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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-98915; File No. SR-CBOE-2023-049)

Self-Regulatory Organizations; Cboe Exchange, Inc.; Order Approving a Proposed Rule Change to Adopt Monthly Options Series

November 13, 2023

I. Introduction

On September 27, 2023, Cboe Exchange, Inc. (“Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to amend its rules to accommodate the listing of option series that would expire at the close of business on the last business day of a calendar month (“Monthly Option Series”). The proposed rule change was published for comment in the Federal Register on October 4, 2023.³ The Commission did not receive any comment letters and is approving the proposed rule change.

II. Description of the Proposal

Cboe Options proposes to amend its rules to adopt the listing and trading of Monthly Options Series. The proposed rule change will allow Cboe Options to open for trading Monthly Option Series that would expire at the close of business on the last business day of a calendar month.⁴ The Exchange may list Monthly Option Series for up to five currently listed option classes that are either index options or options on exchange-traded funds (“ETFs”).⁵ In addition,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 98593 (September 28, 2023), 88 FR 68833 (“Notice”).

⁴ The Exchange also proposes to make a nonsubstantive change to Rules 4.5(d) and 4.13(a)(2)(A) to change current references to “monthly options series” to “standard expiration options series” (i.e., series that expire on the third Friday of a month), to eliminate potential confusion. The current references to “monthly options series” in those rules are intended to refer to those series that expire on the third Friday of a month, which are generally referred to in the industry as standard expirations.

⁵ The Exchange proposes to amend Rule 4.5(a) and (b) to provide that proposed Rule 4.5(g) will describe how the Exchange will fix a specific expiration date and exercise price for Monthly Option Series and that proposed Rule 4.5(g) will govern the procedures for opening Monthly Options Series, respectively.

the Exchange may also list Monthly Option Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules. The Exchange may list 12 expirations for Monthly Option Series. Monthly Option Series need not be for consecutive months; however, the expiration date of a nonconsecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively.⁶ Other expirations in the same class are not counted as part of the maximum numbers of Monthly Option Series expirations for a class.⁷ Monthly Options Series will be p.m.-settled.⁸

The strike price of each Monthly Options Series will be fixed at a price per share, with at least two, but no more than five, strike prices above and at least two, but no more than five, strike prices below the value of the underlying index or price of the underlying security at about the time that a Monthly Options Series is opened for trading on the Exchange.⁹ The Exchange will list strike prices for Monthly Options Series that are reasonably related to the current price of the underlying security or current index value of the underlying index to which such series relates at about the time such series of options is first opened for trading on the Exchange.¹⁰

Monthly Option Series cannot expire in the same week as a standard expiration series (which expire on the third Friday of a month) in the same class expires. The same, however, is

⁶ The Exchange notes this provision considers consecutive monthly listings. For example, if it is January 2024 and the Exchange lists Quarterly Options Series in class ABC with expirations in March, June, September, December, and the following March, the Exchange could also list Monthly Options Series in class ABC with expirations in January, February, April, May, July, August, October, and November 2024 and January and February of 2025. See Notice, supra note 3 at 68834.

⁷ See proposed Rules 4.5(g)(2) and 4.13(a)(2)(C)(ii).

⁸ See proposed Rule 4.5(g)(3) and 4.13(a)(2)(C)(iii).

⁹ See proposed Rules 4.5(g)(4) and 4.13(a)(2)(C)(iv). The Exchange notes these proposed provisions are consistent with the initial series provision for the Quarterly Options Series program in Rule 4.13(a)(2)(B)(iv). While different than the initial strike listing provision for the Quarterly Options Series program in current Rule 4.5(e)(4), the Exchange believes the proposed provision is appropriate, as it contemplates classes that may have strike intervals of \$5 or greater. See Notice, supra note 3 at 68834. For consistency, the Exchange also proposes to amend Rule 4.5(e)(4) to incorporate the same provision for initial series.

¹⁰ The term “reasonably related to the current price of the underlying security or index value of the underlying index” means that the exercise price is within 30% of the current underlying security price or index value. See proposed Rules 4.5(g)(4) and 4.13(a)(2)(C)(iv).

not the case with regards to Short Term Options Series or Quarterly Options Series. In order to account for this, the Exchange proposes to amend Rules 4.5(d) and 4.13(a)(2)(A) to provide that the Exchange will not list a Short Term Options Series in a class on a date on which a Monthly Options Series or Quarterly Options Series expires. Similarly, proposed Rules 4.5(g)(2) and 4.13(a)(2)(C)(ii) provide that no Monthly Options Series may expire on a date that coincides with an expiration date of a Quarterly Options Series in the same index or ETF class. In other words, the Exchange will not list a Short Term Options Series on an index or ETF if a Monthly Options Series on that index or ETF were to expire on the same date, nor will the Exchange list a Monthly Options Series on an ETF or index if a Quarterly Options Series on that index or ETF were to expire on the same date to prevent the listing of series with concurrent expirations.¹¹

With respect to Monthly Options Series added pursuant to proposed Rules 4.5(g)(1) through (6) and 4.13(a)(2)(C)(i) through (iv), the Exchange will, on a monthly basis, review series that are outside a range of five strikes above and five strikes below the current price of the underlying index or security, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.¹² In connection with this delisting policy, if the Exchange identifies series for delisting, the Exchange will notify other options exchanges with similar delisting policies regarding eligible series for delisting and will work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Monthly Options Series.¹³ The Exchange also

¹¹ The Exchange notes this would not prevent the Exchange from listing a p.m.-settled Monthly Options Series on an index with the same expiration date as an p.m.-settled Short Term Options Series on the same index, both of which may expire on a Friday. In other words, the Exchange may list a p.m.-settled Monthly Options Series on an index concurrent with an a.m.-settled Short Term Options Series on that index. This could not occur with respect to ETFs, as all Short Term Options Series on ETFs are p.m.-settled. See Notice, supra note 3 at 68834.

