

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="94"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="058"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Cboe BZX Exchange, Inc.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

The Exchange proposes a rule change to permit the listing and trading of options that overlie the Mini-SPX Index, the Russell 2000 Index, and the Dow Jones Industrial Average.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Laura"/>	Last Name * <input type="text" value="Dickman"/>
Title * <input type="text" value="Vice President, Associate General Counsel"/>	
E-mail * <input type="text" value="dickman@cboe.com"/>	
Telephone * <input type="text" value="(312) 786-7572"/>	Fax <input type="text"/>

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date <input type="text" value="08/02/2018"/>	<input type="text" value="Vice President, Associate General Counsel"/>
By <input type="text" value="Laura G. Dickman"/>	<input type="text"/>
(Name *)	

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**Item 1. Text of the Proposed Rule Change**

(a) Cboe BZX Exchange, Inc. (the “Exchange” or “BZX Options”) proposes 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 text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

**Item 2. Procedures of the Self-Regulatory Organization**

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on July 30, 2018.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7462, or Laura G. Dickman, (312) 786-7572, Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

**Item 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

The proposed rule change amends the Exchange’s index rules to permit the listing and trading of XSP options, RUT options, and DJX options. 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>1</sup> RUT options are options on the Russell 2000 Index. DJX options are options based on 1/100<sup>th</sup> of the value of the Dow Jones Industrial Average. The index underlying each of XSP, RUT, and DJX

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<sup>1</sup> See proposed Rule 29.11, Interpretation and Policy .01.

options satisfies the criteria of a broad-based index for the initial listing of options on that index, as set forth in Rule 29.3(b):

- (1) the index is broad-based index, as defined in Rule 29.2(j) (an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries);
- (2) the options are designated as A.M.-settled;
- (3) the index is capitalization-weighted, modified capitalization-weighted, price-weighted or equal dollar-weighted;
- (4) the index consists of 50 or more component securities;
- (5) component securities that account for at least 95% of the weight of the index have a market capitalization of at least \$75 million, except that component securities that account for at least 65% of the weight of the index have a market capitalization of at least \$100 million;
- (6) component securities that account for at least 80% of the weight of the index satisfy the requirements of Rule 19.3 applicable to individual underlying securities;
- (7) each component security that accounts for at least 1% of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six-month period;
- (8) no single component security accounts for more than 10% of the weight of the index, and the five highest-weighted component securities in the index do not, in the aggregate, account for more than 33% of the weight of the index;

- (9) each component security must be an “NMS stock” as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934 (the “Exchange Act”);
- (10) non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than 20% of the weight of the index;
- (11) the current underlying index value is widely disseminated at least once every 15 seconds by OPRA, CTA/CQ, NIDS, or one or more major market data vendors during the time the index options are traded on the Exchange;
- (12) the Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange’s current ISCA allocation and the number of new messages per second expected to be generated by options on such index;
- (13) an equal dollar-weighted index is rebalanced at least once every calendar quarter;
- (14) if an index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected an information barrier around its personnel who have access to information concerning changes in, and adjustments to, the index; and
- (15) the Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

XSP, RUT, and DJX options will be subject to the maintenance listing standards set forth in Rule 29.3(c):

- (1) the conditions stated in (1) through (3) and (9) through (15) above must continue to be satisfied, provided that the requirements in (5) through (8) must be satisfied only as of the first day of January and July in each year; and
- (2) the total number of component securities in the index may not increase or decrease by more than 10% from the number of component securities in the index at the time of its initial listing.<sup>2</sup>

#### Reporting Authority

S&P Dow Jones Indices is the reporting authority for the Mini-SPX Index and the Dow Jones Industrial Average, and Frank Russell Company is the reporting authority for the Russell 2000 Index. The proposed rule change adds these indexes and reporting authorities to Rule 29.2, Interpretation and Policy .01. The proposed rule change also lists the reporting authorities in Rule 29.13(b), which is the disclaimer for reporting authorities. Rule 29.13(b) would apply to these reporting authorities even if not specifically listed; however, the proposed rule change adds the names of the reporting authority to the rule for transparency and clarification.

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<sup>2</sup> In the event XSP, RUT, or DJX 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 Securities and Exchange Commission (the “Commission”) under Section 19(b)(2) of the Exchange Act.

### Minimum Increments

Rule 29.11(a) states bids and offers are expressed in terms of dollars and cents per unit of the index. The minimum increment applicable to index options is set forth in Rule 21.5. The proposed rule change adds Interpretation and Policy .02 to Rule 21.5, which states for so long as SPDR options (SPY) and Diamonds options (DIA) participate in the Penny Pilot Program pursuant to Interpretation and Policy .01, the minimum increments for XSP options and DJX options, respectively, will be the same as SPY and DIA, respectively for all option series (including long-term option series). Such minimum increment would be \$0.01 for all SPY series, regardless of price, and \$0.01 for DJX series trading at less than \$3.00 and \$0.05 for DJX series trading at \$3.00 or higher, respectively, as set forth in Rule 21.5(a).

SPY options are options on the SPDR S&P 500 exchange-traded fund (ETF), which is an ETF that tracks the performance of 1/10<sup>th</sup> the value of the S&P 500 Index. DIA options are options on the SPDR Dow Jones Industrial Average ETF, which is an ETF that tracks the performance of the Dow Jones Industrial Average. SPY and DIA options currently participate in the Penny Pilot Program. XSP options are also based on the S&P 500 Index, and DJX options are also based on the Dow Jones Industrial Average, as discussed above. The Exchange believes it is important that these products have the same minimum increments for consistency and competitive reasons. The proposed rule change is also the same as another options exchange.<sup>3</sup>

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<sup>3</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03.

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.

#### Settlement and Exercise Style

RUT, XSP, and DJX options will be A.M., cash-settled contracts with European-style exercise. A.M.-settlement is consistent with the generic listing criteria for broad-based indexes<sup>4</sup>, and thus it is common for index options to be A.M.-settled. The Exchange proposes to amend Rule 29.11(a)(5)(B) to add XSP, RUT, and DJX options to the list of other A.M.-settled options. The Exchange proposes to amend Rule 29.11(a)(4) to add XSP, RUT, and DJX options to the list of other European-style index options.

#### Long-Term Index Options

Rule 29.11(b)(1) currently states the Exchange may list long-term index options series that expire from 12 to 60 months from the date of issuance. The proposed rule change permits listing of long-term index options series that expire from 12 to 180 months from the date of issuance. The Exchange understands that market participants may enter into over-the-counter (“OTC”) positions with longer-dated expirations than currently available on the Exchange. The proposed rule change will permit the Exchange to list long-term index options contracts with longer-dated expirations. The Exchange believes expanding the eligible term for long-term index options contracts to 180 months is important and necessary to the Exchange’s efforts to offer products in an exchange-traded environment that compete with OTC products. The Exchange believes long-term index options contracts provide market participants and investors with a competitive

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<sup>4</sup> See Rule 29.3(b).



comparable alternative to the OTC market in long-term index options, which can take on contract characteristics similar to long-term index options contracts but are not subject to the same maximum term restriction. By expanding the eligible term for long-term index options contracts, market participants will now have greater flexibility in determining whether to execute their long-term index options in an exchange environment or in the OTC market. The Exchange believes market participants can benefit from being able to trade these long-term index options in an exchange environment in several ways, including, but not limited to the following: (1) enhanced efficiency in initiating and closing out positions; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of long-term index options contracts.

The Exchange has confirmed with the OCC that OCC can configure its systems to support long-term equity options contracts that have a maximum term of 180 months (15 years). The proposed rule change is also consistent with the rules of other options exchanges.<sup>5</sup> Pursuant to the proposed rule change, the Exchange may list XSP, RUT, and DJX options with expirations from 12 to 180 months from the date of issuance.<sup>6</sup>

Rule 29.11(b)(2) provides that reduced-value long-term option series may be approved for trading on specified indices.<sup>7</sup> A reduced-value long-term option series is an option series overlying an index that trades in units based upon a percentage of the value of the underlying index (such as 10%). As set forth in current Rule 29.11(b)(2)(B), reduced-value long-term options series may expire at six-month intervals. The proposed

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<sup>5</sup> See, e.g., Cboe Options Rule 24.9(b)(1).

<sup>6</sup> See id.

<sup>7</sup> See proposed Rule 29.11(b)(2)(A).

rule change adds RUT to the list of indices on which the Exchange may list reduced-value long-term option series. 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 premiums, as discussed below.<sup>8</sup> For reduced-value long-term RUT series, the underlying value will be computed at 10% of the value of the Russell 2000.

Rule 29.11(b)(1)(A) also states strike price intervals, bid/ask differential, and continuity rules do not apply to long-term index options series until the time to expiration is less than twelve months. Rule 29.11(c) describes the strike price intervals applicable to long-term index options. Additionally, Rule 22.6(d) describes continuous quoting requirements for Market Makers.<sup>9</sup> The Exchange has no rules imposing bid/ask differential requirements. The Exchange views these other Rules regarding strike price interval and quote continuity requirements as superseding the language proposed to be deleted. Additionally, stating bid/ask different rules do not apply to long-term index option contracts is unnecessary, as no such rules are included in the Exchange's Rules. The Exchange believes deletion of the language Rule 29.11(b)(1)(A) will provide additional clarity and eliminate any confusion on the applicability of the strike price interval and quote continuity requirements that may otherwise result by including duplicative rules on these topics.

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<sup>8</sup> See proposed Rule 29.11(c)(1).

<sup>9</sup> This rule excludes series with time to expiration of nine months or more from Market Makers' quoting obligations.

## Strike Intervals

### RUT Options

The proposed rule change amends Rule 29.11(c)(1) to provide that the interval between strike prices will be no less than \$2.50 for RUT options (if the strike price is less than \$200) and reduced-value long-term option series. This is the same strike interval that applies to RUT options and reduced-value long-term option series pursuant to rules of other options exchanges.<sup>10</sup>

### XSP Options

Additionally, the proposed rule change adds Rule 29.11(c)(5), which provides that the strike prices for new and additional series of XSP options are subject to the following:

- (1) if the current value of the Mini-SPX Index is less than or equal to 20, the Exchange will not list XSP option series with a strike price of more than 100% above or below the current value of the Mini-SPX Index;
- (2) if the current value of the Mini-SPX Index is greater than 20, the Exchange will not list XSP option series with a strike price of more than 50% above or below the current value of the Mini-SPX Index; and
- (3) the lowest strike price interval that may be listed for standard XSP option series is \$1, including the long-term option series, and the lowest strike price interval that may be listed for XSP option series under the Short Term Option Series Program in paragraph (h) of Rule 29.11.

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<sup>10</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC (“Phlx”) Rule 1101A(a).

The proposed strike prices for XSP options will permit strike prices closely aligned with SPX options.<sup>11</sup> Additionally, the proposed strike price range limitations for XSP options are closely aligned with the strike price range limitations for equity and exchange-traded fund (“ETF”) options.<sup>12</sup> The proposed strike prices and limitations for XSP options are the same as those on another options exchange.<sup>13</sup> XSP options allow smaller-scale investors to gain broad exposure to the SPX options market and hedge S&P 500 Index cash positions.<sup>14</sup> As a result, XSP options provide retail investors with the benefit of trading the broad market in a manageably sized contract.

Current Rule 29.11(c)(1) provides that strike prices are permitted only in intervals of at least \$5. SPX options may be listed in intervals of at least \$5.<sup>15</sup> If the S&P 500 Index value was 2700, then the Mini-S&P 500 value would be 270. SPX options would be permitted to be listed with strikes of 2710, 2720, and 2730. Corresponding XSP options strikes would be 271, 272, and 273; however, under the current rule, the Exchange could only list strikes of 270 and 275 for XSP options. The proposed \$1 strike interval for XSP options will permit the listing of series with strikes that correspond to SPX option strikes.

Additionally, current Rule 29.11(c)(3) requires the exercise price of each series of index options to be reasonably related to the current index value of the underlying index

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<sup>11</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(a).

<sup>12</sup> See Rule 19.6, Interpretations and Policies .02(b), .04(c), and .05(c).

<sup>13</sup> See Cboe Options Rule 24.9, Interpretation and Policy .11.

<sup>14</sup> See Securities Exchange Act Release No. 32893 (September 14, 1993), 58 FR 49070 (September 21, 1993) (SR-CBOE-93-12) (order approving listing of XSP options).

<sup>15</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(a).

to which the series relates at or about the time the series of options is first opened for trading on the Exchange. Pursuant to Rule 29.11(c)(4), the term “reasonably related to the current index value of the underlying index” means the exercise price must be within 30% of the current index value. The Exchange may also open for trading additional series of index options that are more than 30% away from the current index value, provided that demonstrated customer interest exists for the series. The Options Listing Procedures Plan sets forth exercise price range limitations for equity and ETF options (which are the same as those being proposed for XSP options). Those limitations differ from the limitations set forth in the current Rule. For example, if the underlying price of an equity or ETF option is \$200, the Exchange would be permitted to list strikes ranging from \$100 through \$300 (50% above and below the current value). However, if the value of the Mini-SPX Index was \$200, the Exchange would only be permitted to list strikes ranging from \$140 to \$260. To put XSP options on equal standing with equity and ETF options with respect to exercise price range limitations, the Exchange proposes to impose exercise price range limitations on XSP options that are equal to those applicable to equity and ETF exercise price range limitations.<sup>16</sup>

The Exchange believes these permitted strike prices will permit the Exchange to list XSP options with strikes that more closely reflect the current values of the S&P 500 Index, as they provide more flexibility and allow the Exchange to better respond to customer demand for XSP option strike prices that relate to current S&P 500 Index values. In addition, the Exchange believes that because the number of strikes that may be listed would be contained by the percentages above and below the current XSP Index

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<sup>16</sup> See proposed Rule 29.11(c)(5).

value, there is no need to restrict the use of \$1 strike price intervals based on the amount of the strike price.

The Exchange recognizes the proposed approach does not achieve full harmonization between strikes in XSP options and SPX options. For example, if there is a 2715 strike in SPX options, the Exchange is not seeking the ability to list a 271.5 strike in XSP options. The Exchange believes being able to list the 271 and 272 strikes in XSP options would provide the marketplace with a sufficient number of strike prices over a range of XSP values.<sup>17</sup> The Exchange believes this proposed rule change would allow retail investors to better use XSP options to gain exposure to the SPX options market and hedge S&P 500 cash positions in the event that the S&P 500 Index value continues to increase.

