



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

December 6, 2024

Mr. John Hiatt
Vice President
Cboe Labs
433 West Van Buren Street
Chicago, IL 60607

Re: Request for No-Action Position Regarding the Inclusion of Cboe®
iBoxx® iShares® \$ High Yield Corporate Bond Index Futures and Cboe®
iBoxx® iShares® \$ Investment Grade Corporate Bond Index Futures in
the Computation Permitted under Appendix A to Rule 15c3-1

Dear Mr. Hiatt:

In your letter dated December 5, 2024 (“Request”),¹ you request assurances that the staff of the Division of Trading and Markets (“Staff”) will not recommend enforcement action to the Securities and Exchange Commission (“Commission”) against a broker-dealer computing net capital using a theoretical options pricing model pursuant to Appendix A² to Rule 15c3-1³ under the Securities Exchange Act of 1934 (“Exchange Act”), if a broker-dealer groups positions in: (1) futures contracts on the Cboe® iBoxx® iShares® \$ High Yield Corporate Bond Index (“IBHY futures”) into a portfolio type that may include positions in shares of the iShares iBoxx \$ High Yield Corporate Bond ETF (“HYG ETF”) and options on the HYG ETF; and (2) futures contracts on the Cboe® iBoxx® iShares® \$ Investment Grade Corporate Bond Index (“IBIG futures”) into a portfolio type that may include positions in shares of the iShares iBoxx \$ Investment Grade Corporate Bond ETF (“LQD ETF”) and options on the LQD ETF.

I. Background

Appendix A to Rule 15c3-1 (“Appendix A”) permits broker-dealers to employ a standardized theoretical option pricing model to calculate a potential loss, or haircut, for a portfolio of listed options positions and related positions that hedge those options. Under Appendix A, a broker-dealer may group long and short positions in listed options into

¹ A copy of the Request is attached.

² 17 CFR 240.15c3-1a.

³ 17 CFR 240.15c3-1.

five specified “portfolio types,” and within each portfolio type,⁴ a broker-dealer may offset a position’s gain at any one valuation point with another position’s loss at the same valuation point using an approved theoretical option pricing model that satisfies certain conditions specified in the rule. Among the portfolio types, a broker-dealer may group listed options positions in equity options on the same underlying instrument and positions in that underlying instrument.

For the purposes of grouping positions into portfolio types, Appendix A permits futures contracts, as related instruments, to be included within an option class if the futures and option class are based on the same underlying instrument.⁵ Appendix A also permits a futures contract to be included in a product group, which is defined as two or more option classes, related instruments, underlying instruments, and qualified stock baskets in the same portfolio type for which it has been determined that a percentage of offsetting profits may be applied to losses at the same valuation point.⁶

II. Discussion and Request

You state that IBHY and IBIG futures contracts are based on indexes that measure the performance of U.S. dollar-denominated high yield and investment grade corporate debt, respectively. Specifically, IBHY futures are based on the iBoxx iShares \$ High Yield Corporate Bond Index (“IBXXIBHY Index”), which tracks the holdings of the HYG ETF. The IBXXIBHY Index composition is rebalanced once a month on the last business day of the month. The IBXXIBHY Index is rebalanced by comparing the bonds included in the iBoxx® \$ High Yield Developed Markets Index (“High Yield Benchmark Index”) and the bonds included in the portfolio of the HYG ETF. The bonds included in the IBXXIBHY Index on the first business day of the month will generally match the bonds that are in common in both the High Yield Benchmark Index and the portfolio holdings of the HYG ETF as of the last business day of the prior month. The bonds included in the IBXXIBHY Index and the HYG ETF portfolio can differ if the HYG ETF holds bonds not included in the High Yield Benchmark Index. The bonds included in the IBXXIBHY Index and the HYG ETF portfolio also can differ during a month after the first business day of the month if the HYG ETF portfolio changes during the month and can differ on the first business day of the month if the HYG ETF portfolio were to change on the first business day of the month. You state, however, because the components of the IBXXIBHY Index are derived from the intersection of the components

⁴ 17 CFR 240.15c3-1a(b)(1)(ii). Specified portfolio types include: equity options on the same underlying instrument and positions in that underlying instrument; options on the same major market foreign currency, positions in that major market foreign currency, and related instruments within those options’ classes; high-capitalization diversified market index options, related instruments within the option’s class, and qualified stock baskets in the same index; non-high-capitalization diversified index options, related instruments within the index option’s class, and qualified stock baskets in the same index; and narrow-based index options, related instruments within the index option’s class, and qualified stock baskets in the same index.

