

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81879; File No. SR-CBOE-2017-065)

October 16, 2017

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to List and Trade S&P Select Sector Index Options

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 October 4, 2017, 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 and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 is proposing to amend certain rules in connection with listing S&P Select Sector Indexes under generic narrow-based listing standards.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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

The purpose of this proposed rule change is to amend certain rules in connection with the Exchange’s plans to list and trade ten S&P Select Sector Index options.

Each S&P Select Sector Index represents the performance of companies that are components of the Standard & Poor’s 500 Index (“S&P 500”) within one of the following sectors (each of which is referred to as a “S&P Select Sector Index”):

<u>Sector</u>	<u>Symbol⁵</u>	<u>Number of Components</u>
Financial	IXM	66
Energy	IXE	32
Technology	IXT	72
Health Care	IXV	61
Utilities	IXU	28
Consumer Staples	IXR	35

⁵ These symbols represent the index. The corresponding option symbols are SIXM, SIXE, SIXT, SIXV, SIXU, SIXR, SIXI, SIXY, SIXB, and SIXRE, respectively.

Industrials	IXI	68
Consumer Discretionary	IXY	85
Materials	IXB	26
Real Estate	IXRE	32

Each constituent of a Select Sector Index is a constituent of the S&P 500, and each Select Sector index is a subindex of the S&P 500. S&P Dow Jones Indices⁶ assigns constituents to a S&P Select Sector Index based on the constituent's classification under a global industry classification standard. S&P Dow Jones Indices monitors and maintains each Select Sector Index and rebalances each S&P Select Sector Index quarterly.

Initial and Maintenance Listing Criteria

Each S&P Select Sector Index meets the definition of a narrow-based index as set forth in Rule 24.1(i)(2) (an index designed to be representative of a particular industry or a group of related industries and include indices having component securities that are all headquartered with in a single country). Additionally, each S&P Select Sector Index option satisfies the initial listing criteria of a narrow-based index, as set forth in Rule 24.2(b):

- (1) options will be A.M.-settled;
- (2) the index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities (the S&P Select Sector Indexes are modified capitalization-weighted);
- (3) each component security has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that

⁶ S&P Dow Jones Indices is the reporting authority for the S&P Select Sector Indexes. See proposed Rule 24.1, Interpretation and Policy .01.

in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least \$50 million;

- (4) trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;
- (5) in a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;
- (6) no single component security represents more than 25% 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 50% (60% for an index consisting of fewer than 25 component securities) of the weight of the index;
- (7) component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Rule 5.3 applicable to individual underlying securities;
- (8) all component securities are “reported securities” as defined in Rule 11A a3-1 under the Exchange Act;

- (9) non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;
- (10) the current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;
- (11) an equal dollar-weighted index will be rebalanced at least once every calendar quarter; and
- (12) if an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected a “Chinese Wall” around its personnel who have access to information concerning changes in and adjustments to the index.

The S&P Select Sector Index options will be subject to the maintenance listing standards set forth in Rule 24.2(c):

- (1) the conditions stated in (1), (3), (6), (7), (8), (9), (10), (11) and (12) above must continue to be satisfied, provided that the conditions stated in (6) above must be satisfied only as of the first day of January and July in each year;
- (2) the total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;
- (3) trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than

10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months; and

- (4) in a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.⁷

Expiration Months, Settlement, and Exercise Style

Consistent with existing rules for certain index options, the Exchange will allow up to twelve near-term expiration months.⁸ The Exchange elects to have the ability to list up to twelve near-term expiration months, as that is the same amount the Rules permit for options on the S&P 500 (“SPX options”). The S&P Select Sector Indexes, in the aggregate, consist of the same components as the S&P 500, as discussed above. Because of the relation [sic] between the S&P Select Sector Indexes and the S&P 500, which will likely result in market participants’ investment and hedging strategies consisting of options over both, the Exchange believes it is appropriate to permit the same number of monthly expirations for S&P Select Sector Index options as SPX options.

⁷ As is the case with other index options authorized for listing and trading on CBOE, in the event a S&P Select Sector Index fails to satisfy the maintenance listing standards, the Exchange will not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Securities and Exchange Commission (the “Commission”) under Section 19(b)(2) of the Securities and Exchange Act (the “Act”).

⁸ See proposed Rule 24.9(a)(2).

The S&P Select Sector Index options will be A.M., cash-settled contracts with European-style exercise.⁹ A.M.-settlement is consistent with the generic listing criteria for industry-based indexes¹⁰ (as well as broad-based indexes¹¹), and thus it is common for index options to be A.M.-settled. The Exchange proposes to amend Rule 24.9(a)(4) to add the S&P Select Sector Index options to the list of other A.M.-settled options. Standard third-Friday SPX options are A.M.-settled. European-style exercise is consistent with many index options, as set forth in Rule 24.9(a)(3). Standard third-Friday SPX options are A.M.-settled with European-style exercise. The Exchange proposes to amend Rule 24.9(a)(3) to add S&P Select Sector Index options to the list of other European-style index options. Because of the relation between the S&P Select Sector Indexes and the S&P 500, which will likely result in market participants' investment and hedging strategies consisting of options over both, the Exchange believes it is appropriate to list S&P Select Sector Index options with the same settlement and exercise style as SPX options.