The S&P 500 Index is widely used to gauge large cap U.S. equities, and as a result, investors often use S&P 500 Index-related products to diversify their portfolios and benefit from market trends. Full-size SPX options offer these benefits to investors, but may be expensive given its large notional value. Those options are primarily used by institutional market participants. By contrast, XSP options offer individual investors a lower cost options to obtain the potential benefits of options on the S&P 500 Index.

#### DJX Options

Proposed Rule 29.11(c)(6) provides the interval between strike prices may be no less than \$0.50 for options based on 1/100<sup>th</sup> of the value of the Dow Jones Industrial

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<sup>17</sup> Nothing in this rule filing precludes the Exchange from submitting a future rule filing requesting even finer strike price increments for XSP options.

Average, including for series listed under the Short Term Options Program.<sup>18</sup> As noted above, current Rule 29.11(c)(1) provides that strike prices are permitted only in intervals of at least \$5. As noted above, DJX options are based on 1/100<sup>th</sup> the value of the Dow Jones Industrial Average. For example, if the value of the Dow Jones Industrial Average was 25100, series of an option based on the full value of that average could be listed with strike prices of 25105, 25110, and 25115. One-one hundredth of the value of the Dow Jones Industrial Average would be 251.05, 251.10, and 251.15, but the Exchange would only be able to list series with strike prices of \$250 and \$255. Pursuant to the proposed rule change, the Exchange could list series with strike prices of 251.50, 252, 252.50, and 253. The Exchange recognizes the proposed approach does not achieve full harmonization between strikes in DJX options and the full value of the Dow Jones Industrial Average. However, the Exchange believes being able to list the DJX options at strike intervals of \$0.50 would provide the marketplace with a sufficient number of strike prices over a range of DJX values.<sup>19</sup> The Exchange believes this proposed rule change would allow retail investors to better use DJX options to gain exposure to the market and hedge Dow Jones Industrial Average cash positions in the event that the value continues to increase. The proposed strike price interval for DJX options is the same as those on another options exchange.<sup>20</sup>

### Opening Process

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<sup>18</sup> See Rule 29.11, Interpretation and Policy .05 for a description of the Short Term Options Program.

<sup>19</sup> Nothing in this rule filing precludes the Exchange from submitting a future rule filing requesting even finer strike price increments for DJX options.

<sup>20</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(b).

The proposed rule change adds paragraph (c) to Rule 21.7 to describe the opening process for index options. Current Rule 21.7(b) states the System will open index options for trading at 9:30 a.m. Eastern time. Pursuant to the current opening process, following 9:30 a.m., the System will determine a price at which a particular series will be opened (the “Opening Price”) within 30 seconds of that time. Where there are no contracts in a particular series that would execute at any price, the System will open such options for trading without determining an Opening Price. The Opening Price of a series must be a Valid Price, as determined by current subparagraph (a)(2), and will be:

- the midpoint of the NBBO (the “NBBO Midpoint”);
- where there is no NBBO Midpoint at a Valid Price, the last regular way print disseminated pursuant to the OPRA Plan after 9:30 a.m. Eastern Time (the “Print”);
- where there is both no NBBO Midpoint and no Print at a Valid Price, the last regular way transaction from the previous trading day as disseminated pursuant to the OPRA Plan (the “Previous Close”); or
- where there is no NBBO Midpoint, no Print, and no Previous Close at a Valid Price, the Order Entry Period may be extended by 30 seconds or less or the series may be opened for trading at the discretion of the Exchange.

A NBBO Midpoint, a Print, and a Previous Close will be at a Valid Price:

- where there is no NBB and no NBO;
  - where there is either a NBB and no NBO or a NBO and no NBB and the price is equal to or greater than the NBB or equal to or less than the NBO;
- or



- where there is both a NBB and NBO, the price is equal to or within the NBBO, and the price is less than a specified minimum amount away from the NBB or NBO for the series.

Under this Opening Process, if a series has not opened yet on another exchange on a trading (and thus there is no NBBO and no Last Print), if there is a Previous Close Price, it will be a valid price and will be the Opening Price. Additionally, if there are no crossed contracts in a series, the series opens immediately following the time period referenced above.

The Exchange proposes to modify this process with respect to index options. Pursuant to the proposed rule change, for index options, the System will determine the Opening Price within 30 seconds of an away options exchange(s) disseminating a quote in a series. Following an away options exchange's dissemination of a quote in a series, if there are no contracts in a series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid, of a series will be the NBBO Midpoint. Pursuant to proposed subparagraph (c)(2), for index options, the NBBO Midpoint is a valid price if it is less than a specified minimum amount away from the NBB or NBO for the series.<sup>21</sup> If the NBBO Midpoint is not valid, the Exchange in its discretion may extend the order entry period by up to 30 seconds or open the series for trading. In other words, the proposed rule change provides that an

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<sup>21</sup> There are currently three criteria for an opening price to be valid. See current Rule 21.7(a)(2) (proposed Rule 21.7(b)(2)). Since the proposed rule change provides that an index option series will only open once it receives an NBBO from another exchange, in which case there will always be an NBB and NBO and thus an NBBO midpoint, the only criteria for an opening price to be valid that would apply to index options is the criteria regarding how far away the NBBO midpoint is from the NBB or NBO.

index option series will not open (with or without a trade) until after the series is open on another exchange. To the extent the Exchange receives a quote from another Exchange within the time period referenced above, and there are contracts that may trade, the Opening Process will essentially be the same, and a series will open with the NBBO Midpoint as an Opening Price (if valid). Additionally, the Exchange will continue to have the ability to use a contingent opening to open a series for trading if there is no valid Opening Price. The proposed rule change delays opening of a series on the Exchange in an index option series if there are no crossed contracts, and eliminates the possibility to open using the Last Print or Previous Close (as those will generally not be necessary if the Exchange waits for another exchange to open).

Currently, RUT options trade on Cboe Options and C2 Exchange, Inc. (“C2”), and XSP options trade on Cboe Options, which are affiliated exchanges of the Exchange. Under current Rule 21.7, if a RUT series was open on Cboe Options, and if there are crossed orders on the Exchange, the RUT series on the Exchange would open with an Opening Price equal to the NBBO Midpoint (if valid). If a RUT series was not yet open on another Exchange after 9:30 a.m. (eastern), and there was a Previous Close for the series, the series would open on the Exchange with the Previous Close as the Opening Price. If there are no crossing orders on the Exchange, a RUT series would open without an opening price, possibly before the RUT series was open on Cboe Options.

RUT options on Cboe Options generally open within 30 seconds after 9:30 a.m., and thus the Exchange expects RUT options to open for trading within 30 seconds (as set forth in the rule) at an Opening Price equal to the NBBO Midpoint if there are orders that can be crossed. However, it will be possible for a RUT series to open prior to the

opening of that series on Cboe Options. This is significant because, on certain dates, Cboe Options uses prices of RUT options trading on Cboe Options to determine settlement values for volatility index derivatives.<sup>22</sup> While trading in these options on volatility index derivative settlement days also generally opens within a few seconds after 9:30 a.m, there have been times when series being used to determine the settlement value took longer to open. Under the proposed rule, series on the Exchange would open without an Opening Price (if there are no crossed orders) or with an Opening Price equal to the Previous Close (if there are crossed orders) prior to the settlement value determination being completed on Cboe Options. If this were to occur, trading on the Exchange may then be occurring at very different prices than what is ultimately the opening trade price on Cboe Options. Trading on another Exchange while Cboe Options is not yet open may impact the volatility settlement value determination and disrupt trading of volatility index derivatives. The proposed rule change eliminates the possibility of RUT options on the Exchange automatically opening for trading prior to those options being open on Cboe Options and thus interfering with the calculation of volatility index derivative settlement values.

The proposed rule change is the same as the opening process for index options on C2.<sup>23</sup> Additionally, the opening process on Nasdaq BX, LLC (“BX”) is similar to the proposed rule change. Pursuant to BX Chapter VI, Section 8(b), if there is a possible trade on BX, a series will open with a valid width NBBO.<sup>24</sup> This is similar to the

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<sup>22</sup> See Cboe Options Rule 6.2, Interpretation and Policy .01.

<sup>23</sup> See C2 Rule 6.11(a)(2)(B).

<sup>24</sup> On BX, a valid width NBBO means a combination of all away market quotes and any combination of BX Options-registered Market-Maker orders and quotes received over a BX-provided system component through which Market-Makers

proposed rule change, in that a valid NBBO Midpoint must be present for an index option series to open with a trade (which on the Exchange would only occur if another exchange was open for trading, because on the Exchange, the NBBO that is used to determine the Opening Price is based on disseminated quotes of other exchanges and does not include orders and quotes on the Exchange prior to the opening of trading<sup>25</sup>). Additionally, if no trade is possible on BX, then BX will depend on one of the following to open: (1) a valid width NBBO, (2) a certain number of other options exchanges (as determined by BX) having disseminated a firm quote on OPRA, or (3) a certain period of time (as determined by the Exchange) has elapsed. As proposed, if no trade is possible, the Exchange will open an index option series after another exchange as disseminated a quote, which is consistent with number (2) above (for example, under BX's rule, it could determine to open if one other options exchange was open). While the proposed rule change does not explicitly provide for additional alternatives in the event no trade is possible, pursuant to Rule 21.7(f), the Exchange may adjust the timing of the Opening Process in a class if it believes it is necessary in the interests of a fair and orderly market.<sup>26</sup> Therefore, like BX, the Exchange could open a series after a certain amount of time has passed if the series does not open on another exchange.

Once the System determines an opening price for an index option, it will open a series with an opening trade in the same manner as it does for equity options. The

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communicate their quotes within a specified bid/ask differential established by BX. See BX Chapter VI, Section 8(a)(6).

<sup>25</sup> See Rule 16.1(a)(29) (definition of NBBO).

<sup>26</sup> Number (1) above would not apply because, as noted above, the NBBO on the Exchange prior to the opening of trading does not include orders and quotes on the Exchange.

proposed rule change moves the description of this process from current Rule 21.7(a)(3) to proposed Rule 21.7(d). The proposed rule change also adds to proposed paragraph (d) that the System cancels any OPG (also called at the open orders) (or unexecuted portions) that do not execute during the opening process. This is consistent with the behavior of orders with the OPG time-in-force instruction.<sup>27</sup> Additionally, the proposed rule change moves the description of a contingent open, which will also apply to index and equity options, from current Rule 21.7(a)(4) to proposed Rule 21.7(e).<sup>28</sup> The proposed rule change makes other nonsubstantive changes (e.g. adding headings and updating paragraph lettering and numbering). Additionally, the proposed rule change clarifies in Rule 21.7(a) that re-opening after regulatory halts applies only to equity options, as regulatory halts only occur in equity options.

#### Trading Halts

Current Rule 29.10(b) describes when the Exchange may halt trading in an index option. It permits the Exchange to halt trading in an index option when, in its<sup>29</sup> judgment, such action is appropriate in the interests of a fair and orderly market and to protect investors. The Exchange may consider the following factors, among others:

- whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;
- whether the current calculation of the index derived from the current market prices of the stocks is not available;

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<sup>27</sup> See Rule 21.1(f)(6).

<sup>28</sup> The proposed rule change makes nonsubstantive changes to this provision, including to make the rule plain English and eliminate passive voice.

<sup>29</sup> The proposed rule change modifies the rule to say “its” (as the sentence refers to the Exchange) rather than “his or her.”

- the extent to which the opening has been completed or other factors regarding the status of the opening; and
- other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present, including, but not limited to, the activation of price limits on futures exchanges.

The proposed rule change amends the first factor to state the Exchange may consider the extent to which trading is not occurring in the stocks or options underlying the index. This provides the Exchange with additional flexibility to consider trading on all markets on which the underlying components trade when determining whether to halt trading in an index option. The Exchange believes flexibility is appropriate when determining whether to halt trading in an index option so it can make such a determination based on then-current circumstances to determine what will contribute to a fair and orderly market. For example, less than a “plurality” of underlying components may trade on one market, but if trading on that market is halted, the Exchange may determine halting trading in the index option is in the interests of a fair and orderly market because of the specific components that are not trading. This proposed change is consistent with the rules of another options exchange.<sup>30</sup>

Rule 29.10 also states trading on the Exchange will be halted or suspended whenever trading in underlying securities whose weighted value represents more than 20%, in the case of a broad-based index, and 10% for all other indices, of the index value is halted or suspended. The proposed rule change deletes this provision. The first factor, as amended by this proposed rule change, permits the Exchange to determine to halt

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<sup>30</sup> See, e.g., Cboe Options Rule 24.7(a).

trading in an index option in this specific circumstance. This provision provides the Exchange with no flexibility to determine what is in the interests of a fair and orderly market. The rules of other exchanges do not have this provision.<sup>31</sup>

#### Expirations Listed on Other Exchanges

Proposed Rule 29.11(j) permits the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange. As noted above, Rule 29.11(a)(3) permits the Exchange to list up to six expiration months at any one time for an index option class. Other options exchange have rules that permit them to list additional expiration months if they are opened for trading on at least one other options exchange.<sup>32</sup> This proposed rule change will allow the Exchange to compete with other exchanges by matching the expiration months that other exchanges list.

The Exchange notes that the proposed rule change affords additional flexibility in that it will permit the exchange to list those additional expiration months that have an actual demand from market participants thereby potentially reducing the proliferation of classes and series. The Exchange believes the proposed rule change is proper, and indeed necessary, in light of the need to have rules that permit the listing of identical expiration months across exchanges for products that multiply-listed and fungible with one another. The Exchange believes that the proposed rule change should encourage competition and be beneficial to traders and market participants by providing them with a means to trade on the Exchange securities that are listed and traded on other exchanges.

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<sup>31</sup> See, e.g., Cboe Options Rule 24.7(a); Phlx Rule 1047A(c).

<sup>32</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.

