

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99655; File No. SR-CBOE-2024-006)

March 1, 2024

Self-Regulatory Organizations; Cboe Exchange, Inc.; Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to List and Trade Options That Overlie a Reduced Value of the MSCI World Index, the Full Value of the MSCI ACWI Index, and a Reduced Value of the MSCI USA Index

I. Introduction

On January 10, 2024, Cboe Exchange, Inc. (“Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 list and trade options that overlie a reduced value of the MSCI World Index, the full value of the MSCI ACWI Index, and a reduced value of the MSCI USA Index. On January 17, 2024, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced the initial filing in its entirety. The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on January 29, 2024.³ The Commission did not receive any comments on the proposed rule change. As discussed further below, the Commission is approving the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposal

The Exchange proposes to list and trade options that overlie, respectively, a reduced value of the MSCI World Index (“MXWLD options”), the full value of the MSCI ACWI Index (“MXACW options”), and a reduced value of the MSCI USA Index (“MXUSA options”). Each

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 99416 (January 23, 2024), 89 FR 5589 (“Notice”). In Amendment No. 1, the Exchange revised its initial proposal such that the last trading day for MSCI USA Index options would be the expiration date of the specific series. See id. at 5589 n. 3.

of these indexes is a free float-adjusted market capitalization index designed to measure equity market performance. The Exchange states that these three indexes are calculated by MSCI, Inc. (“MSCI”) in U.S. dollars on a real-time basis from the open of the first market on which the components are traded to the closing of the last market on which the components are traded.⁴ According to the Exchange, the methodology used to calculate each index is similar to the methodology used to calculate the value of other benchmark market-capitalization weighted indexes, including the MSCI EAFE and EM Indexes, on which the Exchange currently may list options.⁵

The MSCI World Index is designed to measure the equity performance of developed markets; specifically, it consists of large- and mid-cap component stocks from 23 developed markets, has 1,509 constituents, and covers approximately 85% of the free float-adjusted market capitalization in each country.⁶ The MSCI ACWI Index is designed to measure the equity performance of developed markets and emerging markets; specifically, it consists of large- and mid-cap component stocks from 23 developed markets and 24 emerging markets, has 2,946 constituents, and covers approximately 85% of the global investment opportunity set.⁷ The MSCI USA Index is designed to measure the equity performance of large- and mid-cap segments of the U.S. market, has 625 constituents, and covers approximately 85% of the free float-adjusted market capitalization in the United States.⁸ There are exchange traded funds (“ETF(s)”) and

⁴ See Notice, supra note 3, at 5589.

⁵ See id. The Commission previously approved the listing and trading of options on the MSCI EAFE Index (“EAFE options”) and the MSCI EM Index (“EM options”). See Securities Exchange Act Release No. 74681 (April 8, 2015), 80 FR 20032 (April 14, 2015) (SR-CBOE-2015-023).

⁶ See Notice, supra note 3, at 5590.

⁷ See id.

⁸ See id.

futures contracts overlying each of these indexes, and there are options overlying the MSCI World and MSCI ACWI ETFs that are listed on the Exchange and actively traded.⁹

The Exchange proposes to list MXWLD and MXUSA options based on 1/100th of the value of the respective underlying index. According to the Exchange, listing these proposed options on a reduced value of the underlying index will attract a greater source of customer business than if options were based on the full value of the index.¹⁰ The Exchange states that listing these proposed options on a reduced value of the index may enhance investors' opportunities to hedge, or speculate on, the market risk associated with the stocks comprising the index and, by reducing the value of the index, investors will be able to use this trading vehicle while extending a smaller outlay of capital.¹¹ Moreover, the Exchange states that this may attract additional investors, and, in turn, create a more active and liquid trading environment.¹²

The Exchange proposes to apply to each of the MSCI World, ACWI, and USA Index the same initial and maintenance listing criteria that currently apply to the MSCI EAFE and EM Indexes.¹³ The Exchange states that this is appropriate because each of the MSCI World, ACWI, and USA Index has a large number of component securities and is calculated based on the same methodology as the MSCI EAFE and EM Indexes.¹⁴ Consistent with the initial listing criteria, the Exchange proposes to list MXWLD, MXACW and MXUSA options on the Exchange as

⁹ See id. For more detail regarding the calculation of the MSCI World, ACWI, and USA Indexes, see id. at 5589-90.

¹⁰ See id. at 5590.

¹¹ See id.

