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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-88350; File No. SR-CBOE-2020-015]

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 ("ETFs") and Indexes

March 10, 2020.

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 February 26, 2020, Cboe Exchange, Inc. (the "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 increase position limits for options on certain exchange-traded funds ("ETFs") and indexes. 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.

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

2 17 CFR 240.19b-4.

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 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 in options on (1) the Standard and Poor's Depositary Receipts Trust ("SPY"), iShares MSCI EAFE ETF ("EFA"), iShares China Large-Cap ETF ("FXI"), iShares iBoxx High Yield Corporate Bond Fund ("HYG"), Financial Select Sector SPDR Fund ("XLF"), Market Vectors Oil Services ETF ("OIH", collectively, with the aforementioned ETFs, the "Underlying ETFs"), and (2) the MSCI Emerging Markets Index ("MXEF") and the MSCI EAFE Index ("MXEA", collectively, with MXEF, the "Underlying Indexes") for both trading and hedging purposes. Though the demand for these options appears to have increased, position limits for options on the Underlying ETFs and Indexes 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 ETFs and Indexes 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 well as other options exchange on which they participate.[3] As described in further detail below, the Exchange believes that the continuously increasing market capitalization of the Underlying ETFs, ETF component securities, and component securities of the Underlying Indexes, 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 ETFs and Indexes for legitimate economic purposes compels an increase in position limits.

Proposed Position Limits for Options on the Underlying ETFs

Position limits for options on ETFs are determined pursuant to Rule 8.30, and vary according to the number of outstanding shares and the trading volumes of the underlying stocks

[3] The Exchange understands that other options exchanges intend to file similar proposed rule changes with the Commission to increase position limits under their rules for the same options.

or ETFs over the past six months. Pursuant to Exchange Rule 8.30, the largest in capitalization and the most frequently traded stocks and ETFs 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 ETFs 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 HYG, XLF, and OIH are currently subject to the standard position limit of 250,000 contracts as set forth in Exchange Rule 8.30. Rule 8.30.07 sets forth separate position limits for options on specific ETFs, including SPY, FXI and EFA.

The Exchange proposes to amend Rule 8.30.07 to double the position limits and, as a result, exercise limits, for options on each of HYG, XLF, OIH, FXI, EFA and SPY.[4] The table below represents the current, and proposed, position limits for options on the ETFs subject to this proposal:

ETF	**Current Position Limit**	**Proposed Position Limit**
SPY	1,800,000	3,600,000
EFA	500,000	1,000,000
FXI	500,000	1,000,000
HYG	250,000	500,000
OIH	250,000	500,000
XLF	250,000	500,000

The Exchange notes that the proposed position limits for options on EFA and FXI are consistent with existing position limits for options on the iShares Russell 2000 ETF (“IWM”)

4 By virtue of 8.42.02, which is not being amended by this filing, the exercise limits for HYG, XLF, OIH, and SPY options would be similarly increased.

and the iShares MSCI Emerging Markets ETF ("EEM"), while the proposed limits for options on FXI, HYG, and OIH are consistent with current position limits for options on the iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), and iShares MSCI Japan ETF ("EWJ"). The Exchange represents that the Underlying ETFs qualify for either 1) the initial listing criteria set forth in Exchange Rule 4.3.06(c) for ETFs holding non-U.S. component securities, or 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 agreement ("CSA") is not required, as well as the continued listing criteria in Rule 4.4.[5] 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 ETFs.[6]

Proposed Position Limits for Options on the Underlying Indexes

The position limits and certain restrictions on position limits for options on broad-based indexes are determined pursuant to Rule 8.31. Like Rule 8.30.07, Rule 8.31 sets forth separate position limits for various, specific broad-based indexes and also provides a position limit of 25,000 contracts for options, restricted to no more than 15,000 near-term, on all other broad-based indexes not specifically listed under Rule 8.31. MXEF and MXEA are currently grouped within this category and, therefore, currently have position limits of 25,000 contracts. The Exchange proposes to amend Rule 8.31 to double the position limits, and, as a result, the exercise limits, for MXEF and MXEA, as well as eliminate the near-term position limit restriction on such options. The table below represents the current, and proposed, position limits for options on

5 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 4.4.08.

