

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-91528; File No. SR-CBOE-2020-117)

April 9, 2021

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Amend Certain Rules to Accommodate the Listing and Trading of Index Options with an Index Multiplier of One

I. Introduction

On December 23, 2020, Cboe Exchange, Inc. (“Exchange”) 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 allow the Exchange to list and trade certain index options with an index multiplier of one (“micro-options”). The proposed rule change was published for comment in the Federal Register on January 11, 2021.³ On February 24, 2021, the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁴ On March 30, 2021, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced and superseded the proposed rule change in its entirety.⁵ The Commission is publishing this notice to solicit comments on the

¹ 15 U.S.C.78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 90853 (January 5, 2021), 86 FR 2006. Comments on the proposed rule change can be found on the Commission’s website at: <https://www.sec.gov/comments/sr-cboe-2020-117/srcboe2020117.htm>.

⁴ See Securities Exchange Act Release No. 91194, 86 FR 12244 (March 2, 2021). The Commission designated April 11, 2021, as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

⁵ In Amendment No. 1, the Exchange: (i) narrowed the scope of the proposed rule change to permit the listing and trading of micro-options only on broad-based index options that

Exchange’s proposal, as modified by Amendment No. 1, from interested persons and is approving the Exchange’s proposal, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposed Rule Change, as Modified by Amendment No. 1

The Exchange proposes to amend its rules to allow the listing and trading of micro-options on broad-based indexes that have an index value of at least 100.⁶ Currently, the Exchange may list options on broad-based indexes that satisfy the initial and maintenance criteria in Rule 4.10, and, according to the Exchange, it presently lists options on 12 broad-based indexes with an underlying index value of at least 100. These 12 broad-based indexes are listed below, along with their closing values as of March 30, 2021, as provided by the Exchange.⁷

Index (Option Symbol)	Current Value
S&P 500 Index (SPX)	3,958.55
Mini-S&P 500 Index (XSP)	395.86
Russell 2000 Index (RUT)	2,195.80
Mini-Russell 200 Index (MRUT)	219.58
Dow Jones Industrial Average (DJX)	330.67 ⁸

have index values of at least 100, rather than all indexes; (ii) narrowed the scope of the proposal to remove all aspects of the proposal that would have permitted the trading of flexible index options (“FLEX Index Options”) with an index multiplier of one (“FLEX micro-index options”); and (iii) provided additional rationale and support for the proposed rule change. Amendment No. 1 is available on the Commission’s website at: <https://www.sec.gov/comments/sr-cboe-2020-117/srcboe2020117-8566514-230802.pdf>.

⁶ The Exchange states that it intends to file a Form 19b-4(e) with the Commission for any index option it lists for trading with an index multiplier of one pursuant to Rule 19b-4(e) of the Act.

⁷ The Exchange states that it intends to initially list micro-options on only a single index and may expand the listing of micro-options in the future in response to customer demand for such additional products.

⁸ Options are based on 1/100th of the full value of the Dow Jones Industrial Average (“DJIA”).

S&P 100 Index (OEX and XEO)	1,792.63
S&P 500 ESG Index (SPESG)	336.30
MSCI EAFE Index (MXEA)	2,216.07
MSCI Emerging Markets Index (MXEF)	1,319.50
Russell 1000 Growth Index (RLG)	2,412.94
Russell 1000 Value Index (RLV)	1,500.12
Russell 1000 Index (RUI)	2,228.28

Currently, the Exchange has designated an index multiplier of 100 for indexes it lists for trading. Pursuant to Rule 4.11, the Exchange may determine the index multiplier of an option, which is the amount specified in the contract by which the current index value is multiplied to arrive at the value required to be delivered upon valid exercise of the contract.⁹ The Exchange generally specifies the index multiplier in the specifications for an index option.¹⁰ Similarly, Article I, Section 1, I(3) of the Options Clearing Corporation (“OCC”) By-Laws defines “index multiplier” as the dollar amount (as specified by the Exchange on which such contract is traded) by which the current index value is to be multiplied to obtain the aggregate current index value. The Exchange states that, while the OCC’s By-Laws define a unit of trading for equity options as 100 shares if not otherwise specified, the definition of index multiplier does not include a default

⁹ However, certain other Exchange Rules reflect an index multiplier of 100, and the Exchange proposes to update those rules to reflect the potential for an index multiplier of one.

