filling of director vacancies and (iv) appointment of committees are being amended, the Exchanges represent that the substantive requirements of the Exchanges applicable to those items will remain the same.17

Finally, the Commission believes that the proposals to update the exchanges’ names in their Certificates are consistent with the Act as they may also serve to reduce potential confusion by ensuring the Exchanges’ corporate documents reflect their recent name changes.

IV. Accelerated Approval of the Proposal

The Commission finds good cause, pursuant to Section 19(b)(2) of the Act, for approving the proposed rule changes, prior to the 30th day after publication of the Notices in the Federal Register.18 The Commission believes that the proposed rule changes do not raise novel regulatory issues and are substantively similar to the existing rules of other national securities exchanges.20 In particular, the Commission notes that the proposed rule changes do not substantially impact the provisions concerning the nomination and selection of fair representation directors that currently apply to the Exchanges. Members of the Exchanges should continue to have an opportunity to participate in the selection of Board representation and have input into the Exchanges’ exercise of self-regulatory authority. In addition, the Commission did not receive any comment on the proposed changes. Accordingly, the Commission finds that good cause exists to approve the proposed rule changes on an accelerated basis.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act21 that the proposed rule changes (SR–CboeBYX–2017–001; SR–CboeBZX–2017–001; SR–CboeEDGA–2017–001; SR–CboeEDGX–2017–001), be, and hereby are, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.22

Robert W. Errett,
Deputy Secretary.

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SEcurities and exchange Commission


Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Amendment No. 2, Order Approving a Proposed Rule Change, as Modified by Amendment No. 1 and Granting Accelerated Approval of Amendment No. 2, of a Proposed Rule Change To Establish a Nonstandard Expirations Pilot Program


I. Introduction

On October 12, 2017, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission” or “SEC”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)1 and Rule 19b–4 thereunder,2 a proposed rule change (“Amendment No. 1”) to the Exchange’s exercise of self-regulatory authority. In the Federal Register on November 2, 2017,3 the Commission approved the proposed rule change as modified by Amendment No. 24 to the proposal to amend and replace the original filing in its entirety. The proposed rule change was published for comment in the Federal Register on November 2, 2017. On December 6, 2017, the Exchange filed a partial amendment to the proposed rule change (“Amendment No. 2”).4 The Commission received no comments on the proposed rule change.

This order provides notice of filing of Amendment No. 2, approves the proposal, as modified by Amendment No. 1, and approves Amendment No. 2 on an accelerated basis, for a pilot period of twelve months.

II. Description of the Amended Proposal

The Exchange proposes to permit the listing and trading, on a pilot basis, of p.m.-settled options on broad-based indexes with nonstandard expiration dates for a period of twelve months (the “Nonstandard Expirations Pilot Program” or “Pilot Program”) from the date of approval of this proposed rule change. The Pilot Program would permit both Weekly Expirations and EOM expirations similar to those of the a.m.-settled broad-based index options, except that the exercise settlement value will be based on the index value derived from the closing prices of component stocks. The proposal is substantially similar to Chicago Board Options Exchange (“CBOE”) Rule 24.50(e), Nonstandard Expirations Pilot Program.5

A. Weekly Expirations

The Exchange proposes to add new subsection (b)(vii)(1), Weekly Expirations, to Rule 1101A, Terms of Options Contracts. Under the proposed new rule the Exchange would be permitted to open for trading Weekly Expirations on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). Weekly Expirations would be subject to all provisions of Rule 1101A and would be treated the same as options on the same underlying index that expire on the third Friday of the expiration month. Unlike the standard monthly options, however, Weekly Expirations would be p.m.-settled. New series in Weekly Expirations could be added up to and including on the expiration date for an expiring Weekly Expiration.