### Obvious Error

The proposed rule change adds to Rule 20.6(g) and (h) language to clarify that, for purposes of determining whether a trade resulted from an erroneous print or quote in the underlying, the underlying may include index values (as well as Fund Shares and HOLDRs, which may also underlie options trading on the Exchange pursuant to Rule 19.3(g) and (i), respectively).<sup>33</sup> This is consistent with the rules of another options exchange.<sup>34</sup>

### Restrictions on Contracts

The proposed rule change adds Rule 29.15, which states contracts provided for in Chapter 29 of the Rules will not be subject to the restriction in Rule 18.12(b). Rule 18.12(b) states whenever the issuer of a security underlying a call option traded on the Exchange is engaged or proposes to engage in a public underwritten distribution (“public distribution”) of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that the exchange impose restrictions upon all opening writing transactions in such options at a discount where the resulting short position will be uncovered. The rule includes additional conditions that are necessary to impose these restrictions.

Rule 18.12(b) applies to equity options, and to restrictions the issuer of the security underlying the equity option may request. As there is no issuer of an “index,” and thus there is no possibility of a public distribution of an index, the Rule does not

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<sup>33</sup> While adding language in this rule provision regarding Fund Shares and HOLDRs is unrelated to the purpose of this filing, which is to permit the listing and trading of certain index options on the Exchange, the Exchange believes it is appropriate to include this language in the proposed rule text to ensure continued harmonization of obvious error rules across all exchanges.

<sup>34</sup> See, e.g., Cboe Options Rule 6.25(g) and (h).



apply to index options. Rule 29.15 merely states this explicitly in the Rules. This will also ensure it is clear in the Rules that an issuer of a security that is a component of an index may not request restrictions on the index options, as the Exchange does not believe it would be appropriate for an issuer of a single underlying component to have the ability to restrict trading in the index option. The proposed rule change is consistent with the rules of at least one other options exchange.<sup>35</sup>

#### Capacity and Surveillance

The Exchange represents it has an adequate surveillance program in place for index options. The Exchange is a member of the Intermarket Surveillance Group (“ISG”), which is comprised of an international group of exchanges, market centers, and market regulators. The purpose of ISG is to provide a framework 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. ISG plays a crucial role in information sharing among markets that trade securities, options on securities, security futures products, and futures and options on broad-based security indexes. A list of identifying current ISG members is available at <https://www.isgportal.org/isgPortal/public/members.htm>.

The Exchange has analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of XSP, RUT, and DJX options up to the proposed number of possible expirations and strike prices. The Exchange believes any additional traffic that would be generated from the introduction of XSP, RUT, and DJX options will be

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<sup>35</sup> See Cboe Options Rule 24.10.

manageable. The Exchange believes its Members will not have a capacity issue as a result of this proposed rule change. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity. 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.

#### Position Limits and Margin

XSP, RUT, and DJX 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, RUT, and DJX options are currently listed and traded on Cboe Options,<sup>36</sup> and thus 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.

The Exchange Rules and Cboe Options rules regarding position and exercise limits and margin requirements are substantially the same as each other, as the Exchange rules currently refer to the corresponding Cboe Options rules. Therefore, Options Members must comply with these Cboe Options rules pursuant to the Exchange Rules. Pursuant to the proposed rule change, the Exchange will be trading index options also

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<sup>36</sup> Similarly, pursuant to Cboe Options Chapter 12, Cboe Options Trading Permit Holders may request to have New York Stock Exchange margin requirements apply to their trading.

authorized for trading on Cboe Options, so the position and exercise limits and margin requirements currently applicable to these index options that trade on Cboe Options will apply to these index options that may be listed for trading on the Exchange. The proposed rule regarding the listing and trading of XSP, RUT, and DJX are substantially the same as Cboe Options rules regarding the listing and trading of XSP, RUT, and DJX, which rules were previously approved by the Commission and thus they are consistent with the Act. Additionally, the rules regarding position and exercise limits and margin requirements that will apply to XSP, RUT, and DJX options listed for trading on the Exchange were previously approved by the Commission, and thus they are consistent with the Act. The proposed rule change will also result in similar regulatory treatment for similar option products.

(b) 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.<sup>37</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>38</sup> 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 investors and the public

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<sup>37</sup> 15 U.S.C. 78f(b).

<sup>38</sup> 15 U.S.C. 78f(b)(5).

interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>39</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The index underlying each of XSP, RUT, and DJX options satisfies the initial listing criteria of a broad-based index in the Exchange's Rules. The proposed rule change adds these indexes to the table regarding reporting authorities for indexes, to the list of European-style exercise index options, and to the list of A.M.-settled index options. These changes are consistent with the Exchange's existing Rules.<sup>40</sup>

The proposed rule change related to the minimum increment for XSP and DJX options will permit consistency between pricing of SPY options and XSP options, which are both based, in some manner, on the value of the S&P 500 Index, and between DIA options and DJX options, which are both based, in some manner, on the value of the Dow Jones Industrial Average. As a result, the Exchange believes it is important that these products have the same minimum increments for competitive reasons. The proposed rule change is also the same as another options exchange.<sup>41</sup>

The proposed rule change to permit listing of long-term index options contracts with terms up to 180 months is designed to promote just and equitable principles of trade in that the availability of long-term index options contracts with longer dated expirations will give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange-traded environment (that is currently being used in

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<sup>39</sup> Id.

<sup>40</sup> See also Cboe Options Rules 24.1, Interpretation and Policy .01 and 24.9(a)(3) and (4).

<sup>41</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03.

the OTC market), the Exchange will be able to compete more effectively with the OTC market. The Exchange believes the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that it will hopefully lead to the migration of options currently trading in the OTC market to trading to the Exchange. Also, any migration to the Exchange from the OTC market will result in increased market transparency. Additionally, the Exchange believes the proposed rule change is designed to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest in that it should create greater trading and hedging opportunities and flexibility. The proposed rule change should also result in enhanced efficiency in initiating and closing out positions and heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of long-term index option series. Further, the proposed rule change will result in increased competition by permitting the Exchange to offer products that are currently used in the OTC market and on other exchanges. Additionally, the proposed rule change is consistent with the series listing rules of other exchanges.<sup>42</sup>

The proposed rule change to eliminate the rule provision regarding the applicability of strike price intervals, bid/ask differentials and quote continuity requirements to long-term index option contracts will protect investors by eliminating potential confusion that may result from inclusion of duplicative rules. As discussed above, other rules address requirements related to strike price intervals and quote continuity requirements and supersede the language regarding these topics, and the Exchange has no rules imposing bid/ask differential requirements (and thus no such

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<sup>42</sup> See, e.g., Cboe Options Rule 24.9(b)(1).

requirements apply to long-term equity option contracts), thus rendering this language unnecessary. The Exchange will continue to impose these requirements in the manner it does today, consistent with the provisions in other existing rules, and thus this proposed rule change has no impact on how the Exchange imposes these requirements. The rules of other options exchanges do not include this provision.<sup>43</sup>

The proposed minimum strike interval for RUT options (if the strike price is less than \$200) and reduced-value long-term option series is the same as that on another options exchanges.<sup>44</sup>

With respect to the proposed strike prices for XSP options, the proposed rule change would more closely align XSP option strike prices with those of SPX option strike prices, and would more closely align strike price range limitations on XSP options with those of equity and ETF options. This would provide more flexibility and allow the Exchange to better respond to customer demand for XSP option strike prices that relate to current S&P 500 Index values. The Exchange believes this proposed rule change would allow retail investors to better use XSP options to gain exposure to the SPX options market and hedge S&P 500 cash positions in the event that the S&P 500 Index value continues to increase. The Exchange does not believe the proposed rule change will create additional capacity issues. In addition, the Exchange believes that because the number of strikes that may be listed would be contained by the percentages above and below the current XSP Index value, the number of XSP strikes that may be listed will not

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<sup>43</sup> See, e.g., Cboe Options Rule 24.9.

<sup>44</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC (“Phlx”) Rule 1101A(a).

be unbounded. The proposed XSP strike prices and restrictions are the same as those on another options exchange.<sup>45</sup>

With respect to the proposed strike prices for DJX options, the proposed rule change would more closely align DJX option strike prices with 1/100<sup>th</sup> the value of the Dow Jones Industrial Average. This would provide more flexibility and allow the Exchange to better respond to customer demand for DJX option strike prices that relate to current Dow Jones Industrial Average values. The Exchange believes this proposed rule change would allow retail investors to better use DJX options to gain exposure to the market and hedge Dow Jones Industrial Average cash positions in the event that the Dow Jones Industrial Average value continues to increase. The Exchange does not believe the proposed rule change will create additional capacity issues. The proposed DJX strike prices are the same as those on another options exchange.<sup>46</sup>

The proposed rule change that permits the Exchange to list additional expiration months if they are listed on another options exchange will permit the Exchange to accommodate requests made by its Trading Permit Holders and other market participants to list the additional expiration months and thus encourage competition without harming investors or the public interest.

The proposed rule change with respect to the opening process for index options eliminates the possibility of RUT options on the Exchange automatically opening for trading prior to those options being open on Cboe Options and thus interfering with the calculation of volatility index derivative settlement values, which promotes just and equitable principles of trade and perfects the mechanism of a free and open market and

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<sup>45</sup> See Cboe Options Rule 24.9, Interpretation and Policy .11.

<sup>46</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(b).

national market system. As discussed above, under certain circumstances, the proposed rule change is expected to have a de minimis impact on the opening of index option series on the Exchange because, to the extent the Exchange receives a quote from another Exchange within the time period following 9:30 a.m., and there are contracts that may trade, the Opening Process will essentially be the same, and a series will open with the NBBO Midpoint as an Opening Price (if valid). Additionally, the Exchange will continue to have the ability to use a contingent opening to open a series for trading if there is no valid Opening Price. Therefore, if an index option series is not yet open on another exchange, the Exchange will still have the ability to open the series for trading. As discussed above, the proposed rule change is the same as the opening process for index options on C2,<sup>47</sup> and similar to the opening process of another options exchange, which also provides that opening for trading may be dependent on whether another options exchange is open.<sup>48</sup>

The proposed rule change to permit the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange is the same as rules of other options exchanges.<sup>49</sup> The proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to match the expiration months that other

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<sup>47</sup> See C2 Rule 6.11(a)(2)(B).

<sup>48</sup> See BX Rule Section 8(b).

<sup>49</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.



exchanges list. This will promote competition among exchanges, which benefits investors.

The proposed rule change regarding when the Exchange may halt trading in index options promotes just and equitable principles of trade and protects the public interest by providing the Exchange with additional flexibility when determine whether to halt trading in an index option, so it can make such a determination based on then-current circumstances to determine what it will contribute to a fair and orderly market. The proposed change is consistent with the rules of another options exchange.<sup>50</sup>

The proposed rule change to clarify that, for purposes of determining whether a trade resulted from an erroneous print or quote in the underlying, the underlying may include index values (as well as Fund Shares and HOLDERS, which may also underlie options trading on the Exchange pursuant to Rule 19.3(g) and (i), respectively) further harmonizes the Exchange's rule related to the adjustment and nullification of erroneous options transactions with those of other options exchanges. The proposed rule change is based on the rules of another options exchange.<sup>51</sup>

Proposed Rule 29.15 is merely stating explicitly in the Rules that Rule 18.12(b) does not apply to index options, which is consistent with the current rule. The proposed rule change is based on the rules of another options exchange.<sup>52</sup>

The Exchange Rules and Cboe Options rules regarding position and exercise limits and margin requirements are substantially the same as each other, as the Exchange rules currently refer to the corresponding Cboe Options rules. Therefore, Options

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<sup>50</sup> See, e.g., Cboe Options Rule 24.7(a); see also Phlx Rule 1047A(c).

<sup>51</sup> Cboe Options Rule 6.25(g) and (h).

<sup>52</sup> Cboe Options Rule 24.10.

Members must comply with these Cboe Options rules pursuant to the Exchange Rules. Pursuant to the proposed rule change the Exchange will be trading index options also authorized for trading on Cboe Options, the Cboe Options position and exercise limits and margin requirements applicable to these index options will apply to these index options that may be listed for trading on the Exchange. Additionally, the previously approved Cboe Options rules regarding listing of XSP, RUT, and DJX index options on the Exchange pursuant to this proposed rule change are subject to these also previously approved Cboe Options rules regarding position and exercise limits and margin requirements, and thus they are consistent with the Act. The proposed rule change will also result in similar regulatory treatment for similar option products.

The Exchange represents it has an adequate surveillance program in place for index options. The Exchange is a member of the Intermarket Surveillance Group (“ISG”), which is comprised of an international group of exchanges, market centers, and market regulators. The purpose of ISG is to provide a framework 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. ISG plays a crucial role in information sharing among markets that trade securities, options on securities, security futures products, and futures and options on broad-based security indexes. A list of identifying current ISG members is available at <https://www.isgportal.org/isgPortal/public/members.htm>.

The Exchange has analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of XSP, RUT, and DJX options up to the proposed number of

possible expirations and strike prices. The Exchange believes any additional traffic that would be generated from the introduction of XSP, RUT, and DJX options will be manageable. The Exchange believes its Members will not have a capacity issue as a result of this proposed rule change. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity. 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.

**Item 4. 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 index underlying each of XSP, RUT, and DJX options satisfies the initial listing criteria of a broad-based index in the Exchange's Rules. The proposed rule change adds these indexes to the table regarding reporting authorities for indexes, to the list of European-style exercise index options, and to the list of A.M.-settled index options. These changes are consistent with the Exchange's existing Rules,<sup>53</sup> as well as Cboe Options' rules.<sup>54</sup>

The proposed rule change related to the minimum increment for XSP and DJX options will permit consistency between pricing of SPY options and XSP options, which are both based, in some manner, on the value of the S&P 500 Index, and between pricing

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<sup>53</sup> See Rules 29.2, Interpretation and Policy .01 and 29.11(a)(4) and (5).

