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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76676; File No. SR-CBOE-2015-099)

December 17, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to List and Trade Options that Overlie a Reduced Value of the FTSE China 50 Index

I. Introduction

On October 30, 2015, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") 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 list and trade options that overlie a reduced value of the FTSE China 50 Index. The proposed rule change was published for comment in the Federal Register on November 10, 2015.[3] The Commission received no comments on the proposed rule change. On December 14, 2015, the Exchange filed Amendment No. 1 to the proposed rule change.[4] On

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 76354 (November 4, 2015), 80 FR 69741 ("Notice").

4 Amendment No. 1 makes certain technical modifications to Exhibit 5, and the corresponding cross references in the Form 19b-4, due to the recent approval of another proposed rule change (See SR-CBOE-2015-100, Securities Exchange Act Release No. 76626 (December 11, 2015), 80 FR 78793 (December 17, 2015)), and to remove a reference to "(1/100th)" that was inadvertently included. Amendment No. 1 conforms a phrase in Exhibit 3 relating to when the official closing value of the FTSE China 50 Index is reported by FTSE International Limited ("FTSE") to the corresponding description in Form 19b-4. As described in Form 19b-4, the official closing value, due to the time zone in Hong Kong and as explained in more detail in the rest of the filing and rule text, is on the day that the contract expires. Amendment No. 1 also revises rule text to make an additional technical edit. As the changes made by Amendment No. 1 are technical in nature and do not materially alter the substance of the proposed rule change or raise any novel regulatory issues, Amendment No. 1 is not subject to notice and comment.

December 16, 2015, the Exchange filed Amendment No. 2 to the proposed rule change.[5] This order grants approval of the proposed rule change, as modified by Amendment Nos. 1 and 2.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade A.M. cash-settled, European-style options on the FTSE China 50 Index.[6] According to the Exchange, the FTSE China 50 Index is a free float-adjusted market capitalization index that is designed to measure the performance of 50 of the largest and most liquid Chinese stocks listed and trading on the Stock Exchange of Hong Kong ("SEHK").[7] The Exchange states that the index is monitored and maintained by FTSE International Limited ("FTSE").[8] Adjustments to the index could be made on a daily basis with respect to corporate events and dividends, and FTSE reviews the index quarterly.

According to the Exchange, the FTSE China 50 Index is calculated in Hong Kong dollars on a real-time basis during Hong Kong trading hours. The methodology used to calculate the FTSE China 50 Index is similar to the methodology used to calculate the value of other

5 Amendment No. 2 corrects a typographical error in Exhibit 4 of Amendment No. 1. As the change made by Amendment No. 2 is technical in nature and does not materially alter the substance of the proposed rule change or raise any novel regulatory issues, Amendment No. 2 is not subject to notice and comment.

6 The Exchange proposes to list up to twelve near-term expiration months at any one time for the FTSE China 50 Index options. The Exchange also proposes to list up to ten expirations in Long-Term Index Option Series (LEAPS) on the reduced value of the FTSE China 50 Index Options. The Exchange proposes that options on the FTSE China 50 Index would be eligible for all other expirations permitted for other broad-based indexes (e.g., End of Week/End of Month Expirations, Short Term Option Series, and Quarterly Options Series). In addition, the Exchange proposes to designate the FTSE China 50 Index as eligible for trading as FLEX options.

7 The Exchange states that the FTSE China 50 Index meets the definition of a broad-based index as set forth in Exchange Rule 24.1(i)(1).

8 The Exchange proposes to designate FTSE as the reporting authority for the FTSE China 50 Index.

benchmark market-capitalization weighted indexes.[9] Real-time data is distributed at least every 15 seconds while the index is being calculated using FTSE's real-time calculation engine to Bloomberg L.P. ("Bloomberg"), Thomson Reuters ("Reuters") and other major vendors. End of day data is distributed daily to clients through FTSE as well as through major quotation vendors, including Bloomberg and Reuters.

The Exchange proposes that trading hours for FTSE China 50 Index options would be from 8:30 a.m. (Chicago time) to 3:15 p.m. (Chicago time).

The Exchange proposes that FTSE China 50 Index options would expire on the third Friday of the expiration month.[10] The exercise settlement value would be one-hundredth (1/100th) of the official closing value of the FTSE China 50 Index as reported by FTSE on the last trading day of the expiring contract, which occurs between approximately 3:00 a.m. and 4:00 a.m. (Chicago time). The exercise settlement amount would be equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by the contract multiplier ($100).[11] Exercise would result in delivery of cash on the business day following expiration.

