

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76529; File No. SR-CBOE-2015-106)

November 30, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Permit P.M.-Settled Options on Broad-Based Indexes to Expire on Any Wednesday of the Month by Expanding the End of Week/End of Month Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 17, 2015, Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) 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

The Exchange seeks to expand the End of Week/End of Month Pilot Program to permit P.M.-settled options on broad-based indexes to expire on any Wednesday of the month. The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 24.4. Position Limits for Broad-Based Index Options

(a) No change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

(b) End of Week Expirations, [and] End of Month Expirations, and Wednesday Expirations (as provided for in Rule 24.9(e), QIXs, Q-CAPS, Packaged Vertical Spreads and Packaged Butterfly Spreads on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

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Rule 24.9. Terms of Index Option Contracts

(a) – (d) No change.

(e) Nonstandard Expirations Pilot Program [End of Week/End of Month Expirations Pilot Program ("EOW/EOM Pilot Program")]

(1) End of Week ("EOW") Expirations. The Exchange may open for trading EOWs on any broad-based index eligible for standard options trading to expire on any Friday of the month, other than the third Friday-of-the-month. EOWs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that EOWs shall be P.M.-settled.

The maximum numbers of expirations that may be listed for EOWs is the same as the maximum numbers of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. Other than expirations that are third Friday-of-the-month or that coincide with an EOM expiration, EOW expirations shall be for [the nearest] consecutive Friday expirations. [from the actual listing date, other than the third Friday-of-the-month or that coincide with an EOM expiration]. EOWs that are first listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Friday and the Exchange lists EOMs and EOWs in a given class, the Exchange will list an EOM instead of [and not] an EOW in the given class. Other expirations in the same class are not counted as part of the maximum numbers of EOW expirations for a broad-based index class.

(2) End of Month ("EOM") Expirations. The Exchange may open for trading EOMs on any broad-based index eligible for standard options trading to expire on last trading day of the month. EOMs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on [on] the third Friday of the expiration month; provided, however, that EOMs shall be P.M.-settled.

The maximum numbers of expirations that may be listed for EOMs is the same as the maximum numbers of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. EOM expirations shall be for [the nearest] consecutive end of month expirations [from the actual listing date]. EOMs that are first listed in a given class may expire up to four weeks from the actual listing date. Other expirations in the same class are not counted as part of the maximum numbers of EOM expirations for a broad-based index class.

(3) Wednesday ("WED") Expirations. The Exchange may open for trading WEDs on any broad-based index eligible for standard options trading to expire on any Wednesday of the month, other than a Wednesday that is EOM. WEDs shall be subject to all provisions of this Rule and treated the

same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that WEDs shall be P.M.-settled.

The maximum numbers of expirations that may be listed for WEDs is the same as the maximum numbers of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. Other than expirations that coincide with an EOM expiration, WED expirations shall be for consecutive Wednesday expirations. WEDs that are first listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Wednesday and the Exchange lists EOMs and WEDs in a given class, the Exchange will list an EOM instead of a WED in the given class. Other expirations in the same class are not counted as part of the maximum numbers of WED expirations for a broad-based index class.

[(3)] (4) Duration of Nonstandard Expirations Pilot Program [EOW/EOM Pilot Program]. The Nonstandard Expirations Pilot Program [EOW/EOM Pilot Program] shall be through May 3, [2016] 2017.

[(4)] (5) EOW/EOM/WED Trading Hours on the Last Trading Day. On the last trading day, transactions in expiring EOWs, [and] EOMs, and WEDs may be effected on the Exchange between the hours of 8:30 a.m. (Chicago time) and 3:00 pm (Chicago time).

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 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

On September 14, 2010, the Commission approved a CBOE proposal to establish a pilot program under which the Exchange is permitted to list P.M.-settled options on broad-based

indexes to expire on (a) any Friday of the month, other than the third Friday-of-the-month (“EOWs”), and (b) the last trading day of the month (“EOM”).³ Under the terms of the End of Week/End of Month Expirations Pilot Program (the “Pilot”), EOWs and EOMs are permitted on any broad-based index that is eligible for regular options trading. EOWs and EOMs are cash-settled expirations with European-style exercise, and are subject to the same rules that govern the trading of standard index options.