<sup>54</sup> See Cboe Options Rules 24.1, Interpretation and Policy .01 and 24.9(a)(3) and (4).

of DIA options and DJX options, which are both based, in some manner, on the value of the Dow Jones Industrial Average. As a result, the Exchange believes it is important that these products have the same minimum increments for competitive reasons. The proposed rule change is also the same as another options exchange.<sup>55</sup>

The proposed rule change to permit listing of long-term index options contracts with terms up to 180 months will give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange-traded environment (that is currently being used in the OTC market), the Exchange will be able to compete more effectively with the OTC market. Additionally, the Exchange believes that the proposed rule change will create greater trading and hedging opportunities and flexibility. The proposed rule change should also result in enhanced efficiency in initiating and closing out positions and heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of long-term index options contracts. Further, the proposal will result in increased competition by permitting the Exchange to offer products that are currently used in the OTC market. Additionally, the proposed rule change is consistent with the series listing rules of other exchanges.<sup>56</sup>

The proposed rule change to eliminate the rule provision regarding the applicability of strike price intervals, bid/ask differentials and quote continuity requirements to long-term index option contracts will have no impact on Members, as this merely eliminates potential confusion that may result from inclusion of duplicative rules that have been superseded by other rules. The Exchange will continue to impose these requirements in the manner it does today, consistent with the provisions in other

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<sup>55</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03.

<sup>56</sup> See Cboe Options Rule 24.9(b)(1).

existing rules, and thus this proposed rule change has no impact on how the Exchange imposes these requirements. The rules of other options exchanges do not include this provision.<sup>57</sup>

The proposed minimum strike interval for RUT options (if the strike price is less than \$200) and reduced-value long-term option series is the same as that on another options exchanges.<sup>58</sup>

The proposed strike prices for XSP options will be available to all market participants that choose to trade XSP options on the Exchange. Additionally, the proposed XSP strike prices and restrictions are the same as those on another options exchange.<sup>59</sup> The proposed strike prices for DJX options will be available to all market participants that choose to trade DJX options on the Exchange. Additionally, the proposed DJX strike prices and restrictions are the same as those on another options exchange.<sup>60</sup>

With respect to the proposed rule change related to the opening process, the amended opening process will apply in the same manner to all market participants that participate in the Exchange's Opening Process for index options. The Exchange believes it is appropriate to limit the proposed change to index options, because some, such as RUT, are used to determine the settlement value for volatility index derivatives. A similar process does not occur for equity options, and thus, the risk of opening trading in an equity option interfering with a settlement process on another exchange is not present.

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<sup>57</sup> See Cboe Options Rule 24.9.

<sup>58</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC ("Phlx") Rule 1101A(a).

<sup>59</sup> See Cboe Options Rule 24.9, Interpretation and Policy .11.

<sup>60</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(b).

As discussed above, the proposed rule change is the same as the opening process for index options on C2,<sup>61</sup> and similar to the opening process of another options exchange, which also provides that opening for trading may be dependent on whether another options exchange is open.<sup>62</sup>

The proposed rule change regarding when the Exchange may halt trading in index options will apply to all market participants in the same manner to the extent the Exchange halts trading pursuant to the proposed rule. The rule provides the Exchange with additional flexibility when determine whether to halt trading in an index option, so it can make such a determination based on then-current circumstances to determine what it will contribute to a fair and orderly market. The proposed change is consistent with the rules of another options exchange.<sup>63</sup>

The proposed rule change to permit the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange is the same as rules of other options exchanges.<sup>64</sup> This proposed rule change will allow the Exchange compete with other exchanges by matching the expiration months that other exchanges list.

The proposed rule change to clarify that, for purposes of determining whether a trade resulted from an erroneous print or quote in the underlying, the underlying may include index values (as well as Fund Shares and HOLDRs, which may also underlie

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<sup>61</sup> See C2 Rule 6.11(a)(2)(B).

<sup>62</sup> See BX Rule Section 8(b).

<sup>63</sup> See, e.g., Cboe Options Rule 24.7(a); see also Phlx Rule 1047A(c).

<sup>64</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.

options trading on the Exchange pursuant to Rule 19.3(g) and (i), respectively) further harmonizes the Exchange's rule related to the adjustment and nullification of erroneous options transactions with those of other options exchanges. The proposed rule change is based on the rules of another options exchange.<sup>65</sup>

Proposed Rule 29.15 is merely stating explicitly in the Rules that Rule 18.12(b) does not apply to index options, which is consistent with the current rule. The proposed rule change is based on the rules of another options exchange.<sup>66</sup>

The Exchange Rules and Cboe Options rules regarding position and exercise limits and margin requirements are substantially the same as each other, as the Exchange rules currently refer to the corresponding Cboe Options rules. Therefore, Options Members must comply with these Cboe Options rules pursuant to the Exchange Rules. Pursuant to the proposed rule change, the Exchange will be trading index options also authorized for trading on Cboe Options, so the position and exercise limits and margin requirements currently applicable to these index options that trade on Cboe Options will apply to these index options that may be listed for trading on the Exchange. The proposed rule regarding the listing and trading of XSP, RUT, and DJX are substantially the same as Cboe Options rules regarding the listing and trading of XSP, RUT, and DJX, which rules were previously approved by the Commission and thus they are consistent with the Act. Additionally, the rules regarding position and exercise limits and margin requirements that will apply to XSP, RUT, and DJX options listed for trading on the Exchange were previously approved by the Commission, and thus they are consistent

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<sup>65</sup> Cboe Options Rule 6.25(g) and (h).

<sup>66</sup> Cboe Options Rule 24.10.

with the Act. The proposed rule change will also result in similar regulatory treatment for similar option products.

The Exchange believes that the proposed rule change will relieve any burden on, or otherwise promote, competition, as the rules are substantially the same as those of other options exchanges, as noted above.

**Item 5. 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.

**Item 6. Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period for Commission action on the proposed rule change specified in Section 19(b)(2) of the Act.<sup>67</sup>

**Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) The proposed rule change is filed for accelerated effectiveness pursuant to Section 19(b)(2) of the Act.<sup>68</sup> The Exchange requests that the Commission approve the proposed rule change on an accelerated basis pursuant to Section 19(b)(2) of the Act so that it may be operative as soon as practicable. The Exchange believes accelerated approval is appropriate, because XSP, RUT, and DJX satisfy the Exchange's generic listing criteria for

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<sup>67</sup> 15 U.S.C. 78s(b)(2).

<sup>68</sup> 15 U.S.C. 78s(b)(2).



broad-based indexes, and the proposed rules pursuant to which the Exchange will list series of XSP, RUT, and DJX are identical to the rules pursuant to which another options exchange lists series of these index options. Accelerated approval will permit the Exchange to list these products on the Exchange as soon as possible, and thus provide Members with the ability to trade these products on the Exchange as soon as possible. As noted above, the Exchange represents that it has an adequate surveillance program in place for index options, and that it and OPRA have the necessary systems capacity to handle any additional traffic associated with the listing of XSP, RUT, and DJX options up to the proposed number of possible expirations and strike prices. The Exchange believes its Members will not have a capacity issue as a result of this proposed rule change. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity. 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.

**Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The A.M. and European style settlement of XSP and RUT options to be listed on the Exchange are the same as XSP and RUT options listed on Cboe Options, as set forth in Cboe Options Rules 24.1, Interpretation and Policy .01 and 24.9(a)(3) and (4).

The proposed minimum increment for XSP and DJX options is based on Cboe Options Rule 6.42, Interpretation and Policy .03.

The proposed rule change to permit listing of long-term index option series with expirations of up to 180 months is based on Cboe Options Rule 24.9(b)(1).

The proposed deletion of the provision regarding the applicability of strike price intervals, bid/ask differentials and quote continuity requirements to long-term index option contracts is based on the exclusion of a similar provision from Cboe Options Rule 24.9.

The proposed minimum strike interval for RUT options is based on Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC (“Phlx”) Rule 1101A(a).

The proposed XSP strike prices and restrictions are based on Cboe Options Rule 24.9, Interpretation and Policy .11.

The proposed DJX strike prices are based on Cboe Options Rule 24.9, Interpretation and Policy .01(b).

The proposed rule change related to the opening process is based on C2 Rule 6.11(a)(2)(B). Additionally, it is similar to BX Rule Section 8(b). Pursuant to BX Rule Section 8(b), if there is a possible trade on BX, a series will open with a valid width NBBO.<sup>69</sup> This is similar to the proposed rule change, in that a valid NBBO Midpoint must be present for an index option series to open with a trade (which on the Exchange would only occur if another exchange was open for trading, because on the Exchange, the NBBO that is used to determine the Opening Price is based on disseminated quotes of other exchanges and does not include orders and quotes on the Exchange prior to the opening of trading<sup>70</sup>). Additionally, if no trade is possible on BX, then BX will depend on one of the following to open: (1) a valid width NBBO, (2) a certain number of other options

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<sup>69</sup> On BX, a valid width NBBO is defined as the combination of all away option market quotes and orders and quotes received on BX, within a specified bid/ask differential. See BX Rule Section 8(a)(6).

<sup>70</sup> See Rule 16.1(a)(29) (definition of NBBO).

exchanges (as determined by BX) having disseminated a firm quote on OPRA, or (3) a certain period of time (as determined by the Exchange) has elapsed. As proposed, if no trade is possible, the Exchange will open an index option series after another exchange as disseminated a quote, which is consistent with number (2) above (for example, under BX's rule, it could determine to open if one other options exchange was open). While the proposed rule change does not explicitly provide for additional alternatives in the event no trade is possible, pursuant to current Rule 21.7(c) (proposed Rule 21.7(f)), the Exchange may adjust the timing of the Opening Process in a class if it believes it is necessary in the interests of a fair and orderly market.<sup>71</sup> Therefore, like BX, the Exchange could open a series after a certain amount of time has passed if the series does not open on another exchange.

The proposed rule change to permit the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange is based on Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.

The proposed change to clarify that index values (as well as Fund Shares and HOLDERS) are considered underlyings for purposes of determining whether a trade resulted from an erroneous print or quote in the underlying is based on Cboe Options Rule 6.25(g) and (h).

Proposed Rule 29.15 is based on Cboe Options Rule 24.10.

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<sup>71</sup> Number (1) above would not apply because, as noted above, the NBBO on the Exchange prior to the opening of trading does not include orders and quotes on the Exchange.

**Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**Item 11. Exhibits**

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Proposed rule text.

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-CboeBZX-2018-058)

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Permit the Listing and Trading of Options that Overlie the Mini-SPX Index, the Russell 2000 Index, and the Dow Jones Industrial Average

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (“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 filed a proposal 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 text of the proposed rule change is available at the Exchange’s website at [www.markets.cboe.com](http://www.markets.cboe.com), at the principal office of the Exchange, 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

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

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

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 parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change amends the Exchange's index rules to permit the listing and trading of XSP options, RUT options, and DJX options. 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>3</sup> RUT options are options on the Russell 2000 Index. DJX options are options based on 1/100<sup>th</sup> of the value of the Dow Jones Industrial Average. The index underlying each of XSP, RUT, and DJX options satisfies the criteria of a broad-based index for the initial listing of options on that index, as set forth in Rule 29.3(b):

- (1) the index is broad-based index, as defined in Rule 29.2(j) (an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries);
- (2) the options are designated as A.M.-settled;
- (3) the index is capitalization-weighted, modified capitalization-weighted, price-weighted or equal dollar-weighted;
- (4) the index consists of 50 or more component securities;

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<sup>3</sup> See proposed Rule 29.11, Interpretation and Policy .01.

- (5) component securities that account for at least 95% of the weight of the index have a market capitalization of at least \$75 million, except that component securities that account for at least 65% of the weight of the index have a market capitalization of at least \$100 million;
- (6) component securities that account for at least 80% of the weight of the index satisfy the requirements of Rule 19.3 applicable to individual underlying securities;
- (7) each component security that accounts for at least 1% of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six-month period;
- (8) no single component security accounts for more than 10% of the weight of the index, and the five highest-weighted component securities in the index do not, in the aggregate, account for more than 33% of the weight of the index;
- (9) each component security must be an “NMS stock” as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934 (the “Exchange Act”);
- (10) non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than 20% of the weight of the index;
- (11) the current underlying index value is widely disseminated at least once every 15 seconds by OPRA, CTA/CQ, NIDS, or one or more major

market data vendors during the time the index options are traded on the Exchange;

- (12) the Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current ISCA allocation and the number of new messages per second expected to be generated by options on such index;
- (13) an equal dollar-weighted index is rebalanced at least once every calendar quarter;
- (14) if an index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected an information barrier around its personnel who have access to information concerning changes in, and adjustments to, the index; and
- (15) the Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

XSP, RUT, and DJX options will be subject to the maintenance listing standards set forth in Rule 29.3(c):

- (1) the conditions stated in (1) through (3) and (9) through (15) above must continue to be satisfied, provided that the requirements in (5) through (8) must be satisfied only as of the first day of January and July in each year; and



- (2) the total number of component securities in the index may not increase or decrease by more than 10% from the number of component securities in the index at the time of its initial listing.<sup>4</sup>

#### Reporting Authority

S&P Dow Jones Indices is the reporting authority for the Mini-SPX Index and the Dow Jones Industrial Average, and Frank Russell Company is the reporting authority for the Russell 2000 Index. The proposed rule change adds these indexes and reporting authorities to Rule 29.2, Interpretation and Policy .01. The proposed rule change also lists the reporting authorities in Rule 29.13(b), which is the disclaimer for reporting authorities. Rule 29.13(b) would apply to these reporting authorities even if not specifically listed; however, the proposed rule change adds the names of the reporting authority to the rule for transparency and clarification.

#### Minimum Increments

Rule 29.11(a) states bids and offers are expressed in terms of dollars and cents per unit of the index. The minimum increment applicable to index options is set forth in Rule 21.5. The proposed rule change adds Interpretation and Policy .02 to Rule 21.5, which states for so long as SPDR options (SPY) and Diamonds options (DIA) participate in the Penny Pilot Program pursuant to Interpretation and Policy .01, the minimum increments for XSP options and DJX options, respectively, will be the same as SPY and DIA, respectively for all option series (including long-term option series). Such

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<sup>4</sup> In the event XSP, RUT, or DJX 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 Securities and Exchange Commission (the “Commission”) under Section 19(b)(2) of the Exchange Act.

minimum increment would be \$0.01 for all SPY series, regardless of price, and \$0.01 for DJX series trading at less than \$3.00 and \$0.05 for DJX series trading at \$3.00 or higher, respectively, as set forth in Rule 21.5(a).