¹⁰ Option specifications are available at: cboe.com/tradable_products/.

unit.¹¹ The Exchange therefore believes the current index multiplier definition in the OCC By-Laws permits any index multiplier specified by the listing exchange.

Additionally, the Exchange believes micro-options are covered by the disclosures in the Options Disclosure Document (“ODD”). The Exchange states that the ODD reflects the possibility of differing values of index multipliers when describing features of index options.¹² Specifically, the ODD states the total exercise price for an index option is the exercise price multiplied by the multiplier, and the aggregate premium is the premium multiplied by the multiplier.¹³ As a result, the Exchange believes that the risk disclosures regarding index options in the ODD currently cover any risks associated with option index options with multipliers of one (and other amounts).

The proposed rule change amends various rules regarding index options to permit the Exchange to designate an index multiplier of one for broad-based indexes that have an index value of at least 100 on which it may list options.¹⁴ As proposed, micro-options would trade in the same manner as other index options.¹⁵ The table below demonstrates the differences between a micro-option and a standard index option on the SPX Index:

¹¹ See OCC By-Laws Article I, Section 1, U(5).

¹² The ODD is available at <https://www.theocc.com/about/publications/character-risks.jsp>. The ODD states that the exercise price of a stock option is multiplied by the number of shares underlying the option to determine the aggregate exercise price and aggregate premium of that option. See ODD at 18. Similarly, the ODD states that the total exercise price for an index option is the exercise price multiplied by the multiplier, and the aggregate premium is the premium multiplied by the multiplier. See ODD at 8, 9, and 125.

¹³ See ODD at 8, 9, and 125.

¹⁴ The proposed rule change, as amended by Amendment No. 1, will not permit the trading of FLEX micro-index options.

¹⁵ The proposed rule change defines “micro-options” in Rule 4.11 as a broad-based index option for which the value of the underlying index is at least 100 with an index multiplier

Term	Standard (Index Multiplier of 100)	Micro (Index Multiplier of 1)
Strike Price	3930	3930
Bid or offer	32.05	32.05
Total Value of Deliverable	\$393,000	\$3,930
Total Value of Contract	\$3,205	\$32.05

To differentiate a micro-option on an index from a standard index option, the Exchange would list micro-options with a different trading symbol than the standard index option with the same underlying index to reduce any potential confusion.¹⁶

Trading Hours

As proposed, micro-options will be available for trading during the same hours as standard index options pursuant to Rule 5.1(b)(2), which will generally be 9:30 a.m. to 4:15 p.m. ET.¹⁷ To the extent an index option is authorized for trading during Global Trading Hours,¹⁸ the Exchange may also list micro-options during that trading session as well, the hours for which trading session are 3:00 a.m. to 9:15 a.m. ET.

Expiration, Settlement, and Exercise Style

As proposed, the Exchange may list a micro-option on an index with the same expirations, settlements, and exercise styles as the standard index option overlying the same index. Consistent with existing rules for index options, the Exchange will generally allow up to

of one. The proposed rule change adds that references to “index option” in the Rules include “micro-option” unless the context otherwise requires.

¹⁶ For example, a standard index option for index ABC with an index multiplier of 100 may have symbol ABC, while a micro-option for index ABC with a multiplier of one may have symbol ABC9.

¹⁷ Certain indexes close trading at 4:00 p.m. ET. See Rule 5.1.

