX Micro SPX Option contracts, which would have a total notional value of \$9,998,988.86.<sup>8</sup> This will allow the FLEX Trader to hedge within \$1,011.14 of its portfolio value. Therefore, the availability of FLEX Micro Options would permit this FLEX Trader to hedge its portfolio with far greater precision (\$85,830.86).

FLEX Micro Options will be traded in the same manner as all other FLEX Options pursuant to Chapter 5, Section F of the Rules. As demonstrated above, there are two important distinctions between standard FLEX Options and FLEX Micro Options due to the difference in multipliers. The proposed rule change amends certain Rules describing the exercise prices and bids and offers of FLEX Options to reflect these distinctions. The proposed rule change amends

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<sup>8</sup> The FLEX Trader could also trade 30 standard FLEX SPX Option contracts (for a total notional value of \$9,761,460) and 73 FLEX SPX Micro Option contracts (for a total notional value of \$237,528.86), which would have the same total notional value.

Rule 4.21(b)(6) to describe the difference between the meaning of the exercise price of a standard FLEX Option and a FLEX Micro Option. Specifically, the proposed rule change states that exercise prices for FLEX Micro Options are set at the same level as they are for standard FLEX Options. For example, a standard FLEX Equity Option series with an exercise price to deliver 100 shares of the underlying security at \$50 has a total deliverable value of \$5,000, and would have an exercise price of 50. This is true today, and merely adds an example to the rule regarding the exercise price of a standard FLEX Option series, the deliverables for which are equal to the exercise price times the 100 contract multiplier to determine the deliverable dollar value. The proposed rule change also adds how the deliverable dollar value will be determined for a FLEX Micro Option. A FLEX Micro Equity Option series with an exercise price to deliver one share of the underlying security at \$50 has a total deliverable value of \$50, and would have an exercise price of 50.<sup>9</sup> Because a FLEX Micro Option has a multiplier of 1/100 of the multiplier of a standard FLEX Option, the value of a FLEX Micro Option's deliverable as a result is 1/100 of the value of a standard FLEX Option's deliverable.

Similarly, the proposed rule change amends Rule 5.3(e)(3) to describe the difference between the meaning of bids and offers for standard FLEX Options and FLEX Micro Options. Currently, that rule states that bids and offers for FLEX Options must be expressed in (a) U.S. dollars and decimals if the exercise price for the FLEX Option series is a fixed price, or (b) a percentage, if the exercise price for the FLEX Option series is a percentage of the closing value

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<sup>9</sup> This corresponds to the calculation of exercise prices for other types of options with reduced multiplier. For example, Rule 4.5, Interpretation and Policy .18(b) provides that strike prices (*i.e.*, exercise prices) for mini-options (which have multipliers of 10 rather than 100, as set forth in Rule 4.5, Interpretation and Policy .18(a)) are set at the same level as for standard options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1,250 (10 x 125) if the strike is 125. A standard non-FLEX option with a strike price of 125 would have a total deliverable value of \$12,500 (100 x 125).

of the underlying equity security or index on the trade date, per unit. As noted above, a standard FLEX Option contract unit consists of 100 shares of the underlying security or 100 times the value of the underlying index, as they currently have a 100 contract multiplier.<sup>10</sup> The proposed rule change clarifies that bids and offers are expressed per unit, if a standard FLEX Option, and adds an example. Specifically, the proposed rule change states that for a standard FLEX Option with an exercise price expressed as U.S. dollars and decimals, a bid of “0.50” represents a bid of \$50 (0.50 times 100). The proposed rule change also adds to Rule 5.3(e)(3) the meaning of FLEX Micro Option bids and offers. Specifically, bids and offers for FLEX Micro Options must be expressed in (a) U.S. dollars and decimals if the exercise price for the FLEX Option series is a fixed price, or (b) a percentage, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date, per 1/100th unit of the underlying security or index, as applicable.<sup>11</sup> Additionally, the proposed rule change states that for a FLEX Micro Option, a bid of “0.50” represents a bid of \$0.50 (0.50 times one). The Exchange believes this approach identifies a clear, transparent description of the differences between standard FLEX Options and FLEX Micro Options. Additionally, the Exchange believes the proposed terms of FLEX Micro Options are consistent with the terms of the Options Disclosure Document.<sup>12</sup>

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<sup>10</sup> See current Rule 4.21(b)(1).

