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SECURITIES AND EXCHANGE COMMISSION

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Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to List and Trade Options that Overlie the Mini-Russell 2000 Index

December 21, 2020.

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 December 16, 2020, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to list and trade options that overlie the Mini-Russell 2000 Index (“Mini-RUT” or “MRUT”). The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

## **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

### **A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

#### **1. Purpose**

The purpose of this proposed rule change is to amend certain rules in connection with the Exchange's plans to list and trade MRUT options.<sup>5</sup> MRUT options are options on the Mini-RUT Index, the value of which is 1/10th the value of the Russell 2000 ("RUT") Index. The Russell 2000 Index measures the performance of small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2,000 U.S.-based securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 Index is a commonly used benchmark for mutual funds that identify themselves as "small-cap," and much like the S&P 500 Index ("SPX"), is used to benchmark large capitalization stocks. The Exchange understands that investors often use Russell 2000 Index-related products to diversify their portfolios and benefit from market trends. RUT options currently offer these benefits to investors but may be expensive given their larger notional value and are therefore primarily used by institutional market participants. By contrast, Mini-RUT options are a reduced-value options (1/10<sup>th</sup>) compared to

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<sup>5</sup> The Exchange intends to file a Form 19b-4(e) with the Commission for Mini-Russell 2000 Index options pursuant to Rule 19b-4(e) of the Act.

RUT options that will offer individual investors lower cost options to obtain the potential benefits of options on the Russell 2000 Index. The Exchange believes that investors will benefit from the availability of Mini-RUT option contracts by making options overlying the higher-valued RUT Index more readily available as an investing tool and at more affordable prices for the average retail investor. The Exchange notes that it has previously listed and traded options on the Mini-RUT Index, which were delisted in 2010.<sup>6</sup>

#### Initial and Maintenance Listing Criteria

The Mini-RUT Index contains the same stocks with the same weightings as the RUT Index and will be calculated in the same manner as the RUT Index, with the exception of being 1/10<sup>th</sup> the value of the RUT Index. The RUT Index is a broad-based index currently authorized to list and trade on the Exchange, therefore the Mini-RUT Index also meets the definition of a broad-based index as set forth in Rule 4.11 (i.e., an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries). The index reporting authority, Frank Russell Co., for the Mini-RUT Index is the same as for the RUT Index.<sup>7</sup> Additionally, the Mini-RUT Index (like the RUT Index) satisfies the initial listing criteria of a broad-based index, as set forth in Rule 4.10(f)<sup>8</sup>:

- (1) the index is broad-based, as defined in Rule 4.11;
- (2) options will be A.M.-settled;
- (3) the index is capitalization-weighted, modified capitalization-weighted, price-weighted, or equal dollar-weighted<sup>9</sup> ;

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<sup>6</sup> The Exchange notes that when it previously listed and traded reduced-value options on the RUT Index (at 1/10<sup>th</sup> and 1/5<sup>th</sup> the value), such options were multiply listed and available for trading on other options exchange. The Exchange now plans list and trade options on the Mini-RUT Index as a proprietary product.

<sup>7</sup> The proposed rule change adds the reporting authority for the Mini-RUT Index to Rule 4.12(c).

<sup>8</sup> The Exchange also notes that it may authorize for trading FLEX Options on Mini-RUT if it may authorize for trading a non-FLEX Options on Mini-RUT pursuant to Rule 4.10. See Rule 4.20.

<sup>9</sup> The Mini-RUT Index is capitalization-weighted.

- (4) the index consists of 50 or more component securities;
- (5) each component security that accounts for at least 95% of the weight of the index has a market capitalization of at least \$75 million, except that for each component security that accounts for at least 65% of the weight of the index has 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 4.3 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 is an NMS stock;
- (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<sup>10</sup>;
- (11) the current index value is widely disseminated at least once every 15 seconds by the Options Price Reporting Authority, CTA/CQ, NIDS or one or more major market data vendors during the time options on the index 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 Independent System Capacity Advisor 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 informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index<sup>11</sup>;
- (15) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

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<sup>10</sup> The Mini-RUT Index is comprised of only U.S. component securities.

