

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84298; File No. SR-CboeBZX-2018-058)

September 27, 2018

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to Permit the Listing and Trading of Options that Overlie the Mini-SPX Index and the Russell 2000 Index

I. Introduction

On August 2, 2018, Cboe BZX Exchange, Inc. (“Exchange”) filed with the Securities and Exchange Commission (“Commission” or “SEC”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to permit the listing and trading of options that overlie the Mini-SPX Index (“XSP options”), the Russell 2000 Index (“RUT options”), and the Dow Jones Industrial Average (“DJX options”). The proposed rule change was published for comment in the Federal Register on August 21, 2018.<sup>3</sup> The Commission received no comments in response to the Notice. On September 18, 2018, the Exchange filed Amendment No. 1 to the proposal.<sup>4</sup> On September 24, 2018, the Exchange filed

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 83852 (August 15, 2018), 83 FR 42330 (“Notice”).

<sup>4</sup> Amendment No. 1 provides that the lowest strike price interval that may be listed for XSP option series under the Short Term Option Series Program is \$0.50. The Exchange notes that this provision was inadvertently omitted in the initial filing. Amendment No. 1 is available at <https://www.sec.gov/comments/sr-cboebzx-2018-058/srcboebzx2018058-4387759-175584.pdf>. Because Amendment No. 1 does not materially alter the substance of the proposed rule change or raise unique or novel regulatory issues, Amendment No. 1 is not subject to notice and comment.

Amendment No. 2 to the proposal.<sup>5</sup> This order approves the proposed rule change, as modified by Amendment Nos. 1 and 2 thereto.

## II. Description of the Amended Proposal<sup>6</sup>

The Exchange proposes to amend the Exchange's index options rules to permit the listing and trading of XSP options and RUT options. As more fully set forth in the Notice and Amendment Nos. 1 and 2 and further described below, the proposed new rules and changes to existing rules of the Exchange are based on the existing rules of other options exchanges.<sup>7</sup>

XSP and RUT options will be A.M., cash-settled contracts with European-style exercise.<sup>8</sup> XSP options are options on the Mini-SPX Index, the current value of which is 1/10<sup>th</sup> the value of the Standard & Poor's 500 Stock Index reported by the reporting authority.<sup>9</sup> RUT options are options on the Russell 2000 Index.<sup>10</sup> According to the Exchange, the index underlying each of XSP and RUT options satisfies the criteria of a broad-based index for the initial listing of options

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<sup>5</sup> Amendment No. 2 removes all aspects of the proposal related to the listing and trading of DJX options. Amendment No. 2 is available at <https://www.sec.gov/comments/sr-cboebzx-2018-058/srcboebzx2018058-4421264-175677.pdf>. Because Amendment No. 2 removes all references specific to the listing and trading of DJX options from the original proposal and does not raise unique or novel regulatory issues, Amendment No. 2 is not subject to notice and comment.

<sup>6</sup> For a more complete description of the proposed rule change, see Notice, *supra* note 3; Amendment No. 1, *supra* note 4; and Amendment No. 2, *supra* note 5.

<sup>7</sup> See, e.g., Cboe Options Rules 6.42, 24.7, and 24.9; C2 Rule 6.11(a)(2).

<sup>8</sup> See proposed changes to Rule 29.11(a)(4) and Rule 29.11(a)(5)(B).

<sup>9</sup> See proposed Interpretation and Policy .01 to Rule 29.11, which states that the current index value of XSP options will be 1/10<sup>th</sup> the value of the Standard & Poor's 500 Stock Index reported by the reporting authority. The Exchange states that the S&P Dow Jones Indices is the reporting authority for the Mini-SPX Index. See proposed Interpretation and Policy .01 to Rule 29.2.

<sup>10</sup> The Exchange states that the Frank Russell Company is the reporting authority for the Russell 2000 Index. See proposed Interpretation and Policy .01 to Rule 29.2.

on that index, as set forth in Rule 29.3(b). XSP and RUT options will be subject to the maintenance listing standards set forth in Rule 29.3(c).<sup>11</sup>

As described more fully in the Notice and Amendment Nos. 1 and 2, the Exchange has proposed rules related to the listing and trading of XSP and RUT, including the minimum increments applicable to XSP<sup>12</sup> and strike intervals applicable to both XSP and RUT.<sup>13</sup> In addition, the Exchange has proposed changes to its long-term index options rules, including proposing to extend the maximum term to 180 months (15 years)<sup>14</sup> and adding RUT to the list of indices on which the Exchange may list reduced-value long-term options series.<sup>15</sup> The proposed rule change also modifies the Exchange's rules to describe the opening process for index options,<sup>16</sup> which the Exchange states will be the same as the opening process for index options

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<sup>11</sup> In the event XSP or RUT options fails to satisfy the maintenance listing standards set forth in Rule 29.3(c), the Exchange states that it will 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. See Notice, supra note 3, at 42331, n. 4.