The maximum number of expirations that could be listed for each Weekly Expiration (i.e., a Monday expiration, Wednesday expiration, or Friday expiration, as applicable) in a given class would be the same as the maximum number of expirations permitted for standard options on the same broad-based index. Weekly Expirations would not need to be for consecutive Monday, Wednesday, or
Friday expirations as applicable. However, the expiration date of a non-consecutive expiration would not be permitted beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. Weekly Expirations that are first listed in a given class could expire up to four weeks from the actual listing date.

If the last trading day of a month were a Monday, Wednesday, or Friday and the Exchange were to list EOMs and Weekly Expirations as applicable in a given class, the Exchange would list an EOM instead of a Weekly Expiration in the given class. Other expirations in the same class would not be counted as part of the maximum number of Weekly Expirations for a broad-based index class.

If the Exchange were not open for business on a respective Monday, the normally Monday expiring Weekly Expirations would expire on the following business day. If the Exchange were not open for business on a respective Wednesday or Friday, the normally Wednesday or Friday expiring Weekly Expirations would expire on the previous business day.

B. EOM Expirations

Under the proposal, the Exchange could open for trading EOMs on any broad-based index eligible for standard options trading to expire on the last trading day of the month. EOMs would be subject to all provisions of Rule 1101A and treated the same as options on the same underlying index that expire on the third Friday of the expiration month. However, the EOMs would be p.m.-settled and new series in EOMs could be added up to and including on the expiration date for an expiring EOM.

The maximum number of expirations that could be listed for EOMs in a given class would be the same as the maximum number of expirations permitted for standard options on the same broad-based index. EOM expirations would not need to be for consecutive end of month expirations. However, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. EOMs that are first listed in a given class could expire up to four weeks from the actual listing date. Other expirations would not be counted as part of the maximum numbers of EOM expirations for a broad-based index class.

C. Contract Terms and Trading Rules

The Exchange proposes that Weekly Expirations and EOMs would be subject to the same rules that currently govern the trading of standard monthly broad-based index options, including sales practice rules, margin requirements, and floor trading procedures. Contract terms for Weekly Expirations and EOMs would be the same as those for standard monthly broad-based index options, except that the exercise settlement value will be based on the index value derived from the closing prices of component stocks. Since Weekly Expirations and EOMs will be a new type of series, and not a new class, the Exchange proposes that Weekly Expirations and EOMs shall be aggregated for any applicable reporting and other requirements.6 Pursuant to new subsection (b)(vii)(4) of Rule 1101A, transactions in Weekly Expirations and EOMs could be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:15 p.m. (Eastern Time).

The Exchange represents that it has analyzed its capacity and believes that it and the Options Price Reporting Authority have the necessary systems capacity to handle any additional traffic associated with the listing of the maximum number nonstandard expirations permitted under the Pilot Program.

D. Pilot Program Annual Report

As part of the Pilot Program, the Exchange proposes to submit a Pilot Program report to the Commission at least two months prior to the expiration date of the Pilot Program (the “annual report”). The annual report will contain an analysis of volume, open interest and trading patterns. In addition, for series that exceed certain minimum open interest parameters, the annual report will provide analysis of index price volatility and, if needed, share trading activity. The annual report will be provided to the Commission on a confidential basis.

Analysis of Volume and Open Interest

For all Weekly Expirations and EOM series, the annual report will contain the following volume and open interest data for each broad-based index overlying Weekly Expiration and EOM options:

6 See Rule 1001A(d) which sets forth the reporting requirements for certain market indexes that do not have position limits, including NDX. The Exchange is adding Nonstandard Expirations to Rule 1001A(e), Aggregation, to reflect the aggregation requirement. The Exchange notes that the proposed aggregation is consistent with the aggregation requirements for other types of option series (e.g. quarterly expiring options) that are listed on the Exchange and which do not expire on the customary “third Friday”.