SPY options are options on the SPDR S&P 500 exchange-traded fund (ETF), which is an ETF that tracks the performance of 1/10<sup>th</sup> the value of the S&P 500 Index. DIA options are options on the SPDR Dow Jones Industrial Average ETF, which is an ETF that tracks the performance of the Dow Jones Industrial Average. SPY and DIA options currently participate in the Penny Pilot Program. XSP options are also based on the S&P 500 Index, and DJX options are also based on the Dow Jones Industrial Average, as discussed above. The Exchange believes it is important that these products have the same minimum increments for consistency and competitive reasons. The proposed rule change is also the same as another options exchange.<sup>5</sup>

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.

#### Settlement and Exercise Style

RUT, XSP, and DJX options will be A.M., cash-settled contracts with European-style exercise. A.M.-settlement is consistent with the generic listing criteria for broad-based indexes<sup>6</sup>, and thus it is common for index options to be A.M.-settled. The Exchange proposes to amend Rule 29.11(a)(5)(B) to add XSP, RUT, and DJX options to

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<sup>5</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03.

<sup>6</sup> See Rule 29.3(b).

the list of other A.M.-settled options. The Exchange proposes to amend Rule 29.11(a)(4) to add XSP, RUT, and DJX options to the list of other European-style index options.

#### Long-Term Index Options

Rule 29.11(b)(1) currently states the Exchange may list long-term index options series that expire from 12 to 60 months from the date of issuance. The proposed rule change permits listing of long-term index options series that expire from 12 to 180 months from the date of issuance. The Exchange understands that market participants may enter into over-the-counter (“OTC”) positions with longer-dated expirations than currently available on the Exchange. The proposed rule change will permit the Exchange to list long-term index options contracts with longer-dated expirations. The Exchange believes expanding the eligible term for long-term index options contracts to 180 months is important and necessary to the Exchange’s efforts to offer products in an exchange-traded environment that compete with OTC products. The Exchange believes long-term index options contracts provide market participants and investors with a competitive comparable alternative to the OTC market in long-term index options, which can take on contract characteristics similar to long-term index options contracts but are not subject to the same maximum term restriction. By expanding the eligible term for long-term index options contracts, market participants will now have greater flexibility in determining whether to execute their long-term index options in an exchange environment or in the OTC market. The Exchange believes market participants can benefit from being able to trade these long-term index options in an exchange environment in several ways, including, but not limited to the following: (1) enhanced efficiency in initiating and closing out positions; (2) increased market transparency; and (3) heightened contra-party

creditworthiness due to the role of OCC as issuer and guarantor of long-term index options contracts.

The Exchange has confirmed with the OCC that OCC can configure its systems to support long-term equity options contracts that have a maximum term of 180 months (15 years). The proposed rule change is also consistent with the rules of other options exchanges.<sup>7</sup> Pursuant to the proposed rule change, the Exchange may list XSP, RUT, and DJX options with expirations from 12 to 180 months from the date of issuance.<sup>8</sup>

Rule 29.11(b)(2) provides that reduced-value long-term option series may be approved for trading on specified indices.<sup>9</sup> A reduced-value long-term option series is an option series overlying an index that trades in units based upon a percentage of the value of the underlying index (such as 10%). As set forth in current Rule 29.11(b)(2)(B), reduced-value long-term options series may expire at six-month intervals. The proposed rule change adds RUT to the list of indices on which the Exchange may list reduced-value long-term option series. 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 premiums, as discussed below.<sup>10</sup> For reduced-value long-term RUT series, the underlying value will be computed at 10% of the value of the Russell 2000.

Rule 29.11(b)(1)(A) also states strike price intervals, bid/ask differential, and continuity rules do not apply to long-term index options series until the time to expiration

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<sup>7</sup> See, e.g., Cboe Options Rule 24.9(b)(1).

<sup>8</sup> See id.

<sup>9</sup> See proposed Rule 29.11(b)(2)(A).

<sup>10</sup> See proposed Rule 29.11(c)(1).

is less than twelve months. Rule 29.11(c) describes the strike price intervals applicable to long-term index options. Additionally, Rule 22.6(d) describes continuous quoting requirements for Market Makers.<sup>11</sup> The Exchange has no rules imposing bid/ask differential requirements. The Exchange views these other Rules regarding strike price interval and quote continuity requirements as superseding the language proposed to be deleted. Additionally, stating bid/ask different rules do not apply to long-term index option contracts is unnecessary, as no such rules are included in the Exchange's Rules. The Exchange believes deletion of the language Rule 29.11(b)(1)(A) will provide additional clarity and eliminate any confusion on the applicability of the strike price interval and quote continuity requirements that may otherwise result by including duplicative rules on these topics.

#### Strike Intervals

#### RUT Options

The proposed rule change amends Rule 29.11(c)(1) to provide that the interval between strike prices will be no less than \$2.50 for RUT options (if the strike price is less than \$200) and reduced-value long-term option series. This is the same strike interval that applies to RUT options and reduced-value long-term option series pursuant to rules of other options exchanges.<sup>12</sup>

#### XSP Options

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<sup>11</sup> This rule excludes series with time to expiration of nine months or more from Market Makers' quoting obligations.

<sup>12</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC ("Phlx") Rule 1101A(a).

Additionally, the proposed rule change adds Rule 29.11(c)(5), which provides that the strike prices for new and additional series of XSP options are subject to the following:

(1) if the current value of the Mini-SPX Index is less than or equal to 20, the Exchange will not list XSP option series with a strike price of more than 100% above or below the current value of the Mini-SPX Index;

(2) if the current value of the Mini-SPX Index is greater than 20, the Exchange will not list XSP option series with a strike price of more than 50% above or below the current value of the Mini-SPX Index; and

(3) the lowest strike price interval that may be listed for standard XSP option series is \$1, including the long-term option series, and the lowest strike price interval that may be listed for XSP option series under the Short Term Option Series Program in paragraph (h) of Rule 29.11.

The proposed strike prices for XSP options will permit strike prices closely aligned with SPX options.<sup>13</sup> Additionally, the proposed strike price range limitations for XSP options are closely aligned with the strike price range limitations for equity and exchange-traded fund (“ETF”) options.<sup>14</sup> The proposed strike prices and limitations for XSP options are the same as those on another options exchange.<sup>15</sup> XSP options allow smaller-scale investors to gain broad exposure to the SPX options market and hedge S&P

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<sup>13</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(a).

<sup>14</sup> See Rule 19.6, Interpretations and Policies .02(b), .04(c), and .05(c).

<sup>15</sup> See Cboe Options Rule 24.9, Interpretation and Policy .11.

500 Index cash positions.<sup>16</sup> As a result, XSP options provide retail investors with the benefit of trading the broad market in a manageably sized contract.

Current Rule 29.11(c)(1) provides that strike prices are permitted only in intervals of at least \$5. SPX options may be listed in intervals of at least \$5.<sup>17</sup> If the S&P 500 Index value was 2700, then the Mini-S&P 500 value would be 270. SPX options would be permitted to be listed with strikes of 2710, 2720, and 2730. Corresponding XSP options strikes would be 271, 272, and 273; however, under the current rule, the Exchange could only list strikes of 270 and 275 for XSP options. The proposed \$1 strike interval for XSP options will permit the listing of series with strikes that correspond to SPX option strikes.

Additionally, current Rule 29.11(c)(3) requires the exercise price of each series of index options to be reasonably related to the current index value of the underlying index to which the series relates at or about the time the series of options is first opened for trading on the Exchange. Pursuant to Rule 29.11(c)(4), the term “reasonably related to the current index value of the underlying index” means the exercise price must be within 30% of the current index value. The Exchange may also open for trading additional series of index options that are more than 30% away from the current index value, provided that demonstrated customer interest exists for the series. The Options Listing Procedures Plan sets forth exercise price range limitations for equity and ETF options (which are the same as those being proposed for XSP options). Those limitations differ

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<sup>16</sup> See Securities Exchange Act Release No. 32893 (September 14, 1993), 58 FR 49070 (September 21, 1993) (SR-CBOE-93-12) (order approving listing of XSP options).

<sup>17</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(a).

from the limitations set forth in the current Rule. For example, if the underlying price of an equity or ETF option is \$200, the Exchange would be permitted to list strikes ranging from \$100 through \$300 (50% above and below the current value). However, if the value of the Mini-SPX Index was \$200, the Exchange would only be permitted to list strikes ranging from \$140 to \$260. To put XSP options on equal standing with equity and ETF options with respect to exercise price range limitations, the Exchange proposes to impose exercise price range limitations on XSP options that are equal to those applicable to equity and ETF exercise price range limitations.<sup>18</sup>

The Exchange believes these permitted strike prices will permit the Exchange to list XSP options with strikes that more closely reflect the current values of the S&P 500 Index, as they provide more flexibility and allow the Exchange to better respond to customer demand for XSP option strike prices that relate to current S&P 500 Index values. In addition, the Exchange believes that because the number of strikes that may be listed would be contained by the percentages above and below the current XSP Index value, there is no need to restrict the use of \$1 strike price intervals based on the amount of the strike price.

The Exchange recognizes the proposed approach does not achieve full harmonization between strikes in XSP options and SPX options. For example, if there is a 2715 strike in SPX options, the Exchange is not seeking the ability to list a 271.5 strike in XSP options. The Exchange believes being able to list the 271 and 272 strikes in XSP options would provide the marketplace with a sufficient number of strike prices over a

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<sup>18</sup> See proposed Rule 29.11(c)(5).



range of XSP values.<sup>19</sup> The Exchange believes this proposed rule change would allow retail investors to better use XSP options to gain exposure to the SPX options market and hedge S&P 500 cash positions in the event that the S&P 500 Index value continues to increase.

The S&P 500 Index is widely used to gauge large cap U.S. equities, and as a result, investors often use S&P 500 Index-related products to diversify their portfolios and benefit from market trends. Full-size SPX options offer these benefits to investors, but may be expensive given its large notional value. Those options are primarily used by institutional market participants. By contrast, XSP options offer individual investors a lower cost options to obtain the potential benefits of options on the S&P 500 Index.

#### DJX Options

Proposed Rule 29.11(c)(6) provides the interval between strike prices may be no less than \$0.50 for options based on 1/100<sup>th</sup> of the value of the Dow Jones Industrial Average, including for series listed under the Short Term Options Program.<sup>20</sup> As noted above, current Rule 29.11(c)(1) provides that strike prices are permitted only in intervals of at least \$5. As noted above, DJX options are based on 1/100<sup>th</sup> the value of the Dow Jones Industrial Average. For example, if the value of the Dow Jones Industrial Average was 25100, series of an option based on the full value of that average could be listed with strike prices of 25105, 25110, and 25115. One-one hundredth of the value of the Dow Jones Industrial Average would be 251.05, 251.10, and 251.15, but the Exchange would

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<sup>19</sup> Nothing in this rule filing precludes the Exchange from submitting a future rule filing requesting even finer strike price increments for XSP options.

<sup>20</sup> See Rule 29.11, Interpretation and Policy .05 for a description of the Short Term Options Program.

only be able to list series with strike prices of \$250 and \$255. Pursuant to the proposed rule change, the Exchange could list series with strike prices of 251.50, 252, 252.50, and 253. The Exchange recognizes the proposed approach does not achieve full harmonization between strikes in DJX options and the full value of the Dow Jones Industrial Average. However, the Exchange believes being able to list the DJX options at strike intervals of \$0.50 would provide the marketplace with a sufficient number of strike prices over a range of DJX values.<sup>21</sup> The Exchange believes this proposed rule change would allow retail investors to better use DJX options to gain exposure to the market and hedge Dow Jones Industrial Average cash positions in the event that the value continues to increase. The proposed strike price interval for DJX options is the same as those on another options exchange.<sup>22</sup>

#### Opening Process

The proposed rule change adds paragraph (c) to Rule 21.7 to describe the opening process for index options. Current Rule 21.7(b) states the System will open index options for trading at 9:30 a.m. Eastern time. Pursuant to the current opening process, following 9:30 a.m., the System will determine a price at which a particular series will be opened (the “Opening Price”) within 30 seconds of that time. Where there are no contracts in a particular series that would execute at any price, the System will open such options for trading without determining an Opening Price. The Opening Price of a series must be a Valid Price, as determined by current subparagraph (a)(2), and will be:

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<sup>21</sup> Nothing in this rule filing precludes the Exchange from submitting a future rule filing requesting even finer strike price increments for DJX options.

<sup>22</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(b).

- the midpoint of the NBBO (the “NBBO Midpoint”);
- where there is no NBBO Midpoint at a Valid Price, the last regular way print disseminated pursuant to the OPRA Plan after 9:30 a.m. Eastern Time (the “Print”);
- where there is both no NBBO Midpoint and no Print at a Valid Price, the last regular way transaction from the previous trading day as disseminated pursuant to the OPRA Plan (the “Previous Close”); or
- where there is no NBBO Midpoint, no Print, and no Previous Close at a Valid Price, the Order Entry Period may be extended by 30 seconds or less or the series may be opened for trading at the discretion of the Exchange.

A NBBO Midpoint, a Print, and a Previous Close will be at a Valid Price:

- where there is no NBB and no NBO;
- where there is either a NBB and no NBO or a NBO and no NBB and the price is equal to or greater than the NBB or equal to or less than the NBO;  
or
- where there is both a NBB and NBO, the price is equal to or within the NBBO, and the price is less than a specified minimum amount away from the NBB or NBO for the series.

Under this Opening Process, if a series has not opened yet on another exchange on a trading (and thus there is no NBBO and no Last Print), if there is a Previous Close Price, it will be a valid price and will be the Opening Price. Additionally, if there are no crossed contracts in a series, the series opens immediately following the time period referenced above.

The Exchange proposes to modify this process with respect to index options.