<sup>11</sup> The index reporting authority, Frank Russell Co., is not a broker-dealer.

Options on the Mini-RUT Index will also be subject to the maintenance listing standards set forth in Rule 4.10(g):

- (1) the conditions stated in (1), (2), (3), (9), (10), (11), (12), (13), (14), and (15) above must continue to be satisfied and the conditions stated in (5), (6), (7), (8) above must be satisfied only as of the first day of January and July in each year;
- (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>12</sup>

#### Expiration Months, Settlement, and Exercise Style

Consistent with existing rules for certain index options, including RUT options, the Exchange will allow up to six standard monthly expirations for MRUT options<sup>13</sup> as well as LEAPS<sup>14</sup>. The Exchange may list MRUT options as A.M.-, cash-settled contracts with European-style exercise.<sup>15</sup> A.M.-settlement is consistent with the generic listing criteria for broad-based indexes.<sup>16</sup> The Exchange proposes to amend Rule 4.13(a)(4) to add Mini-RUT Index options to the list of other permissible A.M.-settled options, including RUT options. Also, European-style exercise is consistent with many index options, as set forth in Rule 4.13(a)(3). Standard third-Friday-of-the-month (“Expiration Friday”) RUT and MRUT options, as proposed,

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<sup>12</sup> As is the case with other index options authorized for listing and trading on Cboe Options, in the event the Mini-RUT Index fails to satisfy the maintenance listing standards, the Exchange will not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or 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 Securities and Exchange Act (the “Act”).

<sup>13</sup> See Rule 4.13(a).

<sup>14</sup> Pursuant to Rule 4.13(b), index LEAPS may expire 12-180 months from the date of issuance.

<sup>15</sup> See Rule 4.13(a)(3).

<sup>16</sup> See Rule 4.10(f)(2).

are typically A.M.-settled with European-style exercise. The Exchange proposes to amend Rule 4.13(a)(3) to add Mini-RUT Index options to the list of other European-style index options, including RUT options. As discussed above, the Mini-RUT Index consists of all components that are included in the RUT Index but is 1/10th the value of the RUT Index. Because of the relation between the Mini-RUT Index and the RUT Index, both of which market participants may use as a hedging vehicle to meet their investment needs in connection with RUT Index-related products and cash positions, the Exchange believes it is appropriate to permit the same number of monthly expirations for MRUT options as RUT options and to list MRUT options with the same standard settlement and exercise style as RUT options.

#### Quarterly and Nonstandard Expirations

In addition to this, pursuant to Rule 4.13(c), the Exchange may open for trading Quarterly Index Expirations (“QIXs”) on certain indexes, including the RUT Index. QIXs are index option contracts that expire on the last business day of a calendar quarter. The Exchange proposes to amend Rule 4.13(c) to include QIXs on the Mini-RUT Index. The Exchange notes that there may be there may be up to eight near-term QIXs open for trading in a class and that QIXs are P.M.-settled. Also, the Exchange’s Nonstandard Expirations Pilot Program currently allows it to list Weekly Expirations and End of Month (“EOM”) Expirations on any broad-based index.<sup>17</sup> Weekly and EOM options are P.M., cash-settled and have European-style exercise. The Exchange intends to list MRUT options pursuant to the Nonstandard Expirations Pilot Program and notes that it currently lists RUT options with Nonstandard Expirations pursuant to the program. As stated above, due to the relation between the Mini-RUT Index and the RUT Index, the Exchange believes it is appropriate to list MRUT options with the same available expirations

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<sup>17</sup> See Rule 4.13(e). The Exchange notes that it will provide the Commission with the annual report analyzing volume and open interest of MRUT Weekly and EOM options, as well as information and analysis of Weekly and EOM trading patterns, and index price volatility and share trading activity for series that exceed minimum parameters, pursuant to the Nonstandard Expirations Pilot approval order. See Securities Exchange Act Release 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (SR-CBOE-2009-075).

as RUT options. Further, the Exchange notes that Rule 5.1(b)(2)(C), which governs trading days and hours, currently provides that on their last trading day, Regular Trading Hours for index options with Nonstandard Expirations and QIXs, may be effected on the Exchange between 9:30 a.m. and 4:00 p.m. Eastern Time<sup>18</sup> (as opposed to the 9:30 a.m. to 4:15 p.m. Regular Trading Hours for options with those expirations that are non-expiring). Therefore, expiring MRUT options with Nonstandard Expirations and QIXs will also be opened for trading from 9:30 a.m. to 4:00 p.m. on their last trading day pursuant to Rule 5.1(b)(2)(C).