¹⁸ See id.

six standard monthly expirations for micro-options¹⁹ as well as up to 10 expiration months for Long-Term Equity Option Series (“LEAPS”).²⁰ For certain specified index options (including MXEA, MXEF, and SPESG options) and any class that the Exchange (as the Reporting Authority) uses to calculate a volatility index (currently, only SPX options are used by the Exchange to calculate a volatility index), the Exchange may list up to 12 standard monthly expirations for micro-options on those indexes.²¹ The Exchange may also list up to the same maximum number of expirations permitted in Rule 4.13(a)(2) for micro-options on broad-based index options with nonstandard expirations in accordance with the Nonstandard Expirations Pilot Program.²² Micro-options will be cash-settled contracts with European-style exercise in accordance with the listing criteria for those options.²³ Micro-options, like standard index options, with third-Friday expiration will also be A.M.-settled or P.M.-settled, as applicable, in accordance with the applicable listing criteria.²⁴

As proposed, the Exchange may list micro-options over the same indexes with P.M.-settlement in certain instances (in addition to A.M.-settlement in accordance with the generic listing terms). Specifically, pursuant to Rule 4.13(c), the Exchange may open for trading Quarterly Index Expirations (“QIXs”) on certain specified index options. QIXs are index option contracts that expire on the last business day of a calendar quarter, and the Exchange may list up

¹⁹ See Rule 4.13(a)(2).

²⁰ See Rule 4.13(b). Index LEAPS may expire 12 to 180 months from the date of issuance.

²¹ See Rule 4.13(a).

²² See Rule 4.13(e).

²³ See Rule 4.10(f) (broad-based initial listing criteria) and (h) (MXEA and MXEF); see also Rule 4.13(a)(3).

²⁴ See id.

to eight near-term quarterly expirations for trading.²⁵ Currently, the index multiplier for QIXs may be 100 or 500. The proposed rule change amends Rule 4.13(c) to permit the index multiplier to also be one to accommodate the listing of QIX micro-options on the specified indexes.

In addition, the Exchange's Nonstandard Expirations Pilot Program currently allows it to list Weekly and End of Month ("EOM") Expirations on any broad-based index.²⁶ Like standard index options with Weekly and EOM Expirations, micro-options on broad-based indexes with Weekly and EOM Expirations will be P.M.-settled and otherwise treated the same as options on the same underlying index that expire on the third Friday of the month. The maximum number of expirations that may be listed for each of the Weeklys and EOMs in a micro-option is the same as the maximum number of expirations permitted in Rule 4.13(a)(2) for micro-options on the same broad-based index.²⁷ The Exchange may currently list Weekly and EOM Expirations on broad-based indexes as a pilot, which pilot period currently expires on May 3, 2021.²⁸ The Exchange currently submits regular reports and data to the Commission regarding the Nonstandard Expirations Pilot Program. To the extent the Exchange lists any micro-options with Weekly or EOM Expirations pursuant to this pilot program, the Exchange states that it will include the same information with respect to micro-options that it does for standard options in the reports it submits to the Commission in accordance with the pilot program.

²⁵ See Rule 4.13(c).

²⁶ See Rule 4.13(e).

²⁷ See id.

²⁸ See Securities Exchange Act Release No. 90262 (October 23, 2020), 85 FR 68616 (October 29, 2020).

Similarly, the Exchange also currently has a pilot program under Rule 4.13, Interpretation and Policy .13, that allows the Exchange to list options on specified indexes (SPX, XSP, and MRUT) that expire on the third Friday of the month that are P.M.-settled. Under the Exchange's proposal, the Exchange may list micro-options on those same indexes pursuant to this pilot program, which pilot period currently expires on May 3, 2021.²⁹ As it will for the Nonstandard Expirations Pilot Program, to the extent the Exchange lists micro-options on the specified indexes pursuant to this P.M.-settlement pilot program, the Exchange states that it will include the same information with respect to micro-options that it does for standard options in the reports it submits to the Commission in accordance with the pilot program.