Pursuant to the proposed rule change, for index options, the System will determine the Opening Price within 30 seconds of an away options exchange(s) disseminating a quote in a series. Following an away options exchange's dissemination of a quote in a series, if there are no contracts in a series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid, of a series will be the NBBO Midpoint. Pursuant to proposed subparagraph (c)(2), for index options, the NBBO Midpoint is a valid price if it is less than a specified minimum amount away from the NBB or NBO for the series.<sup>23</sup> If the NBBO Midpoint is not valid, the Exchange in its discretion may extend the order entry period by up to 30 seconds or open the series for trading. In other words, the proposed rule change provides that an index option series will not open (with or without a trade) until after the series is open on another exchange. To the extent the Exchange receives a quote from another Exchange within the time period referenced above, and there are contracts that may trade, the Opening Process will essentially be the same, and a series will open with the NBBO Midpoint as an Opening Price (if valid). Additionally, the Exchange will continue to have the ability to use a contingent opening to open a series for trading if there is no valid Opening Price. The proposed rule change delays opening of a series on the Exchange in an index option series if there are no crossed contracts, and eliminates the possibility to

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<sup>23</sup> There are currently three criteria for an opening price to be valid. See current Rule 21.7(a)(2) (proposed Rule 21.7(b)(2)). Since the proposed rule change provides that an index option series will only open once it receives an NBBO from another exchange, in which case there will always be an NBB and NBO and thus an NBBO midpoint, the only criteria for an opening price to be valid that would apply to index options is the criteria regarding how far away the NBBO midpoint is from the NBB or NBO.

open using the Last Print or Previous Close (as those will generally not be necessary if the Exchange waits for another exchange to open).

Currently, RUT options trade on Cboe Options and C2 Exchange, Inc. (“C2”), and XSP options trade on Cboe Options, which are affiliated exchanges of the Exchange. Under current Rule 21.7, if a RUT series was open on Cboe Options, and if there are crossed orders on the Exchange, the RUT series on the Exchange would open with an Opening Price equal to the NBBO Midpoint (if valid). If a RUT series was not yet open on another Exchange after 9:30 a.m. (eastern), and there was a Previous Close for the series, the series would open on the Exchange with the Previous Close as the Opening Price. If there are no crossing orders on the Exchange, a RUT series would open without an opening price, possibly before the RUT series was open on Cboe Options.

RUT options on Cboe Options generally open within 30 seconds after 9:30 a.m., and thus the Exchange expects RUT options to open for trading within 30 seconds (as set forth in the rule) at an Opening Price equal to the NBBO Midpoint if there are orders that can be crossed. However, it will be possible for a RUT series to open prior to the opening of that series on Cboe Options. This is significant because, on certain dates, Cboe Options uses prices of RUT options trading on Cboe Options to determine settlement values for volatility index derivatives.<sup>24</sup> While trading in these options on volatility index derivative settlement days also generally opens within a few seconds after 9:30 a.m, there have been times when series being used to determine the settlement value took longer to open. Under the proposed rule, series on the Exchange would open without an Opening Price (if there are no crossed orders) or with an Opening Price equal

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<sup>24</sup> See Cboe Options Rule 6.2, Interpretation and Policy .01.

to the Previous Close (if there are crossed orders) prior to the settlement value determination being completed on Cboe Options. If this were to occur, trading on the Exchange may then be occurring at very different prices than what is ultimately the opening trade price on Cboe Options. Trading on another Exchange while Cboe Options is not yet open may impact the volatility settlement value determination and disrupt trading of volatility index derivatives. The proposed rule change eliminates the possibility of RUT options on the Exchange automatically opening for trading prior to those options being open on Cboe Options and thus interfering with the calculation of volatility index derivative settlement values.

The proposed rule change is the same as the opening process for index options on C2.<sup>25</sup> Additionally, the opening process on Nasdaq BX, LLC (“BX”) is similar to the proposed rule change. Pursuant to BX Chapter VI, Section 8(b), if there is a possible trade on BX, a series will open with a valid width NBBO.<sup>26</sup> This is similar to the proposed rule change, in that a valid NBBO Midpoint must be present for an index option series to open with a trade (which on the Exchange would only occur if another exchange was open for trading, because on the Exchange, the NBBO that is used to determine the Opening Price is based on disseminated quotes of other exchanges and does not include orders and quotes on the Exchange prior to the opening of trading<sup>27</sup>). Additionally, if no

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<sup>25</sup> See C2 Rule 6.11(a)(2)(B).

<sup>26</sup> On BX, a valid width NBBO means a combination of all away market quotes and any combination of BX Options-registered Market-Maker orders and quotes received over a BX-provided system component through which Market-Makers communicate their quotes within a specified bid/ask differential established by BX. See BX Chapter VI, Section 8(a)(6).

<sup>27</sup> See Rule 16.1(a)(29) (definition of NBBO).

trade is possible on BX, then BX will depend on one of the following to open: (1) a valid width NBBO, (2) a certain number of other options exchanges (as determined by BX) having disseminated a firm quote on OPRA, or (3) a certain period of time (as determined by the Exchange) has elapsed. As proposed, if no trade is possible, the Exchange will open an index option series after another exchange as disseminated a quote, which is consistent with number (2) above (for example, under BX's rule, it could determine to open if one other options exchange was open). While the proposed rule change does not explicitly provide for additional alternatives in the event no trade is possible, pursuant to Rule 21.7(f), the Exchange may adjust the timing of the Opening Process in a class if it believes it is necessary in the interests of a fair and orderly market.<sup>28</sup> Therefore, like BX, the Exchange could open a series after a certain amount of time has passed if the series does not open on another exchange.

Once the System determines an opening price for an index option, it will open a series with an opening trade in the same manner as it does for equity options. The proposed rule change moves the description of this process from current Rule 21.7(a)(3) to proposed Rule 21.7(d). The proposed rule change also adds to proposed paragraph (d) that the System cancels any OPG (also called at the open orders) (or unexecuted portions) that do not execute during the opening process. This is consistent with the behavior of orders with the OPG time-in-force instruction.<sup>29</sup> Additionally, the proposed rule change moves the description of a contingent open, which will also apply to index and equity

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<sup>28</sup> Number (1) above would not apply because, as noted above, the NBBO on the Exchange prior to the opening of trading does not include orders and quotes on the Exchange.

<sup>29</sup> See Rule 21.1(f)(6).

options, from current Rule 21.7(a)(4) to proposed Rule 21.7(e).<sup>30</sup> The proposed rule change makes other nonsubstantive changes (e.g. adding headings and updating paragraph lettering and numbering). Additionally, the proposed rule change clarifies in Rule 21.7(a) that re-opening after regulatory halts applies only to equity options, as regulatory halts only occur in equity options.

#### Trading Halts

Current Rule 29.10(b) describes when the Exchange may halt trading in an index option. It permits the Exchange to halt trading in an index option when, in its<sup>31</sup> judgment, such action is appropriate in the interests of a fair and orderly market and to protect investors. The Exchange may consider the following factors, among others:

- whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;
- whether the current calculation of the index derived from the current market prices of the stocks is not available;
- the extent to which the opening has been completed or other factors regarding the status of the opening; and
- other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present, including, but not limited to, the activation of price limits on futures exchanges.

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<sup>30</sup> The proposed rule change makes nonsubstantive changes to this provision, including to make the rule plain English and eliminate passive voice.

<sup>31</sup> The proposed rule change modifies the rule to say “its” (as the sentence refers to the Exchange) rather than “his or her.”



The proposed rule change amends the first factor to state the Exchange may consider the extent to which trading is not occurring in the stocks or options underlying the index. This provides the Exchange with additional flexibility to consider trading on all markets on which the underlying components trade when determining whether to halt trading in an index option. The Exchange believes flexibility is appropriate when determining whether to halt trading in an index option so it can make such a determination based on then-current circumstances to determine what will contribute to a fair and orderly market. For example, less than a “plurality” of underlying components may trade on one market, but if trading on that market is halted, the Exchange may determine halting trading in the index option is in the interests of a fair and orderly market because of the specific components that are not trading. This proposed change is consistent with the rules of another options exchange.<sup>32</sup>

Rule 29.10 also states trading on the Exchange will be halted or suspended whenever trading in underlying securities whose weighted value represents more than 20%, in the case of a broad-based index, and 10% for all other indices, of the index value is halted or suspended. The proposed rule change deletes this provision. The first factor, as amended by this proposed rule change, permits the Exchange to determine to halt trading in an index option in this specific circumstance. This provision provides the Exchange with no flexibility to determine what is in the interests of a fair and orderly market. The rules of other exchanges do not have this provision.<sup>33</sup>

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<sup>32</sup> See, e.g., Cboe Options Rule 24.7(a).

<sup>33</sup> See, e.g., Cboe Options Rule 24.7(a); Phlx Rule 1047A(c).

### Expirations Listed on Other Exchanges

Proposed Rule 29.11(j) permits the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange. As noted above, Rule 29.11(a)(3) permits the Exchange to list up to six expiration months at any one time for an index option class. Other options exchange have rules that permit them to list additional expiration months if they are opened for trading on at least one other options exchange.<sup>34</sup> This proposed rule change will allow the Exchange to compete with other exchanges by matching the expiration months that other exchanges list.

The Exchange notes that the proposed rule change affords additional flexibility in that it will permit the exchange to list those additional expiration months that have an actual demand from market participants thereby potentially reducing the proliferation of classes and series. The Exchange believes the proposed rule change is proper, and indeed necessary, in light of the need to have rules that permit the listing of identical expiration months across exchanges for products that multiply-listed and fungible with one another. The Exchange believes that the proposed rule change should encourage competition and be beneficial to traders and market participants by providing them with a means to trade on the Exchange securities that are listed and traded on other exchanges.

### Obvious Error

The proposed rule change adds to Rule 20.6(g) and (h) language to clarify that, for purposes of determining whether a trade resulted from an erroneous print or quote in

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<sup>34</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.

the underlying, the underlying may include index values (as well as Fund Shares and HOLDRs, which may also underlie options trading on the Exchange pursuant to Rule 19.3(g) and (i), respectively).<sup>35</sup> This is consistent with the rules of another options exchange.<sup>36</sup>

#### Restrictions on Contracts

The proposed rule change adds Rule 29.15, which states contracts provided for in Chapter 29 of the Rules will not be subject to the restriction in Rule 18.12(b). Rule 18.12(b) states whenever the issuer of a security underlying a call option traded on the Exchange is engaged or proposes to engage in a public underwritten distribution (“public distribution”) of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that the exchange impose restrictions upon all opening writing transactions in such options at a discount where the resulting short position will be uncovered. The rule includes additional conditions that are necessary to impose these restrictions.

Rule 18.12(b) applies to equity options, and to restrictions the issuer of the security underlying the equity option may request. As there is no issuer of an “index,” and thus there is no possibility of a public distribution of an index, the Rule does not apply to index options. Rule 29.15 merely states this explicitly in the Rules. This will also ensure it is clear in the Rules that an issuer of a security that is a component of an

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<sup>35</sup> While adding language in this rule provision regarding Fund Shares and HOLDRs is unrelated to the purpose of this filing, which is to permit the listing and trading of certain index options on the Exchange, the Exchange believes it is appropriate to include this language in the proposed rule text to ensure continued harmonization of obvious error rules across all exchanges.

<sup>36</sup> See, e.g., Cboe Options Rule 6.25(g) and (h).

index may not request restrictions on the index options, as the Exchange does not believe it would be appropriate for an issuer of a single underlying component to have the ability to restrict trading in the index option. The proposed rule change is consistent with the rules of at least one other options exchange.<sup>37</sup>

#### Capacity and Surveillance

The Exchange represents it has an adequate surveillance program in place for index options. The Exchange is a member of the Intermarket Surveillance Group (“ISG”), which is comprised of an international group of exchanges, market centers, and market regulators. The purpose of ISG is to provide a framework 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. ISG plays a crucial role in information sharing among markets that trade securities, options on securities, security futures products, and futures and options on broad-based security indexes. A list of identifying current ISG members is available at <https://www.isgportal.org/isgPortal/public/members.htm>.

The Exchange has analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of XSP, RUT, and DJX options up to the proposed number of possible expirations and strike prices. The Exchange believes any additional traffic that would be generated from the introduction of XSP, RUT, and DJX options will be manageable. The Exchange believes its Members will not have a capacity issue as a result of this proposed rule change. The Exchange also represents that it does not believe

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<sup>37</sup> See Cboe Options Rule 24.10.

this expansion will cause fragmentation of liquidity. 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.

#### Position Limits and Margin

XSP, RUT, and DJX 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, RUT, and DJX options are currently listed and traded on Cboe Options,<sup>38</sup> and thus 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.

The Exchange Rules and Cboe Options rules regarding position and exercise limits and margin requirements are substantially the same as each other, as the Exchange rules currently refer to the corresponding Cboe Options rules. Therefore, Options Members must comply with these Cboe Options rules pursuant to the Exchange Rules. Pursuant to the proposed rule change, the Exchange will be trading index options also authorized for trading on Cboe Options, so the position and exercise limits and margin requirements currently applicable to these index options that trade on Cboe Options will

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<sup>38</sup> Similarly, pursuant to Cboe Options Chapter 12, Cboe Options Trading Permit Holders may request to have New York Stock Exchange margin requirements apply to their trading.

apply to these index options that may be listed for trading on the Exchange. The proposed rule regarding the listing and trading of XSP, RUT, and DJX are substantially the same as Cboe Options rules regarding the listing and trading of XSP, RUT, and DJX, which rules were previously approved by the Commission and thus they are consistent with the Act. Additionally, the rules regarding position and exercise limits and margin requirements that will apply to XSP, RUT, and DJX options listed for trading on the Exchange were previously approved by the Commission, and thus they are consistent with the Act. The proposed rule change will also result in similar regulatory treatment for similar option products.

## 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.<sup>39</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>40</sup> 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 investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with

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<sup>39</sup> 15 U.S.C. 78f(b).

<sup>40</sup> 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)<sup>41</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The index underlying each of XSP, RUT, and DJX options satisfies the initial listing criteria of a broad-based index in the Exchange's Rules. The proposed rule change adds these indexes to the table regarding reporting authorities for indexes, to the list of European-style exercise index options, and to the list of A.M.-settled index options. These changes are consistent with the Exchange's existing Rules.<sup>42</sup>

The proposed rule change related to the minimum increment for XSP and DJX options will permit consistency between pricing of SPY options and XSP options, which are both based, in some manner, on the value of the S&P 500 Index, and between DIA options and DJX options, which are both based, in some manner, on the value of the Dow Jones Industrial Average. As a result, the Exchange believes it is important that these products have the same minimum increments for competitive reasons. The proposed rule change is also the same as another options exchange.<sup>43</sup>

The proposed rule change to permit listing of long-term index options contracts with terms up to 180 months is designed to promote just and equitable principles of trade in that the availability of long-term index options contracts with longer dated expirations will give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange-traded environment (that is currently being used in the OTC market), the Exchange will be able to compete more effectively with the OTC

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<sup>41</sup> Id.

