SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-91767; File No. SR-CBOE-2021-029)

May 4, 2021

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Increase Position Limits for Options on Certain Exchange-Traded Funds and an Exchange-Traded Note

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on April 21, 2021, Cboe Exchange, Inc. ("Exchange" or "Cboe Options") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to increase position limits for options on certain exchange-traded funds ("ETFs") and exchange-traded notes ("ETNs"). The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on

---

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

2 17 CFR 240.19b-4.

the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Position limits are designed to address potential manipulative schemes and adverse market impacts surrounding the use of options, such as disrupting the market in the security underlying the options. While position limits should address and discourage the potential for manipulative schemes and adverse market impact, if such limits are set too low, participation in the options market may be discouraged. The Exchange believes that position limits must therefore be balanced between mitigating concerns of any potential manipulation and the cost of inhibiting potential hedging activity that could be used for legitimate economic purposes.

The Exchange has observed an ongoing increase in demand, for both trading and hedging purposes, in options on the following exchange-traded products ("ETPs"): (1) SPDR Gold Shares ("GLD"), (2) iShares Silver Trust ("SLV"), (3) iShares iBoxx $ Investment Grade Corporate Bond ETF ("LQD"), (4) VanEck Vectors Gold Miners ETF ("GDX"), (5) iPath S&P 500 VIX Short-Term Futures ETN ("VXX"), and (6) ProShares Ultra VIX Short-Term Futures ETF ("UVXY", and collectively, with the aforementioned ETFs, the "Underlying ETPs"). Though the demand for these options appears to have increased, position limits for options on the Underlying ETPs have remained the same. The Exchange believes these unchanged position limits may have impeded, and may continue to impede, trading activity and strategies of investors, such as use of effective hedging vehicles or income generating strategies (e.g., buy-write or put-write), and the ability of Market-Makers to make liquid markets with tighter spreads in these options resulting in the transfer of volume to over-the-counter ("OTC") markets. OTC transactions occur through bilateral agreements, the terms of which are not publicly disclosed to the marketplace. As such, OTC transactions do not contribute to the price discovery process on a public exchange or other lit markets. Therefore, the Exchange believes that the proposed increases in position limits for options on the Underlying ETPs may enable liquidity providers to provide additional liquidity to the Exchange and other market participants to transfer their liquidity demands from OTC markets to the Exchange. As described in further detail below, the Exchange believes that the continuously increasing market capitalization of the Underlying ETPs, ETP component securities, as well as the highly liquid markets for those securities, reduces the concerns for potential market manipulation and/or disruption in the underlying markets upon increasing position limits, while the rising demand for trading options on the Underlying ETPs for legitimate economic purposes compels an increase in position limits.

Proposed Position Limits for Options on the Underlying ETPs

Position limits for options on ETPs are determined pursuant to Rule 8.30 and vary according to the number of outstanding shares and the trading volumes of the underlying stocks or ETPs over the past six months. Pursuant to Rule 8.30, the largest in capitalization and the most frequently traded stocks and ETPs have an option position limit of 250,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market; and smaller capitalization stocks and ETPs have position limits of 200,000, 75,000, 50,000 or 25,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market. Options on GLD, SLV, LQD, GDX, VXX and UVXY are currently subject to the standard position limit of 250,000 contracts as set forth in Rule 8.30. Rule 8.30.07 sets forth separate, higher position limits for options on specific ETPs. The Exchange proposes to amend Rule

8.30.07 to increase the position limits and, as a result, exercise limits, for options on each of GLD, SLV, LQD,GDX, VXX and UVXY.[3] The table below represents the current, and proposed, position limits for options on the ETPs subject to this proposal:

Product	**Current Position Limit**	**Proposed Position Limit**
GLD	250,000	1,000,000
SLV	250,000	500,000
LQD	250,000	500,000
GDX	250,000	500,000
VXX	250,000	500,000
UVXY	250,000	500,000

