Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. * SR 2021 - * 029
Amendment No. (req. for Amendments *) 2

Filing by Cboe Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☐	☑	☐	☑	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Rebecca
Last Name * Tenuta
Title * Senior Counsel
E-mail * [redacted]
Telephone * [redacted]
Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934, Cboe Exchange, Inc.
has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 10/08/2021

By Kyle Murray
(Name *)

(Title *)
VP, Associate General Counsel

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

[redacted]

Required fields are shown with yellow backgrounds and astericks.

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For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View Amendment No. 2 2021-029 (Position	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View Amendment No. 2 2021-029 (Position	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2- Notices, Written Comments, Transcripts, Other Communications Add Remove View	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G. ☐ Exhibit Sent As Paper Document
Exhibit 3 - Form, Report, or Questionnaire Add Remove View	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change. ☐ Exhibit Sent As Paper Document
Exhibit 4 - Marked Copies Add Remove View Amendment No. 2 2021-029 (Position	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View Amendment No. 2 2021-029 (Position	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. **Text of the Proposed Rule Change**

(a) Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to increase position limits for options on certain exchange-traded funds ("ETFs"). The Exchange initially submitted this rule filing SR-CBOE-2021-029 to the Securities and Exchange Commission ("Commission") on April 21, 2021 (the "Initial Rule Filing"). On July 27, 2021, the Exchange submitted Amendment No. 1, which replaced and superseded the Initial Rule Filing.[1] This Amendment No. 2 supersedes the Initial Rule filing, as modified by Amendment No. 1, and replaces it in its entirety. Amendment No. 2 provides additional justification and detail in support of the proposed position limit increase for SPDR Gold Shares ("GLD") and iShares Silver Trust ("SLV") options to 500,000 contracts and removes the proposal to increase position limits for iPath S&P 500 VIX Short-Term Futures ETN ("VXX") and ProShares Ultra VIX Short-Term Futures ETF ("UVXY") options from the Initial Filing, as modified by Amendment No. 1.

(b) The proposed rule change does not amend the text of Rule 8.42.02 (Exercise Limits). If approved, the proposed rule change would, however, increase the exercise limits for the options that are subject to this proposed rule change, because Rule 8.42.02 provides that the exercise limits for ETF options on exchange are equivalent to their position limits.

(c) Not applicable.

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1 In Amendment No. 1, the Exchange: (1) reduced the proposed position limit for GLD options from 1,000,000 contracts to 500,000 contracts; and (2) provided additional justification and analysis in support of the proposal. The additional justification and analysis provided by Amendment No. 1 is included in the description below of the proposal as amended. The full text of Amendment No. 1 is available on the Commission's website at: https://www.sec.gov/comments/sr-cboe-2021-029/srcboe2021029-9094584-246812.pdf.

Item 2. **Procedures of the Self-Regulatory Organization**

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on April 21, 2021.

(b) Please refer questions and comments on the proposed rule change to Patrick Sexton, Executive Vice President, General Counsel, and Corporate Secretary, [redacted], or Rebecca Tenuta, [redacted], Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

Item 3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) 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 funds ("ETFs"): (1) SPDR Gold Shares ("GLD"), (2) iShares Silver Trust ("SLV"), (3) iShares iBoxx $ Investment Grade Corporate Bond ETF ("LQD"), and (4) VanEck Vectors Gold Miners

ETF ("GDX", and collectively, with the aforementioned ETFs, the "Underlying ETFs").[2] Though the demand for these options appears to have increased, position limits for options on the Underlying ETFs 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 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 ETFs, ETF components,[3] as well as the highly liquid markets for each,

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2 Amendment No. 2 removes the proposal to increase position limits for VXX and UVXY options from the Initial Rule Filing, as modified by Amendment No. 1. For the reasons set forth in the Initial Rule Filing, as modified by Amendment No. 1, the Exchange continues to believe that the overall trading characteristics and historical volume, as well as detailed support demonstrating the need and benefits of increasing position limits for VXX and UVXY options, justify an increase in position limits for options on VXX and UVXY. Also, in light of removing the proposal to increase position limits for VXX (which is an ETN as opposed to an ETF), Amendment No. 2 removes references to and in connection with ETNs and updates the term "Underlying ETPs" to "Underlying ETFs".