#### Minimum Increments

The Exchange also proposes to amend Rule 5.4 in connection with minimum increments for bids and offers for MRUT options. Currently, the minimum increments for bids and offers for options on the iShares Russell 2000 ETF (“IWM”), which is an exchange-traded fund (“ETF”) that tracks the performance of the RUT Index, is \$0.01 regardless of whether option series is quoted above, at, or below \$3. Because both Mini-RUT options and IWM options prices are based, overall, on 1/10<sup>th</sup> the value of the RUT Index, the Exchange believes that it is important that these products have the same minimum increments to promote consistency and competition. As such, the Exchange proposes that for so long as IWM options participate in the Penny Interval Program the minimum increment for MRUT options will be \$0.01 at all prices. The Exchange notes that this is consistent with the minimum increment for Mini-XSP, which is likewise \$0.01 so long as options on the SPDR S&P 500 ETF (“SPY”), an ETF that tracks the SPX Index, participate in the Penny Interval Program, as both Mini-XSP and SPY options are by and large based on 1/10<sup>th</sup> the value of the SPX Index.<sup>19</sup>

#### Exercise Prices

The Exchange also proposes to adopt rules regarding permissible exercise prices for

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<sup>18</sup> See Rule 1.6, which states that unless otherwise specified, all times in the Rules are Eastern Time.

<sup>19</sup> See Securities Exchange Act Release No. 70087 (July 31, 2013), 78 FR 47809 (August 6, 2013) (SR-CBOE-2013-055).

Mini-RUT options. Specifically, the proposed rule change amends Interpretation and Policy .01(i)<sup>20</sup> to Rule 4.13 provide that, notwithstanding Interpretation and Policies .01(a)<sup>21</sup>, .01(d)<sup>22</sup> and .04<sup>23</sup> to Rule 4.13, the exercise prices for new and additional series of Mini-RUT options shall be listed subject to the following:

(1) if the current value<sup>24</sup> of the Mini-RUT is less than or equal to 20, the Exchange shall not list series with an exercise price of more than 100% above or below the current value of the

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<sup>20</sup> The Exchange notes that, currently, Interpretation and Policy .01(i) and Interpretation and Policy .01(a) houses the exercise price provisions applicable to Mini-RUT options that were in place when the Exchange prior listed and traded options on the Mini-RUT Index, which were multiply listed at the time, and thus based on the strike price interval rules of other options exchanges. See Securities Exchange Act Release No. 60977 (November 10, 2009), 74 FR 59592 (November 18, 2009) (SR-CBOE-2009-086). The Exchange proposes to remove these former strike interval price provisions and implement strike price interval provisions that are consistent with those that govern Mini-XSP options, a proprietary mini-index option like Mini-RUT options today.

<sup>21</sup> Interpretation and Policy .01(a) to Rule 4.13 provides that the interval between strike prices will be no less than \$5.00; provided, the interval between strike prices will be no less than \$2.50 for certain classes of index options.

<sup>22</sup> Interpretation and Policy .01(d) to Rule 4.13 provides that when new series of index options with a new expiration date are opened for trading, or when additional series of index options in an existing expiration date are opened for trading as the current value of the underlying index to which such series relate moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading.

<sup>23</sup> Interpretation and Policy .04 to Rule 4.13 provides that the Exchange may open for trading additional series of the same class of index options as the current index value of the underlying index moves substantially from the exercise price of those index options that already have been opened for trading on the Exchange. The exercise price of each series of index options opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term “reasonably related to the current index value of the underlying index” means that the exercise price is 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 such series, as expressed by institutional, corporate, or individual customers or their brokers.