The Exchange notes that the proposed position limit for options on GLD is consistent with existing position limits for options on the iShares Russell 2000 ETF ("IWM"), the iShares MSCI Emerging Markets ETF ("EEM"), iShares China Large-Cap ETF ("FXI") and iShares MSCI EAFE ETF ("EFA"), while the proposed limits for options on LQD, SLV and GDX are consistent with current position limits for options on the iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), iShares MSCI Japan ETF ("EWJ"), iShares iBoxx High Yield Corporate Bond Fund ("HYG") and Financial Select Sector SPDR Fund ("XLF"). The Exchange represents that the Underlying ETPs qualify for either 1) the initial listing criteria set forth in Rule 4.3.06(c) for ETFs holding non-U.S. component securities, 2) generic listing standards for series of portfolio depository receipts and index fund shares based on international or global indexes under which a comprehensive surveillance

3 By virtue of [sic] 8.42.02, which is not being amended by this filing, the exercise limits for GLD, SLV, LQD, GDX, VXX and UVXY options would be similarly increased.

agreement ("CSA") is not required, or 3) the initial listing criteria set forth in Rule 4.3.13(c) for ETNs (or, Index-Linked Securities), as well as the continued listing criteria in Rule 4.4 (for ETFs)[4] and Rule 4.4.14 (for ETNs). In compliance with its listing rules, the Exchange also represents that non-U.S. component securities that are not subject to a comprehensive surveillance agreement ("CSA") do not, in the aggregate, represent more than more than 50% of the weight of any of the Underlying ETPs that are ETFs.[5]

Composition and Growth Analysis for Underlying ETPs

As stated above, position (and exercise) limits are intended to prevent the establishment of options positions that can be used to or potentially create incentives to manipulate the underlying market so as to benefit options positions. The Securities and Exchange Commission (the "Commission") has recognized that these limits are designed to minimize the potential for mini-manipulations and for corners or squeezes of the underlying market, as well as serve to reduce the possibility for disruption of the options market itself, especially in illiquid classes.[6] The Underlying ETPs, as well as the ETP components, are highly liquid and are based on a broad set of highly liquid securities and other reference assets, as demonstrated through the trading statistics presented in this proposal. To support the proposed position limit increases, the Exchange considered the liquidity of the Underlying ETPs, the value of the underlying securities or index components and relevant marketplace, the share and option volume for the Underlying

---

4 The Exchange notes that the initial listing criteria for options on ETFs that hold non-U.S. component securities are more stringent than the maintenance listing criteria for those same ETF options. See Rule 4.3.06(c); Rule 4.4.06.

5 See Rule 4.3.06(c).

6 See Securities Exchange Act Release No. 67672 (August 15, 2012), 77 FR 50750 (August 22, 2012) (SR-NYSEAmex-2012-29).

ETPs, and, where applicable, the availability or comparison of economically equivalent products to options on the Underlying ETPs.

The Exchange has collected the following trading statistics regarding shares of and options on the Underlying ETPs and the values of the Underlying ETPs and their component securities or index components, as applicable:

Product	**ADV[7] (ETF shares) (millions)**	**ADV (option contracts)**	**Shares Outstanding (millions)[8]**	**Fund Market Cap (USD) (millions)**[9]	**Share Value[10] (USD)**
GLD	12.3	257,700	354.30	70,195.7	161.71 (NAV)
SLV	33.1	376,700	619.3	14,228.4	22.57 (NAV)
LQD	14.1	30,300	308.1	54,113.7	130.13 (NAV)
GDX	39.4	166,000	419.8	16,170.5	33.80 (NAV)
VXX	39.3	289,800	110.8	1,023.	10.31 (Closing Indicative Value)
UVXY	29.3	113,500	228.7	1,580.6	4.85 (NAV)

The Exchange has collected the same trading statistics, where applicable, as above regarding a sample of other ETPs, as well as the current position limits for options on such ETPs pursuant to Rule 8.30.07, to draw comparisons in support of proposed position limit increases for options on the Underlying ETPs (see further discussion below):

---

7 Average daily volume (ADV) data for ETP shares and option contracts, as well as for ETF shares and options on the comparative ETFs presented below, are for all of 2020. Additionally, reference to ADV in ETP shares and ETP options, and indexes herein this proposal are for all of calendar year 2020, unless otherwise indicated.

8 Shares Outstanding and Net Asset Values ("NAV"), as well as for the comparative ETPs presented below, are as of April 5, 2021 for all ETPs except for VXX and UVXY, which are as of April 14, 2021.