⁵ 17 CFR 240.15c3-1a(a),(3), (4), and (5).

⁶ 17 CFR 240.15c3-1a(a)(6).

of the High Yield Benchmark Index and HYG ETF portfolio, the IBXXIBHY Index is highly correlated with the net asset value of the HYG ETF.

In addition, you state that IBIG futures are based on the iBoxx iShares \$ Investment Grade Corporate Bond Index (“IBXXIBIG Index”). The IBXXIBIG Index composition is rebalanced once a month on the last business day of the month. The IBXXIBIG Index is rebalanced by comparing the bonds included in the Markit iBoxx[®] USD Liquid Benchmark Index (“Investment Grade Benchmark Index” and, with the High Yield Benchmark Index, the “Benchmark Indexes”) and the bonds included in the portfolio of the LQD ETF. The bonds included in the IBXXIBIG Index on the first business day of the month will generally match the bonds that are in common in both the Investment Grade Benchmark Index and the portfolio holdings of the LQD ETF as of the last business day of the prior month. The bonds included in the IBXXIBIG Index and the LQD ETF portfolio can differ if the LQD ETF holds bonds not included in the Investment Grade Benchmark Index. The bonds included in the IBXXIBIG Index and the LQD ETF portfolio also can differ during a month after the first business day of the month if the LQD ETF portfolio changes during the month and can differ on the first business day of the month if the LQD ETF portfolio were to change on the first business day of the month. However, you state in the Request, that because the components of the IBXXIBIG Index are derived from the intersection of the components of the Investment Grade Benchmark Index and LQD ETF portfolio, the IBXXIBIG Index is highly correlated with the net asset value of the LQD ETF.

You state that the IBXXIGHY Index and IBXXIBIG Index (i.e., the reference indexes or underlying instruments) upon which IBHY futures and IBIG futures are based differ from the reference indexes upon which the HYG ETF⁷ and LQD ETF,⁸ respectively, are based. The HYG ETF and LQD ETF are fixed-income ETFs (or bond ETFs) and are equity securities that seek to track the investment results of the applicable reference indexes. IBHY futures and IBIG futures are cash-settled futures on indexes that provide measures of the U.S. dollar-denominated sub-investment and investment grade, respectively, corporate bond markets. You note that there is significant price correlation between these futures contracts and the respective corresponding ETFs and overlying options.⁹ These correlations stem from the similarity of the index benchmarks underlying the futures and the corresponding ETFs because, as stated above, the components of the indexes underlying the futures are derived from the intersection of the components of the applicable Benchmark Index and ETF portfolio. However, you state that IBHY and IBIG futures have not historically been included in the equity options portfolio type along with positions in the HYG ETF and LQD ETF and their overlying listed options because the futures are based on different indexes than the ETFs (and thus

⁷ The HYG ETF seeks to track the investment results of the iBoxx[®] \$ Liquid High Yield Index (“IBOXHY Index”).

⁸ The LQD ETF seeks to track the investment results of the iBoxx[®] USD Liquid Investment Grade Index (“IBOXIG Index”).

⁹ Supporting documents and information regarding this correlation were previously sent to Staff.

have different underlying instruments than the ETFs and overlying options). Given the significant correlation between the HYG ETF and LQD ETF and IBHY futures and IBIG futures, respectively, you believe that allowing IBHY and IBIG futures to be grouped in the same portfolios with the corresponding ETFs and ETF options will provide broker-dealers with opportunities to offset risk and to meet their portfolio management needs in a more capital efficient manner.