<sup>24</sup> The proposed rule change makes this value explicit by updating Interpretation and Policy .06 to Rule 4.13 to provide that the current index value current index value of reduced-value options on the S&P 500 Stock Index (“Mini-SPX options”) and reduced-value options on the Russell 2000 Index (“Mini-RUT options”) shall be one-tenth (1/10th) the value of the applicable underlying index reported by the Reporting Authority.

Mini-RUT;

(2) if the current value of the Mini-RUT is greater than 20, the Exchange shall not list series with an exercise price of more than 50% above or below the current value of the Mini-RUT; and

(3) the lowest strike price interval that may be listed for standard Mini-RUT options, including LEAPS, is \$1, and the lowest strike price interval that may be listed for series of Mini-RUT listed under the Nonstandard Expirations Pilot Program in Rule 4.13(e) and for QIX Mini-RUT options is \$0.50.

Pursuant to current Interpretation and Policy .01(a) to Rule 4.13, index options have strike price intervals of \$5 or greater. This includes strike price intervals for options on the RUT Index.<sup>25</sup> The Exchange believes that MRUT options, which have 1/10th the value of the RUT options, should therefore be permitted smaller strike price intervals than RUT options. As stated, MRUT options will allow smaller-scale investors to gain broad exposure to the RUT options market and hedge RUT Index-related positions with a manageably sized contract and the proposed finer strike prices for MRUT options will permit strike prices accordingly aligned with RUT options. For example, if the RUT Index value was 2700, then the Mini-RUT Index value would be 270. RUT options would be permitted to be listed with strikes of 2710, 2720, and 2730. Corresponding standard and QIX MRUT options strikes, as proposed, would be 271, 272, and 273; as opposed to strikes of only 270 and 275, as permitted under the current Rule. The proposed \$1 strike interval for standard options will permit the listing of series with strikes that correspond to RUT option strikes. The Exchange, however, recognizes the proposed \$1 strike approach for MRUT options alone does not achieve full harmonization between strikes in MRUT options and RUT options. For example, if there was a 2715 strike in RUT options, the \$1 strike interval would not permit the Exchange to list a corresponding 271.5 strike in MRUT

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<sup>25</sup> Unless the strike price is \$200 or less, then the intervals may be no less than \$2.50. See Interpretation and Policy .01(a) to Rule 4.13.

options. Therefore, the Exchange also proposes \$0.50 strike price intervals for MRUT options with Nonstandard Expirations and for QIX MRUT options. The Exchange believes that smaller strike intervals for MRUT options with Nonstandard and QIX expirations (all of which are “nonstandard” expirations with P.M.-settlement, and, at times, have expirations that coincide)<sup>26</sup> will provide market participants with more efficient hedging and trading opportunities. The proposed \$0.05 strike setting regime would permit strikes on a more refined scale that, at times, will more closely reflect values in the underlying RUT Index and allow market participants to roll open positions from a lower strike to a higher strike in conjunction with the price movement of the underlying.

The Exchange notes that the proposed strike interval prices for MRUT options are substantively the same as those for options on the Mini-SPX Index (which are 1/10<sup>th</sup> the value of SPX options).<sup>27</sup> The Exchange believes these permissible strike prices will permit the Exchange to list MRUT options with strikes that closely reflect the current values of the RUT Index, as they provide more flexibility and will allow the Exchange to better respond to customer demand for MRUT option strike prices that relate to current RUT Index values. In addition, the Exchange believes that because the number of strikes that may be listed will be contained by the percentages above and below the current Mini-RUT Index value (as further discussed below) there is no need to restrict the use of \$1 or \$0.50 strike price intervals based on the amount of the strike price. Rather, the Exchange may determine to list strikes in \$1 or \$0.50 intervals, as applicable, or higher based on the level of the Mini-RUT Index, customer demand and the need

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<sup>26</sup> For example, every third EOM expiration corresponds to a quarterly expiration.

