

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74681; File No. SR-CBOE-2015-023)

April 8, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1, to List and Trade Options on the MSCI EAFE Index and on the MSCI Emerging Markets Index

I. Introduction

On February 26, 2015, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade options on the MSCI EAFE Index and the MSCI Emerging Markets (“EM”) Index. The proposed rule change was published for comment in the Federal Register on March 10, 2015.<sup>3</sup> On March 24, 2015, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>4</sup> The Commission received no comments on the proposed rule change. This order grants approval of the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposed Rule Change

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

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

<sup>3</sup> See Securities Exchange Act Release No. 74430 (March 4, 2015), 80 FR 12675 (“Notice”).

<sup>4</sup> Amendment No. 1 corrects the customer portfolio margin description in the Exhibit 3 to conform it to Exchange Rule 12.4. As the stated in the Notice, the MSCI EAFE and MSCI EM Index options would be subject to the same rules that currently govern other CBOE index options, including margin requirements. Amendment No. 1 is not subject to notice and comment because it is technical in nature and does not materially alter the substance of the proposed rule change or raise any novel regulatory issues.

The Exchange proposes to list and trade P.M. cash-settled, European-style options on the MSCI EAFE Index and the MSCI EM Index.<sup>5</sup> According to the Exchange, the MSCI EAFE Index is a free floated-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of 21 developed market country indexes and has over 900 constituents. According to the Exchange, the MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets. The MSCI EM Index consists of 23 emerging market country indexes and has over 800 constituents.<sup>6</sup> The Exchange states that the indexes are monitored and maintained by MSCI Inc. (“MSCI”).<sup>7</sup> Adjustments to the indexes are made on a daily basis, and MSCI reviews the indexes quarterly.

According to the Exchange, both the MSCI EAFE Index and the MSCI EM Index are calculated in U.S. dollars on a real-time basis from the open of the first market on which the components are traded to the closing of the last market on which the components are traded. The methodologies used to calculate the MSCI EAFE Index and the MSCI EM Index are similar to the methodology used to calculate the value of other benchmark market-capitalization weighted

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<sup>5</sup> The Exchange proposes to list up to twelve near-term expiration months for the MSCI EAFE and MSCI EM Index options. The Exchange also proposes to list LEAPS on the MSCI EAFE Index and the MSCI EM Index. The exchange proposes that options on the MSCI EAFE Index and the MSCI EM Index would be eligible for all other expirations permitted for other broad-based indexes (e.g., End of Week/End of Month Expirations, Short Term Option Series, and Quarterly Options Series). In addition, the Exchange proposes to designate the MSCI EAFE Index and the MSCI EM Index as eligible for trading as FLEX options.

<sup>6</sup> The Exchange states that the MSCI EAFE Index and the MSCI EM Index each meet the definition of a broad-based index as set forth in Exchange Rule 24.1(i)(1).

<sup>7</sup> The Exchange proposes to designate MSCI as the reporting authority for the MSCI EAFE Index and the MSCI EM Index.

indexes.<sup>8</sup> Real-time data is distributed approximately every 15 seconds while the indexes are being calculated using MSCI's real-time calculation engine to Bloomberg L.P. ("Bloomberg"), FactSet Research Systems, Inc. ("FactSet"), and Thomson Reuters ("Reuters"). End of day data is distributed daily to clients through MSCI as well as through major quotation vendors, including Bloomberg, FactSet, and Reuters.

The Exchange proposes that trading hours for MSCI EAFE Index options would be from 8:30 a.m. (Chicago Time) to 3:15 p.m. (Chicago Time), except that trading in expiring MSCI EAFE Index options would end at 10:00 a.m. (Chicago Time) on their expiration date. Trading hours for MSCI EM Index options would be from 8:30 a.m. (Chicago Time) to 3:15 p.m. (Chicago Time).

The Exchange proposes that MSCI EAFE and MSCI EM Index options would expire on the third Friday of the expiration month.<sup>9</sup> The exercise settlement value would be the official closing values of the MSCI EAFE Index and the MSCI EM Index as reported by MSCI on the last trading day of the expiring contract. The exercise settlement amount would be equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by the contract multiplier (\$100).<sup>10</sup> Exercise would result in delivery of cash on the business day following expiration.