The purpose of this filing is to expand the Pilot to permit P.M.-settled options on broad-based indexes to expire on any Wednesday of the month (“WEDs”), other than Wednesdays that are EOM. To expand the Pilot as described, the Exchange is proposing to amend Rule 24.9(e)(3) to expressly provide the Exchange with the ability to list P.M.-settled WEDs on broad-based indexes eligible for options trading. In order to allow data regarding WEDs to be collected, this proposal seeks to extend the duration of the Pilot to May 3, 2017.⁴ Additionally, if the Exchange were to propose an extension of the Pilot or should the Exchange propose to make the Pilot permanent, then the Exchange would submit a filing proposing such amendments to the Pilot. Furthermore, any positions established under the Pilot would not be impacted by the expiration of the Pilot. For example, if the Exchange lists an EOW, EOM, or WED expiration that expires after the Pilot expires (and is not extended) then those positions would continue to exist. However, any further trading in those series would be restricted to transactions where at least one side of the trade is a closing transaction.

Wednesday Expiration

³ See Securities Exchange Act Release No. 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (order approving SR-CBOE-2009-075).

⁴ See Securities Exchange Act Release No. 73422 (October 24, 2014), 79 FR 64640 (October 30, 2014) (SR-CBOE-2014-079). The Pilot is currently set to expire on May 3, 2016.

With respect to Wednesday expirations, the Exchange proposes to amend Rule 24.9(e)(3) by adding the following rule text

Wednesday (“WED”) Expirations. The Exchange may open for trading WEDs on any broad-based index eligible for standard options trading to expire on any Wednesday of the month, other than a Wednesday that is EOM. WEDs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that WEDs shall be P.M.-settled.

WEDs will be subject to the same rules that currently govern the trading of traditional index options, including sales practice rules, margin requirements, and floor trading procedures.

Contract terms for WEDs will be similar to EOWs.

Maximum Number of Expirations

With respect to the maximum number of expirations, the Exchange proposes to amend Rule 24.9(e)(3) by adding the following rule text:

The maximum numbers of expirations that may be listed for WEDs is the same as the maximum numbers of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. Other than expirations that coincide with an EOM expiration, WED expirations shall be for consecutive Wednesday expirations. WEDs that are first listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Wednesday and the Exchange lists EOMs and WEDs in a given class, the Exchange will list an EOM instead of a WED in the given class. Other expirations in the same class are not counted as part of the maximum numbers of WED expirations for a broad-based index class.

In support of this change, CBOE states that under Rule 24.9(a)(2), the maximum numbers [sic] of expirations varies depending on the type of class or by specific class. Therefore, the maximum number of expirations permitted for WEDs on a given class would be determined based on the specific broad-based index option class. For example, if the broad-based index option class is used to calculate a volatility index, the maximum number of WEDs permitted in that class would be 12 expirations (as is permitted in Rule 24.9(a)(2)).

For WEDs, CBOE proposes that other than expirations that coincide with an EOM expiration, WED expirations shall be for consecutive Wednesday expirations.⁵ However, the Exchange is also proposing that WEDs that are first listed in a given class may expire up to four weeks from the actual listing date.⁶ It is generally the Exchange's practice to list new expirations in a class in a manner that allows market participants to trade a particular product for longer than a week. Even weekly products such as EOWs and WEDs are not designed to have a life cycle—from listing to expiration—of one week; instead, they are simply designed to expire weekly. Thus, consistent with the Exchange's listing practices, this rule change will explicitly allow the Exchange to launch WEDs in an options class that do not expire on the following Wednesday from the actual listing date. For example, upon approval of this rule change, if the actual listing date of the first WEDs in a class is Monday, November 2nd, the expiration date of the first WEDs need not be Wednesday, November 4th; rather, the first expiration could be November 11th or a Wednesday thereafter. A similar provision will apply to EOWs and EOMs.

CBOE also proposes to follow the listing hierarchy described in the original Pilot filing, which provides that if the last trading day of the month is a Friday, the Exchange will list an EOM instead of an EOW.⁷ Thus, with regards to WEDs, if the last trading day of a month is a Wednesday, the Exchange would list an EOM and not a WED. However, the Exchange is

⁵ This proposal also provides that for EOWs, other than expirations that are third Friday-of-the-month or that coincide with an EOM expiration, EOW expirations shall be for consecutive Friday expirations

⁶ The purpose of these provisions is to prevent gaps in expirations. For example, the provision prevents the Exchange from listing a WED expiration to expire on Wednesday, October 14th, then not listing a WED expiration to expire on October 21st, and then listing a WED expiration to expire on October 28th. The provision is not meant to prevent the Exchange from launching a new product and having the initial expiration dates be weeks from the initial launch.

