(SECURITIES AND EXCHANGE COMMISSION)
(Release No. 34-76909; File No. SR-CBOE-2015-106)

January 14, 2016

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving 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

I. Introduction

On November 17, 2015, Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change 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 and extend the duration of the pilot program. The proposed rule change was published for comment in the Federal Register on December 3, 2015.[3] The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

CBOE proposes to expand and extend the duration of its existing End of Week/End of Month Pilot Program (the "Pilot").[4] Under the terms of the current Pilot, the Exchange is permitted to list P.M.-settled options on broad-based indexes to expire on (a) any Friday of the

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 76529 (November 30, 2015), 80 FR 75695 (December 3, 2015) ("Notice").

4 See Securities Exchange Act Release No. 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (order approving SR-CBOE-2009-075) ("Pilot Approval Order"). See also Securities Exchange Act Release No. 73422 (October 24, 2014), 79 FR 64640 (October 30, 2014) (SR-CBOE-2014-079) (notice of filing and immediate effectiveness extending the Pilot). The Pilot is currently set to expire on May 3, 2016. See id.

month, other than the third Friday-of-the-month ("EOW"), and (b) the last trading day of the month ("EOM").[5] Under the proposal, the Exchange will expand the Pilot to permit P.M.-settled options on broad-based indexes to expire on any Wednesday of the month ("WED"), other than Wednesdays that are EOM, and extend the duration of the Pilot to May 3, 2017.[6]

A. Wednesday Expirations

The Exchange's proposed rule change will allow it to 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.[7] WEDs will be treated the same as options on the same underlying index that expire on the third Friday of the expiration month, except that they will be P.M.-settled,[8] and 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.[9] In addition, WEDs on the same broad-based index will be aggregated for position limits, if any, and any applicable reporting and other requirements.[10] Contract terms for WEDs will be similar to EOWs, as described below.[11]

The maximum number of expirations that may be listed for WEDs is the same as the maximum number of expirations permitted in CBOE Rule 24.9(a)(2) for standard options on the

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5 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. See CBOE Rule 24.9(e).

6 The Exchange also proposes to retitle the Pilot, which will cover EOW, EOM, and WED expirations, as the "Nonstandard Expirations Pilot Program."

7 See proposed CBOE Rule 24.9(e)(3).

8 See id.

9 See Notice, supra note 3, at 75696.

10 See proposed CBOE Rule 24.4(b).

11 See Notice, supra note 3, at 75696.

same broad-based index, and CBOE proposes that other expirations in the same class will not be counted as part of the maximum number of WED expirations for a particular broad-based index class.[12] Other than expirations that coincide with an EOM expiration, CBOE's proposed rule will require that WED expirations expire on consecutive Wednesdays.[13] Further, a new group of WEDs that are first listed in a given class may begin with an initial expiration up to four weeks from the date that CBOE first lists the group of WEDs.[14]

With respect to listing, if the last trading day of a month is a Wednesday, the Exchange will list an EOM and not a WED. This hierarchy will only apply if the Exchange lists an EOM in a particular class; if the Exchange does not list an EOM in that class on a last trading day of a month that is a Wednesday, it may list a WED.[15]

B. Annual Pilot Program Report

The Exchange currently submits a Pilot report to the Commission at least two months prior to the expiration date of the Pilot (the "Annual Report"). The Exchange represents that it will expand the Annual Report to provide the same data and analysis related to WED expirations as is currently provided for EOW and EOM expirations.[16] Because the Pilot is currently set to

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12 See proposed CBOE Rule 24.9(e)(3).

13 See id.

14 See id. The Exchange also proposes conforming language for EOWs. It provides that 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. It also provides that EOWs that are first listed in a given class may expire up to four weeks from the actual listing date. See proposed CBOE Rule 24.9(e)(1).

15 See proposed CBOE Rule 24.9(e)(3). The Exchange proposes to add language to clarify a similar listing hierarchy for EOW expirations: if the last trading day of a month is a Friday, the Exchange will list an EOM and not an EOW, but this hierarchy will only apply if the Exchange actually lists an EOM in a particular class. If the Exchange does not list an EOM in that class on a last trading day of a month that is a Friday, it may list a EOW. See proposed CBOE Rule 24.9(e)(1).