6 See Rule 4.3.06(c).

MXEA and MXEF:

Index	Current Position Limit / Near-Term Position Limit	Proposed Position Limit / Near-Term Position Limit
MXEF	25,000 / 15,000	50,000 / None
MXEA	25,000 / 15,000	50,000 / None

The Exchange notes that these proposed position limits for MXEA and MXEF equal the current position limits for options on 20 other indexes, and notes that no near-term restrictions currently exist for options on 15 other indexes.[7] The Exchange represents that the Underlying Indexes qualify for the initial and maintenance listing criteria set forth in Rules 4.10(h) and (i), respectively, and that non-U.S. component securities that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than 25% of the weight of the MXEA Index or 27.5% of the weight of the MXEF Index.[8]

Composition and Growth Analysis for Underlying ETFs and Indexes

As stated above, position (and exercise) limits are intended to prevent the establishment of options positions that can be used or might 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.[9] The

7 See Rule 8.31(a). The Exchange notes that there are no position limits (including no near-term restrictions) for Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, and SPX classes, and while there are position limits for the Dow Jones Equity REIT Index, it is not subject to any near-term restrictions.

8 See Rule 4.10(h)(7).

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

Underlying ETFs as well as the ETF 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. Indeed, the Commission recognized the liquidity of the securities comprising the underlying interest of SPY and permitted no position limits on SPY options from 2012 through 2018.[10] Also, the Commission has previously approved no position limits for options on certain broad-based security indexes.[11] Similarly, the component securities of the Indexes are highly liquid. The Commission has looked to the liquidity of securities comprising an index in establishing position limits for cash-settled index options.

To support the proposed position limit increases, the Exchange considered both liquidity of the Underlying ETFs and the component securities of the Underlying ETFs and Indexes, as well as the availability of economically equivalent products to the overlying options and their respective position limits. For instance, some of the Underlying ETFs are based upon broad-based indices that underlie cash-settled options, and therefore the options on the Underlying ETFs are economically equivalent to the options on those indices, which have no position limits. Other Underlying ETFs are based upon broad-based indices that underlie cash-settled options with position limits reflecting notional values that are larger than current position limits for options on the ETF analogues. For indexes that are tracked by an Underlying ETF but on which there are no options listed, the Exchange believes, based on the liquidity, depth and breadth of the underlying market of the components of the indexes, that each of the indexes referenced by the applicable ETFs would be considered a broad-based index under the Exchange's Rules.

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10 See Securities Exchange Act Release No. 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091), which implemented a pilot program that ran through 2017, during which there were no potion limits for options on SPY. See also Securities Exchange Act Release No. 83415 (June 12, 2018), 83 FR 28274 (June 18, 2018) (SR-CBOE-2018-042).

11 See supra note 5.

Moreover, regarding the Underlying Indexes, the Exchange believes that the deep, liquid markets for and market capitalization of the component securities underlying such indexes support the proposed position limit increases for the options on those indexes. Additionally, if in some cases certain position limits are appropriate for the options overlying comparable indexes or basket of securities that the Underlying ETFs track, or are appropriate for those ETFs that track the Underlying Indexes, then those economically equivalent position limits should be appropriate for the options overlying the Underlying ETFs or Indexes.

The Exchange has collected the following trading statistics regarding shares of and options on the Underlying ETFs, as well as the component securities or components underlying the referenced index (as applicable):

Product	ADV[12] (ETF shares)	ADV (option contracts)	Shares Outstanding (ETFs)[13]	Fund Market Cap (USD)	Total Market Cap of ETF Components[14]
SPY	70.3 million	2.8 million	968.7 million	312.9 billion	29.3 trillion
FXI	26.1 million	196,600	106.8 million	4.8 billion	28.0 trillion
EFA	25.1 million	156,000	928.2 million	64.9 billion	19.3 trillion
HYG	20.0 million	193,700	216.6 million	19.1 billion	906.4 billion[15]
XLF	48.8 million	102,100	793.6 million	24.6 billion	3.8 trillion
OIH	8.9 million	32,500	58.3 million	770.8 million	167 billion

The Exchange has also collected similar trading statistics regarding options on and the component securities of the Underlying Indexes:

Product	ADV (option contracts)	Number of Component Securities (Indexes)	Index Market Cap (USD)	Full Market Cap of Component Securities
MXEF	1,055	1,404	6.2 trillion	18.0 trillion
MXEA	594	917	14.9 trillion	19.3 trillion

The Exchange believes that, overall, the liquidity in the shares of the Underlying ETFs and in the component securities of the Underlying ETFs and Indexes, and in their overlying options, as well as the large market capitalizations and structure of each of the Underlying ETFs and Indexes, support the proposal to increase the position limits for each option class. Given the