⁷ See Securities Exchange Act Release No. 62658 (August 5, 2010), 75 FR 49010 (SR-CBOE-2009-075).

clarifying in Rules 24.9(e)(1) for EOWs and 24.9(e)(3) for WEDs that the hierarchy of EOMs over EOWs and WEDs only arises when the Exchange lists EOMs and EOWs or WEDs in a particular options class. In other words, if the last trading day of a month is a Wednesday and the Exchange does not list EOMs in class ABC but does list WEDs in ABC, then the Exchange may list a WED expiration for the last trading day of the month in class ABC. The same goes for EOWs. If the last trading day of a month is a Friday and the Exchange does not list EOMs in a particular options class but lists EOWs in the class, then the Exchange may list EOWs for the last trading day of the month in that particular options class.

Finally, CBOE proposes to add that other expirations in the same class would not be counted as part of the maximum numbers of WED expirations for a broad-based index class. CBOE states that this provision is modeled after the maximum number of expirations applicable to EOW and EOM options.⁸ This provision is also similar to one recently adopted in connection with weekly CBOE Volatility Index (“VIX”) expirations, in that standard VIX expirations are not counted toward the maximum number of expirations permitted for weekly expiration in VIX options.⁹

CBOE has analyzed its capacity and represents that it believes the Exchange and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any additional traffic associated with the listing of the maximum number of WED expirations permitted under the Pilot.

Position Limits

Since WEDs will be a new type of series and not a new class, the Exchange proposes that WEDs on the same broad-based index (e.g., of the same class) shall be aggregated for position

⁸ See Rule 24.9(e)(1) and (2).

⁹ See fourth bullet under Rule 24.9(a)(2).

limits (if any) and any applicable reporting and other requirements.¹⁰ The Exchange is proposing to add "WEDs" to Rule 24.4(b) to reflect the aggregation requirement. This proposed aggregation is consistent with the aggregation requirements for other types of option series (e.g., EOWs, EOMs, QOS, QIXs) that are listed on the Exchange and which do not expire on the customary "third Saturday."¹¹

Retitle the EOW/EOM Pilot Program

As part of adding WED expirations to the existing EOW/EOM Pilot Program, the Exchange believes it is necessary to retitle paragraph (e) of Rule 24.9. Thus, the Exchange proposes to retitle the Pilot as the "Nonstandard Expirations Pilot Program."

Annual Pilot Program Report

As part of the Pilot, the Exchange currently submits a Pilot report to the Securities and Exchange Commission ("Commission") at least two months prior to the expiration date of the Pilot (the "annual report"). The annual report contains an analysis of volume, open interest and trading patterns. In addition, for series that exceed certain minimum open interest parameters, the annual report provides analysis of index price volatility and, if needed, share trading activity. The annual report will be expanded to provide the same data and analysis related to WED expirations as is currently provided for EOW and EOM expirations.

¹⁰ See e.g., Rule 4.13, Reports Related to Position Limits and Interpretation and Policy .03 to Rule 24.4 which sets forth the reporting requirements for certain broad-based indexes that do not have position limits.

¹¹ As will be discussed in detail below, the Exchange trades structured quarterly and short term options. FLEX Options do not become fungible with subsequently introduced Non-FLEX structured quarterly and short term options. See Securities Exchange Act Release No. 59675 (April 1, 2009), 74 FR 15794 (April 7, 2009) (SR-OCC-2009-05). Because of the similarities between WED expirations and existing structured quarterly and short term options, FLEX Options will similarly not become fungible with WED expirations listed for trading.

The Pilot is currently set to expire on May 3, 2016. As the annual report is provided at least two months prior the expiration date of the Pilot, there would not be significant data concerning WED expirations in the next annual report, which is due in approximately February 2016. Thus, the Exchange is seeking to extend the pilot to May 3, 2017. The Exchange will still provide an annual report in approximately February 2016 that covers EOWs, EOMs, and WEDs. All annual reports will continue to be provided to the Commission on a confidential basis.

Analysis of Volume and Open Interest

For EOW, EOM, and WED series, the annual report will contain the following volume and open interest data for each broad-based index overlying EOW, EOM, and WED options:

- (1) Monthly volume aggregated for all EOW, EOM, and WED series,
- (2) Volume in EOW, EOM, and WED series aggregated by expiration date,
- (3) Month-end open interest aggregated for all EOW, EOM, and WED series,
- (4) Month-end open interest for EOM series aggregated by expiration date, week-ending open interest for EOW series aggregated by expiration date, and Wednesday-ending open interest for WED series aggregated by expiration date,
- (5) Ratio of monthly aggregate volume in EOW, EOM, and WED series to total monthly class volume, and
- (6) Ratio of month-end open interest in EOM series to total month-end class open interest, ratio of week-ending open interest in EOW series to total week-ending open interest, and ratio of Wednesday-ending open interest in WED series to total week-ending open interest.