Exercise Prices

The Exchange proposes to adopt Rule 4.13, Interpretation and Policy .01(l) to provide that the interval between strike prices of series of micro-options will be \$0.50 or greater.³⁰ The Exchange states that there are two important distinctions between micro-options and standard options due to the difference in multipliers, one of which is how the total deliverable value is calculated (the other is the meaning of bids and offers, as further discussed below). Specifically, proposed Rule 4.13, Interpretation and Policy .01(l) states that strike prices for micro-options are set at the same level as index options with an index multiplier of 100. For example, a micro-

²⁹ See Securities Exchange Act Release Nos. 90263 (October 23, 2020), 85 FR 68611 (October 29, 2020), and 91067 (February 5, 2021), 86 FR 9108 (February 11, 2021).

³⁰ Pursuant to Rule 4.13, Interpretation and Policy .01, the interval between strike prices of standard index options is generally \$5.00 except for lower-priced strikes, for which the smallest interval is \$2.50, subject to certain exceptions (including reduced-value index options, which may have strike intervals of no less than \$0.50 or \$1). The Exchange states that this is consistent with lower permissible strike intervals for certain reduced-value index options, which have the same practical effect as index options with a smaller multiplier.

option call series with a strike price of 3250 has a total deliverable value of \$3,250 (3250 x \$1), while a standard option call series with a strike price of 3250 has a total deliverable value of \$325,000 (3250 x \$100).³¹

Minimum Increments

The Exchange proposes to amend Rule 5.4 to provide that a micro-option will have the same minimum increment for bids and offers as the minimum increment for a standard index option on the same index.³² Specifically, proposed Rule 5.3(c)(2) provides that notwithstanding Rule 5.3(a),³³ bids and offers for a micro-option must be expressed in terms of dollars per 1/100th part of the total value of the contract. For example, an offer of “0.50” represents an offer of \$0.50 for a micro-option.³⁴

³¹ The Exchange states that this corresponds to the calculation of exercise prices for other types of options with a reduced multiplier. For example, Rule 4.5, Interpretation and Policy .18(b) provides that strike prices for mini-options (which have multipliers of 10 rather than 100, as set forth in Rule 4.5, Interpretation and Policy .18(a)) are set at the same level as for standard options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1,250 (10 x 125) if the strike is 125, while a call series strike price to deliver 100 shares of stock at \$125 per share has a total deliverable value of \$12,500 (100 x 125).

³² See Rule 5.4(a). The Exchange states that this corresponds to the provision regarding the minimum increment for mini-options.

³³ Rule 5.3(a) states that except as otherwise provided in Rule 5.3, bids and offers must be expressed in terms of dollar and decimals per unit of the underlying security or index. The Exchange believes that the proposed rule change is consistent with this provision, as a bid of 7 will represent a bid of 7 for an option contract having an index multiplier (i.e., unit of trading) of one. However, the Exchange proposes to add a specific provision regarding the meaning of bids and offers for micro-options to provide clarity in its rules, and to maintain consistency in its rules, which currently contain a separate provision for mini-options, which as discussed above, have a reduced multiplier compared to standard options as micro-options do.

³⁴ An offer of “0.50” represents an offer of \$50 for a standard index option with an index multiplier of 100.

Appointment Weights

The Exchange proposes to add micro-options each as a Tier AA class with a Market-Maker appointment weight of .001.³⁵ The Exchange states that this is the same appointment weight as a majority of the other Tier AA options classes. The Exchange determines appointment weights of Tier AA classes based on several factors, including, but not limited to, competitive forces and trading volume.

Contract Size Limits

The proposed rule change will update various other provisions in the following rules to reflect that one-hundred micro-contracts overlying an index will be economically equivalent to one contract for a standard index option overlying the same index:

- Rules 1.1 (definition of “complex order”) and 5.65(d) (definition of “complex trade”): The proposed rule change adds to the definitions in each of Rules 1.1 (definition of “complex order”) and 5.65(d) (definition of “complex trade”) that for the purposes of applying the ratios set forth in the definitions to complex orders comprised of legs for both micro-options and standard options, 100 micro-option contracts represent one standard option contract.³⁶

³⁵ See Rule 5.50(g). While the appointment weights of Tier AA classes are not subject to quarterly rebalancing under Rule 5.50(g)(1), the Exchange represents that it regularly reviews the appointment weights of Tier AA classes to ensure that they continue to be appropriate.

