

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94292; File No. SR-CBOE-2022-005)

February 22, 2022

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Permit P.M.-Settled S&P 500 Index Options that Expire on Tuesday or Thursday under its 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 February 8, 2022, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) 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

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to permit P.M.-settled S&P 500 Index (“SPX”) options that expire on Tuesday or Thursday under its Nonstandard Expirations Pilot Program. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange proposes to amend Rule 4.13(e), which governs its Nonstandard Expirations Pilot Program (“Pilot Program”), to permit P.M.-settled SPX options that expire on Tuesday or Thursday. Under the existing Pilot Program, the Exchange is permitted to list P.M.-settled options on broad-based indexes that expire on: (1) any Monday, Wednesday, or Friday (“Weekly Expirations” or “EOWs”) and (2) the last trading day of the month (“End of Month Expirations” or “EOMs”).³

Specifically, the proposed rule change amends Rule 4.13(e)(1) to add P.M.-settled SPX Weekly (“SPXW”) options that expire on Tuesday or Thursday as permissible Weekly Expirations under the Pilot Program (currently set to expire on May 2, 2022). The Exchange notes that permitting SPXW options with Tuesday and Thursday expirations, as proposed, is in addition to the SPXW options with Monday, Wednesday and Friday expirations that the Exchange may (and does) already list, as they are permissible Weekly Expirations for options on a broad-based index (e.g., SPX) pursuant to Rule 4.13(e)(1). The Pilot Program for Weekly

³ See Rule 4.13(e).

Expirations will apply to SPXW options with Tuesday and Thursday expirations in the same manner as it currently applies to P.M.-settled broad-based index options with Monday, Wednesday and Friday expirations. That is, as proposed, Rule 4.13(e)(1) provides that the Exchange may open for trading Weekly Expirations 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). In addition, the Exchange may also open for trading Weekly Expirations on S&P 500 Index options to expire on any Tuesday or Thursday (other than days that coincide with an EOM expiration). 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 Weekly Expirations shall be P.M.-settled and new series in Weekly Expirations may be added up to and including on the expiration date for an expiring Weekly Expiration. The maximum number of expirations that may be listed for each Weekly Expiration (i.e., a Monday expiration, Tuesday expiration, Wednesday expiration, Thursday expiration, or Friday expiration, as applicable) in a given class is the same as the maximum number of expirations permitted in Rule 4.13(a)(2) for standard options on the same broad-based index (which is 12 for SPX options). Weekly Expirations need not be for consecutive Monday, Tuesday, Wednesday, Thursday, or Friday expirations as applicable; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. Weekly Expirations that are first listed in a given class may expire up to four weeks from the actual listing date. If the Exchange lists EOMs and Weekly Expirations as applicable in a given class, the Exchange will list an EOM instead of

a Weekly Expiration that expires on the same day in the given class.⁴ Other expirations in the same class are not counted as part of the maximum number of Weekly Expirations for an applicable⁵ 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 Tuesday, Wednesday, Thursday, or Friday, the normally Tuesday, Wednesday, Thursday, or Friday expiring Weekly Expirations will expire on the previous business day. The proposed rule change also adds that, if two different Weekly Expirations on S&P 500 Index options would expire on the same day because the Exchange is not open for business on a certain weekday, the Exchange will list only one of such Weekly Expirations. The Exchange believes it is appropriate to clarify in the rule text that the Exchange will list just one Weekly Expiration in such a case, as the two Weekly Expirations would essentially be the same options contract. For example, if the Exchange listed SPXW options with proposed Thursday expirations and Friday expirations and the Exchange was closed for business on a Friday then, pursuant to current Rule 4.13(e)(1), the normally expiring Friday expiration would expire on the previous business day—essentially making it an SPXW option with a Thursday expiration. Thus, expiring SPXW options in this case will always have the same weekday expiration (per the example, it is an SPXW option with a Thursday expiration, whether it was listed as an SPXW with a Thursday expiration or a Friday expiration). As such, for the sake of clarity in the rules and to mitigate any confusion regarding the listing of SPXW options when the Exchange is closed for business, the proposed rule change provides that

⁴ Given that each trading day of the week, as proposed, could be the last trading day of the month and the day in which a Weekly Expiration expires, the Exchange updates this rule text to streamline the language.