9 Fund Market Capitalization data, as well as for the comparative ETPs presented below, are as of January 14, 2021.

10 See supra note 8.

Product	ADV (ETF shares) (millions)	ADV (option contracts)	Shares Outstanding (millions)	Fund Market Cap (USD) (millions)	Share Value (USD)	Current Position Limits
EEM	55.9	284,700	581.4	30,262.2	53.79 (NAV)	1,000,000
FXI	24.6	128,900	91.2	4,398.9	47.60 (NAV)	1,000,000
EFA	29.6	130,900	719.4	53,808.1	77.02 (NAV)	1,000,000
EWZ	29.2	139,400	173.8	6,506.8	33.71 (NAV)	500,000
TLT	11.5	111,800	103.7	17,121.3	136.85 (NAV)	500,000
EWJ	8.2	15,500	185.3	13,860.7	69.72 (NAV)	500,000
HYG	30.5	261,600	254.5	24,067.5	86.86 (NAV)	500,000

The Exchange believes that, overall, the liquidity in the shares of the Underlying ETPs and in their overlying options, the larger market capitalizations for each of the Underlying ETPs, and the overall market landscape relevant to each of the Underlying ETPs support the proposal to increase the position limits for each option class. Given the robust liquidity in and value of the Underlying ETPs and their component securities, the Exchange does not anticipate that the proposed increase in position limits would create significant price movements as the relevant markets are large enough to adequately absorb potential price movements that may be caused by larger trades.

Specifically, the investment objective of GLD (also known as SPDR Gold Trust, or the "Trust") is to track the performance of the price of gold bullion.[11] GLD offers investors an innovative, relatively cost efficient and secure way to access the gold market, without the

---

11 See SPDR Gold Shares, available at https://www.ssga.com/us/en/intermediary/etfs/funds/spdr-gold-shares-gld (January 11, 2021).

necessity of taking physical delivery of gold, and to buy and sell that interest through the trading of a security on a regulated stock exchange. SPDR Gold Shares represent fractional, undivided beneficial ownership interests in the Trust, the sole assets of which are gold bullion. The spot price for gold is determined by market forces in the 24-hour global OTC market for gold including spot, forwards, and options and other derivatives, together with exchange-traded futures and options. The Net Asset Value ("NAV") of the Trust is calculated based on the total ounces of gold owned by the Trust valued at the London Bullion Market Association ("LBMA") Gold Price PM of that day (plus any cash held by the Trust less accrued expenses).[12] The Exchange has observed that the ADV in GLD shares has increased from approximately 8.7 million shares in 2019 to 12.3 million shares by the end of 2020. Similarly, the ADV in options on GLD has increased from approximately 153,900 option contracts in 2019 to 257,700 option contracts by the end of 2020. The Exchange also notes that in the first quarter of 2021, GLD options experienced an ADV of approximately 395,100 option contracts. Additionally, comparing the statistics shown in the tables above for GLD and the sample of other ETFs with a current position limit of 1,000,000 contracts, the Exchange notes that the ADV for GLD options (257,700 option contracts) are more, or just as, liquid as EEM options (284,700 option contracts), FXI options (128,900 option contracts) and EFA options (130,900 option contracts). Also, as indicated in the table above, GLD's market capitalization (approximately $70.2 billion) is higher than all three of these comparable ETFs, and, in addition to this, the Exchange notes that the NAV of GLD is higher than that of the NAV of EEM, FXI and EFA, which is indicative that the total value of its underlying components is generally higher. The Exchange believes that

---

12 See State Street Global Advisors, SPDR Gold Trust GLD, FAQ (July 2020), available at https://www.ssga.com/library-content/products/fund-docs/etfs/us/tax-documents/gld-faq.pdf.

GLD's share and option volume, its market capitalization, and the comparatively high value of its underlying components (as indicated by its NAV) are large enough to absorb potential price movements caused by a large trade in GLD.

Like that of GLD and spot gold, SLV seeks to reflect generally the performance of the price of silver and represents a cost-efficient alternative to investments in physical silver for investors not otherwise in a position to participate directly in the market for physical silver. The SLV's NAV is derived from its holdings in silver valued on the basis of the daily LBMA Silver Price.[13] SLV, too, has experienced a significant increase in AVD [sic] in shares and options from 2019 through 2020. It grew from approximately 13.6 million shares in 2019 to 33.1 million shares by the end of 2020, and from approximately 118,800 option contracts in 2019 to 376,700 option contracts by the end of 2020. The Exchange also notes that SLV options experienced in ADV of approximately 1.1 million option contracts in the first quarter of 2021.[14] Additionally, SLV generally experiences a significantly greater ADV in shares (33.1 million share) and in options (376,700 option contracts) than that of the ADV in shares and options for EWZ (29.2 million shares and 139,300 option contracts), TLT (11.5 million shares and 111,800 option contracts), EWJ (8.2 million shares and 15,500 option contracts) and HYG (30.5 million shares and 261,600 option contracts), and also has a comparable, or higher, market capitalization (approximately $14.2 billion) than EWZ, TLT and EWJ. As per the table above, options on each of these ETFs already have a position limit of 500,000 contracts — the proposed position limit

