

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83583; File No. SR-CBOE-2018-048)

July 2, 2018

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 24.6, Days and Hours of Business Concerning Expiring MSCI EAFE Index Options and MSCI Emerging Markets 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 June 25, 2018, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) 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 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 proposes to amend Rule 24.6.

(additions are underlined; deletions are [bracketed])

* * * * *

Cboe Exchange, Inc.
Rules

* * * * *

Rule 24.6. Days and Hours of Business

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).

(a) – (b) (No change).

. . . Interpretations and Policies:

.01 – .04 (No change).

.05 On their last trading day, [transactions in expiring MSCI EAFE Index options may be effected on the Exchange between the hours of 8:30 a.m. (Chicago time) and 3:00 p.m. (Chicago time), and] transactions in expiring FTSE Developed Europe Index options may be effected on the Exchange between the hours of 8:30 a.m. (Chicago time) and the close of the London Stock Exchange (usually 10:30 a.m. Chicago time). The last day of trading for expiring MSCI EAFE Index options series and MSCI Emerging Markets Index options series will be the business day prior to the expiration date of the specific series.

.06 (No change).

* * * * *

The text of the proposed rule change is 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

The proposed rule change modifies the last trading day for options that overlie the MSCI EAFE Index and the MSCI Emerging Markets Index (“EAFE options” and “EM options,” respectively). Pursuant to Rule 24.6(a), the trading hours for EM options are from 8:30 a.m. to 3:15

p.m. Chicago time, including on their expiration date. Pursuant to Rule 24.6(a) and Interpretation and Policy .05, the trading hours for EAFE options are from 8:30 a.m. to 3:15 p.m. Chicago time, except trading in expiring EAFE options will end at 3:00 p.m. on their expiration date. The proposed rule change states the last trading day for expiring EAFE options series and EM options series will be the business day prior to the expiration date of the specific series.

EAFE and EM options are p.m.-settled, which means the exercise settlement value of an expiring option is derived from the closing prices of the underlying components on the series expiration date. The MSCI EAFE Index consists of components from 21 countries, and the MSCI Emerging Markets Index consists of components from 24 countries. Because the components of each of these indexes encompass multiple markets around the world, the components are subject to varying trading hours. For the MSCI EAFE Index, the first components open trading at approximately 5:00 p.m. Chicago time on the prior trading day, and the last components end trading at approximately 11:30 a.m. Chicago time. Similarly, for the MSCI Emerging Markets Index, the first components open trading at approximately 6:00 p.m. Chicago time (on the prior trading day), and the last components end trading at approximately 3:30 p.m. Chicago time.

Expiring EAFE options and EM options currently trade on their expiration dates through 3:00 p.m. and 3:15 p.m. Chicago time, respectively. However, trading in various components ends prior to the beginning of EAFE options and EM options regular trading hours (i.e. 8:30 a.m. Chicago time).⁵ As a result, the closing prices of those components, which are used to determine the exercise settlement value, were determined prior to the time when the expiring options may begin trading on the expiration date. This increases the risk of providing liquidity in these products on that date. Generally, the prices of futures on the MSCI EAFE and EM indexes can

⁵ Trading in the other components ends at various times throughout the trading day in Chicago.

be a proxy for the current level of the applicable index when options on those indexes are trading on the Exchange while the index level is not being disseminated. However, that is not the case on options' expiration dates, as the prices that will be used to determine the exercise settlement value are fixed once trading in the components ends, and thus futures trading prices after trading in those components end have no bearing on the exercise settlement value. Therefore, the Exchange believes it is appropriate to stop trading in expiring EAFE and EM options on the business day prior to the expiration date. Pursuant to Rule 24.6(a), on their last day of trading (the trading day prior to the expiration date, as proposed), EAFE and EM options will trade from 8:30 a.m. through 3:15 p.m. Chicago time.

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.⁶ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁷ 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

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)⁸ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange has observed reduced liquidity on expiration dates of expiring EAFE and EM series due to the pricing risk associated with providing liquidity after the components whose closing prices will be used to determine the exercise settlement value of expiring options have stopped trading. Market-Makers and other liquidity providers generally price EAFE and EM options using the disseminated index values and data from the markets on which the components trade. As noted above, when these markets are not trading during U.S. trading hours, these liquidity providers price the options using prices of futures trading on the MSCI EAFE and EM indexes. While those futures prices can serve as a proxy for the index value, they cannot serve as a proxy for the settlement value on the expiration date for the options. This is because the futures pricing is intended to represent the then-current index value, but does not incorporate the closing prices of the components that will be used to determine the settlement value. This creates risk for Market-Makers and other liquidity providers, as they have no data they can use to price the expiring options based on the ultimate settlement value. This may result in trades at prices inconsistent with the settlement value of those options. The proposed rule change removes impediments to and perfects the mechanism of a free and open market by eliminating this pricing risk for liquidity providers on the last trading day of expiring series in these products. The Exchange believes this may encourage additional liquidity providers to participate on the last trading of expiring series, which may provide more competitive pricing and additional trading opportunities for expiring series, and ultimately benefits investors.

⁸

Id.

Other options stop trading on the business day preceding expiration. For example, the last day of trading for non-volatility a.m.-settled index options is the business day preceding the expiration date.⁹

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

Cboe Options 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. The proposed rule change will apply to all market participants that trade EAFE and EM options. As discussed above, the proposed rule change may eliminate a pricing risk for Market-Makers and other liquidity providers, which may provide more competitive pricing and additional trading opportunities for expiring series and ultimately benefit investors. The proposed rule change applies to EAFE and EM options, which only trade on Cboe Options. Other options stop trading on the business day preceding expiration.

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 Act¹⁰ and Rule 19b-4(f)(6)¹¹ thereunder.

⁹ Cboe Options Rule 24.9(a)(4).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

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 Commission takes such action, the Commission shall 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-2018-048 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-2018-048. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹¹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change along with a brief description and the text of 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.

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, DC 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2018-048 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.¹²

Eduardo A. Aleman
Assistant Secretary

¹² 17 CFR 200.30-3(a)(12).