<sup>27</sup> See Interpretation and Policy .10 to Rule 4.13; and see Securities Exchange Act Release Nos. 72482 (June 26, 2014), 79 FR 37825 (July 2, 2014) (SR-CBOE-2014-051) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Strike Settings for Mini-S&P 500 Index Options); and 72991 (September 4, 2014), 79 FR 53794 (September 10, 2014) (SR-CBOE-2014-069) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to XSP and DJX Strike Price Listings). The Exchange notes that it does not propose to add MRUT options to the Short Term Options Series Program, and therefore, does not include strike interval prices for these options in the proposed rule as it does for XSP options.

to list scaled strikes in reduced-value MRUT options that correspond to strikes in full-value RUT options. The Exchange believes the proposed strike price intervals for MRUT options will allow retail investors to better use MRUT options to gain exposure to the RUT options market, hedge their positions in RUT Index-related instruments and cash positions in the RUT Index, and tailor their investment strategies with the same precision as market participants in RUT options.

Additionally, the proposed strike price range limitations for MRUT options are closely aligned with the strike price range limitations for equity and ETF options pursuant to the Rule 4.7(b) and the Options Listing Procedure Plan (“OLPP”).<sup>28</sup> The OLPP and Rule 4.7(b) set forth exercise price range limitations for equity and ETF options which differ from the general exercise price range limitations for index options set forth in Interpretations and Policies .01(d) and .04 to Rule 4.13. The Exchange also notes that the exercise price range limitations currently in place for Mini-SPX options differ from the limitations in Interpretations and Policies .01(d) and .04 to Rule 4.13 and, instead, are consistent with the OLPP limitations.<sup>29</sup> Interpretation and Policy .01(d) 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 time the series is first opened for trading on the Exchange. “Reasonably related to the current index value of the underlying index” means the exercise price must be within 30% of the current index value.<sup>30</sup> Pursuant to Interpretation and Policy .04 to Rule 4.13, 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. Therefore, if the value of the Mini-RUT Index is \$200, under the current Rules providing general exercise price range limitations for index options, the Exchange may only list strikes ranging from \$140 to \$260 (i.e., 30% above and below the current value). Pursuant to the OLPP and Rule 4.7(b) strike price

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<sup>28</sup> See Rule 4.7(b)

<sup>29</sup> See *supra* note 27.

<sup>30</sup> See *supra* note 23.

limitations for equity and ETF options, however, if the underlying price of an equity or ETF option is \$200, the Exchange is permitted to list strikes ranging from \$100 through \$300 (i.e., 50% above and below the current value). Therefore, by applying the OLPP limitations, as proposed, if the value of the Mini-RUT Index is \$200, the Exchange will be able to list strikes ranging 50% above and below the current value of the index. The Exchange believes the proposed exercise price limitations for MRUT options will put such options on equal standing with equity and ETF options, as well as Mini-SPX options, in connection with exercise price limitations and, as a result, will allow the Exchange to list strikes that more closely reflect the current values in the RUT Index and to better respond to customer demand for MRUT options strike prices that better relate to current RUT Index values.

Finally, the Exchange notes that the proposed rule change removes current Interpretation and Policy .01(i)(1) through (4) to Rule 4.13, as well as the references to reduced-value Russell 2000 Index options in Interpretation and Policy .01(a) to Rule 4.13, which contain the strike price provisions and delisting policy applicable to the multiply listed Mini-RUT options that were previously listed on the Exchange.<sup>31</sup> The Exchange notes that other exchanges that also listed Mini-RUT options at that time adopted substantially the same strike price rules and delisting policies for Mini-RUT options as provided in current Interpretation and Policy .01(i)(1) through (4).<sup>32</sup> For the reasons described above, the Exchange wishes to adopt strike price intervals and limitations that are consistent with those for Mini-SPX options, which is a proprietary product traded exclusively on the Exchange, as will be the case for the MRUT options that the Exchange now proposes to list and trade.<sup>33</sup> The Exchange notes that its general delisting policies provided in Rule 4.5 will apply to MRUT options in the same manner that they

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<sup>31</sup> These were delisted in 2010.

<sup>32</sup> See e.g., Securities and Exchange Act Release Nos. 60977 (November 10, 2009), 74 FR 59592 (November 18, 2009) (SR-CBOE-2009-086); and 60637 (September 9, 2009), 74 FR 47634 (September 16, 2009) (SR-Phlx-2009-77).