3 Amendment No. 2 makes a clarifying change that updates references to and language in connection with underlying ETF components throughout the Initial Rule Filing, as modified by Amendment No 1, to account for the underlying

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 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 equity security (which includes ETFs) over the past six months. Pursuant to 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 GLD, SLV, LQD and GDX 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 specific equity options (including options on specific ETFs).[4] The Exchange proposes to amend Rule 8.30.07 to increase the position limits and, as a result, exercise limits, for options on

securities that comprise GDX and LQD and the underlying assets that comprise GLD and SLV.

4 Adjusted option series, in which one option contract in the series represents the delivery of other than 100 shares of the underlying security as a result of a corporate action by the issuer of the security underlying such option series, do not impact the notional value of the underlying security represented by those options. When an underlying security undergoes a corporate action resulting in adjusted series, the Exchange lists new standard option series across all appropriate expiration months the day after the existing series are adjusted. The adjusted series are generally actively traded for a short period of time following adjustment, but orders to open options positions in the underlying security are almost exclusively placed in the new standard option series contracts.

each of GLD, SLV, LQD and GDX .[5] The table below represents the current, and proposed, position limits for options on the ETFs subject to this proposal:

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

The Exchange notes that the proposed position limit for options on GLD, 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 ETFs qualify for either 1) the initial listing criteria set forth in Rule 4.3.06(c) for ETFs holding non-U.S. component securities, or 2) the 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 3) the continued listing criteria in Rule 4.4 (for ETFs)[6]. 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

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

6 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.

any of the Underlying ETFs.[7]

Composition and Growth Analysis for Underlying ETFs

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.[8] The 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. To support the proposed position limit increases, the Exchange considered the liquidity of the Underlying ETFs, the value of the Underlying ETFs, their components and the relevant marketplace, the share and option volume for the Underlying ETFs, and, where applicable, the availability or comparison of economically equivalent products to options on the Underlying ETFs.

The Exchange has collected the following trading statistics regarding shares of and options on the Underlying ETFs and the values of the Underlying ETFs and their components:

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7 See Rule 4.3.06(c).

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

Product	ADV[9] (ETF shares) (millions)	ADV (option contracts)	Shares Outstanding (millions)[10]	Fund Market Cap (USD) (millions)[11]	Share Value[12] (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)

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

Product	ADV (ETF shares) (millions)	ADV (option contracts)	Shares Outstanding (millions)	Fund Market Cap (USD) (millions)	Share Value (USD)	Current Position Limits
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

9 Average daily volume (ADV) data for ETF 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 ETF shares and ETF options, and indexes herein this proposal are for all of calendar year 2020, unless otherwise indicated

10 Shares Outstanding and Net Asset Values ("NAV"), as well as for the comparative ETFs presented below, are as of April 5, 2021 for all ETFs.

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

12 See supra note 10.

ETFs and in their overlying options, the larger market capitalizations for each of the Underlying ETFs, and the overall market landscape relevant to each of the Underlying ETFs support the proposal to increase the position limits for each option class. Given the robust liquidity in and value of the Underlying ETFs and their components, 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.[13] GLD offers investors an innovative, relatively cost efficient and secure way to access the gold market, without the 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).[14] The Exchange has observed that the ADV in GLD shares has increased from approximately 8.7 million

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

14 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.

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 500,000 contracts, the Exchange notes that the ADV for GLD options (257,700 option contracts) are more, or just as, liquid as that of the ADV for options on EWZ (139,300 option contracts), TLT (111,800 option contracts), EWJ (15,500 option contracts) and HYG (261,600 option contracts), each ETF of which already has a position limit of 500,000 contracts. Additionally, the ADV for GLD shares (12.3 million shares) is more liquid than that of the ADV for shares of TLT (11.5 million shares) and EWJ (8.2 million shares). Also, as indicated in the table above, GLD's market capitalization (approximately $70.2 billion) is higher than all four of the sample ETFs, which currently have a position limit of 500,000 contracts. In addition to this, the Exchange notes that the NAV of GLD is higher than that of the NAV of the four sample ETFs, which is indicative that the total value of its underlying components is generally higher. The Exchange believes that GLD's share and option volume, its market capitalization, and the comparatively high value of its underlying components (as indicated by its NAV, and as discussed in further detail below) 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.[15] SLV, too, has experienced a significant increase in ADV 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.[16] 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 for SLV options. The Exchange believes that SLV 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

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15 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.

16 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.

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 250,000 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.