¹² See id.

¹³ See proposed Exchange Rule ("Rule") 4.10(h) and (i); see also Notice, supra note 3, at 5590-91. The Exchange states that each of the MSCI World, ACWI, and USA Index satisfies the initial listing criteria set forth in Rule 4.10(h). See id. at 5590. The Commission previously approved this listing criteria when it approved the listing and trading of EAFE and EM options. See supra, note 5.

¹⁴ See id. at 5591.

p.m.-settled contracts, and the Exchange also proposes that these options be cash-settled with European-style exercise, all of which is consistent with other broad-based index options, including EAFE and EM options.¹⁵ The Exchange believes that it would be appropriate for MXWLD, MXACW, and MXUSA options to have the same settlement and exercise style as EAFE and EM options given that the indexes underlying all of these options are broad-based and calculated using the same methodology.¹⁶

The Exchange also proposes to amend Rules 4.12 (Dissemination of Information), 4.13 (Series of Index Options), 5.1 (Trading Days and Hours), 5.6 (Order Types, Order Instructions, and Times-in-Force),¹⁷ 8.31 (Position Limits for Broad-Based Index Options),¹⁸ and 8.35 (Position Limits for FLEX Options)¹⁹ to add relevant references to the MSCI World, ACWI, and USA Indexes. The Exchange states that the proposed MXWLD, MXACW, and MXUSA options would be subject to the same rules regarding trading hours, trading increments, number of permissible expirations, strike intervals, settlement, exercise style and position limits that apply

¹⁵ See *id.* at 5589, 5592.

¹⁶ See *id.* at 5592.

¹⁷ The Exchange states that Rule 5.6(c) permits Multi-Class Spread Orders, and that the Exchange proposes to add the MSCI World and ACWI Indexes, as well as corresponding ETFs and ETF option and index option combinations to the rule, as the Exchange has determined that these combinations create appropriate hedges. See *id.*

¹⁸ The Exchange proposes to apply a position limit of 50,000 contracts (with no restrictions) to MXWLD, MXACW, and MXUSA options, which is the same position limit that currently exists for many other broad-based index options, including EAFE and EM options. In addition, pursuant to Rule 8.42(b), the exercise limit for these options would be equivalent to the proposed position limit. See *id.* at 5593.

¹⁹ As proposed, the Exchange may authorize for trading FLEX options on the MSCI World, ACWI, and USA Indexes. See *id.* at 5592. The Exchange proposes to amend Rule 8.35(a)(6) to provide that, like FLEX options on the MSCI EAFE and EM Indexes, the position limits for FLEX options on the MSCI World, ACWI, and USA Indexes are equal to the position limits for the non-FLEX options on these indexes (which is 50,000 contracts, as proposed). In addition, pursuant to Rule 8.42(g), the exercise limit for FLEX options on the MSCI World, ACWI, and USA Indexes would be equivalent to the FLEX option position limit. See *id.* at 5593 n.38.

to currently-listed, broad-based index options, including EAFE and EM options.²⁰

As proposed, the last trading day for expiring MXUSA options would be the day of expiration, and, as noted above, MXUSA options would be p.m.-settled. The MSCI USA Index is comprised of components solely from the United States, which trade from 9:30 a.m. to 4:00 p.m. (Eastern time), and which would trade during that time period on the expiration date of the proposed MXUSA options. The Exchange states that allowing options to trade on their day of expiration would provide investors with the ability to modify their positions in response to changes in the prices of the underlying index components that will impact the settlement values of those options. The Exchange further states that this is the case for other p.m.-settled options overlying broad-based index options comprised solely of U.S. components.²¹

As proposed, and as is the case for EAFE and EM options, the last trading day for expiring MXWLD and MXACW options would be the business day prior to the expiration date of the specific series, and, as noted above, MXWLD and MXACW options would be p.m. settled. The Exchange states that, because the index components underlying these proposed options encompass multiple markets around the world, the components are subject to varying trading hours and trading in various components would end prior to the beginning of regular trading hours at 9:30 a.m. (Eastern time) for MXWLD and MXACW options.²² As a result, the closing prices of those components, which are used to determine the exercise settlement value,

²⁰ See *id.* at 5591-93, 5594, n.51 (citing Rules 4.13(a)(2), (a)(3), (b), (c), (e), Interpretation and Policy .01, and Interpretation and Policy .06; 5.1(b)(2), 5.3(a), 5.4, and 8.31).