12 Average daily volume (ADV) data for ETF shares and options contracts, as well as for options on the Underlying Indexes presented below, are for all of 2019. Additionally, reference to ADV in ETF shares, ETF options, and index options herein this proposal are for all of 2019, unless otherwise indicated

13 Shares Outstanding and Fund Market Capitalization Data were sourced from Bloomberg on January 2, 2020.

14 Total Market Capitalization of the ETF Components was sourced from Bloomberg on January 3, 2020.

15 Total Market Capitalization of HYG was sourced from IHS Markit, which sends daily constituent information to the Exchange.

robust liquidity and capitalization in the Underlying ETFs and in the component securities of the Underlying ETFs and Indexes the Exchange does not anticipate that the proposed increase in position limits would create significant price movements. Also, the Exchange believes the market capitalization of the underlying component securities of the applicable index or reference asset are large enough to adequately absorb potential price movements that may be caused by large trades.

Specifically, the Exchange notes that SPY tracks the performance of the S&P 500 Index, which is an index of diversified large cap U.S. companies.[16] It is composed of 505 selected stocks spanning over approximately 24 separate industry groups. The S&P 500 is one of the most commonly followed equity indices, and is widely considered to be the best indicator of stock market performance as a whole. SPY is one of the most actively traded ETFs, and, since 2017,[17] its ADV has increased from approximately 64.6 million shares to 70.3 million shares by the end of 2019. Similarly, its ADV in options contracts has increased from 2.6 million to 2.8 million through 2019.[18] As noted, the demand for options trading on SPY has continued to increase, however, the position limits have remained the same, which the Exchange believes may have impacted growth in SPY option volume from 2017 through 2019. The Exchange also notes that

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16 See SPDR S&P 500 ETF Trust, available at https://www.ssga.com/us/en/individual/etfs/funds/spdr-sp-500-etf-trust-spy (January 21, 2020).

17 See Securities Exchange Release No. 81483 (August 25, 2017), 82 FR 41457 (August 31, 2017) (Notice of Filing of a Proposed Rule Change To Amend Interpretation and Policy .07 of Exchange Rule 4.11, Position Limits, To Increase the Position Limits for Options on Certain ETFs) (SR-CBOE-2017-057). The Exchange notes that the statistics for comparisons to 2017 data throughout this proposal have been drawn from SR-CBOE-2017-057.

18 See Securities Exchange Act Release No. 83415 (June 12, 2018), 83 FR 28274 (June 18, 2018) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Position Limit for SPY Options) (SR-CBOE-2018-042).

SPY shares are more liquid than PowerShares QQQ Trust ("QQQ") shares, which is also currently subject to a position limit of 1,800,000 contracts.[19] Specifically, SPY currently experiences over twice the ADV in shares and over four times the ADV in options than that of QQQ.[20]

EFA tracks the performance of MSCI EAFE Index, which is comprised of over 900 large and mid-cap securities across 21 developed markets, including countries in Europe, Australia and the Far East, excluding the U.S. and Canada.[21] The Exchange notes that from 2017 through 2019, ADV has grown significantly in shares of EFA and in options on EFA, from approximately 19.4 million shares in 2017 to 25.1 million through 2019, and from approximately 98,800 options contract in 2017 to 155,900 through 2019. The Exchange notes that options are available on the MXEA, the analogue index (also subject to a proposed position limit increase described in detail below), which is currently subject to a position limit of 25,000 contracts (50,000 as proposed). Utilizing the notional value comparison of EFA's share price of $69.44 and MXEA's index level of 2036.94, approximately 29 EFA option contracts equal one MXEA option contract. Based on the above comparison of notional values, a position limit for EFA options that would be economically equivalent to that of MXEA options equates to 725,000 contracts (currently) and 1,450,000 (for the proposed 50,000 contracts position limit increase for MXEA options). Also,

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19 The Exchange notes that it also updates the PowerShares QQQ Trust symbol in Rule 8.30(a) from QQQQ to QQQ as this accurately reflects the current ticker symbol for PowerShares QQQ, which was officially changed from QQQQ to QQQ by Invesco PowerShares Capital Management LLC in 2011. See Morningstar, PowerShares Changes Ticker Symbol of Tech-Heavy QQQ ETF, available at morningstar.com/articles/374713/powershares-changes-ticker-symbol-of-tech-heavy-qqq-etf (March 23, 2011).