⁵ The Exchange updates the rule text for additional clarity.

the Exchange will list just one Weekly Expiration if two Weekly Expirations would expire on the same day due to the Exchange being closed for business. Also, like all Weekly Expirations listed pursuant to Rule 4.13(e)(4) of the Pilot Program, transactions in expiring SPXW options with Tuesday and Thursday expirations may be effected on the Exchange between the hours of 9:30 a.m. and 4:00 p.m. on their last trading day (Eastern Time). The Exchange makes a nonsubstantive clarifying change to Rule 4.13(e)(4) to provide that on the last trading day, Regular Trading Hours for expiring Weekly Expirations and EOMs are from 9:30 a.m. and 4:00 p.m. As SPXW options are also available for trading during Global Trading Hours, the proposed update merely clarifies that Rule 4.13(e)(4) refers to the close of Regular Trading Hours.⁶ The proposed rule text is substantively identical to Rule 5.1, which governs trading hours on the Exchange generally, and provides that, on their last trading day, Regular Trading Hours for index options with nonstandard expirations are from 9:30 a.m. to 4:00 p.m.⁷

The Exchange believes that that [sic] the introduction of SPXW options with Tuesday and Thursday expirations will expand hedging tools available to market participants while also providing greater trading opportunities. By offering SPXW options with Tuesday and Thursday expirations along with the current Monday, Wednesday and Friday expirations, the proposed rule change will allow market participants to purchase SPXW options in a manner more aligned with specific timing needs and more effectively tailor their investment and hedging strategies and manage their portfolios. In particular, the proposed rule change will allow market participants to

⁶ The Exchange notes that the Exchange's GTH trading session was adopted after the Nonstandard Expirations Pilot Program. See Securities Exchange Release Nos. 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (SR-CBOE-2009-075) ("Nonstandard Expirations Pilot Approval Order"); and 34-73704 (November 28, 2014), 79 FR 72044 (December 4, 2014) (SR-CBOE-2014-062) (order granting approval of proposed rule change to adopt Extended Trading Hours).

⁷ See Rule 5.1.(b)(2)(C).

roll their positions on more trading days, thus with more precision, spread risk across more trading days and incorporate daily changes in the markets, which may reduce the premium cost of buying protection.

The Exchange proposes to abide by the same reporting requirements for the trading of SPXW options that expire on any Tuesday or Thursday that it does for the trading of P.M.-settled options on broad-based indexes that expire on any Monday, Wednesday, or Friday pursuant to the Pilot Program. The Exchange proposes to include data regarding SPXW options that expire on Tuesdays or Thursdays as it does for current Weekly Expirations on any broad-based index option in the Pilot Program annual report that it submits to the Securities and Exchange Commission (“Commission”) at least two months prior to the expiration date of the Pilot Program.⁸ The Exchange is required to submit an annual report at least yearly. The annual report to the Commission addresses the following areas: Analysis of Volume & Open Interest, Monthly Analysis of Weekly Expirations & EOM Trading Patterns and Provisional Analysis of Index Price Volatility. Going forward, the Exchange will include the same areas of analysis for SPXW options with Tuesday and Thursday expirations in the annual reports. Additionally, the Exchange will provide the Commission with any additional data or analyses the Commission requests because it deems such data or analyses necessary to determine whether the Pilot Program, including SPXW options with Tuesday and Thursday expirations as proposed, is consistent with the Exchange Act. As it does for current Pilot Program products, the Exchange will make public on its website all data and analyses in connection with SPXW options with Tuesday and Thursday expirations it submits to the Commission under the Pilot Program.

⁸ See Nonstandard Expirations Pilot Approval Order.

The Exchange believes there is sufficient investor interest and demand in SPXW options with Tuesday and Thursday expirations to warrant inclusion in the Pilot Program and that the Pilot Program, as amended, will continue to provide investors with additional means of managing their risk exposures and carrying out their investment objectives.⁹ The Exchange notes that during the Pilot Program’s nearly 12-year tenure, the Exchange has not observed any significant adverse market effects or identified any regulatory concerns as a result of the Pilot Program, nor does it believe that additional expirations listed under the Pilot Program would result in any such impact or regulatory concerns. Based on a study conducted by Commission staff on the pilot data (including quarterly, weekly, EOM and third Friday expirations for P.M.-settled SPX options),¹⁰ there is no evidence of any significant adverse economic impact to the futures, index, or underlying index component securities markets as a result of the quantity of P.M.-settled SPX options that settle at the close or the amount of expiring open interest in P.M.-settled SPX options.¹¹

⁹ The Exchange additionally notes that it already allows SPXW options to expire on Tuesdays for normally Monday or Wednesday expiring SPXW options when the Exchange is not open for business on a respective Monday or Wednesday (as applicable), and already allows SPXW options to expire on Thursdays for normally Friday expiring SPXW options when the Exchange is not open for business on a respective Friday. Also, EOM options may currently be listed to expire on a Tuesday or Thursday.

¹⁰ See Securities and Exchange Commission, Division of Economic Risk and Analysis, Memorandum, Cornerstone Analysis of PM Cash-Settled Index Option Pilots (February 2, 2021) (“SEC PM Pilot Memo”).at 13, available at: https://www.sec.gov/files/Analysis_of_PM_Cash_Settled_Index_Option_Pilots.pdf (“Option settlement quantity data for A.M.- and P.M.-settled options were obtained from the Cboe, including the number of contracts that settled in-the-money for each exchange-traded option series on the S&P 500 index...on expiration days from January 20, 2006 through December 31, 2018. Daily open interest and volume data for [SPX] option series were also obtained from Cboe, including open interest data from January 3, 2006 through December 31, 2018 and trading volume data from January 3, 2006 through December 31, 2018.”)