---

13 See iShares Silver Trust, Fact Sheet as of 9/20/2020, available at https://www.ishares.com/us/literature/fact-sheet/slv-ishares-silver-trust-fund-fact-sheet-en-us.pdf.

14 While volume in SLV options in the first quarter of 2021 experienced significantly high volume as a result of unusual market conditions, the Exchange believes that the existing possibility of such significant increases supports the proposed position limit increase.

for SLV options. The Exchange believes that SLV's share and option volume and its market capitalization are large enough to absorb potential price movements caused by a large trade in SLV.

While the demand for options trading on GLD and SLV has evidently increased, and continues to increase, the position limits have remained the same, which the Exchange believes may be impacting the ability of Trading Permit Holders ("TPHs") to effectively hedge against exposure to physical gold and silver. For example, a single TPH may manage groups of mutual funds (i.e., a fund complex), each of which may have different growth objectives. If one portfolio manager with a large group of funds has a relatively small exposure to spot gold or spot silver, they may hedge such exposure using GLD options or SLV options, respectively. Though relatively small, this hedge (up to 250,00 [sic] option contracts for GLD and for SLV) may utilize the TPH's entire capacity against the position limit. As a result, the TPH's other portfolio managers must look to use alternative vehicles to hedge gold or silver exposure for the funds under their management. The Exchange understands that, unlike GLD or SLV options, most of these alternatives hedging vehicles are not a perfect hedge, which creates liquidity issues and results in increased trading costs. As a result, the Exchange believes that the proposed position limit increases for both GLD and SLV options will allow TPHs to effectively hedge their total gold or silver exposure without having to seek other, less precise hedging vehicles.

LQD tracks the performance of the Markit iBoxx USD Liquid Investment Grade ("IBOXIG") Index, which is an index designed as a subset of the broader U.S. dollar-denominated corporate bond market which can be used as a basis for tradable products, such as

ETFs, and is comprised of over 8,000 bonds.[15] The Exchange notes that from 2019 through 2020, ADV has grown significantly in shares of LQD and in options on LQD, from approximately 9.7 million shares in 2019 to 14.1 million through 2020, and from approximately 8,200 option contracts in 2019 to 30,300 through 2020. LQD also continued to experience significant growth in ADV in the first quarter of 2021 with an ADV of approximately 140,200 option contracts. Further, LQD generally experiences higher ADV in shares than both TLT (11.5 million shares) and EWJ (8.2 million shares) and almost double the ADV in option contracts than EWJ (15,500 option contracts). Options on each EWZ, TLT and EWJ are currently subject to a position limit of 500,000 contracts—the proposed limit for options on LQD. The NAV of LQD is also higher than, or comparable to, that of the NAV of the ETFs underlying the options that are currently subject to a position limit of 500,000 option contracts (as presented in the table above), which is indicative that the total value of its underlying components is generally higher or comparable. Per the tables above, LQD's total market capitalization of approximately $54.1 billion is also higher than or comparable to the total market capitalization of the ETFs underlying the options currently subject to a position limit of 5000,000 [sic] contracts. In addition to this, the Exchange notes that, although there are currently no options listed for trading on the IBOXIG Index, the components[16] of the IBOXIG Index, which can be used in creating a basket of securities that equate to the LQD ETF, are made up of over 8,000 bonds for which the outstanding face value of each must be greater than or equal to $2 billion.[17] The Exchange

---

15 See Markit iBoxx USD Liquid Investment Grade Index, available at https://cdn.ihsmarkit.com/www/pdf/MKT-iBoxx-USD-Liquid-Investment-Grade-Index-factsheet.pdf (January 14, 2021).