1. Monthly volume aggregated for all Weekly Expiration and EOM series,
2. Volume in Weekly Expiration and EOM series aggregated by expiration date,
3. Month-end open interest aggregated for all Weekly Expiration and EOM series,
4. Month-end open interest for EOM series aggregated by expiration date and open interest for Weekly Expiration series aggregated by expiration date,
5. Ratio of monthly aggregate volume in Weekly Expiration and EOM series to total monthly class volume, and
6. Ratio of month-end open interest in EOM series to total month-end class open interest and ratio of open interest in each Weekly Expiration series to total class open interest.

In addition, the annual report will contain the information noted above for standard Expiration Friday, a.m.-settled series, if applicable, for the period covered in the annual report as well as for the six-month period prior to the initiation of the Pilot Program. Upon request by the SEC, the Exchange will provide a data file containing: (1) Weekly Expiration and EOM option volume data aggregated by series, and (2) Weekly Expiration open interest for each expiring series and EOM month-end open interest for expiring series.

Monthly Analysis of Weekly Expiration and EOM Trading Patterns

In the annual report, the Exchange also proposes to identify Weekly Expiration and EOM trading patterns by undertaking a time series analysis of open interest in Weekly Expiration and EOM series aggregated by expiration date compared to open interest in near-term standard Expiration Friday a.m.-settled series in order to determine whether users are shifting positions from standard series to Weekly Expiration and EOM series. In addition, to the extent that data on other weekly or monthly p.m. settled products from other exchanges is publicly available, the annual report will also compare open interest with these options in order to determine whether users are shifting positions from other weekly or monthly p.m.-settled products to the Weekly Expiration and EOM series. Declining open interest in standard series or the weekly or monthly p.m.-settled products of other exchanges accompanied by rising open interest in Weekly Expiration and EOM series would suggest that users are shifting positions.
Provisional Analysis of Index Price Volatility and Share Trading Activity

For each Weekly Expiration and EOM expiration that has open interest that exceeds certain minimum thresholds, the annual report will contain the following analysis related to index price changes and, if needed, underlying share trading volume at the close on expiration dates:

(1) A comparison of index price changes at the close of trading on a given expiration date with comparable price changes from a control sample. The data will include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by an appropriate index agreed by the Commission and the Exchange, will be provided; and

(2) if needed, a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money Weekly Expiration and EOM expirations. The data, if needed, will include a comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period.

The minimum open interest parameters, control sample, time intervals, method for selecting the component securities, and sample periods will be determined by the Exchange and the Commission.

III. Discussion and Commission’s Findings

After careful review of the proposed rule change, the Commission finds that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange. Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities 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 to protect investors and the public interest.

While the Commission has concerns about the adverse effects and impact of p.m.-settlement upon market volatility and the operation of fair and orderly markets on the underlying cash market at or near the close of trading, it has approved on a limited basis p.m.-settlement for cash-settled options. More specifically, the Commission approved on a pilot basis CBOT’s nearly identical Nonstandard Expirations Pilot Program.

The Commission believes that 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 email to rule-comments@sec.gov. Please include File Number SR–Phlx–2017–79 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–Phlx–2017–79. This file number should be included on the subject line if email 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 communications with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for


8 See supra note 5.

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–Phlx–2017–79, and should be submitted on or before January 11, 2018.

V. Accelerated Approval of Amendment No. 2

The Commission finds good cause to approve Amendment No. 2 prior to the thirtieth day after the date of publication of notice of Amendment No. 2 in the Federal Register. As described above, the Exchange proposes to establish a Nonstandard Expirations Pilot Program based upon, and substantially similar to, CBOE’s Rule 24.9(e), Nonstandard Expirations Pilot Program, previously approved by the Commission. Amendment No. 2 proposes to provide additional data to the Commission that was not applicable to CBOE’s Nonstandard Expirations Pilot Program specifically because it would provide data to the Commission on the effect of a subsequent pilot program on the CBOE’s existing pilot program. The Exchange’s proposed Amendment No. 2 does not otherwise change its proposal. The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,12 to approve Amendment No. 2 on an accelerated basis.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,12 that the proposed rule change (SR–Phlx–2017–79), as modified by Amendment No. 1, be approved, and Amendment No. 2 thereto be approved on an accelerated basis, for a pilot period of twelve months.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.13