³⁶ The Exchange states that this corresponds to the provision in those definitions regarding mini-options, which states that for the purpose of applying these ratios to complex orders comprised of legs for both mini-options and standard options, ten mini-option contracts represent one standard option contract. The proposed rule change also conforms the definition of “complex order” in Rule 1.1 to the definition of “complex trade” in Rule 5.65 to say that it may be comprised of different series in the same “underlying security” rather than the same “class.” As discussed above, micro-options will be a different class than standard index options overlying the same index. This accommodates, for example,

- Rules 5.37 and 5.38: Rules 5.37 and 5.38 describe the Exchange’s Automated Improvement Mechanism for simple (“AIM”) and complex orders (“C-AIM”), respectively. There is no minimum size for an order submitted into an AIM or C-AIM Auction.³⁷ However, in an AIM Auction for orders less than 50 standard option contracts (or 500 mini-option contracts), the stop price must be at least one minimum increment better than the then-current national best-bid or offer or the order’s limit price (if the order is a limit order), whichever is better. For orders of 50 standard option contracts (or 500 mini-option contracts) or more, the stop price must be at or better than the then-current national best-bid or offer or the order’s limit price (if the order is a limit order), whichever is better.³⁸ The proposed rule change will add to Rule 5.37(b) that 5,000 micro-option contracts is the corresponding size for these stop price restrictions. Additionally, Rule 5.37(c) and 5.38(c) provide that no concurrent AIM or C-AIM Auctions, respectively, are permitted for orders less than 50 standard option contracts (or 500 mini-option contracts) (for C-AIM Auctions, the size is determined by the smallest

the fact that a complex order could be comprised of mini-options and standard options overlying the same stock (as contemplated by the current definition) despite being in different classes. The proposed rule change also expands the definitions of complex order in Rule 1.1 and complex trade in Rule 5.65 to provide that it may similarly be comprised of different series in the same “underlying index.” The Exchange states that full-value indexes and reduced-value indexes are separate indexes under the Exchange Rules, so to the extent a multi-legged order whose legs overly different indexes (such as one leg with a full-value index and one leg with a reduced-value index) would not qualify for the definition of “complex trade.”

³⁷ The Exchange states that in SPX during Regular Trading Hours, there is a maximum size of 10 contracts for orders submitted into AIM and C-AIM Auctions (in C-AIM, the maximum size is based on the smallest leg of the complex order). See Rules 5.37(a)(3) and 5.38(a)(3). The Exchange is not proposing any changes to Rules 5.37(a)(3) and 5.38(a)(3).

³⁸ See Rule 5.37(b).

leg of the complex order), but are permitted for orders of 50 standard option contracts (or 500 mini-option contracts) or greater (for C-AIM Auctions, the size is determined by the smallest leg of the complex order). The proposed rule change will add that 5,000 micro-option contracts is the corresponding size for determining whether concurrent auctions are permissible.

- Rules 5.39 and 5.40: Rules 5.39 and 5.40 describe the Exchange's Solicitation Auction Mechanism for simple ("SAM") and complex ("C-SAM"), orders, respectively. An order, or the smallest leg of a complex order, must be for at least the minimum size designated by the Exchange (which may not be less than 500 standard option contracts or 5,000 mini-option contracts). The proposed rule change will add that 50,000 micro-option contracts is the corresponding minimum size for orders submitted into SAM or C-SAM Auctions.

- Rule 5.87: Rule 5.87(f) describes when a Floor Broker is entitled to cross a certain percentage of an order, subject to the requirements in that paragraph. Under that Rule, the Exchange may determine on a class-by-class basis the eligible size for an order that may be transacted pursuant to this paragraph; however, the eligible order size may not be less than 50 standard option contracts (or 500 mini-option contracts). The proposed rule change will add that 5,000 micro-option contracts is the corresponding minimum size for orders that may be crossed in accordance with this provision.