16 Investment grade corporate bonds.

17 See supra note 14.

believes that the total value of the bonds in the IBOXIG Index, coupled with LQD's share and option volume, total market capitalization, and NAV price indicates that the market is large enough to absorb potential price movements caused by a large trade in LQD. Also, as evidenced above, trading volume in LQD shares has increased over the past few years and the Exchange understands that market participants' need for options have continued to grow alongside the ETF. Particularly, the Exchange notes that in the last year, market participants have sought more cost-effective hedging strategies through the use of LQD options as a result of the borrow on other fixed income ETFs, such as HYG. Therefore, the Exchange believes that because LQD options are being increasingly utilized as an alternative to similar products, such as HYG options, then it is appropriate that options on LQD be subject to the same 500,000 contract position limit that currently exists for options on HYG.

GDX seeks to replicate as closely as possible the price and yield performance of the NYSE Arca Gold Miners ("GDMNTR") Index, which is intended to track the overall performance of companies involved in the gold mining industry.[18] ADV in GDX options has increased from 2019 through 2020, with an ADV of approximately 117,400 option contracts in 2019 to an ADV of approximately 166,000 option contracts in 2020. The Exchange notes that ADV in GDX shares did not increase from 2019 to 2020. GDX options also experienced an ADV of approximately 287,800 option contracts in the first quarter of 2021. The Exchange notes that the ADV in GDX shares (39.4 million) and options on GDX (166,000 option contracts) are greater than the ADV in EWZ (29.2 million shares and 139,300 option contracts), TLT (11.5 million shares and 111,800 option contracts), EWJ (8.2 million shares and 15,500 option

---

[18] See VanEck Vectors Gold Miners ETF, available at https://www.vaneck.com/library/vaneck-vectors-etfs/gdx-fact-sheet-pdf/ (January 14, 2021).

contracts) and HYG (30.5 million shares and 261,600 option contracts), each of which is currently subject to a position limit of 500,000 option contracts – the proposed limit for options on GDX. GDX also experiences a comparable, or higher, market capitalization (approximately $16.2 billion) than EWZ, TLT and EWZ. Additionally, like that of LDQ above, there is currently no index option analogue for the GDX ETF on the GDMNTR Index approved for options trading, however, the components of the GDMNTR Index, which can be used to create the GDX ETF, currently must each have a market capitalization greater than $750 million, an ADV of at least 50,000 shares, and an average daily value traded of at least $1 million in order to be eligible for inclusion in the GDMNTR Index. The Exchange believes that the GDMNTR Index component inclusion requirements, as well as GDX's share and option volume and total market capitalization, indicate that the GDX market is sufficiently large and liquid enough to absorb price movements as a result of potentially oversized trades.

VXX ETNs (which are unsecured debt obligations of the issuer[19]) are designed to provide exposure to the S&P 500 VIX Short-Term Futures Index Total Return ("SPVXSTR"). The SPVXSTR Index is designed to provide access to equity market volatility through Cboe Volatility ("VIX") Index futures by offering exposure to a daily rolling long position in the first and second month VIX futures contracts. The SPVXSTR Index generally reflects market participants' views of the future direction of the VIX Index at the time of expiration of the VIX futures contracts comprising the index.[20] VXX volume has increased over the last years, growing

---

19 Barclays Bank PLC.

20 See iPath Series B S&P 500 VIX Short-Term Futures ETN, Product Summary (April 13, 2021), available at: https://www.ipathetn.com/US/16/en/details.app?instrumentId=341408.

from an ADV of approximately 28.6 million shares and 179,200 option contracts in 2019 to an ADV of approximately 39.3 million shares and 289,800 option contracts in 2020.

Similarly, the UVXY ETF provides leveraged exposure to the S&P 500 VIX Short-Term Futures ("SPVXSPID") Index. Like the SPVXSTR Index, the SPVXSPID Index measures the returns of a portfolio of monthly VIX futures contracts that rolls positions from first-month contracts into second-month contracts on a daily basis and maintains a weighted average of one month to expiration. UVXY volume has increased significantly from 2019 through 2020 — from an ADV of approximately 12 million shares and 73,700 option contracts in 2019 to an ADV of approximately 29.3 million shares and 113,500 option contracts in 2020.