As described above, you note that IBHY futures provide exposure to the U.S. high-yield corporate debt market and IBIG futures to the U.S. investment grade corporate debt market. You state that broker-dealers use IBHY futures and IBIG futures for a variety of portfolio management needs, including in lieu of shares in the HYG ETF and LQD ETF, respectively, to gain similar market exposure to the applicable corporate debt market or to hedge (i.e. offset risk) their investments in the ETFs and their overlying options (or other investments). You state that IBHY futures and IBIG futures can be lower-cost alternatives for gaining exposure to the U.S. corporate debt markets, and given their similar market exposures, IBHY futures and IBIG futures may be combined with shares of the corresponding ETFs and ETF options to form strategies that seek to lower risk or enhance returns.

As IBHY and IBIG futures are not currently permitted to be included in risk-based haircuts with the corresponding ETFs and ETF options, you state that the level of risk-based haircuts is disproportionate to the risk of positions in a hedged account. For example, you state a position in IBHY futures combined with positions in HYG ETF options and the HYG ETF that are opposite in terms of long or short market exposure have combined risk that is lower relative to the risk if the positions were viewed separately. You state, however, the capital requirements may be more costly since IBHY futures are not currently included in risk-based haircuts. Accordingly, you state that a risk-based haircut that includes the IBHY futures would generally be lower and better aligned with the lower relative risk of the hedged account. You state that a lower risk-based haircut more appropriately reflects the amount of potential loss in light of adverse market movements a broker-dealer may face.

Additionally, because capital requirements are much higher relative to the level of risk of the combined positions, you state that liquidity providers may quote wider markets to account for the high cost of capital. You state that allowing broker-dealers to group the IBHY and IBIG futures in portfolios with the corresponding ETFs and ETF options for the purposes of risk-based haircuts would generally lower capital requirements, allowing liquidity providers the ability to provide tighter spreads and better pricing in the futures, ETFs, and options markets, to the benefit of investors. Moreover, you state that including IBHY and IBIG futures in risk-based haircuts would create more capital efficiencies for hedging risk, and may enable liquidity providers to continue to make efficient and liquid markets in times of market stress.

Specifically, under the Request, a broker-dealer would be able to place IBHY futures contracts in their own Class Group, situated within Product Group 172, which

currently includes the HYG Class Group.¹⁰ The IBHY futures Class Group would receive the same 80% offset as the other Class Groups within Product Group 172 that is currently provided between the Class Groups in Product Group 172. Likewise, a broker-dealer would be able to place IBIG futures contracts in their own Class Group, and a new Product Group would be created to include the IBIG futures Class Group and LQD Class Group.¹¹ Like the offset currently available for Class Groups within Product Group 172, the IBIG futures and LQD Class Groups would have an 80% offset with each other. IBHY and IBIG futures contracts would be subject to the minimum charge specified under Appendix A, as is currently required for an equity option and its related instruments.¹² You state that these offsets, when present, would permit broker-dealers to reduce risk-based haircuts across similar products within the same Product Group.

You believe that allowing IBHY futures and IBIG futures positions to be grouped into a portfolio type that may include positions in HYG ETF and LQD ETF shares and their listed options, respectively, will permit broker-dealers to meet their portfolio management needs in a more capital efficient manner, more precisely align their net capital requirements with their portfolio risk, and promote continued liquidity in the relevant futures, ETF, and options markets.

Based on the foregoing, you request that the Staff not recommend enforcement action to the Commission, if, as described your Request, a broker-dealer groups positions in: (1) IBHY futures contracts into a portfolio type that may include HYG ETF shares and listed options on the HYG ETF; and (2) IBIG futures contracts into a portfolio type that may include LQD ETF shares and listed options on the LQD ETF when calculating net capital using a theoretical option pricing model pursuant to Appendix A.

II. Response

Based on the facts and circumstances set forth in the Request, and without necessarily agreeing with your conclusions and analysis, the Staff will not recommend enforcement action to the Commission against a broker-dealer computing net capital using a theoretical options pricing model pursuant to Appendix A under the Exchange Act, if a broker-dealer groups positions in:

¹⁰ The High Yield Corporate Bond Product Group 172 also includes, in addition to the HYG ETF (Class Group 372): SPDR Bloomberg High Yield Bond ETF (Class Group 370); the ProShares Short High Yield ETF (Class Group 372, along with the HYG ETF); PIMCO 0-5 Year High Yield Corporate Bond Index (Class Group 380); iShares Broad USD High Yield Corporate Bond ETF (Class Group 381); SPDR Bloomberg Short Term High Yield Bond ETF (Class Group 382); Xtrackers USD High Yield Corporate Bond ETF (Class Group 383); and iShares 0-5 Year High Yield Corporate Bond ETF (Class Group 384).

