

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76626; File No. SR-CBOE-2015-100)

December 11, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; 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 FTSE 100 Index

I. Introduction

On October 30, 2015, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) 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 list and trade options that overlie a reduced value of the FTSE 100 Index. The proposed rule change was published for comment in the Federal Register on November 10, 2015.³ On December 10, 2015, the Exchange filed Amendment No. 1 to the proposed rule change.⁴ This order grants approval of the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade A.M. cash-settled, European-style options on the FTSE 100 Index.⁵ According to the Exchange, the FTSE 100 Index is a free float-adjusted

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 76353 (November 4, 2015), 80 FR 69751 (“Notice”).

⁴ Amendment No. 1 makes certain technical modifications to Exhibit 5 to reflect the current CBOE rulebook and to remove a reference to “(1/10th)” that was inadvertently included. It also revises rule text to make additional technical edits. As the changes made by Amendment No. 1 are technical in nature and do not materially alter the substance of the proposed rule change or raise any novel regulatory issues, Amendment No. 1 is not subject to notice and comment.

⁵ The Exchange proposes to list up to twelve near-term expiration months at any one time

market capitalization index that is designed to measure the performance of the 100 largest companies traded on the London Stock Exchange and valued in the British pound (“GBP”).⁶ The Exchange states that the index is monitored and maintained by FTSE International Limited (“FTSE”).⁷ Adjustments to the index could be made on a daily basis with respect to corporate events and dividends, and FTSE reviews the index quarterly.

According to the Exchange, the FTSE 100 Index is calculated and published in GBP on a real-time basis during United Kingdom and United States trading hours.⁸ The methodology used to calculate the FTSE 100 Index is similar to the methodology used to calculate the value of other benchmark market-capitalization weighted indexes.⁹ Real-time data is distributed at least every 15 seconds while the index is being calculated using FTSE’s real-time calculation engine to Bloomberg L.P. (“Bloomberg”), Thomson Reuters (“Reuters”) and other major vendors. End

for the FTSE 100 Index options. The Exchange also proposes to list up to ten expirations in Long-Term Index Option Series (LEAPS) on the reduced value of the FTSE 100 Index Options. The Exchange proposes that options on the FTSE 100 Index would be eligible for all other expirations permitted for other broad-based indexes (e.g., End of Week/End of Month Expirations, Short Term Option Series, and Quarterly Options Series). In addition, the Exchange proposes to designate the FTSE 100 Index as eligible for trading as FLEX options.

⁶ The Exchange states that the FTSE 100 Index meets the definition of a broad-based index as set forth in Exchange Rule 24.1(i)(1).

⁷ The Exchange proposes to designate FTSE as the reporting authority for the FTSE 100 Index.

⁸ The Exchange states that from 2:00 – 10:30 a.m. (Chicago time) the real-time index is calculated using real time prices of the securities. At 10:30 a.m. (Chicago time) the real time index closes using the closing prices from the London Stock Exchange. Thus, between 10:30 a.m. and 3:15 p.m. (Chicago time) the FTSE 100 Index level is a static value that market participants can access via data vendors.

⁹ Specifically, the FTSE 100 Index is governed by the Ground Rules for the FTSE UK Index Series. The level of the FTSE 100 Index reflects the free float-adjusted market value of the component stocks relative to a particular base date and is computed by dividing the total market value of the companies in the FTSE 100 Index by the index divisor. Further detail regarding this methodology can be found in the Notice, supra note 3, at n.5 and accompanying text.

of day data is distributed daily to clients through FTSE as well as through major quotation vendors, including Bloomberg and Reuters.

The Exchange proposes that trading hours for FTSE 100 Index options would be from 8:30 a.m. (Chicago time) to 3:15 p.m. (Chicago time).

The Exchange proposes that FTSE 100 Index options would expire on the third Friday of the expiration month.¹⁰ The exercise settlement value would be one-tenth (1/10th) of the value of the FTSE 100 Index calculated via an intra-day auction on the London Stock Exchange that is held on the morning of the expiration date (generally a Friday). The exercise settlement amount would be equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by the contract multiplier (\$100).¹¹ Exercise would result in delivery of cash on the business day following expiration.