20 The 2019 AVD for QQQ shares is 30.2 million and for options on QQQ is 670,200.

21 See iShares MSCI EAFE ETF, available at https://www.ishares.com/us/products/239623/ishares-msci-eafe-etf (February 10, 2020).

MXEA index options have an ADV of 594 options contracts, in which equate to an ADV of 17,226 EFA option contracts (as that is 29 times the size of 594). EFA options, which are more actively traded and held than MXEA options, are currently subject to a position limit of 500,000 options contracts despite their much higher ADV of approximately 156,700 options contracts.

FXI tracks the performance of the FTSE China 50 Index, which is composed of the 50 largest Chinese stocks.[22] FXI shares and options have also experienced increased liquidity since 2017, as ADV has grown from approximately 15.1 million shares in 2017 to 26.1 million through 2019, as well as approximately 71,900 options contracts in 2017 to 196,600 through 2019. Although there are currently no options on the FTSE China 50 Index listed for trading,[23] the components of the FTSE China 50 Index, which can be used to create a basket of stocks that equate to the FXI ETF, currently have a market capitalization of approximately $28 trillion and FXI has a market capitalization of $4.8 billion (as indicated above), which the Exchange believes are both large enough to absorb potential price movements caused by a large trade in FXI.

XLF invests in a wide array of financial service firms with diversified business lines ranging from investment management to commercial and investment banking. It generally corresponds to the price and yield performance of publicly traded equity securities of companies in the SPDR Financial Select Sector Index.[24] XLF experiences ADV in shares and in options that is significantly greater that the ADV in shares and options for EWZ (26.7 million shares and 186,500 option contracts), TLT (9.6 million shares and 95,200 options contracts), and EWJ (7.2

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22 See iShares China Large-Cap ETF, available at https://www.ishares.com/us/products/239536/ishares-china-largecap-etf (February 10, 2020).

23 The Exchange is authorized to list options on the FTSE China 50 Index pursuant to Rule 4.12(l).

24 See Select Sector SPDR ETFs, XLF, available at http://www.sectorspdr.com/sectorspdr/sector/xlf (January 15, 2020).

million shares and 5,700 options contracts), each of which already have a position limit of 500,000 contracts – the proposed position limit for XLF options. Although there are no options listed on the SPDR Financial Select Sector Index listed for trading, the components of the index, which can be used to create a basket of stocks that equate to the XLF ETF, currently have a market capitalization of $3.8 trillion (indicated above). Additionally, XLF has a market capitalization of $24.6 billion. The Exchange believes that both of these are large enough to absorb potential price movements caused by a large trade in XLF.

OIH seeks to replicate the price and yield performance of the MVIS U.S. Listed Oil Services 25 (“MVOIHTR”) Index, which tracks the overall performance of U.S.-listed companies involved in oil services to the upstream oil sector, including oil equipment, oil services, or oil drilling.[25] The Exchange notes that the ADV in OIH shares and options on OIH is greater than the ADV in EWJ shares (7.2 million shares) and options on EWJ (5,700 options contracts), which is currently subject to a position limit of 500,000 options contracts – the proposed limit for options on OIH. Like that of XLF and FXI above, there is currently no index option analogue for OIH approved for options trading, however, the components of the MVOIHTR Index, which can be used to create the OIH ETF, currently have a market capitalization of $167 billion and OIH currently has a market capitalization of $770.8 million – sufficient to absorb price movements as a result of potentially oversized trades. Moreover, OIH is used to hedge the oil market, which includes approximately $200 billion of open interest in U.S. futures as of January 2020, thus, potentially necessitating substantial hedging capacity.

Finally, HYG attempts to track the investment results of Markit iBoxx USD Liquid High Yield Index, which is composed of U.S. dollar-denominated, high-yield corporate bonds and is

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25 See VanEck Vectors Oil Services ETF, available at https://www.vaneck.com/etf/equity/oih/overview/ (January 15, 2020).

one of the most widely used high-yield bond ETFs.[26] HYG experiences significantly higher ADV in shares and options than both TLT (9.6 million shares and 95,200 options contracts), and EWJ (7.2 million shares and 5,700 options contracts), which are currently subject to a position limit of 500,000 options contracts – the proposed limit for options on HYG. While HYG does not have an index option analogue listed for trading, the Exchange believes that its market capitalization of $19.1 billion, and of $906.4 billion in component securities, is adequate to absorb a potential price movement that may be caused by large trades in HYG.