<sup>33</sup> See supra note 6.

currently apply to other index options, including Mini-XSP, pursuant Interpretation and Policy .01 to Rule 4.13.<sup>34</sup>

#### Position and Exercise Limits

Rule 8.31 governs position limits for broad-based index options, and currently provides that there shall be no position limits for broad-based index option contracts (including reduced-value option contracts) on, among other broad-based index option contracts, the RUT Index. Rule 8.42 governs exercise limits and Rule 8.42(b) specifically provides that there shall be no exercise limits for broad-based index options (including reduced-value option contracts) on, among other broad-based index option contracts, the RUT Index. Therefore, there will be no position or exercise limits for Mini-RUT option contracts upon their listing and trading as they are reduced-value option contracts on the RUT Index. The Exchange notes that the Commission has previously approved the Exchange Rules codifying that there are no position or exercise limits on reduced-value option contracts, the filing of which specifically included reduced-value option contracts on the RUT Index.<sup>35</sup>

#### Appointment Weights

The Exchange proposes to add options on the Mini-RUT Index as a Tier AA class with a Market-Maker appointment weight of .001.<sup>36</sup> This is the same appointment weight as a majority

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<sup>34</sup> The Exchange notes that the proposed rule change corrects the reference to Rule 4.5 in Interpretation and Policy .01 to Rule 4.13, which was a carry-over error as a result of the migration of the Exchange's Rulebook in 2019. See Securities and Exchange Act Release No. 87337 (October 17, 2020), 84 FR 56879 (October 23, 2019) (SR-CBOE-2019-092).

<sup>35</sup> See Securities Exchange Release No. 56350 (September 4, 2007), 72 FR 51878 (September 11, 2007) (SR-CBOE-2007-79) (Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 Thereto To Eliminate Position and Exercise Limits for Options on the Russell 2000 Index, and To Specify That Certain Reduced-Value Options on Broad-Based Security Indexes Have No Position and Exercise Limits).

<sup>36</sup> See Rule 5.50(g). RUT Index options and IWM options are also in Tier AA. While the appointment weights of Tier AA classes are not subject to quarterly rebalancing under Rule 5.50(g)(1), the Exchange regularly reviews the appointment weights of Tier AA classes to ensure that they continue to be appropriate. The Exchange determines appointment weights of Tier AA classes based on several factors, including, but not limited to, competitive forces and trading volume.

of the other Tier AA options classes. The Exchange determines appointment weights of Tier AA classes based on several factors, including, but not limited to, competitive forces and trading volume. The Exchange believes the proposed initial appointment weight of .001 for Mini-RUT Index options will foster competition by incentivizing Market-Makers to obtain an appointment in these newly listed options, which may increase liquidity in the new class. The Exchange notes that it recently listed options on the S&P 500 ESG Index, to which it also assigned an appointment weight of .001 for the same reasons — to incentivize Market-Makers to obtain appointments and provide increased liquidity in a newly listed class.<sup>37</sup>

### Capacity

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 new series that may result from the introduction of the Mini-RUT Index options up to the proposed number of possible expirations. Because the proposal is limited to one class, the Exchange believes any additional traffic that may be generated from the introduction of Mini-RUT Index options will be manageable.

## 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>38</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>39</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

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<sup>37</sup> See Securities Exchange Act Release No. 89749 (September 2, 2020), 85 FR 55723 (September 9, 2020) (SR-CBOE-2020-080) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To List and Trade Options That Overlie the S&P 500 ESG Index).

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

<sup>39</sup> 15 U.S.C. 78f(b)(5).

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 the Section 6(b)(5)<sup>40</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposal to list and trade options on the Mini-RUT Index will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because the Exchange believes that the proposed rule change will further the Exchange's goal of introducing innovative products to the marketplace. The Exchange particularly believes that the proposed rule change will benefit investors, as the Exchange believes there is unmet market demand for exchange-listed security options that track the RUT Index. ETFs based on the RUT Index (e.g., IWM and Vanguard Russell 2000 ETF ("VTWO")) and E-mini RUT Index futures products are listed and traded on other exchanges. The Exchange believes that Mini-RUT Index options are designed to provide additional, relatively low-cost opportunities for investors, particularly retail investors, to hedge or speculate on the market risk and meet their investment needs associated with the RUT Index and RUT Index-linked products by listing an option on 1/10th the value of this index. More specifically, the lower cost of MRUT options is designed to allow investors to hedge their portfolios with a smaller outlay of capital and may facilitate overall investor participation in the market for RUT options, which should, in turn, help to maintain the depth and liquidity of the market for RUT options, to the benefit of investors.

The Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, because it is consistent

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Id.

with current Rules, previously filed with the Commission. Particularly, the Mini-RUT Index options satisfy the initial listing standards for broad-based indexes in the Exchange's current Rules, which the Commission previously approved as consistent with Act.<sup>41</sup> The proposed rule change to add the Mini-RUT Index to the table regarding reporting authorities for indexes, to the list of European-style exercise index options, to the list of A.M.-settled index options and to the list of index options with QIXs, to add MRUT options to the Nonstandard Expiration Pilot Program,<sup>42</sup> to permit the standard number of expirations for MRUT options, and to allow for no position or exercise limits to apply to MRUT option contracts (as previously approved by the Commission specifically for reduced-value option contract on the RUT Index),<sup>43</sup> is consistent with existing Rules governing broad-based index options currently authorized and listed for trading on the Exchange. The Exchange notes that with respect to these changes, RUT options currently have the same reporting authority, number of permissible expirations, standard (A.M.) settlement and exercise style, may open QIXs for trading, are part of the Nonstandard Expiration Pilot Program, and are not subject to position or exercise limits.<sup>44</sup> The Exchange has observed no trading or capacity issues in RUT trading given the number and type of permissible expirations, standard settlement, European-style exercise and application of no position and exercise limits. Because the same components comprise the RUT Index and the Mini-RUT Index, market participants may use either as a hedging vehicle to meet their investment needs in connection with RUT Index-related products and cash positions, and, therefore, the Exchange believes it is appropriate to provide generally consistent features between the full- and reduced-value options on the RUT Index.

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<sup>41</sup> See Securities Exchange Act Release No. 34-53266 (February 9, 2006), 71 FR 8321 (February 16, 2006) (SR-CBOE-2005-59) (Order Approving Generic Listing Standards for Options on Broad-based Indexes).

<sup>42</sup> See supra note 17.

<sup>43</sup> See supra note 35.

<sup>44</sup> See Rules 4.12(c), 4.13(a)(2) through (4), 4.13(c), Rule 8.31, and Rule 8.42(b).

The Exchange believes that adopting a minimum increment of \$0.01 for MRUT options, aligned with the minimum increment for IWM options (which is also 1/10<sup>th</sup> the value of the RUT Index), will remove impediments to and perfect the mechanism of a free and open market and national market system by promoting competition and providing consistency for market participants that participate in products that track the price of the RUT Index. The Exchange believes that aligning the minimum increments for MRUT options with those for IWM options will allow market participants to quote in smaller minimum increments of \$0.01, which may provide the opportunity for reduced spreads, thereby lowering costs to investors.<sup>45</sup> This proposed rule change is also consistent with the minimum increments for Mini-XSP, which are \$0.01 and likewise aligned with options on the ETF (SPY) that tracks the same underlying index (SPX) and is similarly 1/10<sup>th</sup> the value of the SPX Index.<sup>46</sup>

With respect to the proposed permissible exercise prices for MRUT options, the proposed rule change is designed to closely align MRUT option strike prices with those of RUT option strike prices. The proposed exercise price regime will provide the Exchange with the flexibility to respond to customer demand for MRUT option strike prices that relate to current RUT Index values and closely reflect values in the underlying RUT Index, which will allow investors to roll open positions from a lower strike to a higher strike in conjunction with the price movement of the underlying. The Exchange believes that the proposed strike prices will afford investors important hedging and trading opportunities by allowing investors (particularly, retail investors) to fine-tune their use of MRUT options to gain exposure to the RUT options market, hedge RUT-Index-related positions, and manage their portfolios. The proposed rule change will add consistency to the RUT Index options markets and will help ensure that investors in MRUT options are not at a disadvantage with respect to larger institutional investors in RUT options. The Exchange believes that because the number of strikes that may be listed will be contained by

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<sup>45</sup> See supra note 19.