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<sup>8</sup> Specifically, the indexes are based on the MSCI Global Investable Market Indexes Methodology. Further detail regarding this methodology can be found in the Notice, supra note 3, at notes 5 and 9 and accompanying text.

<sup>9</sup> According to the Exchange, when the last trading day/expiration date is moved because of an Exchange holiday or closure, the last trading day/expiration date for expiring options would be the immediately preceding business day.

<sup>10</sup> According to the Exchange, if the exercise settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value would be determined in accordance with the rules and bylaws of the Options Clearing Corporation.

The Exchange proposes to create specific initial and maintenance listing criteria for options on the MSCI EAFE Index and the MSCI EM Index. Specifically, the Exchange proposes to add new Interpretation and Policy .01(a) to Rule 24.2 to provide that the Exchange may trade MSCI EAFE and MSCI EM Index options if each of the following conditions is satisfied: (1) the index is broad-based, as defined in Exchange Rule 24.1(i)(1); (2) options on the index are designated as P.M.-settled index options; (3) the index is capitalization-weighted, price-weighted, modified capitalization-weighted, or equal dollar-weighted; (4) the index consists of 500 or more component securities; (5) all of the component securities of the index will have a market capitalization of greater than \$100 million; (6) no single component security accounts for more than fifteen percent (15%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than fifty percent (50%) of the weight of the index; (7) non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than: (i) twenty percent (20%) of the weight of the MSCI EAFE Index, and (ii) twenty-two and a half percent (22.5%) of the weight of the MSCI EM Index; (8) during the time options on the index are traded on the Exchange, the current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors; however, the Exchange may continue to trade MSCI EAFE Index options after trading in all component securities has closed for the day and the index level is no longer widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors, provided that EAFE futures contracts are trading and prices for those contracts may be used as a proxy for the current index value; (9) the Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent

System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index; and (10) the Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

Additionally, the Exchange proposes to add new Interpretation and Policy .01(b) to Rule 24.2 to set forth the following maintenance listing standards for options on the MSCI EAFE Index and the MSCI EM Index: (1) the conditions set forth in subparagraphs .01(a)(1), (2), (3), (4), (7), (8), (9), and (10) must continue to be satisfied, the conditions set forth in subparagraphs .01(a)(5) and (6) must be satisfied only as of the first day of January and July in each year; and (2) the total number of component securities in the index may not increase or decrease by more than thirty-five percent (35%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on the Exchange pursuant to Interpretation and Policy .01(a) fails to satisfy these maintenance listing standards, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Act.

The contract multiplier for the MSCI EAFE and MSCI EM Index options would be \$100. The Exchange proposes that the minimum tick size for series trading below \$3 would be 0.05 (\$5.00), and above \$3 would be 0.10 (\$10.00). The Exchange also proposes that the strike price interval for MSCI EAFE and MSCI EM Index options would be no less than \$5, except that the strike price interval would be no less than \$2.50 if the strike price is less than \$200.

The Exchange proposes to apply the default position limits for broad-based index options of 25,000 contracts on the same side of the market (and 15,000 contracts near-term limit) to MSCI EAFE and MSCI EM Index options. All position limit hedge exemptions would apply.

The exercise limits for MSCI EAFE and MSCI EM Index options would be equivalent to the position limits for those options. In addition, the Exchange proposes that the position limits for FLEX options on the MSCI EAFE Index and the MSCI EM Index would be equal to the position limits for non-FLEX options on the MSCI EAFE Index and the MSCI EM Index. The exercise limits for FLEX options on the MSCI EAFE Index and the MSCI EM Index would be equivalent to the position limits for those options.