¹¹ LQD does not currently belong to a Product Group. It is a stand-alone Class Group.

¹² 17 CFR 240.15c3-1a(b)(1)(v)(C)(2).

(1) IBHY futures contracts into a portfolio type that may include HYG ETF shares and listed options on the HYG ETF; and

(2) IBIG futures contracts into a portfolio type that may include LQD ETF shares and listed options on the LQD ETF, when calculating net capital using a theoretical option pricing model pursuant to Appendix A.

Consistent with the 80% offset permitted between Class Groups within Product Group 172 (High Yield Corporate Bond Product Group), the IBHY futures Class Group would receive the same 80% offset as the other Class Groups within Product Group 172. Like the offset currently available for Class Groups within Product Group 172, the IBIG futures and LQD Class Groups would have an 80% offset with each other in the new Product Group that will be created to include the IBIG futures Class Group and LQD Class Group.

This Staff position is based strictly on the facts and circumstances discussed in the Request. Any different facts or circumstances from those set forth in the Request may require a different response. This response, furthermore, expresses the Staff's position regarding enforcement action only and does not purport to express any legal conclusions on the question presented. The Staff expresses no view with respect to any other questions that the activities discussed above may raise, including the applicability of any other federal or state laws, or rules of a self-regulatory organization. This position is subject to modification or revocation at any time.

If you have any questions regarding this letter, please contact Sheila Dombal Swartz at (202) 551-5545 or me at (202) 551-5525.

Sincerely,



Michael A. Macchiaroli
Associate Director



December 5, 2024

VIA ELECTRONIC DELIVERY

Mr. Michael A. Macchiaroli
Associate Director
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-7010

RE: Inclusion of Cboe® iBoxx® iShares® \$ High Yield Corporate Bond Index Futures and Cboe® iBoxx® iShares® \$ Investment Grade Corporate Bond Index Futures in the Computation Permitted under Appendix A to Rule 15c3-1

Dear Mr. Macchiaroli,

Cboe Exchange, Inc. (“Cboe Options” or the “Exchange”) requests that the Staff of the Division of Trading and Markets (the “Staff”) of the Securities and Exchange Commission (the “Commission”) will not recommend enforcement action to the Commission against a broker-dealer computing net capital using a theoretical options pricing model pursuant to Appendix A¹ to Rule 15c3-1² under the Securities Exchange Act of 1934 (the “Exchange Act”), if a broker-dealer groups positions in: (1) futures contracts on the Cboe® iBoxx® iShares® \$ High Yield Corporate Bond Index (“IBHY futures”) into a portfolio type that may include positions in shares of the iShares iBoxx \$ High Yield Corporate Bond ETF (“HYG ETF”) and options on the HYG ETF; and (2) futures contracts on the Cboe® iBoxx® iShares® \$ Investment Grade Corporate Bond Index (“IBIG futures”) into a portfolio type that may include positions in shares of the iShares iBoxx \$ Investment Grade Corporate Bond ETF (“LQD ETF”) and options on the LQD ETF.

I. Background

Appendix A to Rule 15c3-1 (“Appendix A”) permits broker-dealers to employ a standardized theoretical option pricing model to calculate a potential loss, or haircut, for a portfolio of listed options positions and related positions that hedge those options. Under Appendix A, a broker-dealer may group long and short positions in listed options into five specified “portfolio types,” and within each portfolio type,³ a broker-dealer may offset a position’s gain at any one valuation point with another position’s loss at the same valuation point using an approved theoretical option pricing model that satisfies certain conditions specified in the rule. Among the portfolio types, a broker-dealer may group listed options

¹ 17 CFR 240.15c3-1a.