<sup>12</sup> See proposed Rule 21.5, Interpretation and Policy .02. The minimum increment for RUT will be as set forth in current Rule 21.5: five cents if the series is trading below \$3.00, and ten cents if the series is trading at or above \$3.00. See Notice, supra note 3, at 42332.

<sup>13</sup> See proposed changes to Rule 29.11(c)(1) and (c)(5).

<sup>14</sup> See proposed change to Rule 29.11(b)(1). The Exchange represents that it has confirmed with the Options Clearing Corporation ("OCC") that OCC can configure its systems to support long-term options contracts that have a maximum term of 180 months (15 years). See Notice, supra note 3, at 42332.

<sup>15</sup> See proposed change to Rule 29.11(b)(2). The Exchange represents that the reduced-value long-term RUT series will be subject to the same trading rules as long-term RUT series, except the minimum strike price interval will be \$2.50 for all series regardless of the strike price. See Notice, supra note 3, at 42332. The Exchange also states that for reduced-value long-term RUT series, the underlying value will be computed at 10% of the value of the Russell 2000 Index. See id.

<sup>16</sup> See proposed changes to Rule 21.7.

on C2 Exchange, Inc. (“C2”).<sup>17</sup> The Exchange also proposed rule changes to clarify the applicability of certain provisions of its rules.<sup>18</sup> Additionally, the Exchange has proposed changes to its rules relating to trading halts,<sup>19</sup> the obvious error process,<sup>20</sup> and listing additional expiration months<sup>21</sup> that are consistent with the rules of another options exchange.<sup>22</sup>

The Exchange represents it has an adequate surveillance program in place for index options, and that it is a member of the Intermarket Surveillance Group (“ISG”).<sup>23</sup> Additionally, the Exchange represents that has analyzed its capacity and believes that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle the additional traffic associated with the listing of XSP and RUT options up to the proposed number of possible expirations and strike prices.<sup>24</sup> The Exchange believes that any additional traffic that would be generated from the introduction of XSP and RUT options will be manageable, and that its Members will not have a capacity issue as a result of this proposed rule change.<sup>25</sup> The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity.<sup>26</sup> The Exchange states that it will monitor the trading volume associated with the additional

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<sup>17</sup> See Notice, supra note 3, at 42334.

<sup>18</sup> See proposed changes to Rules 29.11(b)(1)(A), 29.13(b); proposed Rule 29.15.

<sup>19</sup> See proposed changes to Rule 29.10(b).

<sup>20</sup> See proposed changes to Rule 20.6(g) and (h).

<sup>21</sup> See proposed Rule 29.11(i).

<sup>22</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03; Cboe Options Rule 6.25(g) and (h); and Cboe Options Rule 24.9, Interpretation and Policy .01(b).

<sup>23</sup> See Notice, supra note 3, at 42336.

<sup>24</sup> Id.

<sup>25</sup> Id.

<sup>26</sup> Id.

options series listed as a result of this proposed rule change and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems.<sup>27</sup>

The Exchange states that XSP and RUT options will be subject to the margin requirements set forth in Chapter 28 and the position limits set forth in Rule 29.5. Chapter 28 imposes the margin requirements of either Cboe Options or the New York Stock Exchange on Exchange Options Members. Similarly, Rule 29.5 imposes position (and exercise) limits for broad-based index options of Cboe Options on Exchange Options Members. XSP and RUT options are currently listed and traded on Cboe Options, and the Exchange proposes that the same margin requirements and position and exercise limits that apply to these products as traded on Cboe Options will apply to these products when listed and traded on the Exchange.<sup>28</sup>

### III. Discussion and Commission's Findings

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>29</sup> Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>30</sup> which requires, among other things, that the rules of a national securities exchange be designed 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

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<sup>27</sup>

Id.