<sup>11</sup> This corresponds to the meaning of bids and offers for other types of options with reduced multiplier. For example, Rule 5.3(c) provides that bids and offers for an option contract overlying 10 shares (*i.e.*, mini-options) must be expressed in terms of dollars per 1/10th part of the total value of the contract (for example, an offer of 0.50 represents an offer of \$5.00 for an option contract having a unit of trading consisting of 10 shares, as opposed to \$50 for a standard option contract having a unit of trading consisting of 100 shares).

<sup>12</sup> The Options Disclosure Document (“ODD”) is available at <https://www.theocc.com/about/publications/character-risks.jsp>. The ODD states that the exercise price of a stock option is multiplied by the number of shares underlying the

The proposed rule change amends Rule 8.35(a) regarding position limits for FLEX Options to describe how FLEX Micro Options will be counted for purposes of determining compliance with position limits. Because 100 FLEX Micro Options are equivalent to one standard FLEX Option due to the difference in contract multipliers, proposed Rule 8.35(a)(7) states that for purposes of determining compliance with the position limits under Rule 8.35, 100 FLEX Micro Option contracts equal one standard FLEX Option contract with the same underlying security or underlying index.<sup>13</sup> The proposed rule change adds paragraph (g) to Rule 8.42 to make a corresponding statement regarding the application of exercise limits to FLEX Micro Options. The margin requirements set forth in Chapter 10 of the Rules will apply to FLEX Micro Options (as they currently do to all FLEX Options).

The proposed rule change also corrects an administrative error in Rule 8.35(a). Currently, there are two subparagraphs numbered as (a)(5). The proposed rule change amends paragraph (a) to renumber the second subparagraph (a)(5) to be subparagraph (a)(6).

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading

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option to determine the aggregate exercise price and aggregate premium of that option. See ODD at 18. Similarly, the ODD states that the total exercise price for an index option is the exercise price multiplied by the multiplier, and the aggregate premium is the premium multiplied by the multiplier. See ODD at 8, 9, and 125. Per the ODD, the amount of the underlying interest may be a variable term with respect to flexibly structured options (i.e., FLEX Options).

<sup>13</sup> The proposed rule change makes a corresponding change to Rule 8.35(b) to clarify that, like reduced-value FLEX contracts, FLEX Micro Option contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract for purposes of the reporting obligation in that provision (*i.e.*, 100 FLEX Micro Options will equal one standard FLEX Option overlying the same index).

of FLEX Micro Options. The Exchange also understands that the Options Clearing Corporation will be able to accommodate the listing and trading of FLEX Micro Options.<sup>14</sup>

## 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.<sup>15</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>16</sup> 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)<sup>17</sup> 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 the proposed rule change will benefit investors by expanding investors’ choices and flexibility with respect to the trading of FLEX Options. These options will provide investors with additional granularity with respect to the prices at which they may execute and exercise their FLEX Options on the Exchange, as investors may execute and

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<sup>14</sup> FLEX Micro Options will be listed with different trading symbols than FLEX Options with the same underlying to reduce any potential confusion. For example, a standard FLEX Option for class ABC may have symbol 4ABC, while a FLEX Micro Option for class ABC may have symbol 4ABC9.

<sup>15</sup> 15 U.S.C. 78f(b).

<sup>16</sup> 15 U.S.C. 78f(b)(5).

<sup>17</sup> Id.



exercise over-the-counter options with this smaller contract multiplier. The Exchange believes this additional granularity will provide investors with an additional tool to manage more efficiently their positions based on notional value so that they equal whole contracts, as opposed to fractions of a standard contract as currently may happen. Given the various trading and hedging strategies employed by investors, this additional granularity may provide them with more control over the trading of their FLEX strategies.