² 17 CFR 240.15c3-1.

³ 17 CFR 240.15c3-1a(b)(1)(ii). Specified portfolio types include: equity options on the same underlying instrument and positions in that underlying instrument; options on the same major market foreign currency, positions in that major market foreign currency, and related instruments within those options’ classes; high-capitalization diversified market index options, related instruments within the option’s class, and qualified stock baskets in the same index; non-high-capitalization diversified index options, related instruments within the index option’s class, and qualified stock baskets in the same index; and narrow-based index options, related instruments within the index option’s class, and qualified stock baskets in the same index.

positions in equity options on the same underlying instrument and positions in that underlying instrument.

For the purposes of grouping positions into portfolio types, Appendix A permits futures contracts, as related instruments, to be included within an option class if the futures and option class are based on the same underlying instrument.⁴ Appendix A also permits a futures contract to be included in a product group, which is defined as two or more option classes, related instruments, underlying instruments, and qualified stock baskets in the same portfolio type for which it has been determined that a percentage of offsetting profits may be applied to losses at the same valuation point.⁵

IBHY and IBIG futures contracts are based on indexes that measure the performance of U.S. dollar-denominated high yield and investment grade corporate debt, respectively. Specifically, IBHY futures are based on the iBoxx iShares \$ High Yield Corporate Bond Index (“IBXXIBHY Index”), which tracks the holdings of the HYG ETF. The IBXXIBHY Index composition is rebalanced once a month on the last business day of the month. The IBXXIBHY Index is rebalanced by comparing the bonds included in the iBoxx® \$ High Yield Developed Markets Index (“High Yield Benchmark Index”) and the bonds included in the portfolio of the HYG ETF. The bonds included in the IBXXIBHY Index on the first business day of the month will generally match the bonds that are in common in both the High Yield Benchmark Index and the portfolio holdings of the HYG ETF as of the last business day of the prior month. The bonds included in the IBXXIBHY Index and the HYG ETF portfolio can differ if the HYG ETF holds bonds not included in the High Yield Benchmark Index. The bonds included in the IBXXIBHY Index and the HYG ETF portfolio also can differ during a month after the first business day of the month if the HYG ETF portfolio changes during the month and can differ on the first business day of the month if the HYG ETF portfolio were to change on the first business day of the month. However, because the components of the IBXXIBHY Index are derived from the intersection of the components of the High Yield Benchmark Index and HYG ETF portfolio, the IBXXIBHY Index is highly correlated with the net asset value of the HYG ETF.

In addition, IBIG futures are based on the iBoxx iShares \$ Investment Grade Corporate Bond Index (“IBXXIBIG Index”). The IBXXIBIG Index composition is rebalanced once a month on the last business day of the month. The IBXXIBIG Index is rebalanced by comparing the bonds included in the Markit iBoxx® USD Liquid Benchmark Index (“Investment Grade Benchmark Index” and, with the High Yield Benchmark Index, the “Benchmark Indexes”) and the bonds included in the portfolio of the LQD ETF. The bonds included in the IBXXIBIG Index on the first business day of the month will generally match the bonds that are in common in both the Investment Grade Benchmark Index and the portfolio holdings of the LQD ETF as of the last business day of the prior month. The bonds included in the IBXXIBIG Index and the LQD ETF portfolio can differ if the LQD ETF holds bonds not included in the Investment Grade Benchmark Index. The bonds included in the IBXXIBIG Index and the LQD ETF portfolio also can differ during a month after the first business day of the month if the LQD ETF portfolio changes during the month and can differ on the first business day of the month if the LQD ETF portfolio were to change on the first business day of the month. However, because the components of the IBXXIBIG Index are derived from the intersection of the components of the Investment Grade Benchmark Index and LQD ETF portfolio, the IBXXIBIG Index is highly correlated with the net asset value of the LQD ETF.

The IBXXIGHY Index and IBXXIBIG Index (i.e., the reference indexes or underlying instruments) upon which IBHY futures and IBIG futures are based differ from the reference indexes upon which the

⁴ 17 CFR 240.15c3-1a(a),(3), (4), and (5).