Robert W. Errett,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Cboe Exchange, Inc.; Cboe C2 Exchange, Inc.; Order Granting Accelerated Approval to a Proposed Rule Change Relating to Its Nominating and Governance Committee and Regulatory Oversight and Compliance Committee as Well as Its Director Nomination and Committee Appointment Process


I. Introduction

On November 14, 2017, Cboe C2 Exchange, Inc. (“C2”) and on November 15, 2017, Cboe Exchange, Inc. (“Cboe” and, together with C2, the “Exchanges”) 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 proposed rule changes to eliminate their Nominating and Governance Committees (“N&G Committee”); amend the process by which (i) directors are elected, (ii) committee appointments are made, and (iii) vacancies are filled; and rename their Regulatory Oversight and Compliance Committees (“ROCC”).3 The proposed rule changes were published for comment in the Federal Register on November 27, 2017.4 The Commission received no comments on the proposals. This order approves the proposed rule changes on an accelerated basis.

II. Description of the Proposal

First, the Exchanges propose to eliminate their N&G Committees and provide that the sole stockholder of the Exchanges (Cboe Global Markets, Inc.) shall nominate and elect directors at the annual meetings of the sole stockholder, except with respect to fair-representation directors (“Representative Directors”).5 As a consequence of the elimination of the N&G Committee, the Exchanges propose conforming changes to reallocate its responsibility. Specifically, the Exchanges propose to amend the definition of “Representative Director Nominating Body” to provide that if an Exchange’s Board of Directors (“Board”) has two or more Industry Directors, excluding directors that are Exchange employees, those Industry Directors shall act as the Representative Director Nominating Body. If there are fewer than two Industry Directors on the Board (excluding directors that are employees of the Exchange), then the Trading Permit Holder Subcommittee of the Advisory Board shall act as the Representative Director Nominating Body. The Exchanges further propose to amend their Bylaws and Certificates to provide that the sole stockholder is bound to nominate and elect the Representative Directors nominees recommended by the Representative Director Nominating Body or, in the event of a petition candidate, the Representative Director nominees who receive the most votes pursuant to a Run-off Election. Lastly, the Exchanges propose to amend Section 3.1 of their Bylaws to provide that the Board is responsible for determining whether a director candidate satisfies the applicable qualifications for election as a director.

Second, the Exchanges propose to transfer the N&G Committee’s current authority with respect to committee appointments to their Boards (or appropriate subcommittee of the Board).6 Specifically, the Exchanges propose to amend Section 4.2 and 6.1 of their Bylaws to state that members of the Executive Committee and Advisory Board will be appointed by the Board. The Exchanges also propose to amend Section 4.4 of their Bylaws to state that members of the ROCC will be appointed by the Board on the recommendation of the Non-Industry Directors of the Board. Lastly, Cboe proposes to amend its Rule 2.1 to provide that the Board shall appoint the Chairman, Vice Chairman (if any) and members to the Business Conduct Committee (“BCC”) as well as fill any vacancies on the BCC.

Third, the Exchanges propose to amend their Bylaws to alter the process for filling director vacancies.7 Specifically, the Exchanges propose to amend Section 3.4 of their Bylaws to provide that in the event any Industry or Non-Industry Director fails to maintain the required qualifications and the director’s term is accordingly terminated, the sole stockholder, instead of the Board, shall be able to fill the


3 In addition, the Exchanges propose to make several formatting changes throughout their Bylaws as well as to change their names in the title and signature lines in their Certificates of Incorporation (“Certificates”) to reflect recent changes to their legal names.
5 See id. at 56086 and 56090, respectively.
6 See id. at 56086 and 56070, respectively.
7 See id. at 56086 and 56070, respectively.