(SECURITIES AND EXCHANGE COMMISSION)
(Release No. 34-78531; File No. SR-CBOE-2016-046)

August 10, 2016

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving a Proposed Rule Change to Expand the Nonstandard Expirations Pilot Program to Include Monday Expirations

I. Introduction

On June 14, 2016, 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 Monday of the month. The proposed rule change was published for comment in the Federal Register on June 28, 2016.[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 its existing Nonstandard Expirations 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 month, other than the third

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 78132 (June 22, 2016), 81 FR 42018 (June 28, 2016) ("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. 76909 (January 14, 2016), 81 FR 3512 (January 21, 2016) (SR-CBOE-2015-106) (order approving an expansion and extension of the Pilot) ("WED Approval Order"). The Pilot is currently set to expire on May 3, 2017. See id.

Friday-of-the-month ("EOW"), (b) the last trading day of the month ("EOM"), and (c) any Wednesday of the month, other than a Wednesday that coincides with an EOM ("WED").[5] Under the proposal, the Exchange will expand the Pilot to permit P.M.-settled options on broad-based indexes to expire on any Monday of the month other than Mondays that coincide with an EOM ("Monday Expirations"). The Exchange also proposes to reorganize the rules relating to existing EOW and WED expirations together with the proposed Monday Expirations into a new category called "Weekly Expirations."[6]

A. Monday Expirations

The Exchange's proposed rule change will allow it to open for trading Monday Expirations on any broad-based index eligible for standard options trading to expire on any Monday of the month, other than a Monday that is EOM.[7] Monday Expirations 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, Monday Expirations on the same broad-based index will be aggregated with option contracts on the same broad-based index for

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5 EOWs, EOMs, and WEDs are permitted on any broad-based index that is eligible for regular options trading. EOWs, EOMs, and WEDs 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 conforming changes to CBOE Rule 24.9(e)(2), which the Exchange represents are non-substantive in nature. See Notice, supra note 3, at n. 6.

7 See proposed CBOE Rule 24.9(e)(1).

8 See id.

9 See Notice, supra note 3, at 42019.

position limits, if any, and any applicable reporting and other requirements.[10] Contract terms for Monday Expirations will be similar to the current EOWs and WEDs, as described below.[11]

B. Weekly Expirations

The proposal would eliminate the designations "EOW" and "WED" but preserve the existing concepts of EOWs and WEDs by combining them with the proposed Monday Expirations into a new category, Weekly Expirations. The maximum number of expirations that may be listed for Weekly Expirations (including the proposed Monday Expirations) is the same as the maximum number of expirations permitted in CBOE Rule 24.9(a)(2) for standard options on the 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 Weekly Expirations 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 Weekly Expirations (including the proposed Monday Expirations) expire on consecutive Mondays, Wednesdays, or Fridays, as applicable.[13] Further, a new group of Weekly Expirations (including the proposed Monday Expirations) 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.[14]

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[10] See proposed CBOE Rule 24.4(b).

[11] See Notice, supra note 3, at 42019.

[12] See proposed CBOE Rule 24.9(e)(1).

[13] See id.

[14] See id.

With respect to listing, if the last trading day of a month falls on a day on which the exchange would normally list an EOM and a Weekly Expiration (including the proposed Monday Expirations), the Exchange will list an EOM and not a Weekly Expiration.[15]

Finally, the exchange proposes to address the expiration of Weekly Expirations on days that the Exchange is not open for business: if the exchange is not open for business on a respective Monday, the normally Monday-expiring Weekly Expirations will expire on the following business day. If the Exchange is not open for business on a respective Wednesday or Friday, the normally Wednesday- or Friday-expiring Weekly Expirations will expire on the previous business day.[16]

C. Annual Pilot Program Report

The Exchange has previously undertaken to submit 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 the proposed Monday Expirations (encompassed by the proposed Weekly Expirations category) as is currently provided for EOW, EOM, and WED expirations.[17]

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.[18] In particular, the

15 See id.

16 See id.

17 See Notice, supra note 3, at 42020-21.

18 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).

Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[19] 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.

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[20] and expanding it to include WEDs,[21] 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.[22] In 2010, the Commission approved CBOE's listing of P.M.-settled FLEX options on a pilot basis.[23] The

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19 15 U.S.C. 78f(b)(5).

20 See Pilot Approval Order, supra note 4.

21 See WED Approval Order, supra note 4.

22 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).

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

Commission also approved the listing of P.M.-settled SPX index options on a pilot basis.[24]

The Commission believes that it is appropriate to approve the Monday Expirations proposal (as encompassed by the proposed Weekly Expirations category) on a pilot basis in order to allow the Exchange to gain experience with the new Monday Expirations and collect data concerning Monday Expirations. The addition of Monday Expirations would offer additional investment options to investors and may be useful for their investment or hedging objectives, including the ability to hedge over-the-weekend risk. 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, including the new Monday Expirations in the Pilot should allow for both the Exchange and the Commission to continue monitoring 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 EOMs and Weekly Expirations (including the proposed Monday Expirations), which will also contain information and analysis of EOMs and Weekly Expirations trading patterns and index price volatility and share trading activity for series that

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24 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).

exceed minimum parameters. This information should be useful to the Commission as it evaluates whether allowing P.M. settlement for EOMs and Weekly Expirations 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,[25] that the proposed rule change (SR-CBOE-2016-046) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[26]

Robert W. Errett
Deputy Secretary

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25 15 U.S.C. 78s(b)(2).

26 17 CFR 200.30-3(a)(12).