Additionally, Rule 5.87, Interpretation and Policy .07(a) provides that Rule 5.86(e) does not prohibit a Trading Permit Holder ("TPH") from buying or selling a stock, security futures or futures position following receipt of an order, including an option order, but prior to announcing such order to the trading crowd, provided that the option order is in a

class designated as eligible for “tied hedge” transactions and within the eligibility size parameters, which are determined by the Exchange and may not be smaller than 500 standard option contracts (or 5,000 mini-option contracts). The proposed rule change adds that 50,000 micro-option contracts is the corresponding minimum size for orders that may qualify as tied hedge transactions and not be deemed a violation of Rule 5.86(e).

Position and Exercise Limits³⁹

Rule 8.31 governs position limits for broad-based index options, and currently provides that there are no position limits for broad-based index option contracts (including reduced-value option contracts) on DJX, OEX, XEO, RUT, and SPX classes (among others). The position limits on other broad-based index options that the Exchange currently lists for trading are below:

<u>Broad-Based Index</u>	<u>Standard Limit (on the same side of the market)</u>
Russell 1000 Russell 1000 Growth Russell 1000 Value	50,000 contracts (no more than 30,000 near-term)
MSCI Emerging Markets Index MSCI EAFE Index	50,000 contracts
Other	25,000 contracts (no more than 15,000 near-term)

The proposed rule change adds Rule 8.31(f) to provide that positions in micro-options (with an index multiplier of one) will be aggregated with positions in standard options (including reduced-value option contracts) (with an index multiplier of 100) on the same broad-based index

³⁹ This discussion focuses on position and exercise limits with respect to indexes on which the Exchange currently lists standard options and may also list micro-options. To the extent the Exchange lists micro-options on other indexes in the future, the Exchange states that they would be subject to the same position and exercise limits set forth in the applicable Rules, and similarly aggregated with standard options on the same indexes, as proposed.

and, for purposes of determining compliance with the position limits under Rule 8.31, 100 micro-option contracts with an index multiplier of one equal one standard option contract with an index multiplier of 100. The Exchange states that this is consistent with Rule 8.31(d), which similarly provides that positions in reduced-value index options are aggregated with positions in full-value index options based on economic equivalent values of those options.

Rule 8.42(b) governs exercise limits for index options and provides that exercise limits for index option contracts will be equivalent to the position limits prescribed for option contracts with the nearest expiration date in Rule 8.31, 8.32, or 8.34. As is the case for certain broad-based index options as noted above, there are no exercise limits for certain broad-based index options (including reduced-value option contracts). The proposed rule change adds to Rule 8.42(b) that there will similarly be no exercise limits on micro-option contracts on those same broad-based indexes.

Capacity and Regulation

The Exchange represents that it believes the Exchange and Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle the additional traffic associated with the listing of new series that may result from the introduction of the micro-options. The Exchange states that it also understands that the OCC will be able to accommodate the listing and trading of micro-options. The Exchange believes that its existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from listing and trading micro-options. The Exchange further states that current Exchange Rules that apply to the trading of other index options traded on the Exchange will also apply to the trading of micro-options, such as Exchange Rules governing customer accounts, margin requirements and trading halt procedures. The Exchange also states that TPHs that enter

micro-option orders on behalf of customers, including retail customers, will continue to be subject to all Exchange Rules regarding doing business with the public.

III. Discussion and Commission Findings

After careful review of the proposal and the comments received, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.⁴⁰ In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act,⁴¹ which requires, among other things, that the rules of a national securities exchange be designed to 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.

In support of its proposal, the Exchange states that the listing and trading of micro-options could benefit investors, particularly retail investors, by expanding investor choice and flexibility by providing them with the ability to trade certain index options and hedge their portfolios with a smaller outlay of capital. Similarly, one commenter expressed support for the proposal,⁴² asserting that the listing and trading of micro-options could benefit investors by

⁴⁰ 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).

⁴¹ 15 U.S.C. 78f(b)(5).