16 See Notice, supra note 3, at 75697.

expire on May 3, 2016, and the Annual Report is provided at least two months prior the expiration date of the Pilot, the Exchange proposes to extend the Pilot to May 3, 2017[17] to provide a greater volume of data concerning WED expirations in the Annual Report due in 2017.[18] The Exchange represents that it will provide an Annual Report in 2016 that covers EOWs, EOMs, and WEDs.[19]

III. 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 and, in particular, with Section 6(b) of the Act.[20] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[21] which requires, among other things, that a national securities exchange have rules 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.

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17 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. See Notice, supra note 3, at 75696.

18 See Notice, supra note 3, at 75697.

19 See id.

20 15 U.S.C. 78f(b). 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).

21 15 U.S.C. 78f(b)(5).

The Commission has had concerns about the adverse effects and impact of P.M. settlement upon market volatility and the operation of fair and orderly markets on the underlying cash market at or near the close of trading. Only in limited instances has the Commission previously approved P.M. settlement for cash-settled options. In addition to approving the original Pilot,[22] in 1993, the Commission approved CBOE's listing of P.M.-settled, cash-settled options on certain broad-based indexes expiring on the first business day of the month following the end of each calendar quarter.[23] In 2010, the Commission approved CBOE's listing of P.M.-settled FLEX options on a pilot basis.[24] The Commission also approved the listing of P.M.-settled SPX index options on a pilot basis.[25]

The Commission believes that it is appropriate to approve the WEDs proposal on a pilot basis and extend the existing Pilot in order to allow the Exchange to gain experience with the new WEDs and collect data concerning WEDs. The addition of WEDs would offer additional investment options to investors and may be useful for their investment or hedging objectives.

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22 See Pilot Approval Order, supra note 4.

23 See Securities Exchange Act Release No. 31800 (February 1, 1993), 58 FR 7274 (February 5, 1993) (SR-CBOE-92-13). In 2006, CBOE implemented, on a pilot basis, listing of P.M.-settled index options expiring on the last business day of a calendar quarter. See Securities Exchange Act Release No. 54123 (July 11, 2006), 71 FR 40558 (July 17, 2006) (SR-CBOE-2006-65).

24 See Securities Exchange Act Release No. 61439 (January 28, 2010), 75 FR 5831 (February 4, 2010) (SR-CBOE-2009-087).

25 The Commission initially approved P.M.-settled SPX index options ("SPXPM") on a 14-month pilot basis (the "SPXPM Pilot") on C2 Options Exchange, Incorporated ("C2"). See Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008). The SPXPM Pilot was subsequently transferred from C2 to CBOE and reset to a new 12-month pilot period. See Securities Exchange Act Release No. 68888 (February 8, 2013), 78 FR 10668 (February 14, 2013) (SR-CBOE-2012-120). In 2013, the Commission approved the addition of P.M.-settled mini-SPX index options to the SPXPM Pilot and the pilot's extension. See Securities Exchange Act Release No. 70087 (July 31, 2013), 78 FR 47809 (August 6, 2013) (SR-CBOE-2013-055).

The Commission believes that the proposal strikes a reasonable balance between the Exchange's desire to offer a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series that may burden some liquidity providers and further stress options quotation and transaction infrastructure. Further, CBOE's proposed extended Pilot period should allow for both the Exchange and the Commission to continue to monitor the potential for adverse market effects of P.M. settlement on the market, including the underlying cash equities markets at the expiration of these options.

The Commission notes that CBOE will provide the Commission with the Annual Report analyzing volume and open interest of EOWs, EOMs, and WEDs, which will also contain information and analysis of EOWs, EOMs, and WED trading patterns and index price volatility and share trading activity for series that exceed minimum parameters. This information should be useful to the Commission as it evaluates whether allowing P.M. settlement for EOWs, EOMs, and WEDs has resulted in increased market and price volatility in the underlying component stocks, particularly at expiration. The Pilot information should help the Commission and CBOE assess the impact on the markets and determine whether changes to these programs are necessary or appropriate. Furthermore, the Exchange's ongoing analysis of the Pilot should help it monitor any potential risks from large P.M.-settled positions and take appropriate action if warranted.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[26] that the proposed rule change (SR-CBOE-2015-106) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[27]

Robert W. Errett
Deputy Secretary

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[26] 15 U.S.C. 78s(b)(2).

[27] 17 CFR 200.30-3(a)(12).