Upon request by the SEC, CBOE will provide a data file containing: (1) EOW, EOM, and WED option volume data aggregated by series, and (2) EOW week-ending open interest for

expiring series, EOM month-end open interest for expiring series, and WED Wednesday-ending open interest for expiring series.

Monthly Analysis of EOW & EOM & WED Trading Patterns

In the annual report, CBOE also proposes to identify EOW, EOM, and WED trading patterns by undertaking a time series analysis of open interest in EOW, EOM, and WED series aggregated by expiration date compared to open interest in near-term standard Expiration Friday A.M.-settled series in order to determine whether users are shifting positions from standard series to EOW, EOM, and WED series. Declining open interest in standard series accompanied by rising open interest in EOW, EOM, and WED series would suggest that users are shifting positions.

Provisional Analysis of Index Price Volatility and Share Trading Activity

For each EOW, EOM, and WED Expiration that has open interest that exceeds certain minimum thresholds, the annual report will contain the following analysis related to index price changes and, if needed, underlying share trading volume at the close on expiration dates:

- (1) a comparison of index price changes at the close of trading on a given expiration date with comparable price changes from a control sample. The data will include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by the CBOE Volatility Index ("VIX"), will be provided; and
- (2) if needed, a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money EOW, EOM, and WED expirations. The data, if needed, will include a

comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period.

The minimum open interest parameters, control sample, time intervals, method for selecting the component securities, and sample periods will be determined by the Exchange and the Commission.

Discussion

In support of this proposal, the Exchange states that it trades other types of series and FLEX Options¹² that expire on different days than regular options and in some cases have P.M.-settlement. For example, since 1993 the Exchange has traded Quarterly Index Expirations ("QIXs") that are cash-settled options on certain broad-based indexes which expire on the first business day of the month following the end of a calendar quarter and are P.M.-settled.¹³ The Exchange also trades Quarterly Option Series ("QOS") that overlie exchange traded funds ("ETFs") or indexes which expire at the close of business on the last business day of a calendar quarter and are P.M.-settled.¹⁴ Additionally, as described above, this Pilot currently allows the Exchange to trade EOW and EOM options that are P.M.-settled. The Exchange has experience with these special dated options and has not observed any market disruptions resulting from the P.M.-settlement feature of these options. The Exchange does not believe that any market disruptions will be encountered with the introduction of P.M.-settlement WED expirations.

¹² See Securities Exchange Act Release No. 61439 (January 28, 2010), 75 FR 5831 (February 4, 2010) (SR-CBOE-2009-087) (order approving rule change to establish a pilot program to modify FLEX option exercise settlement values and minimum value sizes).

¹³ See Rule 24.9(c).

¹⁴ See Rules 5.5(e) and 24.9(a)(2)(B).

The Exchange trades P.M.-settled EOW expirations, which provide market participants a tool to hedge special events and to reduce the premium cost of buying protection. The Exchange seeks to introduce P.M.-settled WED expirations to, among other things, expand hedging tools available to market participants and to continue the reduction of premium cost of buying protection. The Exchange believes that a WED expiration, similar to EOW expirations, would allow market participants to purchase an option based on their needed timing and allow them to tailor their investment or hedging needs more effectively. With SPX WEDs in particular, the Exchange believes VIX options and futures traders will be able to use SPX WEDs to more effectively manage the pricing complexity and risk of VIX options and futures. In addition, because P.M.-settlement permits trading throughout the day on the day the contract expires, the Exchange believes this feature will permit market participants to more effectively manage overnight risk and trade out of their positions up until the time the contract settles.

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.¹⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ 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

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

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)¹⁷ 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 EOW/EOM Pilot has been successful to date and that WEDs simply expand the ability of investors to hedge risks against market movements stemming from economic releases or market events that occur throughout the month in the same way that EOWs and EOMs have expanded the landscape of hedging. Similarly, the Exchange believes WEDs should create greater trading and hedging opportunities and flexibility, and provide customers with the ability to more closely tailor their investment objectives.

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

CBOE 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. Specifically, the Exchange does not believe the proposal will impose any burden on intramarket competition as all market participants will be treated in the same manner as existing EOWs and EOMs. Additionally, the Exchange does not believe the proposal will impose any burden on intermarket competition as market participants on other exchanges are welcome to become Trading Permit Holders and trade at CBOE if they determine that this proposed rule change has made CBOE more attractive or favorable. Finally, although the majority of the Exchange's broad-based index options are exclusively-listed at CBOE, all options exchanges are free to compete by listing and trading their own broad-based index options that expire on Wednesdays.

¹⁷ Id.

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. Please include File Number SR-CBOE-2015-106 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2015-106. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2015-106 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.¹⁸

Robert W. Errett
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).