The Exchange proposes to create specific initial and maintenance listing criteria for options on the FTSE 100 Index. Specifically, the Exchange proposes to add new Interpretation and Policy .02(a) to Rule 24.2 to provide that the Exchange may trade FTSE 100 Index options if each of the following conditions is satisfied: (1) the index is broad-based, as defined in Rule 24.1(i)(1); (2) options on the index are designated as A.M.-settled index options; (3) the index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted; (4) the index consists of 90 or more component securities; (5) each of the component securities of the index will have a market capitalization of greater than \$100 million; (6) no

¹⁰ According to the Exchange, when the last trading day/expiration date is moved because of an Exchange holiday or closure, the last trading day/expiration date for expiring options would be the immediately preceding business day.

¹¹ According to the Exchange, if the exercise settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value would be determined in accordance with the rules and bylaws of The Options Clearing Corporation.

single component security accounts for more than fifteen percent (15%) 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 fifty percent (50%) of the weight of the index; (7) non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the FTSE 100 Index; (8) during the time options on the index are traded on the Exchange, the current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors; however, the Exchange may continue to trade FTSE 100 options after trading in all component securities has closed for the day and the index level is no longer widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors, provided that FTSE 100 futures contracts are trading and prices for those contracts may be used as a proxy for the current index value; (9) the Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent System Capacity Advisor allocation and the number of new messages per second expected to be generated by options on such index; and (10) the Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

Additionally, the Exchange proposes to add new Interpretation and Policy .02(b) to Rule 24.2 to set forth the following maintenance listing standards for options on the FTSE 100 Index: (1) the conditions set forth in subparagraphs .02(a) (1), (2), (3), (4), (7), (8), (9) and (10) must continue to be satisfied, the conditions set forth in subparagraphs .02(a)(5) and (6) must be satisfied only as of the first day of January and July in each year; and (2) the total number of component securities in the index may not increase or decrease by more than ten percent (10%)

from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on the Exchange pursuant to Interpretation and Policy .02(b) fails to satisfy these maintenance listing standards, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Act.

The contract multiplier for the FTSE 100 Index options would be \$100. The FTSE 100 Index options would be quoted in index points and one point would equal \$100. The Exchange proposes that the minimum tick size for series trading below \$3 would be 0.05 (\$5.00), and at or above \$3 would be 0.10 (\$10.00). The Exchange also proposes that the strike price interval for FTSE 100 Index options would be no less than \$5, except that the strike price interval would be no less than \$2.50 if the strike price is less than \$200.

The Exchange proposes to apply the default position limits for broad-based index options of 25,000 contracts on the same side of the market (and 15,000 contracts near-term limit) to FTSE 100 Index options. All position limit hedge exemptions would apply. The exercise limits for FTSE 100 Index options would be equivalent to the position limits for those options. In addition, the Exchange proposes that the position limits for FLEX options on the FTSE 100 Index would be equal to the position limits for non-FLEX options on the FTSE 100 Index. The exercise limits for FLEX options on the FTSE 100 Index would be equivalent to the position limits for those options.

The Exchange states that, except as modified by the proposal, Exchange Rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB would equally apply to FTSE 100 Index options. The Exchange also states that FTSE 100 Index options would be subject to the same rules that currently govern other CBOE index options, including sales practice rules, margin

requirements,¹² and trading rules.¹³

The Exchange represents that it has an adequate surveillance program in place for FTSE 100 Index options and intends to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the proposed options. The Exchange also states that it is a member of the Intermarket Surveillance Group, is an affiliate member of the International Organization of Securities Commissions, and has entered into various comprehensive surveillance agreements and/or Memoranda of Understanding with various stock exchanges, including the London Stock Exchange. Finally, the Exchange represents that it believes it and the Options Price Reporting Authority ("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 FTSE 100 Index options.¹⁴

III. Discussion and Commission Findings

The Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁵ Specifically, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act,¹⁶ which requires, among other things, that the rules of a national securities exchange be designed to

¹² The Exchange states that FTSE 100 Index options would be margined as broad-based index options.

¹³ See, e.g., Exchange Rule Chapters IX (Doing Business with the Public), XII (Margins), IV (Business Conduct), VI (Doing Business on the Exchange Floor), VIII (Market-Makers, Trading Crowds and Modified Trading Systems), and XXIV (Index Options).

¹⁴ For a complete description of the Exchange's proposal, please see the Notice, supra note 3.