²¹ See *id.* at 5591, 5594, n.50.

²² See *id.* at 5591. The Exchange states, by way of example, that some components end trading at 10:45 pm (Eastern time) on the prior trading day, and trading in other components ends at various times before and during the U.S. trading day. See *id.* at 5591 n.29. In addition, the Exchange states that the components of each of these indexes open with the start of trading in certain parts of Asia at approximately 4:00 p.m. (Eastern time) (prior day) and close with the end of trading in North America at approximately 4:00 p.m. (Eastern time) (next day), as closing prices from North American countries are accounted for in the closing calculation. See *id.* at 5592.

would be determined prior to the time when the expiring options may begin trading on the expiration date, which would increase the risk associated with providing liquidity in these products on the expiration date. Therefore, the Exchange believes it is appropriate to stop trading in expiring MXWLW and MXACW options on the business day prior to the expiration date. Further, as with p.m. settlement for MXUSA options, the Exchange believes that p.m. settlement is appropriate for MXWLD and MXACW options because investors prefer to be able to trade out of positions during the entire final day of trading.²³

According to the Exchange, the proposed MXWLD, MXACW, and MXUSA options would be subject to the Exchange rules governing reporting requirements, margin requirements, customer accounts, and trading halts that already apply to other index options traded on the Exchange, such as EAFE and EM options.²⁴ With respect to reporting in particular, each Trading Permit Holder (“TPH”) or TPH organization that maintains positions in the options on the same side of the market, for its own account or for the account of a customer, must report certain information to the Exchange, including but not limited to the options’ positions, whether such positions are hedged and, if so, a description of the hedge(s).²⁵ In addition, the Exchange requires that TPHs file reports with the Exchange for any customer that held aggregate long or short positions on the same side of the market of 200 or more options contracts of any single class for the previous day.²⁶ With respect to margin, MXWLD, MXACW, and MXUSA options would be margined as “broad-based index” options.²⁷

²³ See id. at 5592.

²⁴ See id. at 5595.

²⁵ See id.

²⁶ See id.

²⁷ See id. at 5593; see also Rule 10.3(c)(5)(A).

The Exchange represents that it has an adequate surveillance program in place for MXWLD, MXACW, and MXUSA options, and that it intends to use the same surveillance procedures to monitor trading in these options as are currently utilized for the Exchange’s other index options.²⁸ The Exchange states that it is a member of the Intermarket Surveillance Group, along with numerous other self-regulatory bodies across the world, and also an affiliate member of the International Organization of Securities Commissions.²⁹ The Exchange further states that it has entered into comprehensive surveillance agreements and/or Memoranda of Understanding with various stock exchanges.³⁰ The Exchange also represents that it believes the Exchange and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle the additional message traffic associated with the listing of new series that would result from the introduction of MXWLD, MXACW, and MXUSA options.³¹ Further, the Exchange states that any additional message traffic that would be generated from the introduction of the MSCI World, ACWI, and USA Index options would be manageable because the proposal is limited to three classes.³² The Exchange also represents that it has observed no trading or capacity issues in EAFE or EM options.³³

III. Discussion and Commission’s Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6 of the Act.³⁴ Specifically, the Commission finds

²⁸ See Notice, supra note 3, at 5593.

²⁹ See id.

³⁰ See id.

³¹ See id.

³² See id.

³³ See id. at 5594.

³⁴ 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).

that the proposed rule change is consistent with Section 6(b)(1) of the Act,³⁵ which requires, among other things, that the Exchange to be so organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by its members and persons associated with its members with the provisions of the Act, Commission rules and regulations thereunder, and its own rules. The Commission also finds that the proposed rule change is consistent with Section 6(b)(5) of the Act³⁶ in that the proposal is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

Permitting the trading of options on an index of securities enables investors to participate in the price movements of the index's underlying securities and allows investors holding positions in some or all such securities to hedge the risks associated with their portfolios. The Commission believes that the Exchange's proposal to permit the listing and trading of MXWLD, MXACW, and MXUSA options could benefit investors by providing them with additional investment and hedging alternatives. These three proposed products will provide investors with options instruments on broad-based indexes that are composed of actively traded, well-capitalized stocks, and that are designed to measure the performances of developed, emerging, and domestic U.S. equity markets. Further, offering options on a reduced value of each of the MSCI World and USA Index could benefit investors, as it may attract a greater source of customer business than if these options were based on the full value of those indexes.³⁷

³⁵ 15 U.S.C. 78f(b)(1).