The Exchange states that, except as modified by the proposal, Exchange Rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB would equally apply to MSCI EAFE and MSCI EM Index options. The Exchange also states that MSCI EAFE and MSCI EM Index options would be subject to the same rules that currently govern other CBOE index options, including sales practice rules, margin requirements,<sup>11</sup> and trading rules.<sup>12</sup>

The Exchange represents that it has an adequate surveillance program in place for MSCI EAFE and MSCI EM Index options and intends to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the proposed options. The Exchange also states that it is a member of the Intermarket Surveillance Group, is an affiliate member of the International Organization of Securities Commissions, and has entered into various comprehensive surveillance agreements and/or Memoranda of Understanding with various stock exchanges. Finally, the Exchange represents that it believes it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to

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<sup>11</sup> The Exchange states that MSCI EAFE and MSCI EM Index options would be margined as broad-based index options.

<sup>12</sup> See, e.g., Exchange Rule Chapters IX (Doing Business with the Public), XII (Margins), IV (Business Conduct), VI (Doing Business on the Trading Floor), VIII (Market-Makers, Trading Crowds and Modified Trading Systems), and XXIV (Index Options).

handle the additional traffic associated with the listing of new series that would result from the introduction of MSCI EAFE and MSCI EM Index options.

### III. Discussion and Commission Findings

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.<sup>13</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>14</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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 listing and trading of MSCI EAFE Index options will broaden trading and hedging opportunities for investors by providing an options instrument based on an index designed to measure the equity market performance of developed markets (excluding the U.S. and Canada). Similarly, the Commission believes that the listing and trading of MSCI EM Index options will broaden trading and hedging opportunities for investors by providing an options instrument based on an index designed to measure the equity market performance of emerging markets. Moreover, the Exchange states that the iShares MSCI EAFE exchange traded fund (“EFA”) is an actively-traded product and that it lists actively-traded options overlying EFA. The Exchange likewise states that the iShares MSCI Emerging Markets

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<sup>13</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

exchange traded fund (“EEM”) is an actively-traded product and that it lists actively-traded options overlying EEM.

Because the MSCI EAFE Index and the MSCI EM Index are broad-based indexes composed of actively-traded, well-capitalized stocks, the trading of options on these indexes does not raise unique regulatory concerns. The Commission believes that the listing standards, which are created specifically and exclusively for these indexes, are consistent with the Act, for the reasons discussed below.<sup>15</sup>

The Commission notes that proposed Interpretation and Policy .01 to Exchange Rule 24.2 would require that the MSCI EAFE Index and the MSCI EM Index each consist of 500 or more component securities. Further, for options on the MSCI EAFE Index and the MSCI EM Index to trade, each of the minimum of 500 component securities would need to have a market capitalization of greater than \$100 million. The Commission notes that, according to the Exchange, the MSCI EAFE Index has more than 900 components and the MSCI EM Index has more than 800 components, all of which must meet the market capitalization requirement to permit options on these indexes to begin trading.

The Commission notes that the proposed listing standards for options on the MSCI EAFE Index and the MSCI EM Index would not permit any single component security to account for

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<sup>15</sup> The Commission notes that it previously approved the listing and trading of options on the MSCI EAFE Index and the MSCI EM Index on NASDAQ OMX PHLX LLC (“Phlx”). See Securities Exchange Act Release Nos. 66420 (February 17, 2012), 77 FR 11177 (February 24, 2012) (SR-Phlx-2011-179) (order approving the listing of MSCI EM Index options on Phlx) and 66861 (April 26, 2012), 77 FR 26056 (May 2, 2012) (SR-Phlx-2012-28) (order approving the listing of MSCI EAFE Index options on Phlx). See also Securities Exchange Act Release No. 67071 (May 29, 2012), 77 FR 33013 (June 4, 2012) (SR-Phlx-2012-67) (notice of filing and immediate effectiveness of proposed rule change to amend the trading hours for MSCI EAFE Index options). The Exchange states that its proposal is substantially similar to the Phlx proposals that were approved by the Commission.



more than 15% of the weight of the index, and would not permit the five highest weighted component securities to account for more than 50% of the weight of the index in the aggregate. The Commission believes that, in view of the requirement on the number of securities in each index, the number of countries represented in each index, and the market capitalization, this concentration standard is consistent with the Act. Further, the Exchange states that no single component accounts for more than 5% of either index. As noted above, the Exchange represents that it has an adequate surveillance program in place for MSCI EAFE and MSCI EM Index options and intends to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the proposed options.

