

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78132; File No. SR-CBOE-2016-046)

June 22, 2016

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Expand the Nonstandard Expirations Pilot Program

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 14, 2016, 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, II, and III below, which Items have been prepared by the Exchange. 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 seeks to amend Exchange Rules to expand the Nonstandard Expirations Pilot Program. The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 24.4. Position Limits for Broad-Based Index Options

(a) No change.

(b) Nonstandard Expirations [End of Week Expirations, End of Month Expirations, and Wednesday Expirations] (as provided for in Rule 24.9(e), QIXs, Q-CAPS, Packaged Vertical

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Spreads and Packaged Butterfly Spreads on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

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Rule 24.9. Terms of Index Option Contracts

(a) – (d) No change.

(e) Nonstandard Expirations Pilot Program

(1) Weekly Expirations. [End of Week ("EOW") Expirations.] The Exchange may open for trading Weekly Expirations [EOWs] on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). [of the month, other than the third Friday-of-the-month. EOWs] Weekly Expirations shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that [EOWs] Weekly Expirations shall be P.M.-settled.

The maximum number[s] of expirations that may be listed for [EOWs] each Weekly Expiration (i.e., a Monday expiration, Wednesday expiration, or Friday expiration, as applicable) in a given class is the same as the maximum number[s] of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. Other than expirations that are third Friday-of-the-month or that coincide with an EOM expiration, Weekly Expirations [EOW expirations] shall be for consecutive Monday, Wednesday, or Friday expirations as applicable. Weekly Expirations [EOWs] that are first listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Monday, Wednesday, or Friday and the Exchange lists EOMs and Weekly Expirations as applicable [EOWs] in a given class, the Exchange will list an EOM instead of a Weekly Expiration [an EOW] in the given class. Other expirations in the same class are not counted as part of the maximum numbers of Weekly Expirations [EOW] expirations for a broad-based index class. 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.

(2) End of Month ("EOM") Expirations. The Exchange may open for trading EOMs on any broad-based index eligible for standard options trading to expire on last trading day of the month. EOMs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that EOMs shall be P.M.-settled.

The maximum number[s] of expirations that may be listed for EOMs in a given class is the same as the maximum number[s] of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. EOM expirations shall be for consecutive end of month expirations. EOMs that are first listed in a given class may expire up to four weeks from the actual listing date. Other expirations in the same class are not counted as part of the maximum numbers of EOM expirations for a broad-based index class.

(3) [Wednesday ("WED") Expirations. The Exchange may open for trading WEDs on any broad-based index eligible for standard options trading to expire on any Wednesday of the month, other than a Wednesday that is EOM. WEDs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that WEDs shall be P.M.-settled.

The maximum numbers of expirations that may be listed for WEDs is the same as the maximum numbers of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index. Other than expirations that coincide with an EOM expiration, WED expirations shall be for consecutive Wednesday expirations. WEDs that are first listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Wednesday and the Exchange lists EOMs and WEDs in a given class, the Exchange will list an EOM instead of a WED in the given class. Other expirations in the same class are not counted as part of the maximum numbers of WED expirations for a broad-based index class.]

[(4)] Duration of Nonstandard Expirations Pilot Program. The Nonstandard Expirations Pilot Program shall be through May 3, 2017.

[(5)] (4) Weekly Expirations and EOM [EOW/EOM/WED] Trading Hours on the Last Trading Day. On the last trading day, transactions in expiring Weekly Expirations and EOMs [EOWs, EOMs, and WEDs] may be effected on the Exchange between the hours of 8:30 a.m. (Chicago time) and 3:00 pm (Chicago time).

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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

On September 14, 2010, the Commission approved a CBOE proposal to establish a pilot program under which 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 Friday-of-the-month ("EOWs"), and (b) the last trading day of the month ("EOM").³ On January 14, 2016, the Commission approved a CBOE proposal to expand the pilot program to list P.M.-settled options on broad-based indexes that expire on any Wednesday of the month ("WEDs").⁴

Under the terms of the Nonstandard Expirations Pilot Program (the "Pilot"), 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.