Both VXX and UVXY experience an ADV in shares and option contracts that is greater than, or comparable to, ADV in shares and/or option contracts for EWZ (29.2 million shares and 139,400 option contracts), TLT (11.5 million shares and 111,800 option contracts), EWJ (8.2 million shares and 15,500 option contracts), and HYG (30.5 million shares). As stated, options on EWZ, TLT, EWJ and HYG are all currently subject to the same position limit (500,000 option contracts) proposed for VXX and UVXY options. The Exchange also notes that, while VIX options share similar trading characteristics with options on VXX and UVXY, VIX options are not currently subject to position limits.[21] Moreover, the 2020 ADV for trading in VIX futures was approximately 192,000 contracts and VIX futures currently have a value of approximately $7.6 billion in open interest. The Exchange believes that the ADV in shares of and options on VXX and UXVY, along with the robust market that exists for the underlying index components (VIX futures) in connection with both ETPs, indicates that the market for these ETPs is sufficiently large and liquid enough to absorb price movements and large- sized trades. In

---

[21] See Rule 8.31.

addition to this, both the VXX and UVXY are used as key indicators of the health of the global volatility market. The VIX futures that comprise each product are a perfect hedge to the underlying delta risk; however, such futures are not recognized as hedges for options contract equivalent of the net delta ("OCEND") purposes. A TPH that is not delta neutral must be hedged to the extent that the OCEND stays within the applicable position limit. The Exchange understands that due to the OCEND limitations and current position limits for options on VXX and UVXY, TPHs must hedge with options and buy or create shares of the underlying ETPs despite already having a hedge on their position via the component futures. As a result, TPHs may be unable to provide the most concise pricing to customers participating in these ETPs due to the increased costs associated with transacting in additional or alternative hedging vehicles in order to comply with the position limits currently in place. The Exchange also believes that the approximate value of open interest in VIX futures ($7.6 billion) potentially necessitates substantial hedging capacity as both ETPs provide exposure to volatility trading based on VIX futures.

Creation and Redemption for ETPs

The Exchange believes that the creation and redemption process for the ETFs and ETN subject to this proposal (VXX) will lessen the potential for manipulative activity with options on the Underlying ETPs. Regarding ETFs, when an ETF provider wants to create more shares, it looks to an Authorized Participant (generally a market maker or other large financial institution) to acquire the securities the ETF is to hold. For instance, when an ETF is designed to track the performance of an index, the Authorized Participant can purchase all the constituent securities in the exact same weight as the index, then deliver those shares to the ETF provider. In exchange, the ETF provider gives the Authorized Participant a block of equally valued ETF shares, on a one-for-one fair value basis. The price is based on the NAV, not the market value at which the ETF is trading. The creation of new ETF units can be conducted during an entire trading day and is not subject to position limits. This process works in reverse where the ETF provider seeks to decrease the number of shares that are available to trade. Regarding the process for the ETN subject to this proposal, VXX, investors may redeem VXX shares on any redemption date,[22] provided that the minimum amount of VXX shares redeemed is at least 25,000 shares. Investors redeeming VXX shares receive a cash payment equal to the applicable closing indicative value on the applicable valuation date (less the redemption fee). While there is no direct analogue to an ETF "creation" for an ETN, the ETN issuer may sell additional VXX shares from its inventory.[23] In order to redeem existing VXX shares or issue new VXX shares, the issuer may transact in VIX futures (selling VIX futures in the case of a VXX redemption, and purchasing VIX futures in the case of issuing new VXX shares) in order to hedge its exposure. The applicable creation and redemption processes for the Underlying ETPs creates a direct link to the underlying components of the ETF or ETN and serves to mitigate potential price impact of the ETF and ETN shares that might otherwise result from increased position limits for the options on the Underlying ETPs.

---

[22] A redemption date for each series of VXX is the third business day following each valuation date (other than the final valuation date). The final redemption date will be the third business day following the valuation date that is immediately prior to the final valuation date. If notice is provided prior to noon E.T., the applicable valuation date is the date on which notice is provided; otherwise, the applicable valuation date is the business day following the date on which notice is provided. See VXX Prospectus, available at https://www.ipathetn.com/US/16/en/documentation.app?instrumentId=341408&contentId=7549819.

[23] There is currently no minimum number of additional ETNs that an issuer may sell.