Appointment Costs

The Exchange proposes a Market-Maker appointment cost of .001 for each S&P Select Sector Index option, and each will have a Market-Maker appointment cost of .001.¹² The Exchange determines appointment costs of Tier AA classes based on several factors, including, but not limited to, competitive forces and trading volume. The Exchange believes the proposed

⁹ See proposed Rule 24.9(a)(3)(cxiv) through (cxxxiii).

¹⁰ See Rule 24.2(b)(1).

¹¹ See Rule 24.2(f)(2).

¹² See proposed Rule 8.3(c)(i). S&P Select Sector Index Options will be in Tier AA (as are other S&P index options). While the appointment costs of Tier AA classes are not subject to quarterly rebalancing under Rule 8.3(c)(iv), the Exchange regularly reviews the appointment costs of Tier AA classes to ensure that they continue to be appropriate. The Exchange determines appointment costs of Tier AA classes based on several factors, including, but not limited to, competitive forces and trading volume.

initial appointment cost for each S&P Select Sector Index option will foster competition by incentivizing Market-Makers to obtain an appointment in these newly listed options, which may increase liquidity in the new classes.

Capacity

CBOE has analyzed its capacity and represents that it believes the Exchange and 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 S&P Select Sector Index options up to the proposed number of possible expirations. Because the proposal is limited to ten classes, the Exchange believes any additional traffic that would be generated from the introduction of S&P Select Sector Index options would be manageable.

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.¹³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁴ 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

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)¹⁵ 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 that the proposed rule change will further the Exchange's goal of introducing new and innovative products to the marketplace. Currently, the Exchange believes that there is unmet market demand for exchange-listed security options listed on these ten popular cash indexes. Sector SPDRs and E-mini S&P Select Sector future products are listed and traded on other exchanges. As a result, CBOE believes that S&P Select Sector Index options are designed to provide different and additional opportunities for investors to hedge or speculate on the market risk associated with the S&P Select Sector Indexes by listing an option directly on these indexes.

The S&P Select Sector Index options satisfy the initial listing standards for narrow-based indexes in the Exchange's current rules. The proposed rule change merely adds the S&P Select Sector Indexes to the table regarding reporting authorities for indexes, to the rule regarding number of permissible expirations, to the list of European-style exercise index options, and to the list of A.M.-settled index options. These changes are consistent [sic] existing rules and index options currently authorized and listed for trading on the Exchange. The Exchange notes, with respect to these changes, standard third-Friday SPX options (which overly the S&P 500, which consist of the same components as the S&P Select Sector Indexes in the aggregate) currently have the same reporting authority, the same number of permissible expirations, the same settlement, and the same exercise style. The Exchange has observed no trading or capacity issues in SPX trading given the number of permissible expirations, a.m. settlement, and European-style exercise. Because of the relation between the S&P Select Sector Indexes and the

¹⁵ Id.

S&P 500, which will likely result in market participants' investment and hedging strategies consisting of options over both, the Exchange believes it is appropriate to have the same number of expiration, settlement, and exercise style for both. The Exchange also represents that it has the necessary systems capacity to support the new option series given these proposed specifications.

The Exchange believes the proposed initial low appointment cost for each S&P Select Sector Index option promotes competition and efficiency by incentivizing more Market-Makers to obtain an appointment in the newly listed classes. The Exchange believes this may result in liquidity and competitive pricing in these classes, which ultimately benefits investors. The proposed rule change does not result in unfair discrimination, as the appointment cost will apply to all Market-Makers in these classes.

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. S&P Select Sector Indexes satisfy initial listing standards set forth in the Rules, and the proposed number of expirations, settlement, and exercise style are consistent with current rules applicable to index options, including standard third-Friday SPX options. Because of the relation [sic] between the S&P Select Sector Indexes and the S&P 500, which will likely result in market participants' investment and hedging strategies consisting of options over both, the Exchange believes it is appropriate to have the same number of expirations, settlement, and exercise style for both options. S&P Select Sector Index options will provide investors with different and additional opportunities to hedge or speculate on the market associated with the S&P Select Sector indexes.

The Exchange believes the proposed initial low appointment cost for each S&P Select Sector Index option promotes competition and efficiency by incentivizing more Market-Makers to obtain an appointment in the newly listed classes. The Exchange believes this may result in liquidity and competitive pricing in these classes, which ultimately benefits investors. The proposed rule change does not result in unfair discrimination, as the appointment cost will apply to all Market-Makers in these classes.

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁶ and Rule 19b-4(f)(6)¹⁷ thereunder.¹⁸ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(6).

¹⁸ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or 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-2017-065 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2017-065. 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-2017-065 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.¹⁹

Eduardo A. Aleman
Assistant Secretary

¹⁹ 17 CFR 200.30-3(a)(12).