⁴² See Letter to Vanessa Countryman, Secretary, Commission, from Milliman Financial Risk Management LLC, dated April 5, 2021. A second commenter expressed support for listing and trading FLEX micro-index options for similar reasons; however, the Exchange removed aspects of the proposal that would permit the Exchange to list FLEX micro-index options in Amendment No. 1. See Letter to Vanessa Countryman, Secretary, Commission, from Biju Kulathakal, Chief Executive Officer, Halo Investing, Inc., dated

providing a more precise hedging tool. The Exchange explains that micro-options may appeal to investors who currently may not participate in the trading of certain index options because index options are generally higher-priced securities due to the high levels of the indexes. The Exchange believes micro-options could provide these investors with a point of entry into the index options market, which will make options overlying larger-valued broad-based indexes⁴³ more readily available as investing and hedging tools. The Exchange believes this may facilitate overall investor participation in the markets for index options, which may increase the depth and liquidity to the benefit of all investors. The Exchange states that it does not believe the proposed rule change will result in fragmentation of liquidity. In particular, the Exchange states that it has observed no fragmentation of liquidity in the markets for economically equivalent products that are listed today. The Exchange further states that it expects micro-options to generate new order flow to the Exchange, rather than diverting current order flow from standard options to micro-options.

The Commission believes that the listing and trading of micro-options on broad-based indexes that have a value of at least 100 could benefit investors by providing them with additional investment alternatives.⁴⁴ The Commission believes that, as stated by the Exchange,

March 31, 2021.

⁴³ The Exchange also believes it is reasonable to limit micro-options to broad-based indexes with values of at least 100, as indexes with smaller values would have smaller notional values.

⁴⁴ The Commission has previously approved the listing and trading of options based on a reduced value of broad-based indexes, including 1/100th the value of the FTSE 100 Index and FTSE 250 Index,⁴⁴ and 1/10th the value of the Nasdaq 100 Index. See Securities Exchange Act Release Nos. 57654 (April 11, 2008), 73 FR 21003 (April 17, 2008). See also Securities Exchange Act Release No. 51121 (February 1, 2005), 70 FR 6476 (February 7, 2005).

the listing and trading of micro-options could make options overlying higher-valued broad-based indexes more readily available to investors, thereby providing investors with an additional trading and hedging mechanism.⁴⁵ The Commission believes this proposal, as amended to include only higher-value broad-based indexes, strikes a reasonable balance between the Exchange's desire to offer a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series. However, the Commission expects the Exchange to monitor the trading of micro-options to evaluate whether any issues develop.

The Commission also believes that the proposal is consistent with the Act, in particular the protection of investors and the public interest, as it includes several aspects designed to reduce potential investor confusion. In particular, the Commission believes that the aspects of the proposal related to the quoting and trading of micro-options provide clarity about the application of certain of the Exchange's rules to micro-options. The Commission believes that the proposed treatment of strike prices, minimum size of index options contracts, bids and offers, and position and exercise limits for micro-options is consistent with the Act, as these proposed changes should make clear how micro-options would be quoted and traded and are consistent with the treatment of certain reduced-value index options.⁴⁶ The Commission also believes that the use of different trading symbols for micro-options should help investors and other market participants to distinguish those options from the related standard options, reducing potential

⁴⁵ In Amendment No. 1, the Exchange provided examples of the trading of a micro-option as compared to a standard option on a broad-based index and the potential benefits for investors. See Amendment No. 1 at 7-11.

⁴⁶ In addition, the Exchange has made changes to various provisions in its rules to reflect that one hundred micro-option contracts overlying an index will be economically equivalent to one contract for a standard index option. See Rule 1.1 (definition of "complex order"), Rules 5.37-5.40 (governing various auction mechanisms), Rule 5.65(d) (definition of "complex trade"), and Rule 5.87 (crossing orders).

investor confusion. Lastly, the Exchange has stated that it plans to provide investor education on the uses and risks of micro-options through its current and expanded education platforms.