The Exchange proposes to create specific initial and maintenance listing criteria for

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[9] Specifically, the FTSE China 50 Index is governed by the FTSE Ground Rules for the FTSE China 50 Index. The level of the FTSE China 50 Index reflects the free float-adjusted market value of the component stocks relative to a particular base date and is computed by dividing the total market value of the companies in the FTSE China 50 Index by the index divisor. Further detail regarding this methodology can be found in the Notice, supra note 3, at n.7 and accompanying text.

[10] According to the Exchange, when the last trading day/expiration date is moved because of an Exchange holiday or closure, the last trading day/expiration date for expiring options would be the immediately preceding business day.

[11] According to the Exchange, if the exercise settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value would be determined in accordance with the rules and bylaws of The Options Clearing Corporation.

options on the reduced value of the FTSE China 50 Index. Specifically, the Exchange proposes to add new Interpretation and Policy .03(a) to Rule 24.2 to provide that the Exchange may trade FTSE China 50 Index options if each of the following conditions is satisfied: (1) the index is broad-based, as defined in Rule 24.1(i)(1); (2) options on the index are designated as A.M.-settled index options; (3) the index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted; (4) the index consists of 45 or more component securities; (5) each of the component securities of the index will have a market capitalization of greater than $100 million; (6) no single component security accounts for more than fifteen percent (15%) 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 fifty percent (50%) of the weight of the index; (7) non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index; (8) the Exchange may continue to trade FTSE China 50 Index options after trading in all component securities has closed for the day and the index level is no longer widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors, provided that FTSE China 50 futures contracts are trading and prices for those contracts may be used as a proxy for the current index value; (9) 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; and (10) the Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

Additionally, the Exchange proposes to add new Interpretation and Policy .03(b) to

Rule 24.2 to set forth the following maintenance listing standards for options on the FTSE China 50 Index: (1) the conditions set forth in subparagraphs .03(a) (1), (2), (3), (4), (7), (8), (9) and (10) must continue to be satisfied, the conditions set forth in subparagraphs .03(a)(5) and (6) 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 ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on the Exchange pursuant to Interpretation and Policy .03(b) fails to satisfy these maintenance listing standards, the Exchange shall 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 Commission under Section 19(b)(2) of the Act.

The contract multiplier for the FTSE China 50 Index options would be $100. The FTSE China 50 Index options would be quoted in index points and one point would equal $100. The Exchange proposes that the minimum tick size for series trading below $3 would be 0.05 ($5.00), and at or above $3 would be 0.10 ($10.00). The Exchange also proposes that the strike price interval for FTSE China 50 Index options would be no less than $5, except that the strike price interval would be no less than $2.50 if the strike price is less than $200.

The Exchange proposes to apply the default position limits for broad-based index options of 25,000 contracts on the same side of the market (and 15,000 contracts near-term limit) to FTSE China 50 Index options. All position limit hedge exemptions would apply. The exercise limits for FTSE China 50 Index options would be equivalent to the position limits for those options. In addition, the Exchange proposes that the position limits for FLEX options on the FTSE China 50 Index would be equal to the position limits for non-FLEX options on the FTSE China 50 Index. The exercise limits for FLEX options on the FTSE China 50 Index would be equivalent to the position limits for those options.

The Exchange states that, except as modified by the proposal, Exchange Rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB would equally apply to FTSE China 50 Index options. The Exchange also states that FTSE China 50 Index options would be subject to the same rules that currently govern other CBOE index options, including sales practice rules, margin requirements,[12] and trading rules.[13]

The Exchange represents that it has an adequate surveillance program in place for FTSE China 50 Index options and intends to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the proposed options. The Exchange also states that it is a member of the Intermarket Surveillance Group, is an affiliate member of the International Organization of Securities Commissions, and has entered into various comprehensive surveillance agreements and/or Memoranda of Understanding with various stock exchanges, including SEHK. Finally, the Exchange represents that it believes it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle the additional traffic associated with the listing of new series that would result from the introduction of FTSE China 50 Index options.[14]

III. Discussion and Commission Findings

The Commission finds that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with the requirements of the Act and the rules and regulations thereunder

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12 The Exchange states that FTSE China 50 Index options would be margined as broad-based index options.

13 See, e.g., Exchange Rule Chapters IX (Doing Business with the Public), XII (Margins), IV (Business Conduct), VI (Doing Business on the Exchange Floor), VIII (Market-Makers, Trading Crowds and Modified Trading Systems), and XXIV (Index Options).