The purpose of this filing is to 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. To expand the Pilot as described, the Exchange is proposing to amend Rule 24.9(e)(1) to expressly provide the Exchange with the ability to list P.M.-settled options on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). The Exchange is also proposing to remove references to Wednesday Expirations in subparagraph (e)(3) because, as

³ See Securities Exchange Act Release No. 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (order approving SR-CBOE-2009-075).

⁴ See Securities Exchange Act Release No. 76909 (January 14, 2016), 81 FR 3512 (January 21, 2016) (order approving SR-CBOE-2015-106).

proposed, subparagraph (e)(1) would incorporate WEDs.⁵ Additionally, the Exchange is proposing to replace the term “EOWs” with the term “Weekly Expirations” as proposed Rule 24.9(e)(1) will include Monday and Wednesday expirations in addition to Friday expirations.

If the Exchange were to propose an extension of the Pilot or should the Exchange propose to make the Pilot permanent, then the Exchange would submit a filing proposing such amendments to the Pilot. Furthermore, any positions established under the Pilot would not be impacted by the expiration of the Pilot. For example, if the Exchange lists Weekly Expirations that expires after the Pilot expires (and is not extended) then those positions would continue to exist. However, any further trading in those series would be restricted to transactions where at least one side of the trade is a closing transaction.

Weekly Expirations that expire on Monday 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. Contract terms for Monday expirations will be similar to the current WEDs and EOWs.

The maximum number of expirations for Weekly Expirations in a given class⁶ that expire on Monday (or Wednesday and Friday as applicable) will be the same as the maximum numbers of expirations permitted in Rule 24.9(a)(2) for standard options on the same broad-based index, which is also the standard for the current WEDs and EOWs. Therefore, the maximum number of expirations permitted for all Weekly Expirations on a given class would be determined based on the specific broad-based index option class. For example, if the broad-based index option class is used to calculate a volatility index, the maximum number of Monday expirations (or

⁵ The Exchange notes that the only substantive change in this proposal is the expansion of the Pilot to Monday expirations.

⁶ The amendments to Rule 24.9(e)(2), including the addition of “in a given class” to the rule text, are non-substantive changes.

Wednesday and Friday expirations as applicable) permitted in that class would be 12 expirations (as is permitted in Rule 24.9(a)(2)).

For Weekly Expirations, CBOE proposes that other than expirations that coincide with an EOM expiration (or a third Friday-of-the-month expiration in the case of Friday expiring Weekly Expirations), the Weekly Expirations shall be for consecutive expirations. For example, if the Exchange determines to list a Weekly Expiration on an option to expire on Mondays, the expirations shall generally be for consecutive Mondays. However, as is the case of the current EOWs and WEDs, the Exchange is proposing that all Weekly Expirations that are first listed in a given class may expire up to four weeks from the actual listing date.⁷ It is generally the Exchange's practice to list new expirations in a class in a manner that allows market participants to trade a particular product for longer than a week. The Weekly Expirations are not designed to have a life cycle—from listing to expiration—of one week; instead, they are simply designed to expire weekly. Thus, consistent with the Exchange's listing practices as well as the rules currently applicable to EOWs and WEDs, this rule change will allow the Exchange to launch, for example, a Monday expiring option that does not expire on the Monday immediately following the actual listing date. For example, upon approval of this rule change, if the actual listing date of the first Monday expiring option in a class is Friday, June 3rd, the expiration date of the first Monday expiring option need not be Monday, June 6th; rather, the first expiration could be June 13th or a Monday thereafter. This is the current standard for EOWs, EOMs, and WEDs.

⁷ The purpose of these provisions is to prevent gaps in expirations. For example, the provision prevents the Exchange from listing a Monday expiring option to expire on Monday June 6th, then not listing a Monday expiring option to expire on June 13th, and then listing a Monday expiring option to expire on June 20th. The provision is not meant to prevent the Exchange from launching a new product and having the initial expiration dates be weeks from the initial launch.

CBOE also proposes to follow the listing hierarchy currently applicable to EOWs and EOMs. Thus, with regards to all Weekly Expirations, if the last trading day of a month falls on a day of the week on which the exchange lists both an EOM and a Weekly Expiration, the Exchange would list an EOM and not a Weekly Expiration. In other words, if the last trading day of a month is a Monday and the Exchange does not list EOMs in class ABC but does list a Monday expiring option in ABC, then the Exchange may list a Monday expiring option for the last trading day of the month in class ABC.