¹⁵ In approving this proposed rule change, as modified by Amendment No. 1, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁶ 15 U.S.C. 78f(b)(5).

prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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 believes that the listing and trading of FTSE 100 Index options will broaden trading and hedging opportunities for investors by providing an options instrument based on an index designed to measure the performance of the 100 largest companies traded on the London Stock Exchange.

Because the FTSE 100 Index is a broad-based index composed of actively-traded, well-capitalized stocks, the trading of options on the index does not raise unique regulatory concerns. The Commission believes that the listing standards, which are created specifically and exclusively for the index, are consistent with the Act, for the reasons discussed below.¹⁷

The Commission notes that proposed Interpretation and Policy .02 to Exchange Rule 24.2 would require that the FTSE 100 Index consist of 90 or more component securities. Further, for options on the FTSE 100 Index to trade, each of the minimum of 90 component securities would need to have a market capitalization of greater than \$100 million.

The Commission notes that the proposed listing standards for options on the FTSE 100 Index would not permit any single component security to account for more than 15% of the weight of the index, and would not permit the five highest weighted component securities to account for more than 50% of the weight of the index in the aggregate. The Commission

¹⁷ The Commission notes that it previously approved the listing and trading reduced value index options on the FTSE 100 Index on the Exchange, International Securities Exchange, Inc. and NYSE Arca, Inc. See Securities Exchange Act Release Nos. 29722 (September 23, 1991), 56 FR 49807 (October 1, 1991) (order approving SR-CBOE-91-07); 53484 (March 14, 2006) 71 FR 14268 (March 21, 2006) (order approving SR-ISE-2005-25); and 58008 (June 24, 2008) 73 FR 36945 (June 30, 2008) (order approving SR-NYSEArca-2008-61).

believes that, in view of the requirement on the number of securities in the index and on each security's market capitalization, this concentration standard is consistent with the Act. As noted above, the Exchange represents that it has an adequate surveillance program in place for FTSE 100 Index options and intends to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the proposed options.

The Commission notes that, consistent with the Exchange's generic listing standards for broad-based index options, non-U.S. component securities of the FTSE 100 Index that are not subject to comprehensive surveillance agreements will not, in the aggregate, represent more than 20% of the weight of the index.

The proposed listing standards require that, during the time options on the FTSE 100 Index are traded on the Exchange, the current index value is widely disseminated at least once every 15 seconds by one or more major market data vendors. However, the Exchange may continue to trade FTSE 100 Index options after trading in all component securities has closed for the day and the index level is no longer widely disseminated at least once every 15 seconds by one or more major market data vendors, provided that FTSE 100 futures contracts are trading and prices for those contracts may be used as a proxy for the current index value.¹⁸

In addition, the proposed listing standards require the Exchange to reasonably believe that it has adequate system capacity to support the trading of options on the FTSE 100 Index. As

¹⁸ The Exchange notes that, because trading in the components of the FTSE 100 Index starts at approximately 2:00 a.m. (Chicago time) and ends at approximately 10:30 a.m. (Chicago time), there will not be a current FTSE 100 Index level calculated and disseminated during a portion of the time when the FTSE 100 Index options would be traded (from approximately 10:30 a.m. (Chicago time) to 3:15 p.m. (Chicago time)). However, the Exchange states that the FTSE 100 Index futures contracts will be trading during this time period and that the futures prices would be a proxy for the current FTSE 100 Index level during this time period. The Exchange states that FTSE 100 Index futures contracts are listed for trading on the Chicago Mercantile Exchange Inc.

noted above, the Exchange represents that it believes it and the 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 FTSE 100 Index options.

As a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,¹⁹ 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 states that, except as modified by the proposal, Exchange Rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB would equally apply to FTSE 100 Index options. The Exchange also states that FTSE 100 Index options would be subject to the same rules that currently govern other CBOE index options, including sales practice rules, margin requirements, and trading rules.

The Commission further believes that the Exchange's proposed position and exercise limits, trading hours, margin, strike price intervals, minimum tick size, series openings, and other aspects of the proposed rule change, as modified by Amendment No. 1, are appropriate and consistent with the Act.

¹⁹ 15 U.S.C. 78f(b)(1).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁰ that the proposed rule change (SR-CBOE-2015-100), 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.²¹

Robert W. Errett
Deputy Secretary

²⁰ 15 U.S.C. 78s(b)(2).

²¹ 17 CFR 200.30-3(a)(12).