³⁶ 15 U.S.C. 78f(b)(5).

³⁷ The Commission notes that the Exchange already lists certain options on reduced index values. See Rule 4.10.

Moreover, the listing and trading of the proposed MXWLD, MXACW, and MXUSA options does not raise unique regulatory concerns. Options on broad-based, MSCI indexes are not novel. The Exchange currently lists options on the MSCI EAFE and EM Indexes, which, like the indexes underlying the options proposed here, are broad-based and composed of actively traded, well-capitalized stocks.³⁸ The proposed MXWLD, MXACW, and MXUSA options will be subject to the same initial and maintenance listing criteria that already have been approved for EAFE and EM options as well as other broad-based index options. In addition, these proposed options will be subject to the same rules regarding, among other things, margin, sales practices, reporting, trading hours, trading increments, number of permissible expirations, strike intervals, settlement, exercise style, and position and exercise limits that apply to other currently-listed broad-based index options, including EAFE and EM options.³⁹ Further, there are ETFs and futures contracts overlying the same indexes that underlie the options proposed here, and options overlying two of those ETFs are listed on the Exchange and actively traded.

The Exchange's listing standards require the Exchange to reasonably believe that it has adequate system capacity to support the trading of MXWLD, MXACW, and MXUSA options. As noted above, the Exchange represents that it believes it and the OPRA have the necessary systems capacity to handle the additional message traffic associated with the listing of new series

³⁸ See supra, note 5.

³⁹ As with EAFE and EM options, MXWLD and MXACW options' last trading day will be the business day prior to expiration. The components of the MSCI World and ACWI Indexes encompass non-U.S. markets with varying trading hours that are not coterminous with U.S. market trading hours. As a result, index component securities may not trade on the MXWLD and MXACW options' expiration date, which could introduce pricing risk for option liquidity providers on the expiration date. See Notice, supra note 3, at 5591, 5594 and n. 52; see also Rule 5.1(b)(2)(E). As with most broad-based, p.m.-settled index options listed on the Exchange, MXUSA options' last trading day will be the day of expiration. All of the MSCI USA Index components trade on U.S. markets, and permitting MXUSA options to trade on their expiration date would allow liquidity providers to update the prices of expiring options in response to expiration date changes in the prices of the index components. See Notice, supra note 3, at 5591, 5594 and n. 53; see also Rule 5.1(b)(2)(C).

that would result from the introduction of MXWLD, MXACW, and MXUSA options. In addition, the Exchange has observed no trading or capacity issues in EAFE or EM option trading.⁴⁰

In light of the foregoing, the Commission believes that the proposal is consistent with Section 6(b)(5) of the Act in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

Finally, as a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,⁴¹ to be organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by its members and persons associated with its members with the provisions of the Act, Commission rules and regulations thereunder, and its own rules. As noted above, the Exchange represents that it has an adequate surveillance program in place for MXWLD, MXACW, and MXUSA options and intends to monitor their trading using the same surveillance procedures currently utilized for the Exchange's other index options.⁴² The Exchange also represents that the existing surveillance procedures and reporting requirements at the Exchange and other self-regulatory organizations are capable of properly identifying disruptive and/or manipulative trading activity that may arise from listing and trading MXWLD, MXACW, and MXUSA options.⁴³ Further, the Exchange represents that it conducts reviews to identify potential changes in composition of the underlying indexes and continued compliance with the Exchange's listing standards, that it conducts daily monitoring of market activity via

⁴⁰ See Notice, supra note 3, at 5594.

⁴¹ 15 U.S.C. 78f(b)(1).

⁴² See Notice, supra note 3, at 5593.

⁴³ See supra, notes 28-32 and accompanying text.

automated surveillance techniques to identify unusual activity in both options and the underlying indexes, as applicable, and that it believes these procedures—which it will employ for MXWLD, MXACW and MXUSA options—have been effective for the surveillance of trading of other broad-based index options, including EAFE and EM options.⁴⁴

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁴⁵ that the proposed rule change (SR-CBOE-2024-006), as modified by Amendment No. 1, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁶

J. Matthew DeLesDernier,

Deputy Secretary.

⁴⁴ See Notice, *supra* note 3, at 5595.

⁴⁵ 15 U.S.C. 78s(b)(2).

⁴⁶ 17 CFR 200.30-3(a)(12).