Additionally, in recognition of Monday expirations giving market participants the ability to hedge over the weekend risk, the Exchange proposes that 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. The Exchange is also taking the opportunity to set forth in the rules that 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. These aspects ensure that market participants have consistent Weekly Expirations and don't have a gap in expirations due to an Exchange holiday for example.

Finally, CBOE proposes to add that other expirations in the same class would not be counted as part of the maximum numbers of Weekly Expirations for a broad-based index class. CBOE states that this is the standard that currently applies to EOW, EOM, and WED options.⁸

CBOE has analyzed its capacity and represents that it believes the Exchange and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle any additional traffic associated with the listing of the maximum number of Monday expiring Weekly Expirations permitted under the Pilot.

⁸ See Rule 24.9(e)(1)-(3).

Position Limits

Since Monday expirations will be a new type of series and not a new class, the Exchange proposes that all Monday expirations (or Wednesday or Friday Expirations) on the same broad-based index (e.g., of the same class) shall be aggregated together with all other standard expirations for position limits (if any) and any applicable reporting and other requirements.⁹ The Exchange is proposing to amend Rule 24.4(b) to apply the aggregation requirement to all Nonstandard Expirations, which includes Weekly Expirations and EOMs. This proposed aggregation is consistent with the aggregation requirements applicable to the current EOWs, WEDs, and EOMs.¹⁰

Annual Pilot Program Report

As part of the Pilot, the Exchange currently submits a Pilot report to the Securities and Exchange Commission ("Commission") at least two months prior to the expiration date of the Pilot (the "annual report"). The annual report contains an analysis of volume, open interest and trading patterns. In addition, for series that exceed certain minimum open interest parameters, the annual report provides analysis of index price volatility and, if needed, share trading activity. The annual report will be expanded to provide the same data and analysis related to Monday expiring options that is currently provided for EOW, EOM, and WED expirations. The Pilot is currently set to expire on May 3, 2017. All annual reports will continue to be provided to the Commission on a confidential basis.

Analysis of Volume and Open Interest

⁹ See e.g., Rule 4.13, Reports Related to Position Limits and Interpretation and Policy .03 to Rule 24.4 which sets forth the reporting requirements for certain broad-based indexes that do not have position limits.

¹⁰ See Rule 24.4(b).

For all Weekly Expirations and EOM series, the annual report will contain the following volume and open interest data for each broad-based index overlying Weekly Expiration and EOM options:

- (1) Monthly volume aggregated for all Weekly Expiration and EOM series,
- (2) Volume in Weekly Expiration and EOM series aggregated by expiration date,
- (3) Month-end open interest aggregated for all Weekly Expiration and EOM series,
- (4) Month-end open interest for EOM series aggregated by expiration date and open interest for Weekly Expiration series aggregated by expiration date,
- (5) Ratio of monthly aggregate volume in Weekly Expiration and EOM series to total monthly class volume, and
- (6) Ratio of month-end open interest in EOM series to total month-end class open interest and ratio of open interest in each Weekly Expiration series to total class open interest.

Upon request by the SEC, CBOE will provide a data file containing: (1) Weekly Expiration and EOM option volume data aggregated by series, and (2) Weekly Expiration open interest for each expiring series and EOM month-end open interest for expiring series.

Monthly Analysis of Weekly Expiration and EOM Trading Patterns

In the annual report, CBOE also proposes to identify Weekly Expiration and EOM trading patterns by undertaking a time series analysis of open interest in Weekly Expiration and EOM series aggregated by expiration date compared to open interest in near-term standard Expiration Friday A.M.-settled series in order to determine whether users are shifting positions from standard series to Weekly Expiration and EOM series. Declining open interest in standard series accompanied by rising open interest in Weekly Expiration and EOM series would suggest that users are shifting positions.

Provisional Analysis of Index Price Volatility and Share Trading Activity

For each Weekly Expiration and EOM expiration that has open interest that exceeds certain minimum thresholds, the annual report will contain the following analysis related to index price changes and, if needed, underlying share trading volume at the close on expiration dates:

- (1) a comparison of index price changes at the close of trading on a given expiration date with comparable price changes from a control sample. The data will include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by the CBOE Volatility Index ("VIX"), will be provided; and
- (2) if needed, a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money Weekly Expiration and EOM expirations. The data, if needed, will include a comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period.