⁵ 17 CFR 240.15c3-1a(a)(6).

HYG ETF⁶ and LQD ETF⁷, respectively, are based. The HYG ETF and LQD ETF are fixed-income ETFs (or bond ETFs) and are equity securities that seek to track the investment results of the applicable reference indexes. IBHY futures and IBIG futures are cash-settled futures on indexes that provide measures of the U.S. dollar-denominated sub-investment and investment grade, respectively, corporate bond markets. The Exchange notes that there is significant price correlation between these futures contracts and the respective corresponding ETFs and overlying options.⁸ These correlations stem from the similarity of the index benchmarks underlying the futures and the corresponding ETFs because, as stated above, the components of the indexes underlying the futures are derived from the intersection of the components of the applicable Benchmark Index and ETF portfolio. However, IBHY and IBIG futures have not historically been included in the equity options portfolio type along with positions in the HYG ETF and LQD ETF and their overlying listed options because the futures are based on different indexes than the ETFs (and thus have different underlying instruments than the ETFs and overlying options). Given the significant correlation between the HYG ETF and LQD ETF and IBHY futures and IBIG futures, respectively, the Exchange believes that allowing IBHY and IBIG futures to be grouped in the same portfolios with the corresponding ETFs and ETF options will provide broker-dealers with opportunities to offset risk and to meet their portfolio management needs in a more capital efficient manner.

II. Discussion

As described above, IBHY futures provide exposure to the U.S. high-yield corporate debt market and IBIG futures to the U.S. investment grade corporate debt market. Cboe Options understands that broker-dealers use IBHY futures and IBIG futures for a variety of portfolio management needs, including in lieu of shares in the HYG ETF and LQD ETF, respectively, to gain similar market exposure to the applicable corporate debt market or to hedge (i.e. offset risk) their investments in the ETFs and their overlying options (or other investments). IBHY futures and IBIG futures can be lower-cost alternatives for gaining exposure to the U.S. corporate debt markets, and, given their similar market exposures, IBHY futures and IBIG futures may be combined with shares of the corresponding ETFs and ETF options to form strategies that seek to lower risk or enhance returns.

As the IBHY and IBIG futures are not currently permitted to be included in risk-based haircuts with the corresponding ETFs and ETF options, the level of risk-based haircuts is disproportionate to the risk of positions in a hedged account. For example, a position in IBHY futures combined with positions in HYG ETF options and the HYG ETF that are opposite in terms of long or short market exposure have combined risk that is lower relative to the risk if the positions were viewed separately. However, the capital requirements may be more costly since IBHY futures are not currently included in risk-based haircuts. Accordingly, a risk-based haircut that includes the IBHY futures would generally be lower and better aligned with the lower relative risk of the hedged account. A lower risk-based haircut more appropriately reflects the amount of potential loss in light of adverse market movements a broker-dealer may face.

Additionally, because capital requirements are much higher relative to the level of risk of the combined positions, liquidity providers may quote wider markets to account for the high cost of capital. Allowing broker-dealers to group the IBHY and IBIG futures in portfolios with the corresponding ETFs and ETF

⁶ The HYG ETF seeks to track the investment results of the iBoxx® \$ Liquid High Yield Index (“IBOXHY Index”).

⁷ The LQD ETF seeks to track the investment results of the iBoxx® USD Liquid Investment Grade Index (“IBOXIG Index”).

⁸ Supporting documents and information regarding this correlation were previously sent to Division Staff (March 15, 2022, and May 24, 2022).

options for the purposes of risk-based haircuts would generally lower capital requirements, allowing liquidity providers the ability to provide tighter spreads and better pricing in the futures, ETFs, and options markets, to the benefit of investors. Moreover, including IBHY and IBIG futures in risk-based haircuts would create more capital efficiencies for hedging risk, and may enable liquidity providers to continue to make efficient and liquid markets in times of market stress.