¹² Notwithstanding this delisting policy, customer requests to add strikes and/or maintain strikes in Monthly Options Series in series eligible for delisting will be granted. See Notice, supra note 3 at 68834.

¹³ See proposed Rules 4.5(g)(7) and 4.13(a)(2)(C)(vii). Pursuant to Rule 8.42, exercise limits for impacted

proposes to amend Rules 8.30 through 8.34 to provide that positions in Monthly Options Series will be aggregated with positions in options contracts on the same underlying security or index.¹⁴

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁶ which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

In support of its proposal, the Exchange states the proposed monthly expirations will allow market participants to transact in the index and ETF options listed pursuant to the proposed rule change based on their timing as needed and allow them to tailor their investment and hedging needs more effectively.¹⁷ Further, the Exchange notes the proposed terms of Monthly Options Series, including the limitation to five index and ETF option classes, are substantively the same as the current terms of Quarterly Options Series.¹⁸ The Exchange states that it currently

index and ETF classes would be equal to the applicable position limits.

¹⁴ See proposed Rules 8.30, Interpretation and Policy .09 (regarding position limits for options on stocks and ETFs), 8.31(e) (regarding position limits for broad-based index options), 8.32(f) (regarding position limits for industry index options), 8.33(c) (regarding position limits for micro narrow-based indexes), and 8.34(c) (regarding position limits for individual stock or ETF based volatility index options). The Exchange notes the proposed rule change adds Interpretation and Policy .09 to Rule 8.30 to state that with respect to options on stocks or ETFs, positions in Short Term Option Series, Monthly Options Series, and Quarterly Options Series shall be aggregated with positions in options contracts on the same underlying security. This is currently true with respect to Short Term Option Series and Quarterly Options Series but was inadvertently omitted from Rule 8.30. See Notice, supra note 3 at 68835.

¹⁵ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ See Notice, supra note 3 at 68835.

¹⁸ Compare proposed Rules 4.5(g) and 4.13(a)(2)(C) to Rules 4.5(e) and 4.13(a)(2)(B), respectively. See Notice, supra note 3 at 68835.

lists Quarterly Options Series in certain index¹⁹ and ETF classes, which expire at the close of business at the end of each calendar quarter, and has not experienced any market disruptions nor issues with capacity.²⁰ The Exchange believes limiting Monthly Options Series to five classes will ensure the addition of these new series will have a negligible impact on the Exchange's and Options Price Reporting Authority's quoting capacity.²¹ The Exchange represents it has the necessary systems capacity to support new options series that will result from the introduction of Monthly Options Series.²²

The Exchange represents its current surveillance programs will apply to Monthly Options Series and will properly monitor trading in the proposed Monthly Options Series.²³ The Exchange's surveillance programs currently in place to support and properly monitor trading in Quarterly Options Series, as well as Short Term Option Series and standard expiration series, will apply to the proposed Monthly Options Series.²⁴ The Exchange believes its surveillances continue to be designed to deter and detect violations of its Rules, including position and exercise limits and possible manipulative behavior, and these surveillances will apply to Monthly Options Series.²⁵ Further, the Exchange does not believe the proposed rule change raises any unique regulatory concerns because existing safeguards — such as position and exercise limits (and the aggregation of options overlying the same index or ETF) and reporting requirements — would continue to apply.²⁶

As noted above, the Exchange currently has Quarterly Options Series for up to five ETF or index classes. In addition, the Commission recently approved a proposal by the Exchange to

¹⁹ The Exchange notes it currently lists quarterly expirations on index options pursuant to Rule 4.13(c) (regarding quarterly index expirations).

²⁰ See Notice, supra note 3 at 68835.

²¹ See id.

²² See id.

²³ See id.

²⁴ See id.

²⁵ See id.

²⁶ See id.

permanently establish a Nonstandard Expiration Program, which permits, among other things, the listing and trading of broad-based index options with end of month expirations.²⁷ The Commission believes that the proposed Monthly Options Series, which the Exchange proposes to limit to a total of five ETF or index classes, strikes a reasonable balance between the Exchange's desire to offer a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes. Further, the Exchange has represented that it has an adequate surveillance program in place to detect manipulative trading in the Monthly Options Series and has the necessary systems capacity to support the new options series.²⁸ The Commission expects the Exchange, consistent with its Monthly Options Series delisting policy, to continue to monitor for option series with little or no open interest and trading activity and to act promptly to delist such options in order to mitigate the number of options series with no open interest.

Accordingly, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act²⁹ and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,³⁰ that the proposed rule change (SR-CBOE-2023-049) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³¹

²⁷ See Securities Exchange Act Release No. 98456 (September 20, 2023), 88 FR 66091 at 66092 (September 26, 2023) (SR-CBOE-2023-020).

²⁸ See *supra* notes 23-25 and accompanying text.

²⁹ 15 U.S.C. 78f(b)(5).

³⁰ 15 U.S.C. 78s(b)(2).

³¹ 17 CFR 200.30-3(a)(12).

Sherry R. Haywood,

Assistant Secretary.

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