<sup>42</sup> See also Cboe Options Rules 24.1, Interpretation and Policy .01 and 24.9(a)(3) and (4).

<sup>43</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03.

market. The Exchange believes the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that it will hopefully lead to the migration of options currently trading in the OTC market to trading to the Exchange. Also, any migration to the Exchange from the OTC market will result in increased market transparency. Additionally, the Exchange believes the proposed rule change is designed to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest in that it should create greater trading and hedging opportunities and flexibility. The proposed rule change should also result in enhanced efficiency in initiating and closing out positions and heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of long-term index option series. Further, the proposed rule change will result in increased competition by permitting the Exchange to offer products that are currently used in the OTC market and on other exchanges. Additionally, the proposed rule change is consistent with the series listing rules of other exchanges.<sup>44</sup>

The proposed rule change to eliminate the rule provision regarding the applicability of strike price intervals, bid/ask differentials and quote continuity requirements to long-term index option contracts will protect investors by eliminating potential confusion that may result from inclusion of duplicative rules. As discussed above, other rules address requirements related to strike price intervals and quote continuity requirements and supersede the language regarding these topics, and the Exchange has no rules imposing bid/ask differential requirements (and thus no such requirements apply to long-term equity option contracts), thus rendering this language

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<sup>44</sup> See, e.g., Cboe Options Rule 24.9(b)(1).



unnecessary. The Exchange will continue to impose these requirements in the manner it does today, consistent with the provisions in other existing rules, and thus this proposed rule change has no impact on how the Exchange imposes these requirements. The rules of other options exchanges do not include this provision.<sup>45</sup>

The proposed minimum strike interval for RUT options (if the strike price is less than \$200) and reduced-value long-term option series is the same as that on another options exchanges.<sup>46</sup>

With respect to the proposed strike prices for XSP options, the proposed rule change would more closely align XSP option strike prices with those of SPX option strike prices, and would more closely align strike price range limitations on XSP options with those of equity and ETF options. This would provide more flexibility and allow the Exchange to better respond to customer demand for XSP option strike prices that relate to current S&P 500 Index values. The Exchange believes this proposed rule change would allow retail investors to better use XSP options to gain exposure to the SPX options market and hedge S&P 500 cash positions in the event that the S&P 500 Index value continues to increase. The Exchange does not believe the proposed rule change will create additional capacity issues. In addition, the Exchange believes that because the number of strikes that may be listed would be contained by the percentages above and below the current XSP Index value, the number of XSP strikes that may be listed will not

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<sup>45</sup> See, e.g., Cboe Options Rule 24.9.

<sup>46</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC (“Phlx”) Rule 1101A(a).

be unbounded. The proposed XSP strike prices and restrictions are the same as those on another options exchange.<sup>47</sup>

With respect to the proposed strike prices for DJX options, the proposed rule change would more closely align DJX option strike prices with 1/100<sup>th</sup> the value of the Dow Jones Industrial Average. This would provide more flexibility and allow the Exchange to better respond to customer demand for DJX option strike prices that relate to current Dow Jones Industrial Average values. The Exchange believes this proposed rule change would allow retail investors to better use DJX options to gain exposure to the market and hedge Dow Jones Industrial Average cash positions in the event that the Dow Jones Industrial Average value continues to increase. The Exchange does not believe the proposed rule change will create additional capacity issues. The proposed DJX strike prices are the same as those on another options exchange.<sup>48</sup>

The proposed rule change that permits the Exchange to list additional expiration months if they are listed on another options exchange will permit the Exchange to accommodate requests made by its Trading Permit Holders and other market participants to list the additional expiration months and thus encourage competition without harming investors or the public interest.

The proposed rule change with respect to the opening process for index options eliminates the possibility of RUT options on the Exchange automatically opening for trading prior to those options being open on Cboe Options and thus interfering with the calculation of volatility index derivative settlement values, which promotes just and

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<sup>47</sup> See Cboe Options Rule 24.9, Interpretation and Policy .11.

<sup>48</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(b).

equitable principles of trade and perfects the mechanism of a free and open market and national market system. As discussed above, under certain circumstances, the proposed rule change is expected to have a de minimis impact on the opening of index option series on the Exchange because, to the extent the Exchange receives a quote from another Exchange within the time period following 9:30 a.m., and there are contracts that may trade, the Opening Process will essentially be the same, and a series will open with the NBBO Midpoint as an Opening Price (if valid). Additionally, the Exchange will continue to have the ability to use a contingent opening to open a series for trading if there is no valid Opening Price. Therefore, if an index option series is not yet open on another exchange, the Exchange will still have the ability to open the series for trading. As discussed above, the proposed rule change is the same as the opening process for index options on C2,<sup>49</sup> and similar to the opening process of another options exchange, which also provides that opening for trading may be dependent on whether another options exchange is open.<sup>50</sup>

The proposed rule change to permit the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange is the same as rules of other options exchanges.<sup>51</sup> The proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to match the expiration months that other

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<sup>49</sup> See C2 Rule 6.11(a)(2)(B).

<sup>50</sup> See BX Rule Section 8(b).

<sup>51</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.

exchanges list. This will promote competition among exchanges, which benefits investors.

The proposed rule change regarding when the Exchange may halt trading in index options promotes just and equitable principles of trade and protects the public interest by providing the Exchange with additional flexibility when determine whether to halt trading in an index option, so it can make such a determination based on then-current circumstances to determine what it will contribute to a fair and orderly market. The proposed change is consistent with the rules of another options exchange.<sup>52</sup>

The proposed rule change to clarify that, for purposes of determining whether a trade resulted from an erroneous print or quote in the underlying, the underlying may include index values (as well as Fund Shares and HOLDERS, which may also underlie options trading on the Exchange pursuant to Rule 19.3(g) and (i), respectively) further harmonizes the Exchange's rule related to the adjustment and nullification of erroneous options transactions with those of other options exchanges. The proposed rule change is based on the rules of another options exchange.<sup>53</sup>

Proposed Rule 29.15 is merely stating explicitly in the Rules that Rule 18.12(b) does not apply to index options, which is consistent with the current rule. The proposed rule change is based on the rules of another options exchange.<sup>54</sup>

The Exchange Rules and Cboe Options rules regarding position and exercise limits and margin requirements are substantially the same as each other, as the Exchange

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<sup>52</sup> See, e.g., Cboe Options Rule 24.7(a); see also Phlx Rule 1047A(c).

<sup>53</sup> Cboe Options Rule 6.25(g) and (h).

<sup>54</sup> Cboe Options Rule 24.10.

rules currently refer to the corresponding Cboe Options rules. Therefore, Options Members must comply with these Cboe Options rules pursuant to the Exchange Rules. Pursuant to the proposed rule change the Exchange will be trading index options also authorized for trading on Cboe Options, the Cboe Options position and exercise limits and margin requirements applicable to these index options will apply to these index options that may be listed for trading on the Exchange. Additionally, the previously approved Cboe Options rules regarding listing of XSP, RUT, and DJX index options on the Exchange pursuant to this proposed rule change are subject to these also previously approved Cboe Options rules regarding position and exercise limits and margin requirements, and thus they are consistent with the Act. The proposed rule change will also result in similar regulatory treatment for similar option products.

The Exchange represents it has an adequate surveillance program in place for index options. The Exchange is a member of the Intermarket Surveillance Group (“ISG”), which is comprised of an international group of exchanges, market centers, and market regulators. The purpose of ISG is to provide a framework 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. ISG plays a crucial role in information sharing among markets that trade securities, options on securities, security futures products, and futures and options on broad-based security indexes. A list of identifying current ISG members is available at <https://www.isgportal.org/isgPortal/public/members.htm>.

The Exchange has analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic

associated with the listing of XSP, RUT, and DJX options up to the proposed number of possible expirations and strike prices. The Exchange believes any additional traffic that would be generated from the introduction of XSP, RUT, and DJX options will be manageable. The Exchange believes its Members will not have a capacity issue as a result of this proposed rule change. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity. 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.

(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 index underlying each of XSP, RUT, and DJX options satisfies the initial listing criteria of a broad-based index in the Exchange's Rules. The proposed rule change adds these indexes to the table regarding reporting authorities for indexes, to the list of European-style exercise index options, and to the list of A.M.-settled index options. These changes are consistent with the Exchange's existing Rules,<sup>55</sup> as well as Cboe Options' rules.<sup>56</sup>

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<sup>55</sup> See Rules 29.2, Interpretation and Policy .01 and 29.11(a)(4) and (5).

<sup>56</sup> See Cboe Options Rules 24.1, Interpretation and Policy .01 and 24.9(a)(3) and (4).

The proposed rule change related to the minimum increment for XSP and DJX options will permit consistency between pricing of SPY options and XSP options, which are both based, in some manner, on the value of the S&P 500 Index, and between pricing of DIA options and DJX options, which are both based, in some manner, on the value of the Dow Jones Industrial Average. As a result, the Exchange believes it is important that these products have the same minimum increments for competitive reasons. The proposed rule change is also the same as another options exchange.<sup>57</sup>

The proposed rule change to permit listing of long-term index options contracts with terms up to 180 months will give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange-traded environment (that is currently being used in the OTC market), the Exchange will be able to compete more effectively with the OTC market. Additionally, the Exchange believes that the proposed rule change will create greater trading and hedging opportunities and flexibility. The proposed rule change should also result in enhanced efficiency in initiating and closing out positions and heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of long-term index options contracts. Further, the proposal will result in increased competition by permitting the Exchange to offer products that are currently used in the OTC market. Additionally, the proposed rule change is consistent with the series listing rules of other exchanges.<sup>58</sup>

The proposed rule change to eliminate the rule provision regarding the applicability of strike price intervals, bid/ask differentials and quote continuity

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<sup>57</sup> See Cboe Options Rule 6.42, Interpretation and Policy .03.

<sup>58</sup> See Cboe Options Rule 24.9(b)(1).

requirements to long-term index option contracts will have no impact on Members, as this merely eliminates potential confusion that may result from inclusion of duplicative rules that have been superseded by other rules. The Exchange will continue to impose these requirements in the manner it does today, consistent with the provisions in other existing rules, and thus this proposed rule change has no impact on how the Exchange imposes these requirements. The rules of other options exchanges do not include this provision.<sup>59</sup>

The proposed minimum strike interval for RUT options (if the strike price is less than \$200) and reduced-value long-term option series is the same as that on another options exchanges.<sup>60</sup>

The proposed strike prices for XSP options will be available to all market participants that choose to trade XSP options on the Exchange. Additionally, the proposed XSP strike prices and restrictions are the same as those on another options exchange.<sup>61</sup> The proposed strike prices for DJX options will be available to all market participants that choose to trade DJX options on the Exchange. Additionally, the proposed DJX strike prices and restrictions are the same as those on another options exchange.<sup>62</sup>

With respect to the proposed rule change related to the opening process, the amended opening process will apply in the same manner to all market participants that

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<sup>59</sup> See Cboe Options Rule 24.9.

<sup>60</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .01(a); and Nasdaq PHLX LLC (“Phlx”) Rule 1101A(a).

<sup>61</sup> See Cboe Options Rule 24.9, Interpretation and Policy .11.

<sup>62</sup> See Cboe Options Rule 24.9, Interpretation and Policy .01(b).



participate in the Exchange's Opening Process for index options. The Exchange believes it is appropriate to limit the proposed change to index options, because some, such as RUT, are used to determine the settlement value for volatility index derivatives. A similar process does not occur for equity options, and thus, the risk of opening trading in an equity option interfering with a settlement process on another exchange is not present. As discussed above, the proposed rule change is the same as the opening process for index options on C2,<sup>63</sup> and similar to the opening process of another options exchange, which also provides that opening for trading may be dependent on whether another options exchange is open.<sup>64</sup>

The proposed rule change regarding when the Exchange may halt trading in index options will apply to all market participants in the same manner to the extent the Exchange halts trading pursuant to the proposed rule. The rule provides the Exchange with additional flexibility when determine whether to halt trading in an index option, so it can make such a determination based on then-current circumstances to determine what it will contribute to a fair and orderly market. The proposed change is consistent with the rules of another options exchange.<sup>65</sup>

The proposed rule change to permit the Exchange to list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange is the

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<sup>63</sup> See C2 Rule 6.11(a)(2)(B).

<sup>64</sup> See BX Rule Section 8(b).

<sup>65</sup> See, e.g., Cboe Options Rule 24.7(a); see also Phlx Rule 1047A(c).

same as rules of other options exchanges.<sup>66</sup> This proposed rule change will allow the Exchange compete with other exchanges by matching the expiration months that other exchanges list.

The proposed rule change to clarify that, for purposes of determining whether a trade resulted from an erroneous print or quote in the underlying, the underlying may include index values (as well as Fund Shares and HOLDERS, which may also underlie options trading on the Exchange pursuant to Rule 19.3(g) and (i), respectively) further harmonizes the Exchange's rule related to the adjustment and nullification of erroneous options transactions with those of other options exchanges. The proposed rule change is based on the rules of another options exchange.<sup>67</sup>

Proposed Rule 29.15 is merely stating explicitly in the Rules that Rule 18.12(b) does not apply to index options, which is consistent with the current rule. The proposed rule change is based on the rules of another options exchange.<sup>68</sup>

The Exchange Rules and Cboe Options rules regarding position and exercise limits and margin requirements are substantially the same as each other, as the Exchange rules currently refer to the corresponding Cboe Options rules. Therefore, Options Members must comply with these Cboe Options rules pursuant to the Exchange Rules. Pursuant to the proposed rule change, the Exchange will be trading index options also authorized for trading on Cboe Options, so the position and exercise limits and margin requirements currently applicable to these index options that trade on Cboe Options will

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<sup>66</sup> See, e.g., Cboe Options Rule 24.9, Interpretation and Policy .13; and NASDAQ ISE, LLC Rule 2009, Supplementary Material .04.

<sup>67</sup> Cboe Options Rule 6.25(g) and (h).