If the Commission staff issues this no-action position, the High Yield Liquid Corporate Bond Product Group (#172) and newly created Investment Grade Corporate Bond Indexes Product Group (# TBD) would be comprised as follows (additions in **bold**):

HIGH YIELD LIQUID CORPORATE BOND INDEXES (PRODUCT GROUP 172)

INDEXES (Class Groups):	JNK (370), HYG (372), HYS (380), SJNK (382), IBHY (TBD)
POSITIONS:	Options, Security Futures, ETFs, Futures , and Baskets
MARKET MOVE:	+/- 15%
OFFSETS:	100% between products within a Class Group 80% between Class Groups within the Product Group
MINIMUMS:	\$0.375 * contract multiplier
BASKETS:	Minimum Capitalization: 95% of index Minimum charge: 5% of market value of basket Offset: 95% between basket and corresponding Class Group

INVESTMENT GRADE CORPORATE BOND INDEXES (PRODUCT GROUP TBD)

INDEXES (Class Groups):	LQD (TBD), ⁹ IBIG (TBD)
POSITIONS:	Options, Security Futures, ETFs, Futures , and Baskets
MARKET MOVE:	+/- 15%
OFFSETS:	100% between products within a Class Group 80% between Class Groups within the Product Group
MINIMUMS:	\$0.375 * contract multiplier
BASKETS:	Minimum Capitalization: 95% of index Minimum charge: 5% of market value of basket Offset: 95% between basket and corresponding Class Group

Specifically, a broker-dealer would be able to place IBHY futures contracts in their own Class Group, situated within Product Group 172, which currently includes the HYG Class Group.¹⁰ The IBHY futures Class Group would receive the same 80% offset as the other Class Groups within Product Group 172 that is currently provided between the Class Groups in Product Group 172. Likewise, a broker-dealer would be able to place IBIG futures contracts in their own Class Group, and a new Product Group would be created to include the IBIG futures Class Group and LQD Class Group. Like the offset currently available for Class Groups within Product Group 172, the IBIG futures and LQD Class Groups would have an 80% offset with each other. IBHY and IBIG futures contracts would be subject to the minimum charge specified under Appendix A, as is currently required for an equity option and

⁹ LQD does not currently belong to a Product Group. It is a stand-alone Class Group.

¹⁰ The High Yield Corporate Bond Product Group 172 also includes, in addition to the HYG ETF (Class Group 372): SPDR Bloomberg High Yield Bond ETF (Class Group 370); the ProShares Short High Yield ETF (Class Group 372, along with the HYG ETF); PIMCO 0-5 Year High Yield Corporate Bond Index (Class Group 380); iShares Broad USD High Yield Corporate Bond ETF (Class Group 381); SPDR Bloomberg Short Term High Yield Bond ETF (Class Group 382); Xtrackers USD High Yield Corporate Bond ETF (Class Group 383); and iShares 0-5 Year High Yield Corporate Bond ETF (Class Group 384).

its related instruments.¹¹ These offsets, when present, would permit broker-dealers to reduce risk-based haircuts across similar products within the same Product Group.

The following example (based on data from June 20, 2023) demonstrates how a haircut for a portfolio that includes positions in IBHY futures hedged with HYG ETF shares is calculated today and how it would be calculated if the Commission staff issues this no-action position. Suppose an investor is long one IBHY contract (\$1,000 multiplier) at 142.23 and short 1,903 shares of HYG ETF at 74.74.¹² Currently, the IBHY haircut would equal the maintenance margin requirement set by the designated contract market on which IBHY is traded (CFE), which equals \$3,710, while the HYG ETF risk-based haircut would equal \$21,335 (74.74 x 1,903 shares x 15% of the upside move on this short position), making the total haircut for this portfolio \$25,045 (\$3,710 + \$21,335). This haircut is significantly more than the potential loss for this portfolio given the IBHY contract position is fully hedged by the HYG ETF shares. As proposed, the haircut for this portfolio would be \$4,267, which is the maximum loss using an 80% offset between these positions if the market moves up or down 15%, as the following table demonstrates:

Quantity	Symbol	Current Market Value	Price Shock									
			-15%	-12%	-9%	-6%	-3%	3%	6%	9%	12%	15%
1	IBHY Jul 2023	142,230	(21,335)	(17,068)	(12,801)	(8,534)	(4,267)	4,267	8,534	12,801	17,068	21,335
1,903	HYG ETF	(142,230)	21,335	17,068	12,801	8,534	4,267	(4,267)	(8,534)	(12,801)	(17,068)	(21,335)
Losses			(21,335)	(17,068)	(12,801)	(8,534)	(4,267)	(4,267)	(8,534)	(12,801)	(17,068)	(21,335)
Scaled Losses			(26,668)	(21,335)	(16,001)	(10,667)	(5,334)	(5,334)	(10,667)	(16,001)	(21,335)	(26,668)
Gains			21,335	17,068	12,801	8,534	4,267	4,267	8,534	12,801	17,068	21,335
Product Group Total (80% Offset)			(4,267)	(3,414)	(2,560)	(1,707)	(853)	(853)	(1,707)	(2,560)	(3,414)	(4,267)

Therefore, the proposal would cause the haircut for this portfolio to be far more proportional to the potential loss within that portfolio compared to the current haircut for that portfolio, which could free up a significant amount of capital for this investor.

The following table summarizes the differences between the current haircut calculation and the proposed haircut calculation for IBHY and IBIG futures, as well as the potential benefits of the proposal (based on data from June 20, 2023):

CURRENT	PROPOSED
The maintenance margin requirement (as set by the designated contract market on which the contracts are traded (CFE)) under Appendix B to the Net Capital Rule	iBoxx futures and any economically similar instrument are combined and a haircut is computed using a risk-based model (TIMS) under Appendix A
No effect given for any risk offset present when a highly correlated, economically similar instrument is also held	Effect is given for any risk offset when a highly correlated, economically similar instrument is also held (e.g., Long IBHY futures, short HYG ETF)
Deduction is the sum of the separate haircuts on iBoxx futures contract and any economically similar instrument	Deduction is the amount rendered by the risk-based haircut computation under Appendix A. If a risk offset is present, the haircut would be less

¹¹ 17 CFR 240.15c3-1a(b)(1)(v)(C)(2).

¹² These positions are equivalent in dollar amounts.

	than the sum of the haircuts required under the current scheme
Current maintenance margin requirement: IBHY: \$3,710 per contract (~2.6% of notional) IBIG: \$2,900 per contract (~2.3% of notional)	Risk-based haircut if there is no risk offset present: IBHY: \$21,335 per contract (15% of notional) IBIG: \$19,083 per contract (15% of notional)

The Exchange believes that allowing IBHY futures and IBIG futures positions to be grouped into a portfolio type that may include positions in HYG ETF and LQD ETF shares and their listed options, respectively, will permit broker-dealers to meet their portfolio management needs in a more capital efficient manner, more precisely align their net capital requirements with their portfolio risk, and promote continued liquidity in the relevant futures, ETF, and options markets.

III. Request for No-Action Position

Based on the foregoing, Cboe Options requests that the Staff of the Division not recommend enforcement action to the Commission, if, as described above, a broker-dealer groups positions in: (1) IBHY futures contracts into a portfolio type that may include HYG ETF shares and listed options on the HYG ETF; and (2) IBIG futures contracts into a portfolio type that may include LQD ETF shares and listed options on the LQD ETF when calculating net capital using a theoretical option pricing model pursuant to Appendix A.

Consistent with the 80% offset permitted between Class Groups within Product Group 172 (High Yield Corporate Bond Product Group), the IBHY futures Class Group would receive the same 80% offset as the other Class Groups within Product Group 172. Like the offset currently available for Class Groups within Product Group 172, the IBIG futures and LQD Class Groups would have an 80% offset with each other in the new Product Group that will be created to include the IBIG futures Class Group and LQD Class Group.

If you have any questions or require further information, please do not hesitate to contact James Adams at jadams@cboe.com or (312) 786-7718 or Laura Dickman at ldickman@cboe.com or (312) 786-7572. Thank you for your attention to this request.

Sincerely,

/s/ John Hiatt

John Hiatt
Vice President
Cboe Labs

cc: Gregory Hoogasian, Cboe
James Adams, Cboe
Laura Dickman, Cboe
William Wollman, FINRA
Kris Dailey, FINRA
William Eineke, OCC