Additionally, the Commission believes that the proposed appointment weight for micro-options is consistent with the Act, as the initial appointment weight is designed to incentivize more Market-Makers to obtain an appointment in each micro-option that the Exchange will list, which may result in more liquidity and competitive pricing.

The Commission believes it is appropriate and consistent with the Act for the Exchange to list the same expirations, settlements, and exercise styles for micro-options as it may for standard index options.⁴⁷ In addition, the Exchange states that it and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that may result from the introduction of the micro-options. The Exchange also states that the OCC will be able to accommodate the listing and trading of micro-options.

As a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,⁴⁸ 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 Exchange states that its existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior that might arise from listing and trading micro-options. In addition, micro-options will be traded under the Exchange's existing regulatory regime for index options, which includes, among other things, the Exchange's existing rules regarding customer

⁴⁷ As described above, to the extent the Exchange lists micro-options pursuant to the Nonstandard Expirations Pilot Program or its pilot regarding certain P.M.-settled index options, the Exchange states that it will include the same information with respect to micro-options that it does for standard options in the reports and data it provides to the Commission.

⁴⁸ 15 U.S.C. 78f(b)(1).

protection. In particular, the Exchange states that TPHs that enter micro-option orders on behalf of customers, including retail customers, will continue to be subject to all Exchange rules regarding doing business with the public, including those within Chapter 9 of the Exchange Rulebook.⁴⁹ The Commission believes that it is consistent with the Act to apply Exchange rules governing, among other things, customer accounts, margin requirements, and trading halt procedures to the proposed micro-options that are otherwise applicable to other index options. The Commission believes that the Exchange's rules governing the trading of the index options on the Exchange help to ensure the maintenance of fair and orderly markets for micro-options, which is consistent with the protection of investors and the public interest.

Accordingly, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act⁵⁰ and the rules and regulations thereunder applicable to a national securities exchange.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as modified by Amendment No. 1, is consistent with the Act. Comments may be submitted by any of the following methods:

⁴⁹ The Exchange states these rules require, among other things, that: (i) a TPH may not accept an option order, including a micro-option order, from a customer unless that customer's account has been approved for options transactions in accordance with Rule 9.1; (ii) TPHs that conduct customer business, including retail customer business, must ensure they provide for appropriate supervisory control over that business and maintain customer records in accordance with Rule 9.2; and (iii) TPHs will also need to provide customers that trade micro-options (and any other option) with a copy of the ODD and amendments to the ODD in accordance with Rule 9.9 so that customers are informed of any risks associated with trading options, including micro-options.

⁵⁰ 15 U.S.C. 78f(b)(5).

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-2020-117 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-2020-117. 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, 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-2020-117, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the 30th day after the date of publication of notice of the filing of Amendment No. 1 in the Federal Register. Amendment No. 1 narrowed the scope of the proposed rule change, as well as provided additional rationale and support for the proposed rule change. Specifically, the Exchange (i) narrowed the scope of the proposed rule change to permit the listing and trading of micro-options only on broad-based index options that have index values of at least 100, rather than all indexes; (ii) narrowed the scope of the proposal to remove all aspects of the proposal that would have permitted the trading of FLEX micro-index options; and (iii) provided additional rationale and support for the proposed rule change. In support of the proposed rule change, the Exchange: provided additional examples of how retail investors may use micro-options; emphasized that TPHs, in entering micro-option orders on behalf of customers, will continue to be subject to all Exchange Rules regarding doing business with the public; and represented that it will expand education offerings to inform investors of the benefits and risks of trading micro-options. The changes to the proposal and additional information in Amendment No. 1 do not raise any novel regulatory issues and assist the Commission in evaluating the Exchange's proposal and in determining that it is consistent with the Act. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,⁵¹ to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

⁵¹ 15 U.S.C. 78s(b)(2).

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁵² that the proposed rule change (SR-CBOE-2020-117), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵³

J. Matthew DeLesDernier
Assistant Secretary

⁵² Id.

⁵³ 17 CFR 200.30-3(a)(12).