The minimum open interest parameters, control sample, time intervals, method for selecting the component securities, and sample periods will be determined by the Exchange and the Commission.

Discussion

In support of this proposal, the Exchange states that it trades other types of series and

FLEX Options¹¹ that expire on different days than regular options and in some cases have P.M.-settlement. For example, since 1993 the Exchange has traded Quarterly Index Expirations ("QIXs") that are cash-settled options on certain broad-based indexes which expire on the first business day of the month following the end of a calendar quarter and are P.M.-settled.¹² The Exchange also trades Quarterly Option Series ("QOS") that overlie exchange traded funds ("ETFs") or indexes which expire at the close of business on the last business day of a calendar quarter and are P.M.-settled.¹³ Additionally, as described above, this Pilot currently allows the Exchange to trade EOW, EOM, and WED options that are P.M.-settled. The Exchange has experience with these special dated options and has not observed any market disruptions resulting from the P.M.-settlement feature of these options. The Exchange does not believe that any market disruptions will be encountered with the introduction of P.M.-settlement options that expire on Monday.

The Exchange trades P.M.-settled EOW and WED expirations, which provide market participants a tool to hedge special events and to reduce the premium cost of buying protection. The Exchange seeks the authority to introduce P.M.-settled options that expire on Monday to, among other things, expand hedging tools available to market participants and to continue the reduction of premium cost of buying protection for positions held over the weekend. In general, an option that expires on Monday will have less time value in the premium than an option expiring on the following Wednesday or further out; thus, the addition of Monday expirations is

¹¹ See Securities Exchange Act Release No. 61439 (January 28, 2010), 75 FR 5831 (February 4, 2010) (SR-CBOE-2009-087) (order approving rule change to establish a pilot program to modify FLEX option exercise settlement values and minimum value sizes).

¹² See Rule 24.9(c).

¹³ See Rules 5.5(e) and 24.9(a)(2)(B).

likely to reduce the cost of buying protection for positions held over the weekend. The Exchange believes options that expire on Monday (similar to EOW and WED expirations) would allow market participants to purchase an option based on their needed timing and allow them to tailor their investment or hedging needs more effectively. Upon approval of this proposal, the Exchange first plans to expand the list of available expirations to Monday expiring SPX options. With Monday expiring SPX options, the Exchange believes VIX options and futures traders will be able to use the Monday expiring SPX option to more effectively manage the pricing complexity and risk of VIX options and futures positions, as well as to more effectively hedge risk associated with holding a position over the weekend. In addition, because P.M.-settlement permits trading throughout the day on the day the contract expires, the Exchange believes this feature will permit market participants to more effectively manage over the weekend risk and trade out of their positions up until the time the contract settles.

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.¹⁴ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁵ 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

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ 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 the EOW/EOM/WED Pilot has been successful to date and that Monday expirations simply expand the ability of investors to hedge risks against market movements stemming from economic releases or market events that occur throughout the month in the same way that EOWs, EOMs, and WEDs have expanded the landscape of hedging. Similarly, the Exchange believes Monday expirations should create greater trading and hedging opportunities and flexibility, and provide customers with the ability to more closely tailor their investment objectives. Lastly, the proposed amendments to Rule 24.9(e)(2) are conforming changes and do not present any new or novel issues.

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. Specifically, the Exchange does not believe the proposal will impose any burden on intramarket competition as all market participants will be treated in the same manner as existing EOWs, EOMs, and WEDs. Additionally, the Exchange does not believe the proposal will impose any burden on intermarket competition as market participants on other exchanges are welcome to become Trading Permit Holders and trade at CBOE if they determine that this proposed rule change has made CBOE more attractive or favorable. Finally, although the majority of the Exchange's broad-based index options are exclusively-listed at CBOE, all options exchanges are

¹⁶ Id.

free to compete by listing and trading their own broad-based index options that expire on Mondays.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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-2016-046 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-2016-046. 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-2016-046 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.¹⁷

Brent J. Fields
Secretary

¹⁷ 17 CFR 200.30-3(a)(12).