Also, as detailed above, while the Exchange believes that the ADV share and option volume for and overall value of GLD and SLV, particularly as compared across other ETF options with position limits currently set at 500,000 contracts, are large enough to absorb potential price movements caused by a large trade in GLD and SLV, the Exchange also recognizes that the spot metal markets underlying SLV and GLD differ from the equities markets underlying EWZ, EWJ, TLT and HYG. However, the Exchange does not believe that a position limit increase for options on GLD and SLV will have any adverse impact on the underlying spot gold or silver market.[17]

The Exchange reviewed the amount and value of the gold and silver reserves estimated to be held across the globe[18] compared with the amount and value of open interest in SLV and GLD options. Currently, the world's reserves hold approximately 1.7 billion troy ounces of gold (a value of approximately $3 trillion) and 16.1 billion troy ounces of silver (a value of approximately $398.7 billion).[19] GLD options have experienced an average daily open interest in 2021[20] of approximately 3 million contracts, which equates to approximately 302.5 million GLD shares[21] (an average daily total NAV[22] of approximately $60 billion). SLV options have experienced an average daily open interest of approximately 6.3 million contracts, which equates to approximately 628.3 million SLV shares[23] (an average daily total NAV[24] of approximately $15 billion). Hypothetically, even if every open GLD and SLV option contract was exercised at once to receive delivery of the underlying shares and all such underlying shares were redeemed with the issuer for the respective underlying physical

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17 Amendment No. 2 adds additional support for increasing position limits for options on GLD and SLV by providing data and analysis regarding the sufficient size and capacity of the related spot metals markets to absorb a potential increase in demand of GLD and SLV options and delivery of the underlying.

18 See National Minerals Information Center, Gold Statistics and Information, Mineral Commodity Summaries, Gold (January 2021) available at https://pubs.usgs.gov/periodicals/mcs2021/mcs2021-gold.pdf; andf Silver Statistics and Information, Mineral Commodity Summaries, Silver (January 2021) available at https://pubs.usgs.gov/periodicals/mcs2021/mcs2021-silver.pdf.

19 One metric ton equals 32,150.7 troy ounces.

20 Year-to-date daily average open interest through September 2021.

21 One GLD/SLV option contract equals 100 GLD/SLV shares.

22 Year-to-date daily average GLD share NAV through September 2021 is $168.47.

23 See supra note 21.

24 Year-to-date daily average GLD share NAV through September 2021 is $23.84.

metal, by taking the average daily total NAV of the ETF shares equivalent to the average daily open interest in GLD and SLV options over the spot price of gold ($1736.04) and silver ($24.80),[25] the Exchange estimates that redemption of all of the ETF shares (equivalent to the average daily open interest in GLD and SLV options) would correspond to delivery of approximately 29.4 million troy ounces of gold and 603.9 million troy ounces of silver – that is, only approximately 1.7% and 3.8% of the total respective metal reserves. The Exchange understands that market participants by and large use GLD and SLV options to hold a leveraged position in the market, taking a view of market performance over a defined period of time, or use such options to hedge or reduce the risk exposure of their portfolios, as described above. As such, most positions in GLD and SLV options are not intended to be exercised to receive delivery of the underlying shares, but instead, are closed out or rolled. The Exchange believes that, given the typical use cases for GLD and SLV options, an increase in the position limits for GLD and SLV options would cause a de minimis increase, if any, in delivery or in creations and redemptions of shares in the underlying ETFs. The Exchange additionally notes that the total global mined silver output is forecasted to grow by approximately 8% from 2020 through 2021 to a total output of approximately 848.5 million troy ounces (approximately $19.1 billion in value).[26] The total global mined gold output as of June 2021 was 104.4 million troy ounces (approximately $183.6 billion in value).[27] As a result

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25 Spot prices as of October 3, 2021.

26 See The Silver Institute, World Silver Survey (April 2021) available at https://www.silverinstitute.org/wp-content/uploads/2021/04/World-Silver-Survey-2021.pdf.

27 See World Gold Council, Data, Demand and Supply, Gold mine production (June 16, 2021) available at https://www.gold.org/goldhub/data/historical-mine-production.

of the above-described review of the average daily open options interest compared to the world's metal reserves, as well as the global mined gold and silver output, coupled with the understanding that the principal use cases for taking positions in the GLD and SLV options markets do not involve taking delivery of the underlying, the Exchange believes that the current supply of spot gold and silver is more than adequate to meet a potential increase in demand and delivery of GLD's and SLV's underlying metals components as a result of position limit increases for options on GLD and SLV.