<sup>28</sup>

Id.

<sup>29</sup>

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).

<sup>30</sup>

15 U.S.C. 78f(b).

protect investors and the public interest.

The Commission believes that the Exchange's proposal gives options investors the ability to make an additional investment choice in a manner consistent with the requirements of Section 6(b)(5) of the Act.<sup>31</sup> The Commission notes that the Exchange represents that the index underlying each of XSP and RUT options satisfies the criteria of a broad-based index for the initial listing of options on that index in Rule 29.3(b), which rule has previously been approved by the Commission.<sup>32</sup> In considering the proposed changes to the Exchange rules related to the listing and trading of XSP and RUT, including the rules related to minimum increments<sup>33</sup> and strike price intervals,<sup>34</sup> the Commission notes that the proposed rules are consistent with the rules of another exchange.<sup>35</sup> In addition, the Commission notes that the proposed rule changes related to long-term options series,<sup>36</sup> trading halts,<sup>37</sup> the obvious error process,<sup>38</sup> the opening process<sup>39</sup>

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<sup>31</sup> 15 U.S.C. 78f(b)(5).

<sup>32</sup> See Securities Exchange Act Release No. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010). Additionally, the Commission notes that options on XSP and RUT will be subject to the maintenance listing standards of Rule 29.3(c). The Exchange represents that in the event XSP or RUT options fails to satisfy the maintenance listing standards set forth herein, the Exchange will 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 Exchange Act. See Notice, supra note 3, at 42331, n. 4.

<sup>33</sup> See proposed Rule 21.5, Interpretation and Policy .02.

<sup>34</sup> See proposed Rule 29.11(c)(1) and (c)(5).

<sup>35</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03; Cboe Options Rule 24.9. Interpretations and Policies .01(a), .11.

<sup>36</sup> See proposed changes to Rule 29.11(b).

<sup>37</sup> See proposed changes to Rule 29.10(b).

<sup>38</sup> See proposed changes to Rule 20.6(g) and (h).

<sup>39</sup> See proposed changes to Rule 21.7.

and listing additional expiration months<sup>40</sup> are also consistent with the rules of other exchanges.<sup>41</sup> The Commission believes that the Exchange's proposal does not raise any novel regulatory issues, as it is consistent with the rules of other national securities exchanges previously approved by the Commission. Finally, the Commission notes that certain of the Exchange's proposed rule changes are intended to promote clarity about the applicability of the Exchange's rules,<sup>42</sup> thereby reducing any potential investor confusion.

The Commission further believes that the Exchange's proposed position and exercise limits, margin requirements and other aspects of the proposed rule change related to the listing and trading of XSP and RUT options are appropriate and consistent with the Act. In particular, the Commission notes that the Exchange rules regarding position and exercise limits and margin requirements incorporate by reference the corresponding Cboe Options rules which were previously approved by the Commission. The Commission notes that the Exchange represents that it has an adequate surveillance program in place for index options.<sup>43</sup> Further, the Exchange is a member of the ISG, which provides for the sharing of information and the coordination of regulatory efforts among exchanges trading securities and related products to address potential intermarket manipulations and trading abuses.

In approving the proposed rule change, the Commission has also relied upon the Exchange's representation that it and OPRA have the necessary systems capacity to support the

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<sup>40</sup> See proposed Rule 29.11(i).

<sup>41</sup> See, e.g., Cboe Options Rule 24.9(b)(1); Cboe Options Rule 24.9, Interpretation and Policy .13; Cboe Options Rule 24.7(a); Phlx Rule 1047A(c); Cboe Options Rule 6.25(g) and (h); C2 Rule 6.11(a)(2).

<sup>42</sup> See, e.g., proposed changes to Rule 29.11(b)(1)(A); Rule 29.13; Rule 29.15.

<sup>43</sup> See Notice, supra note 3, at 42336.

new options series that will result from this proposal, and that the Exchange will monitor the trading volume associated with the additional options series listed as a result of this proposed rule change and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems.<sup>44</sup>

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>45</sup> that the proposed rule change (SR-CboeBZX-2018-058), as modified by Amendment Nos. 1 and 2, be approved.

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

Eduardo A. Aleman  
Assistant Secretary

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<sup>44</sup> See id.

<sup>45</sup> 15 U.S.C. 78s(b)(2).

<sup>46</sup> 17 CFR 200.30-3(a)(12).