¹¹ See *id.* at 3. For example, the largest settlement event that occurred during the time period of the study (a settlement of \$100.4 billion of notional on December 29, 2017) had

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it believes that the Exchange and OPRA have the necessary systems capacity to handle any potential additional traffic associated with trading of SPXW options with Tuesday and Thursday expirations. The Exchange does not believe that its Trading Permit Holders (“TPHs”) will experience any capacity issues as a result of this proposal and represents that it will monitor the trading volume associated with any possible additional options series listed as a result of this proposal and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange’s automated systems. Additionally, the Exchange notes that it recently implemented a strike mitigation initiative to reduce the number of strikes listed for SPXW options, effectively reducing the number of SPXW options series listed on the Exchange by approximately 10%; such that, upon adding SPXW options with Tuesday and Thursday expirations, the number of SPXW options series listed on the Exchange will be less than the number of such series that were listed prior to the implementation of the SPXW options strike reduction.

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.¹² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and

an estimated impact on the futures price of only approximately 0.02% (a predicted impact of \$0.54 relative to a closing futures price of \$2,677).

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

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 facilitation 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 investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁴ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange does not believe that the addition of SPXW options with Tuesday and Thursday expirations to the Pilot Program will raise any prohibitive regulatory concerns, nor adversely impact fair and orderly markets on expiration days. The Exchange has not experienced any meaningful regulatory concerns, nor adverse impact on fair and orderly markets, in connection with the Pilot Program that has permitted the listing and trading of SPXW options with Monday, Wednesday and Friday expirations since 2010. Particularly, and as described above, the Exchange does not believe increases in the number P.M.-settled SPX options series will have any significant adverse economic impact on the futures, index, or underlying index component securities markets. The Exchange believes that the proposed rule change will provide investors with greater trading and hedging opportunities and flexibility, allowing them to transact in SPXW options in a manner more aligned with specific timing needs and more effectively tailor their investment and hedging objectives by listing SPXW options that expire each trading day of the week.

The Exchange notes also that it will include analysis in connection with SPXW options that expire on Tuesdays and Thursdays, in the same manner that it currently does for other Pilot

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Id.

Program products, in the annual reports it submits to the Commission, and will provide the Commission with any additional data or analyses the it may request if it deems such data or analyses necessary to determine whether the Pilot Program, including SPXW options with Tuesday and Thursday expirations as proposed, is consistent with the Exchange Act. The Exchange represents that it believes that it has the necessary systems capacity to support any additional traffic associated with trading of SPXW options with Tuesday and Thursday expirations and does not believe that its TPHs will experience any capacity issues as a result of this proposal. The Exchange will monitor the trading volume associated with any possible additional options series listed and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems. The Exchange again notes that, as a result of an SPXW options strike mitigation initiative recently implemented by the Exchange, the number of SPXW options series listed on the Exchange once Tuesday and Thursday expirations become available will be less than the number of such series that were listed prior to the implementation of the strike mitigation initiative.

The Exchange also notes that the nonsubstantive proposed rule change clarifying the trading session to which Rule 4.13(e)(4) refers will protect investors and the public interest by adding a clarification to rules governing the Pilot Program, as well as conforming such provision to Rule 5.1, which governs trading hours on the Exchange generally and has a substantively identical provision to that of the proposed rule change.¹⁵

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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. The

¹⁵ See supra note 7.

Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because SPXW options with Tuesday and Thursday expirations will be available to all market participants. By listing SPXW options that expire Tuesdays and Thursdays, the proposed rule change will provide all investors that participate in the SPX options market greater trading and hedging opportunities and flexibility to meet their investment and hedging needs. Additionally, Tuesday and Thursday expiring SPXW options will trade in the same manner as Weekly Expirations currently trade.

The Exchange does not believe that the proposal to list SPXW options with Tuesday and Thursday expirations will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because SPX options (including SPXW options) are proprietary Exchange products. Other exchanges offer nonstandard expiration programs for index options and are welcome to similarly propose to list Tuesday and Thursday options on those indexes. To the extent that the addition of SPXW options that expire on Tuesdays and Thursdays available for trading on the Exchange makes the Exchange a more attractive marketplace to market participants at other exchanges, such market participants are free to elect to become market participants on the Exchange.

The proposed rule change to clarify the trading session referred to in Rule 4.13(e)(4) will not burden intramarket or intermarket competition because it is not intended to be a competitive rule change but instead is intended to add clarity to the Rules and conform the provision to the Rule that governs Exchange trading hours generally.

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-2022-005 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-2022-005. 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-2022-005, 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.¹⁶

Jill M. Peterson
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).