I. Introduction

On August 8, 2018, the Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”) and Rule 19b-4 thereunder, a proposal to adopt Rule 6.57, Risk-Weighted Assets (“RWA”) Transactions. The proposed rule change was published for comment in the Federal Register on August 23, 2018. The Commission did not receive any comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

As described in more detail in the Notice, the Exchange proposes to adopt Rule 6.57 to provide a mechanism for Cboe Options market makers to submit an on-floor risk-weighted asset package (“RWA Package”) in the SPX trading crowd for the purpose of reducing risk-weighted asset (“RWA”) exposure in open SPX positions across numerous series. RWA Packages may be executed in the SPX crowd on the trading floor if they meet certain conditions specified in Rule

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4. See id.
5. An RWA Package is a set of SPX options positions with at least: 50 options series; 10 contracts per options series; and 10,000 total contracts. See id. at 42726.
6.57, including that they be initiated for the account(s) of a Cboe Options market maker, result in a change in beneficial ownership, and include a certification concerning the attributable net reduction of RWA.⁶

Further, Rule 6.57(c) sets forth a trading procedure that requires the entering firm to submit a list of the individual SPX options series, their size, and any net debit or credit bid price received, as well as contact information for the order.⁷ Cboe will thereafter post a list of the individual components of the RWA Package, the proposed net price for the RWA Package (if available), the contact information, and the time at which the two-hour request-for-quote period (“RFQ Period”) concludes.⁸

Rule 6.57(c) further specifies that the response that represents the best bid or offer on a net debit or credit basis for the RWA Package has priority.⁹ In the event that equal bids or offers are received, the first RFQ response at the best bid or offer on a net debit or credit basis for the RWA Package has priority.¹⁰ If executed, the representing party must report the details of the execution to the Exchange.¹¹

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act,¹² and the rules and regulations thereunder applicable to a

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⁶ See id. at 42726-27.
⁷ See id. at 42727.
⁸ See id. The Exchange believed that this two-hour period was sufficient to allow members to review, price, and bid/offer for the RWA Package, because the RWA Package will be available in an electronic format and the Exchange believed that firms had access to electronic systems that will aid them in evaluating and pricing the SPX positions contained in an RWA Package. See id.
⁹ See id.
¹⁰ See id. at 42727.
¹¹ See id.
national securities exchange. In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be designed 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 and that the rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system by providing a mechanism to facilitate the reduction of SPX options positions and concomitant RWA. Specifically, the Exchange represented that such a mechanism would help market makers to continue to provide critical liquidity in the options market by reducing RWA to comply with “bank capital regulations that . . . are negatively impacting the ability of [market makers] clearing through bank-affiliated clearing firms to provide liquidity.” In reducing RWA, bank-affiliated clearing firms will be able to clear more market maker activity during periods of increased volume and volatility. In turn, market makers may be better able to continue quoting during those periods, lessening the risk of market dislocations or excess volatility that could occur if market makers needed to reduce their quoting activity during such periods to the detriment of investors.

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13 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).
15 See Notice, supra note 3, at 42726, 42730.
16 Id. at 42726.
17 See id.
Further, with respect to trading, the Exchange’s rule is based on Rule 6.49A, which establishes a similar process for on-floor transfers, but improves upon that rule by adding certifications to assure compliance and increases transparency by electronically disseminating the list of series in a proposed RWA Package. All Cboe members will be given notice of and the ability to participate in the RWA Package trading process.

Finally, the Commission notes the narrow scope of proposed Rule 6.57. The proposed rule change would apply only to SPX options, which are particularly impacted by current bank-capital regulations, and any transaction must result in a net reduction of RWA. Furthermore, the proposed rule change is only effective for a limited term, ending two years from the approval date.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-CBOE-2018-056) be, and hereby is, approved.

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

Eduardo A. Aleman
Assistant Secretary

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