The Commission notes that, consistent with the Exchange's generic listing standards for broad-based index options, non-U.S. component securities of the MSCI EAFE Index that are not subject to comprehensive surveillance agreements will not, in the aggregate, represent more than 20% of the weight of the index. With respect to the MSCI EM Index, non-U.S. component securities that are not subject to comprehensive surveillance agreements must not, in the aggregate, represent more than 22.5% of the weight of the index.

The proposed listing standards require that, during the time options on the MSCI EAFE Index and the MSCI EM Index are traded on the Exchange, the current index value is widely disseminated at least once every 15 seconds by one or more major market data vendors. However, the Exchange may continue to trade MSCI EAFE Index options after trading in all component securities has closed for the day and the index level is no longer widely disseminated at least once every 15 seconds by one or more major market data vendors, provided that EAFE

futures contracts are trading and prices for those contracts may be used as a proxy for the current index value.<sup>16</sup>

In addition, the proposed listing standards require the Exchange to reasonably believe that it has adequate system capacity to support the trading of options on the MSCI EAFE Index and the MSCI EM Index. As noted above, the Exchange represents that it believes it and the OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that would result from the introduction of MSCI EAFE and MSCI EM Index options.

As a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,<sup>17</sup> to enforce compliance by its members, and persons associated with its members, with the provisions of the Act, Commission rules and regulations thereunder, and its own rules. As noted above, the Exchange states that, except as modified by the proposal, Exchange Rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB would equally apply to MSCI EAFE and MSCI EM Index options. The Exchange also states that MSCI EAFE and MSCI EM Index options would be subject to the same rules that currently govern other CBOE index options, including sales practice rules, margin requirements, and trading rules.

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<sup>16</sup> The Exchange notes that, because trading in the components of the MSCI EAFE Index ends at approximately 11:30 a.m. (Chicago Time), there will not be a current MSCI EAFE Index level calculated and disseminated during a portion of the time when MSCI EAFE Index options would be traded (from approximately 11:30 a.m. (Chicago Time) to 3:15 p.m. (Chicago Time)). However, the Exchange states that EAFE futures contracts will be trading during this time period and that the futures prices would be a proxy for the current MSCI EAFE Index level during this time period. The Exchange states that MSCI EAFE Mini Index futures contracts are listed for trading on the Intercontinental Exchange, Inc. (“ICE”) and other derivatives contracts on the MSCI EAFE Index are listed for trading in Europe. Similarly, the Exchange states that MSCI Emerging Markets Mini Index futures contracts are listed for trading on ICE and other derivatives contracts on the MSCI EM Index are listed for trading in Europe.

<sup>17</sup> 15 U.S.C. 78f(b)(1).

The Commission further believes that the Exchange's proposed position and exercise limits, trading hours, margin, strike price intervals, minimum tick size, series openings, and other aspects of the proposed rule change are appropriate and consistent with the Act.

IV. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>18</sup> for approving the proposed rule change, as modified by Amendment No. 1, prior to the 30th day after the date of publication of notice in the Federal Register. As noted above, the Commission previously approved the listing and trading of options on the MSCI EAFE Index and the MSCI EM Index on another exchange,<sup>19</sup> and the current proposal is substantially similar to the rules that were approved by the Commission. The prior proposals and the current proposal were each subject to a full 21-day comment period and no comments were received on any of the proposals.

The Exchange requested that the Commission accelerate approval of the proposal. The Exchange believes that accelerated approval by the Commission would enable these options to be brought to market sooner, which would broaden trading and hedging opportunities for investors by creating new options on indexes that are demonstrably popular.

The Commission finds that good cause exists to approve the proposal, as modified by Amendment No. 1, on an accelerated basis.

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<sup>18</sup> 15 U.S.C. 78s(b)(2).

<sup>19</sup> See supra note 15.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>20</sup> that the proposed rule change (SR-CBOE-2015-023), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Brent J. Fields  
Secretary

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<sup>20</sup> 15 U.S.C. 78s(b)(2).

<sup>21</sup> 17 CFR 200.30-3(a)(12).