<sup>68</sup> Cboe Options Rule 24.10.

apply to these index options that may be listed for trading on the Exchange. The proposed rule regarding the listing and trading of XSP, RUT, and DJX are substantially the same as Cboe Options rules regarding the listing and trading of XSP, RUT, and DJX, which rules were previously approved by the Commission and thus they are consistent with the Act. Additionally, the rules regarding position and exercise limits and margin requirements that will apply to XSP, RUT, and DJX options listed for trading on the Exchange were previously approved by the Commission, and thus they are consistent with the Act. The proposed rule change will also result in similar regulatory treatment for similar option products.

The Exchange believes that the proposed rule change will relieve any burden on, or otherwise promote, competition, as the rules are substantially the same as those of other options exchanges, as noted above.

(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 (i) as the Commission may designate up to 90 days of such date 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 proposal 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](mailto:rule-comments@sec.gov). Please include File No. SR-CboeBZX-2018-058 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 No. SR-CboeBZX-2018-058. 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 am and 3:00 pm. Copies of such filing will also 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 No. SR-CboeBZX-2018-058 and should be submitted on or before [\_\_\_\_\_21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>69</sup>

Robert W. Errett  
Deputy Secretary

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<sup>69</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Proposed new language is underlined; proposed deletions are in [brackets]

**Rules of Cboe BZX Exchange, Inc.**

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**Rule 20.6. Nullification and Adjustment of Options Transactions including Obvious Errors**

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any Member to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a) – (f) No change.

(g) **Erroneous Print in Underlying.** A trade resulting from an erroneous print(s) disseminated by the underlying market that is later nullified by that underlying market shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this Rule, provided a party notifies the Exchange's Trade Desk in a timely manner as set forth below. For purposes of this paragraph, a trade resulting from an erroneous print(s) shall mean any options trade executed during a period of time for which one or more executions in the underlying security are nullified and for one second thereafter. If a party believes that it participated in an erroneous transaction resulting from an erroneous print(s) pursuant to this paragraph it must notify the Exchange's Trade Desk within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification by the underlying market(s) of nullification of transactions in the underlying security. If multiple underlying markets nullify trades in the underlying security, the allowed notification timeframe will commence at the time of the first market's notification. For the purposes of this paragraph, the underlying (which includes, but is not limited to, the underlying or related Fund Share(s), HOLDRS(s) and/or index value(s), and/or related futures product(s)) and the relevant underlying market(s) will be designated by the Exchange and announced to Members via an Exchange Notice. To qualify for consideration as an "underlying," the Fund Shares, HOLDRS or index option class and related instrument must be derived from or designed to track the same underlying index.

(h) **Erroneous Quote in Underlying.** A trade resulting from an erroneous quote(s) in the underlying security shall be adjusted or busted as set forth in sub-paragraph (c)(4) this Rule,

provided a party notifies the Exchange's Trade Desk in a timely manner as set forth below. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this paragraph, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15-second intervals during the four-minute time period referenced above (excluding the quote(s) in question) and dividing by the number of quotes during such time period (excluding the quote(s) in question). If a party believes that it participated in an erroneous transaction resulting from an erroneous quote(s) pursuant to this paragraph it must notify the Exchange's Trade Desk in accordance with sub-paragraph (c)(2) above. For the purposes of this paragraph, the underlying (which includes, but is not limited to, the underlying or related Fund Share(s), HOLDERS(s) and/or index value(s), and/or related futures product(s)) and the relevant underlying market(s) will be designated by the Exchange and announced to Members via an Exchange Notice. To qualify for consideration as an "underlying," the Fund Shares, HOLDERS or index option class and related instrument must be derived from or designed to track the same underlying index.

(i) – (l) No change.

#### Interpretations and Policies

.01 – .03 No change.

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#### Rule 21.5. Minimum Increments

(a) – (c) No change.

#### Interpretations and Policies

.01 No change.

.02 For so long as SPDR options (SPY) and Diamonds options (DIA) participate in the Penny Pilot Program pursuant to Interpretation and Policy .01, the minimum increments for Mini SPX Index options (XSP) and Dow Jones Industrial Average options (DJX), respectively, will be the same as SPY and DIA, respectively, for all options series (including long-term option series).

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#### Rule 21.7. Market Opening Procedures

(a) *Order Entry Period.* The Exchange will accept market and limit orders and quotes for inclusion in the opening process (the "Opening Process") beginning at 7:30 am Eastern Time or immediately upon trading being halted in an option series due to the primary listing market for the applicable underlying security declaring a regulatory trading halt, suspension,

or pause with respect to such security (a “Regulatory Halt”), with respect to equity options, and will continue to accept market and limit orders and quotes until such time as the Opening Process is initiated in that option series (the “Order Entry Period”)[, other than index options]. The Exchange will not accept IOC or FOK orders for queuing prior to the completion of the Opening Process. The Exchange will convert all ISOs entered for queuing prior to the completion of the Opening Process into non-ISOs. For equity options, [W]where a User has entered instructions not to cancel its open orders upon a halt pursuant to Rule 20.3(b), such orders will be queued for participation in the Opening Process for a Regulatory Halt or will be cancelled for a halt that is not a Regulatory Halt. Where trading is halted pursuant to Rule 20.3, but it is not due to a Regulatory Halt, there will be no Order Entry Period and trading shall be resumed upon the determination by the Exchange that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Orders entered during the Order Entry Period will not be eligible for execution until the Opening Process occurs.

(b) Opening Price for Equity Options. After the first transaction on the primary listing market after 9:30 a.m. Eastern Time in the securities underlying the options as reported on the first print disseminated pursuant to an effective national market system plan (“First Listing Market Transaction”) or the Regulatory Halt has been lifted, the related equity option series will be opened automatically as follows:

(1) Determining the Opening Price. The System will determine a single price at which a particular equity option series will be opened (the “Opening Price”) as calculated by the System within 30 seconds of the First Listing Market Transaction or the Regulatory Halt being lifted. Where there are no contracts in a particular series that would execute at any price, the System shall open such options for trading without determining an Opening Price. The Opening Price of a series must be a Valid Price, as determined in subparagraph (b)(2) below, and will be:

(A) – (D) No change.

(2) Validating the Opening Price. For purposes of [this Rule]paragraph (b), a NBBO Midpoint, a Print, and a Previous Close will be at a Valid Price:

(A) – (C) No change.

[(3) Performing the Opening Process. After establishing an Opening Price that is also a Valid Price, orders and quotes in the System that are priced equal to or more aggressively than the Opening Price will be matched based on time priority. Matches will occur until there is no remaining volume or there is an imbalance of orders. All orders and quotes or portions thereof that are matched pursuant to the Opening Process will be executed at the Opening Price. An imbalance of orders on the buy side or sell side may result in orders that are not executed in whole or in part. Such orders will be handled in time sequence, beginning with the order with the oldest time stamp and may, in whole or in part, be placed on the BZX Options Book, cancelled, executed, or routed in accordance with Rule 21.9.



(4) Contingent Open. Orders that are not executed during the Opening Process because trading in a series is going to be opened for trading pursuant to paragraph (1)(D) above will be handled in time sequence, beginning with the order with the oldest time stamp and may, in whole or in part, be placed on the BZX Options Book, cancelled, executed, or routed in accordance with Rule 21.9.]

([b]c) Opening Price for Index Options. After an away options exchange(s) disseminates a quote in an index option series, [With respect to index options, the System shall open such options for trading at 9:30 a.m. Eastern Time. Where trading in index options is halted for any reason, the System shall open such options for trading upon]or after the determination by the Exchange that the conditions which led to [the]a halt in trading in index options are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading, the related index option series will be opened automatically as follows:[.]

(1) Determining the Opening Price. The System determines an Opening Price for a particular index option series within 30 seconds of an away options exchange(s) disseminating a quote in a series. Following an away options exchange's dissemination of a quote in a series, if there are no contracts in a particular series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid pursuant to subparagraph (c)(2), of a series will be the NBBO Midpoint. If the NBBO Midpoint is not valid, the Exchange in its discretion may extend the Order Entry Period by up to 30 seconds or open the series for trading.

(2) Validating the Opening Price. For purposes of paragraph (c), the NBBO Midpoint is a valid price if it is no more than the Minimum Amount set forth in the table in subparagraph (b)(2)(C) away from the NBB or NBO for the series.

(d) Opening Trades. After establishing an Opening Price that is also a Valid Price, the System matches (in accordance with Rule 21.8) orders and quotes in the System that are priced equal to or more aggressively than the Opening Price. Matches occur until there is no remaining volume or an imbalance of orders. All orders and quotes (or unexecuted portions) matched during the Opening Process execute at the Opening Price. The System enters any non-executed orders and quotes (or unexecuted portions) into the BZX Options Book, where they may be processed in accordance with Rule 21.9. The System cancels any OPG orders (or unexecuted portions) that do not execute during the Opening Process.

(e) Contingent Open. If the Exchange opens a series for trading pursuant to paragraph (b)(1)(D) or (c)(1) above, the System enters non-executed orders and quotes (or unexecuted portions) into the BZX Options Book in time sequence, where they may be processed in accordance with Rule 21.9.

([c]f) The Exchange may deviate from the standard manner of the Opening Process, including adjusting the timing of the Opening Process in any option class, when it believes it is necessary in the interests of a fair and orderly market.

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## Rule 29.2. Definitions

(a) – (o) No change.

## Interpretations and Policies

.01 The reporting authorities designated by the Exchange in respect of each index underlying an index options contract traded on the Exchange are as provided below.

Index	Reporting Authority
<u>Mini-SPX Index</u>	<u>S&amp;P Dow Jones Indices</u>
<u>Russell 2000 Index</u>	<u>Frank Russell Company</u>
<u>Dow Jones Industrial Average</u>	<u>S&amp;P Dow Jones Indices</u>
[(Reserved)]	

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## Rule 29.10. Trading Sessions

(a) No change.

(b) Instituting Halts and Suspensions.

[Trading on BZX Options in any index option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than twenty percent (20%), in the case of a broad based index, and ten percent (10%) for all other indices, of the index value is halted or suspended.] The Exchange also may halt trading in an index option when, in [his or her]its judgment, such action is appropriate in the interests of a fair and orderly market and to protect investors. Among the facts that may be considered are the following:

(1) [whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks]the extent to which trading is not occurring in the stocks or options underlying the index;

(2) – (4) No change.

(c) – (f) No change.

## Rule 29.11. Terms of Index Options Contracts

(a) General.

(1) – (3) No change.

(4) “European-Style Exercise.” The following European-style index options, some of which may be A.M.-settled as provided in paragraph (a)(5), are approved for trading on BZX Options:

(A) – (B) No change.

(C) Mini-SPX Index

(D) Russell 2000 Index

(E) Dow Jones Industrial Average

(5) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the last day of trading in the underlying securities prior to expiration. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(A) No change.

(B) In the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on BZX Options:

(i) – (ii) No change.

(iii) Mini-SPX Index

(iv) Russell 2000 Index

(v) Dow Jones Industrial Average

(b) Long-Term Index Options Series.

(1) Notwithstanding the provisions of paragraph (a)(3), above, BZX Options may list long-term index options series that expire from twelve (12) to [sixty (60)]one-hundred eighty (180) months from the date of issuance.

(A) Index long term options series may be based on either the full or reduced value of the underlying index. There may be up to ten (10) expiration months, none further out than [sixty (60)]one-hundred eighty (180) months. [Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than twelve (12) months.]

(B) No change.

(2) Reduced-Value Long Term Options Series.

(A) Reduced-value long term options series [may be approved for trading on Specified (as provided in Rule 29.1)]on the following indices are approved for trading on the Exchange:[.]

(i) Russell 2000 Index.

(B) No change.

(c) Procedures for Adding and Deleting Strike Prices. The procedures for adding and deleting strike prices for index options are provided in Rule 19.6 (Series of Options Contracts Open for Trading), as amended by the following:

(1) The interval between strike prices will be no less than \$5.00[.]; provided, that in the case of the following classes of index options, the interval between the strike prices will be no less than \$2.50:

(A) Russell 2000 Index, if the strike price is less than \$200.00.

(B) Reduced-value long term option series.

(2) – (4) No change.

(5) Notwithstanding the above, the strike prices for new and additional series of XSP options will be listed subject to the following:

(A) if the current value of the Mini-SPX Index is less than or equal to 20, the Exchange will not list XSP option series with a strike price of more than 100% above or below the current value of the Mini-SPX Index;

(B) if the current value of the Mini-SPX Index is greater than 20, the Exchange will not list XSP option series with a strike price of more than 50% above or below the current value of the Mini-SPX Index; and

(C) the lowest strike price interval that may be listed for standard XSP option series is \$1, including for long-term option series, and the lowest strike price interval that may be listed for XSP option series under the Short Term Option Series Program in paragraph (h) below.

(6) Notwithstanding the above, the interval between strike prices may be no less than \$0.50 for DJX options, including for series listed under the Short Term Option Series Program in paragraph (h) below.

(d) – (h) No change.

(i) Notwithstanding the requirements in this Rule 29.11, the Exchange may list additional expiration months on option classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange.

Interpretations and Policies:

.01 Index Value of Mini-SPX Index. 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.

\* \* \* \* \*

Rule 29.13. Disclaimers

(a) No change.

(b) Disclaimer.

No reporting authority, and no affiliate of a reporting authority (each such reporting authority, its affiliates, and any other entity identified in this Rule are referred to collectively as a "Reporting Authority"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of an index it publishes, any opening, intraday or closing value therefore, or any data included therein or relating thereto, in connection with the trading of any options contract based thereon or for any other purpose. The Reporting Authority shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the Reporting Authority does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefore, or any data included therein or related thereto. The Reporting Authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such index, any opening, intra-day, or closing value therefore, any data included therein or relating thereto, or any options contract based thereon. The Reporting Authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or

unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefore, any data included therein or relating thereto, or any options contract based thereon, or arising out of any errors or delays in calculating or disseminating such index. The foregoing disclaimers shall apply to S&P Dow Jones Indices LLC, a division of S&P Global ("S&P") in respect to the Mini-SPX Index and Dow Jones Industrial Average, and Frank Russell Company in respect to the Russell 2000 Index; to the foregoing Reporting Authorities in respect to any other indexes for which they act as the designated Reporting Authority; and to any other Reporting Authority in respect to any index for which it acts as such.

\* \* \* \* \*

Rule 29.15. Restrictions on Contracts

Contracts provided for in this Chapter 29 will not be subject to the restriction in Rule 18.12(b).

\* \* \* \* \*