

Cboe Global Markets, Inc.
Form 10-Q
November 02, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001 34774

Cboe Global Markets, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20 5446972
(I.R.S. Employer
Identification No.)

Edgar Filing: Cboe Global Markets, Inc. - Form 10-Q

400 South LaSalle Street Chicago, Illinois 60605
(Address of Principal Executive Offices) (Zip Code)

(312) 786 5600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Edgar Filing: Cboe Global Markets, Inc. - Form 10-Q

Class	October 26, 2018
Common Stock, par value \$0.01	112,201,915 shares

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	7
<u>Item 1. Financial Statements (unaudited)</u>	7
<u>Condensed Consolidated Balance Sheets—As of September 30, 2018 and December 31, 2017</u>	7
<u>Condensed Consolidated Statements of Income—Three and Nine Months Ended September 30, 2018 and 2017</u>	8
<u>Condensed Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 30, 2018 and 2017</u>	9
<u>Condensed Consolidated Statement of Changes in Stockholders’ Equity—Nine Months Ended September 30, 2018</u>	10
<u>Condensed Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2018 and 2017</u>	11
<u>Notes to Condensed Consolidated Financial Statements</u>	12
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	59
<u>Item 4. Controls and Procedures</u>	62
<u>PART II. OTHER INFORMATION</u>	63
<u>Item 1. Legal Proceedings</u>	63
<u>Item 1A. Risk Factors</u>	63
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
<u>Item 3. Defaults upon Senior Securities</u>	64
<u>Item 4. Mine Safety Disclosures</u>	64
<u>Item 5. Other Information</u>	64
<u>Item 6. Exhibits</u>	65
<u>SIGNATURES</u>	66

Table of Contents

CERTAIN DEFINED TERMS

Throughout this document, unless otherwise specified or the context so requires:

- "Cboe," "we," "us," "our" or "the Company" refers to Cboe Global Markets, Inc. and its subsidiaries.
- "ADV" means average daily volume.
- "ADNV" means average daily notional value.
- "Bats Global Markets" and "Bats" refer to our wholly-owned subsidiary Bats Global Markets, Inc., now known as Cboe Bats, LLC, and its subsidiaries.
- "BYX" refers to Cboe BYX Exchange, Inc., a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "BZX" refers to Cboe BZX Exchange, Inc., a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "C2" refers to Cboe C2 Exchange, Inc. a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "Cboe Chi-X Europe" refers to our broker-dealer entity, Cboe Chi-X Europe Limited, a wholly-owned subsidiary of Cboe Global Markets, Inc., operated in the United Kingdom.
- "Cboe Europe Equities" refers to Cboe Europe Limited, a wholly-owned subsidiary of Cboe Global Markets, Inc., the U.K. operator of our Multilateral Trading Facility ("MTF"), and our Regulated Market ("RM"), under its Recognized Investment Exchange ("RIE") status.
- "Cboe FX" refers to Cboe FX Holdings, LLC, a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "Cboe Options" refers to Cboe Exchange, Inc., a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "Cboe SEF" refers to Cboe SEF, LLC, our swap execution facility that is a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "Cboe Trading" refers to our broker-dealer entity, Cboe Trading, Inc., a wholly-owned subsidiary of Cboe Global Markets, Inc., operated in the United States.
- "CFE" refers to Cboe Futures Exchange, LLC, a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "CFTC" refers to the U.S. Commodity Futures Trading Commission.
- "EDGA" refers to Cboe EDGA Exchange, Inc., a wholly-owned subsidiary of Cboe Global Markets, Inc.
- "EDGX" refers to Cboe EDGX Exchange, Inc., a wholly-owned subsidiary of Cboe Global Markets, Inc.
 - "Exchanges" refers to Cboe Options, C2, BZX, BYX, EDGX, and EDGA.
- "FASB" refers to the Financial Accounting Standards Board.
- "FCA" refers to the U.K. Financial Conduct Authority.
- "GAAP" refers to Generally Accepted Accounting Principles in the United States.
 - "Merger" refers to our acquisition of Bats Global Markets, completed on February 28, 2017.
- "OCC" refers to The Options Clearing Corporation.
- "OPRA" refers to Options Price Reporting Authority, LLC.
- "SEC" refers to the U.S. Securities and Exchange Commission.
- "SPX" refers to our S&P 500 Index exchange-traded options products.
- "VIX" refers to the Cboe Volatility Index methodology.

Table of Contents

TRADEMARK AND OTHER INFORMATION

Cboe®, Bats®, BYX®, BZX®, Cboe Volatility Index®, CFE®, EDGA®, EDGX®, Silexx® and VIX® are registered trademarks, and Cboe Global MarketsSM, Cboe Futures ExchangeSM, C2SM and SPXSM and are service marks of Cboe Global Markets, Inc. and its subsidiaries. Standard & Poor's®, S&P®, S&P 100® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC and have been licensed for use by Cboe Exchange, Inc. Dow Jones®, Dow Jones Industrial Average®, DJIA® and Dow Jones Indexes are registered trademarks or service marks of Dow Jones Trademark Holdings, LLC, used under license. MSCI, and the MSCI index names are service marks of MSCI Inc., used under license. Russell®, FTSE®, and other FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies, used under license. All other trademarks and service marks are the property of their respective owners.

This Quarterly Report on Form 10-Q includes market share and industry data that we obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys generally state that the information they contain has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most currently available market data. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors. We refer you to the “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10 Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. You can identify these statements by forward-looking words such as "may," "might," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. All statements that reflect our expectations, assumptions or projections about the future other than statements of historical fact are forward-looking statements, including statements in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this report. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from that expressed or implied by the forward-looking statements. In particular, you should consider the risks and uncertainties described under "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10 Q and our other filings with the SEC.

While we believe we have identified the risks that are material to us, these risks and uncertainties are not exhaustive. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Some factors that could cause actual results to differ include:

- the loss of our right to exclusively list and trade certain index options and futures products;
- economic, political and market conditions;
- compliance with legal and regulatory obligations;
- price competition and consolidation in our industry;
- decreases in trading volumes, market data fees or a shift in the mix of products traded on our exchanges;
- legislative or regulatory changes;
- increasing competition by foreign and domestic entities;
- our dependence on and exposure to risk from third parties;
- our index providers' ability to maintain the quality and integrity of their indexes and to perform under our agreements;
- our ability to operate our business without violating the intellectual property rights of others and the costs associated with protecting our intellectual property rights;
- our ability to attract and retain skilled management and other personnel, including those experienced with post-acquisition integration;
- our ability to accommodate trading volume and transaction traffic, including significant increases, without failure or degradation of performance of our systems;

Table of Contents

- our ability to protect our systems and communication networks from security risks, including cyber-attacks and unauthorized disclosure of confidential information;
- challenges to our use of open source software code;
- our ability to meet our compliance obligations, including managing potential conflicts between our regulatory responsibilities and our for-profit status;
- damage to our reputation;
 - the ability of our compliance and risk management methods to effectively monitor and manage our risks;
- our ability to manage our growth and strategic acquisitions or alliances effectively;