FLEX Micro Options will trade in the same manner as all other FLEX Options, with premiums (*i.e.*, bids and offers) and exercise prices adjusted proportionately to reflect the difference in multiplier, and thus the difference in the deliverable value of the underlying. The Exchange believes the proposed rule change adds transparency and clarity to the Rules regarding the distinctions between standard FLEX Options and FLEX Micro Options due to the different multipliers will benefit investors. These proposed rule changes include (1) providing examples of the meaning of the exercise prices and premiums (*i.e.*, bids and offers) of both standard FLEX Options and FLEX Micro Options, (2) stating that FLEX Micro Options will not be fungible with any non-FLEX Options, as they cannot have the same terms as any non-FLEX Options (as no non-FLEX Options have multipliers of one), and (3) including the corresponding minimum size for a FLEX SAM Agency Order consisting of FLEX Micro Options. This proposal is similar to rules regarding other reduced-value options.<sup>18</sup>

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<sup>18</sup> See, e.g., Rules 4.5, Interpretation and Policy .18 (description of strike prices for mini-options, which have a multiplier of 10), 5.3(c) (description of bids and offers for mini-options), and 5.74(a)(4) (description of minimum size of FLEX Agency Order for mini-options). Just as terms for mini-options, which have a multiplier of 1/10<sup>th</sup> the size of standard options, equal 1/10<sup>th</sup> of the same terms for standard options, the proposed terms for FLEX Micro Options, which have a multiplier 1/100<sup>th</sup> the size of standard FLEX Options equal 1/100<sup>th</sup> of the same terms as standard FLEX Options.

The Exchange believes the proposed rule change regarding the treatment of FLEX Micro Options with respect to determining compliance with position and exercise limits is designed to prevent fraudulent and manipulative acts and practices and promote just and equitable principles of trade, as FLEX Micro Options will be counted for purposes of those limits in a proportional manner to standard FLEX Options. This is similar to limits imposed on other reduced-value options.<sup>19</sup> The Exchange believes its enhanced surveillances continue to be designed to deter and detect violations of Exchange Rules, including position and exercise limits and possible manipulative behavior, and those surveillance will apply to FLEX Micro Options.

By permitting FLEX Options to trade with the same multiplier currently available to customized options in the OTC market, the Exchange believes the proposed rule change will remove impediments to and perfects the mechanism of a free and open market and a national market system by further improving a comparable alternative to the OTC market in customized options. By enhancing our FLEX trading platform to provide additional flexible terms available in the OTC market but not currently available in the listed options market, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out positions; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of The Options Clearing Corporation (“OCC”) as issuer and guarantor of FLEX Options.

The Exchange believes the proposed nonsubstantive changes (to clarify the current contract multiplier for standard FLEX Options in Rule 4.21(b) and to correct the numbering of

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<sup>19</sup> See, e.g., Rule 8.30, Interpretation and Policy .08 (describing position limits for mini-options).

subparagraphs in Rule 8.35(a)) will protect investors, as they enhance transparency and clarity in the Rules. Additionally, the correction to subparagraph numbering will enable investors to more easily reference rule provisions in different subparagraphs.

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. 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. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because all FLEX Micro Options will be available for all underlying securities and indexes currently eligible for FLEX trading, and all FLEX Traders may trade FLEX Micro Options. FLEX Micro Options will trade in the same manner as all standard FLEX Options, with certain terms proportionately adjusted to reflect the different contract multipliers. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed rule change relates solely to products that may be listed for trading on the Exchange. Other options exchanges may offer flexible options, including with a different contract multiplier. To the extent the proposed rule change makes the Exchange a more attractive trading venue for market participants on other exchanges, those market participants may elect to become Exchange market participants.

The Exchange believes that the proposed rule change may relieve any burden on, or otherwise promote, competition. The Exchange believes this is an enhancement to a comparable alternative to the OTC market in customized options. By enhancing our FLEX trading platform to provide additional contract granularity that available in the OTC market but not currently

available in the listed options market, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants will benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

The proposed nonsubstantive changes (to clarify the current contract multiplier for standard FLEX Options in Rule 4.21(b) and to correct the numbering of subparagraphs in Rule 8.35(a)) will have no impact on competition, as they merely clarify or correct, as applicable, information in the Rules and make no changes to how FLEX Options trade.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2020-010 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-CBOE-2020-010. 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, D.C. 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-2020-010, 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.<sup>20</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).