14 For a complete description of the Exchange's proposal, please see the Notice, supra note 3.

applicable to a national securities exchange.[15] Specifically, the Commission finds that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with Section 6(b)(5) of the Act,[16] 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 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.

The Commission believes that the listing and trading of FTSE China 50 Index options will broaden trading and hedging opportunities for investors by providing an options instrument based on an index designed to measure the performance of 50 of the largest and most liquid Chinese stocks listed and trading on SEHK. Moreover, the Exchange states that FTSE China 50 ETFs, such as the iShares China Large-Cap exchange traded fund ("FXI"), are actively-traded products. The Exchange also lists actively-traded options overlying those ETFs and states that those options are actively traded as well.

Because the FTSE China 50 Index is a broad-based index composed of actively-traded, well-capitalized stocks, the trading of options on the index does not raise unique regulatory concerns. The Commission believes that the listing standards, which are created specifically and exclusively for the index, are consistent with the Act, for the reasons discussed below.

The Commission notes that proposed Interpretation and Policy .03 to Exchange Rule 24.2 would require that the FTSE China 50 Index consist of 45 or more component securities. Further, for options on the FTSE China 50 Index to trade, each of the minimum of 45 component

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15 In approving this proposed rule change, as modified by Amendments Nos. 1 and 2, 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).

securities would need to have a market capitalization of greater than $100 million.

The Commission notes that the proposed listing standards for options on the FTSE China 50 Index would not permit any single component security to account for more than 15% of the weight of the index, and would not permit the five highest weighted component securities to account for more than 50% of the weight of the index in the aggregate. The Commission believes that, in view of the requirement on the number of securities in the index and on each security's market capitalization, this concentration standard is consistent with the Act. As noted above, the Exchange represents that it has an adequate surveillance program in place for FTSE China 50 Index options and intends to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the proposed options.

The Commission notes that, consistent with the Exchange's generic listing standards for broad-based index options, non-U.S. component securities of the FTSE China 50 Index that are not subject to comprehensive surveillance agreements will not, in the aggregate, represent more than 20% of the weight of the index.

The Exchange states that, because trading in the components of the FTSE China 50 Index starts at approximately 8:30 p.m. (Chicago time) (prior day) and ends at approximately 3:00 a.m. (Chicago time) (next day), there will not be a current FTSE China 50 Index level calculated and disseminated while FTSE China 50 Index options would be traded (from approximately 8:30 a.m. (Chicago time) to 3:15 p.m. (Chicago time)). However, the listing standards state that the Exchange may continue to trade FTSE China 50 Index options after trading in all component securities has closed for the day and the index level is no longer widely disseminated at least once every 15 seconds by one or more major market data vendors, provided that FTSE China 50 futures contracts are trading and prices for those contracts may be used as a proxy for the current index value. The Exchange states that during time that the options would be trading on the exchange, E-Mini FTSE China 50 Index futures contracts will be trading and that the futures prices would be a proxy for the current FTSE China 50 Index level during this time period.[17]

In addition, the proposed listing standards require the Exchange to reasonably believe that it has adequate system capacity to support the trading of options on the FTSE China 50 Index. As noted above, the Exchange represents that it believes it and the OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that would result from the introduction of FTSE China 50 Index options.

As a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,[18] to enforce compliance by its members, and persons associated with its members, with the provisions of the Act, Commission rules and regulations thereunder, and its own rules. As noted above, the Exchange states that, except as modified by the proposal, Exchange Rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB would equally apply to FTSE China 50 Index options. The Exchange also states that FTSE China 50 Index options would be subject to the same rules that currently govern other CBOE index options, including sales practice rules, margin requirements, and trading rules.

The Commission further believes that the Exchange's proposed position and exercise limits, trading hours, margin, strike price intervals, minimum tick size, series openings, and other aspects of the proposed rule change, as modified by Amendment Nos. 1 and 2, are appropriate and consistent with the Act.

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17 The Exchange states that E-Mini FTSE China 50 Index futures contracts are listed for trading on the Chicago Mercantile Exchange Inc.

18 15 U.S.C. 78f(b)(1).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[19] that the proposed rule change (SR-CBOE-2015-099), as modified by Amendment Nos.1 and 2, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[20]

Robert W. Errett
Deputy Secretary

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19 15 U.S.C. 78s(b)(2).

20 17 CFR 200.30-3(a)(12).

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