The Exchange understands that the ETF and ETN creation and redemption processes seek to keep an ETF's or ETN's share price trading in line with the product's underlying net asset value (ETFs) or indicative value (ETNs). Because an ETF trades like a stock, its share price will fluctuate during the trading day, due to simple supply and demand. If demand to buy an ETF or ETN is high, for instance, an ETF's share price might rise above the value of its underlying securities or an ETN's share price above the value of the index components. When this happens, the Authorized Participant or issuer believes the ETF or ETN may now be overpriced, so it may buy shares of the component securities (ETF) or buy same the index component instruments (ETN) and then sell ETF or ETN shares in the open market. This may drive the ETF's or ETN's share price back toward the underlying net asset value or indicative index value. Likewise, if an ETF or ETN share price starts trading at a discount to the securities it holds or its index components, the Authorized Participant or issuer can buy shares of the ETF or ETN and redeem them for the underlying securities or index component instruments. Buying undervalued ETF or ETN shares may drive the share price of an ETF or ETN back toward fair value. This arbitrage process helps to keep an ETF's and ETN's share price in line with the value of its underlying portfolio or index components.

Surveillance and Reporting Requirements

The Exchange believes that increasing the position limits for the options on the Underlying ETPs would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in trading these products. The reporting requirement for the options on the Underlying ETPs would remain unchanged. Thus, the Exchange would still require that each TPH or TPH organization that maintains positions in the options on the same side of the market, for its own account or for the account of a customer, report certain information to the Exchange. This information would include, but would not be limited to, the options' positions, whether such positions are hedged and, if so, a description of the hedge(s). Market-Makers[24] (including Designated Primary Market-Makers ("DPMs"))[25] would continue to be exempt from this reporting requirement, however, the Exchange may access Market-Maker position information.[26] Moreover, the Exchange's requirement that TPHs file reports with the Exchange for any customer who held aggregate large long or short positions on the same side of the market of 200 or more option contracts of any single class for the previous day will remain at this level for the options subject to this proposal and will continue to serve as an important part of the Exchange's surveillance efforts.[27]

The Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange and other SROs are capable of properly identifying disruptive and/or manipulative trading activity. The Exchange also represents that it has adequate surveillances in place to detect potential manipulation, as well as reviews in place to identify potential changes in composition of the Underlying ETPs and continued compliance with the

---

24 A Market-Maker [sic] "Trading Permit Holder registered with the Exchange pursuant to Rule 3.52 for the purpose of making markets in option contracts traded on the Exchange and that has the rights and responsibilities set forth in Chapter 5, Section D of the Rules." See Rule 1.1.

25 A Designated Primary Market-Maker "is TPH organization that is approved by the Exchange to function in allocated securities as a Market-Maker (as defined in Rule 8.1) and is subject to the obligations under Rule 5.54 or as otherwise provided under the rules of the Exchange." See Rule 1.1.

26 The Options Clearing Corporation ("OCC") through the Large option Position Reporting ("LOPR") system acts as a centralized service provider for TPH compliance with position reporting requirements by collecting data from each TPH or TPH organization, consolidating the information, and ultimately providing detailed listings of each TPH's report to the Exchange, as well as Financial Industry Regulatory Authority, Inc. ("FINRA"), acting as its agent pursuant to a regulatory services agreement ("RSA").

27 See Rule 8.43 for reporting requirements.

Exchange's listing standards. These procedures utilize daily monitoring of market activity via automated surveillance techniques to identify unusual activity in both options and the underlyings, as applicable.[28] The Exchange also notes that large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G,[29] which are used to report ownership of stock which exceeds 5% of a company's total stock issue and may assist in providing information in monitoring for any potential manipulative schemes.

The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns regarding potentially large, unhedged positions in the options on the Underlying ETPs. Current margin and risk-based haircut methodologies serve to limit the size of positions maintained by any one account by increasing the margin and/or capital that a TPH must maintain for a large position held by itself or by its customer.[30] In addition, Rule 15c3-1[31] imposes a capital charge on TPHs to the extent of any margin deficiency resulting from the higher margin requirement.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.[32] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[33] requirements

---

[28] The Exchange believes these procedures have been effective for the surveillance of trading the options subject to this proposal and will continue to employ them.

[29] 17 CFR 240.13d-1.

[30] See Rule 10.3 for a description of margin requirements.

[31] 17 CFR 240.15c3-1.

[32] 15 U.S.C. 78f(b).