<sup>46</sup> See id.

the percentages above and below the current Mini-RUT Index value, the number of MRUT strikes that may be listed will not be unbounded. The proposed MRUT strike prices and limitations are substantively identical to the strike prices and limitations for XSP options, a similar reduced-value contract on a broad-based index. The Exchange believes that the proposed strike price regime for MRUT options, like the current regime for XSP options, will benefit investors by giving them increased flexibility and the ability to more closely tailor their investment and hedging decisions to their needs.<sup>47</sup> Additionally, the Exchange believes that it is appropriate to delete the strike price and delisting provisions that were applicable to multiply listed Mini-RUT options, previously listed on multiple exchanges, including the Exchange, and, instead, adopt strike price intervals that are consistent with those for Mini-SPX options, which are listed exclusively on the Exchange, as will also be the case for MRUT options. The Exchange notes that its general delisting policies provided in Rule 4.5 will apply to MRUT options in the same manner that they currently apply to other index options, including Mini-XSP.

The Exchange also believes the proposed initial low appointment weight for Mini-RUT Index options promotes competition and efficiency by incentivizing more Market-Makers to obtain an appointment in the newly listed class. The Exchange believes this may result in liquidity and competitive pricing in this class, which ultimately benefits investors. The Exchange does not believe that the proposed rule change is unfairly discriminatory, as the appointment weight will apply to all Market-Makers in this class. Additionally, the proposed appointment weight is the same as the appointment weight for a majority of other Tier AA options classes, as well as a recently listed index option class to likewise promote Market-Maker appointment, liquidity and competitive pricing in that class.<sup>48</sup>

Finally, the Exchange represents that it has the necessary systems capacity to support the new option series given these proposed specifications. The Exchange believes that its existing

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<sup>47</sup> See supra note 27.

<sup>48</sup> See Rule 5.50(g); and see supra note 37.

surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from listing and trading Mini-RUT options. The Exchange further notes that current Exchange Rules that apply to the trading of other index options traded on the Exchange, such as RUT options, will also apply to the trading of Mini-RUT options, such as, for example, Exchange Rules governing customer accounts, margin requirements and trading halt procedures.

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 Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act as options on the Mini-RUT Index satisfy initial listing standards set forth in the Rules, and MRUT options will be equally available to all market participants who wish to trade such options. The proposed number and type of expirations (i.e., standard, Nonstandard, and QIXs), settlement (standard A.M.), exercise style, application of no position and exercise limits, minimum increments, and strike price intervals and limitations will apply in the same manner to all options traded on the Mini-RUT Index. In addition to this, the Exchange notes that the proposed initial low Market-Maker appointment cost for Mini-RUT Index options will apply equally to all Market-Makers with an appointment in MRUT options and will promote competition by incentivizing more Market-Makers to obtain an appointment in the newly listed class, resulting in liquidity and competitive pricing within the class.

The Exchange does not believe that the proposal to list and trade options on the Mini-RUT Index, and the proposed rules governing the trading of MRUT options on the Exchange, will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because options on the RUT Index, including reduced-value options as proposed, are proprietary Exchange products. To the extent that the advent of

MRUT options trading on the Exchange may make the Exchange a more attractive marketplace to market participants at other exchanges, such market participants are free to elect to become market participants on the Exchange. As noted above, other option products related to the RUT Index, such as ETFs based on the RUT Index (e.g., IWM and VTWO) and E-mini RUT Index futures products, are listed for trading on other exchanges.

The Exchange believes that the proposal to list and trade MRUT options and the proposed rules that will govern the trading of MRUT options on the Exchange will promote competition by providing investors with a relatively low-cost means to hedge their portfolios with a smaller outlay of capital and may facilitate overall participation in the market for RUT options, which may help to maintain the depth and liquidity of the market for RUT options, to the benefit of all investors.

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**

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>49</sup> and Rule 19b-4(f)(6)<sup>50</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the

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<sup>49</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>50</sup> 17 CFR 240.19b-4(f)(6).

Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2020-118 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2020-118. 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, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2020-118 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>51</sup>

J. Matthew DeLesDernier,  
Assistant Secretary.

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<sup>51</sup> 17 CFR 200.30-3(a)(12).