Also, as demonstrated by the table above, the components of the Underlying Indexes similarly experience relatively high liquidity and market capitalization. As stated above, MXEA consists of large and mid-cap components across 21 developed countries. The market capitalization of the MXEA components (separately and in the aggregate) has increased significantly since the initial listing of MXEA options on the Exchange in 2016 — from approximately $11.4 trillion to $14.9 trillion in the aggregate by the end of 2019, and from approximately $12.3 billion in 2016 to $16.3 billion on average per component by the end of 2019. The Exchange also notes that the average market capitalization of the component securities unadjusted for inclusion in MXEA is currently around $20 billion.

The MXEF is an equity index designed to capture large and mid-cap representation across 26 emerging market countries, also covering approximately 85% of the free float-adjusted market capitalization in each country.[27] The market capitalization of the components of MXEF in the aggregate has also grown significantly since the initial listing of MXEF options on the

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[26] See iShares iBoxx $ High Yield Corporate Bond ETF, available at https://www.ishares.com/us/products/239565/ishares-iboxx-high-yield-corporate-bond-etf (January 15, 2020).

[27] See MSCI Emerging Markets Index fact sheet (dated December 31, 2019), available at: https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111.

Exchange in 2016 — from approximately $3.2 trillion in 2016 to $6.2 trillion by the end of 2019. Additionally, the average market capitalization per constituent has risen from approximately $3.8 billion in 2016 to approximately $4.4 billion in 2019. Like MXEA, the Exchange notes that the average market capitalization of the component securities unadjusted for inclusion in the index is approximately $12.9 billion. The Exchange also notes that MXEF has experienced a continuous rise in the overall number of its component securities, which has recently climbed to 1,401 component securities in 2019 compared to 834 in 2016 when initially listed.

The Exchange further notes that the ETFs that track MXEF (EEM) and MXEA (EFA, described in detail above) are currently subject to significantly larger notionally adjusted position limits — 1,000,000 contracts (as proposed for EFA) – yet these products are essentially comprised of and impacted by the same underlying component securities. In addition to this, the Underlying Indexes are designed to change over time as various regions and entities emerge and mature, and, as a result of the growth of the markets represented, the Underlying Indexes have each experienced continued expansion. As a result, the Exchange has observed increasing demand for trading in options and other derivatives on the Underlying Indexes, which the Exchange believes necessitates the proposed position limit increases and elimination of near-term position limit restrictions. In light of the continued expansion and increased demand for options on MXEF and MXEA, the Exchange believes that implementing the same overall limits by eliminating near-term limits would mitigate any potential impact on using options effectively for portfolio hedging – particularly because options on MEXF and MXEA offer investors the opportunity to manage global equity exposure, mitigate portfolio risk, and generate additional options premium income.[28] Further, the Exchange believes that the expanded limits and the elimination of near-term limit restrictions are necessary to help its options market to compete against the futures markets. Futures positions that are deemed bona fide hedging transactions are exempt from position limit rules under the Commodity Exchange Act and its implementing regulations.[29] Thus, institutions may offset much larger equity positions using index futures products than by using index options. Therefore, the Exchange believes that increasing the position limits and eliminating near-term restrictions for options on the Underlying Indexes will help the Exchange maintain competitive equality with the future markets.

Creation and Redemption for ETFs

The Exchange believes that the creation and redemption process for ETFs will lessen the potential for manipulative activity with options on the Underlying 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 net asset value, 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. The creation and redemption process, therefore, creates a direct link to the underlying

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28 See e.g. Cboe Global Markets, MSCI Index Options, Manage Global Equity Exposure, available at http://www.cboe.com/products/stock-index-options-spx-rut-msci-ftse/cboe-options-on-msci-indexes (February 24, 2020).

29 See 7 U.S.C. 6a(3); 17 CFR 1.3(z) and 1.47.

components of the ETF, and serves to mitigate potential price impact of the ETF shares that might otherwise result from increased position limits for the ETF options.

The Exchange understands that the ETF creation and redemption process seeks to keep an ETF's share price trading in line with the ETF's underlying net asset value. 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 is high, for instance, the ETF's share price might rise above the value of its underlying securities. When this happens, the Authorized Participant believes the ETF may now be overpriced, so it may buy shares of the component securities and then sell ETF shares in the open market (i.e. creations). This may drive the ETF's share price back toward the underlying net asset value. Likewise, if the ETF share price starts trading at a discount to the securities it holds, the Authorized Participant can buy shares of the ETF and redeem them for the underlying securities (i.e. redemptions). Buying undervalued ETF shares may drive the share price of the ETF back toward fair value. This arbitrage process helps to keep an ETF's share price in line with the value of its underlying portfolio.