[33] 15 U.S.C. 78f(b)(5).

that the rules of an 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, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[34] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed increase in position limits for options on the Underlying ETPs will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because it will provide market participants with the ability to more effectively execute their trading and hedging activities. The proposed increases will allow market participants to more fully implement hedging strategies in related derivative products and to further use options to achieve investment strategies (e.g., there are other ETPs that use options on the ETFs or the ETN subject to this proposal as part of their investment strategy, and the applicable position limits as they stand today may inhibit these other ETPs in achieving their investment objectives, to the detriment of investors). Also, increasing the applicable position limits may allow Market-Makers to provide the markets for these options with more liquidity in amounts commensurate with increased consumer demand in such markets. The proposed position limit increases may also encourage other liquidity providers to shift liquidity, as well as encourage consumers to shift demand, from over the counter markets onto the Exchange, which will enhance the process of

---

[34] Id.

price discovery conducted on the Exchange through increased order flow.

In addition, the Exchange believes that the structure of the Underlying ETPs, the considerable market capitalization of the funds, underlying component securities, and/or indexed component securities, and the liquidity of the markets for the applicable options and underlying component securities will mitigate concerns regarding potential manipulation of the products and/or disruption of the underlying markets upon increasing the relevant position limits. As a general principle, increases in market capitalizations, active trading volume, and deep liquidity of securities do not lead to manipulation and/or disruption. This general principle applies to the recently observed increased levels of market capitalization and trading volume and liquidity in shares of and options on the Underlying ETPs (as described above), and, as a result, the Exchange does not believe that the options markets or underlying markets would become susceptible to manipulation and/or disruption as a result of the proposed position limit increases. Indeed, the Commission has previously expressed the belief that not just increasing, but removing, position and exercise limits may bring additional depth and liquidity to the options markets without increasing concerns regarding intermarket manipulation or disruption of the options or the underlying securities.[35]

Further, the Exchange notes that the proposed rule change to increase position limits for select actively traded options is not novel and the Commission has approved similar proposed rule changes by the Exchange to increase position limits for options on similar, highly liquid and actively traded ETPs.[36] Furthermore, the Exchange again notes that that the proposed position

35 See Securities Exchange Act Release No. 62147 [sic] (October 28 [sic], 2005) (SR-CBOE-2005-41), at 62149.

36 See Securities Exchange Act Release Nos. 88768 (April 29, 2020), 85 FR 26736 (May 5, 2020) (SR-CBOE-2020-015); 83415 (June 12, 2018), 83 FR 28274 (June 18, 2018) (SR-

limits for options on GLD, SLV, LQD, GDX, VXX and UVXY are consistent with existing position limits for options on comparable ETPs in Rule 8.30.07.

The Exchange's surveillance and reporting safeguards continue to be designed to deter and detect possible manipulative behavior that might arise from increasing or eliminating position and exercise limits in certain classes. The Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns regarding potentially large, unhedged position in the options on the Underlying ETPs, further promoting just and equitable principles of trading, the maintenance of a fair and orderly market, and the protection of investors.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the increased position limits (and exercise limits) will be available to all market participants and apply to each in the same manner. The Exchange believes that the proposed rule change will provide additional opportunities for market participants to more efficiently achieve their investment and trading objectives of market participants.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the Act. On the contrary, the Exchange believes the proposal promotes competition because it may attract

CBOE-2018-042); and 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012) (SR-CBOE-2012-066).

additional order flow from the OTC market to exchanges, which would in turn compete amongst each other for those orders.[37] The Exchange believes market participants would benefit from being able to trade options with increased position limits in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor. The Exchange notes that other options exchanges may choose to file similar proposals with the Commission to increase position limits on options on the Underlying ETPs.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

[37] Additionally, several other options exchanges have the same position limits as the Exchange, as they incorporate by reference to the Exchange's position limits, and as a result the position limits for options on the Underlying ETPs will increase at those exchanges. For example, Nasdaq Options position limits are determined by the position limits established by the Exchange. See Nasdaq Stock Market LLC Rules, Options 9, Sec. 13 (Position Limits).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether 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 e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2021-029 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-CBOE-2021-029. This file number should be included on the subject line if e-mail 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 statements 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 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-CBOE-2021-029, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[38]

J. Matthew DeLesDernier
Assistant Secretary

[38] 17 CFR 200.30-3(a)(12).