Surveillance and Reporting Requirements

The Exchange believes that increasing the position limits for the options on the Underlying ETFs and Indexes 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 ETFs and Indexes would remain unchanged. Thus, the Exchange would still require that each Trading Permit Holder ("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[30] (including Designated Primary Market-Makers ("DPMs"))[31] would continue to be exempt from this reporting requirement, however, the Exchange may access Market-Maker position information.[32] 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 options 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.[33]

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 ETFs and Indexes and continued compliance with the 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

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30 A Market-Maker "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.

31 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.

32 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").

33 See Rule 8.43 for reporting requirements.

underlyings, as applicable.[34] The Exchange also notes that large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G,[35] 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 ETFs and Indexes. 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.[36] In addition, Rule 15c3-1[37] 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.[38] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[39] requirements 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

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34 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.

35 17 CFR 240.13d-1.

36 See Rule 10.3 for a description of margin requirements.

37 17 CFR 240.15c3-1.

38 15 U.S.C. 78f(b).

39 15 U.S.C. 78f(b)(5).

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)[40] 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 ETFs and Indexes 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 Exchange-Traded Products ("ETPs") that use options on the Underlying ETFs or Indexes as part of their investment strategy, and the applicable position limits as they stand today may inhibit these 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 price discovery conducted on the Exchange through increased order flow.

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40 Id.

In addition, the Exchange believes that the structure of the Underlying ETFs and Indexes, 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 [sic] Given the recently observed increased levels of market capitalization, trading volume, and liquidity in shares of the Underlying ETFs, and the components of the Underlying ETFs and Indexes (as described above), 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 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.[41]

Further, the Exchange notes that the proposed rule change to increase position limits for select actively traded options, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved, on a pilot basis, eliminating position limits for options on SPY.[42] Additionally, the Commission has approved similar proposed rule changes by the Exchange to increase position limits for options on highly liquid, actively traded

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

42 See supra notes 7 and 8.

ETFs,[43] and has approved similar proposals to eliminate position limits (including near-term restrictions) for options overlaying SPX, S&P 100 Index ("OEX"), European-style S&P 100 Index ("XEO"), Dow Jones Industrial Average ("DJI"), and Nasdaq 100 Index ("NDX"), and Russell 2000 Index ("RUT"), among others.[44] In approving the permanent elimination of position (and exercise limits) for such options, the Commission relied heavily upon the Exchange's surveillance capabilities, expressing trust in the enhanced surveillances and reporting safeguards that the Exchange took in order to detect and deter possible manipulative behavior which might arise from eliminating position and exercise limits. Furthermore, the Exchange again notes that that the proposed position limits for options on EFA and FXI are consistent with existing position limits for options on IWM and EEM, the proposed limits for options on XLF, HYG, and OIH are consistent with current position limits for options on EWZ, TLT, and EWJ, and the proposed position limits for MXEA and MXEF are equal to the current position limits for options on 20 other indexes, and the proposed elimination of near-term restrictions currently exists for options on other indexes.[45]

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

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43 See supra note 16; see also Securities Exchange Act Release No. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012)(SR-CBOE-2012-066).

44 See Securities Exchange Act Release Nos. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001)(SR-CBOE-2001-22); 4556 (July 16, 2001), 66 FR 38046 (July 20, 2001) (SR-CBOE-2001-39); 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005)(SR-CBOE-2005-41); 56350 (September 4, 2007), 72 FR 51878 (September 11, 2001)(SR-CBOE-2007-79); see also supra note 5.

45 See supra note 5.

regarding potentially large, unhedged position in the options on the Underlying ETFs and Indexes, 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 additional order flow from the OTC market to exchanges, which would in turn compete amongst each other for those orders.[46] 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)

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46 Additionally, several other options exchange 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 ETFs and Indexes 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).

heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor. The Exchange understands that other options exchanges intend to file similar proposed rule changes with the Commission to increase position limits on options on the Underlying ETFs. This may further contribute to fair competition among exchanges for multiply listed options.

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.

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-2020-015 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-2020-015. 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-2020-015, 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.[47]

J. Matthew DeLesDernier,
Assistant Secretary.

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[47] 17 CFR 200.30-3(a)(12).

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