The Exchange also reviewed the gold and silver futures markets, the volume and value of which the Exchange believes indicate sufficient size and liquidity in the underlying markets to absorb potential price movements and large- sized trades as a result of position limit increases for options on GLD and SLV. The Exchange notes that gold futures currently have a value of approximately $93.2 billion in open interest and have experienced an ADV of approximately 264,000 contracts (equivalent to approximately 264 million GLD contracts) in 2021 to date.[28] Also, gold futures are currently subject to a position limit of 6,000 contracts, which is notionally equivalent to 6,000,000 GLD contracts. Additionally, the Exchange understands that its Market-Makers use both GLD and gold futures to hedge their GLD options positions, which the Exchange believes provides for a balance across the gold-related marketplaces, mitigating potential concern that either the underlying or the futures market might experience additional pressure as a result of an increase in activity in the GLD options space. Likewise, the Exchange notes that silver futures currently have a value of approximately $25.7 billion in open interest, have experienced an ADV of approximately

28 Year-to-date ADV through May 2021.

93,000 contracts (equivalent to approximately 465 million SLV contracts) in 2021 to date,[29] and are currently subject to a position limit of 3,000 contracts, which is notionally equivalent to 15,000,000 SLV contracts. The Exchange believes the robust volume in and value of the gold and silver futures markets indicates that the underlying markets are sufficiently large and liquid enough to absorb potential price movements and large- sized trades as a result of position limit increases for options on GLD and SLV.

Additionally, the Exchange reviewed the volume-weighted average of the absolute value[30] of deltas for GLD and SLV options trades over approximately the last two years (from March 2019 through June 2021). Essentially, the delta compares the relationship between the change in the price of an underlying and of an option. Absolute delta value ranges from 0 to 1. The lower the absolute delta value, the less the option price is sensitive to changes in the price of the underlying (i.e., delta exposure). Conversely, the higher the absolute delta value, the more the option price will change given a change in the underlying price. The Exchange believes that volume-weighted average delta over time is indicative as to whether an underlying market is large enough to absorb increased activity in the related options markets. That is, the more delta exposure per trade, the more options exposure there is that necessitates a hedge trade in the underlying, which may, in turn, potentially increase the impact on the underlying markets. Review of the volume-weighted average delta in connection with GLD and SLV options over the last two years showed that the average absolute delta per trade for GLD options trades was approximately 0.34 and for SLV options trades was approximately

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29 See id.

30 Put deltas are always negative, therefore, absolute value is used to view the average delta across calls and puts.

0.28. The Exchange notes that both averages indicate relatively minimal amounts of average delta exposure and, thus, minimal amounts of GLD and SLV options exposure need to be hedged, on average. As a result, the Exchange believes that increases in GLD and SLV options trading would have minimal impact on the ability of the underlying metals markets to absorb any additional volume related to increased position limits and hedging activity.

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.[31] 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),

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[31] 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).

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 contracts. In addition to this, the Exchange notes that, although there are currently no options listed for trading on the IBOXIG Index, the components[32] 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.[33] The Exchange 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

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32 Investment grade corporate bonds.

33 See supra note 31.

performance of companies involved in the gold mining industry.[34] 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 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. The Exchange particularly notes that many of the Brazil-based gold mining constituents included in GDX are also included in EWZ, which tracks the investment results of an index composed of Brazilian equities, and that the Exchange has not identified any issues with the continued listing and trading of EWZ options or any adverse market impact on EWZ in connection with the current 500,000 position limit in place for EWZ options. 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

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

$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.

Creation and Redemption for ETFs

The Exchange believes that the creation and redemption process for the ETFs subject to this proposal 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 ("AP") (generally a market maker or other large financial institution) to acquire the underlying components the ETF is to hold. For instance, when an ETF is designed to track the performance of an index, the AP 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 AP 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. The creation and redemption processes for the Underlying ETFs creates a direct link to the underlying 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 options on the Underlying ETFs.

The Exchange understands that the ETF creation and redemption processes seek to keep an ETF's share price trading in line with the product'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, an ETF's share price might rise above the value of its underlying components. When this happens, the AP or issuer believes the ETF may now be overpriced, so it may buy shares of the component securities or assets and then sell ETF shares in the open market. This may drive the ETF's share price back toward the underlying net asset value. Likewise, if an ETF share price starts trading at a discount to the component securities or assets it holds, the AP or issuer can buy shares of the ETF and redeem them for the underlying components. Buying undervalued ETF shares may drive the share price of an 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 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 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[35] (including Designated Primary Market-Makers ("DPMs"))[36] would continue to be exempt from this reporting requirement, however, the Exchange may access Market-Maker position information.[37] 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.[38]

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 continued compliance with the Exchange's listing standards. These procedures utilize daily

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35 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.

36 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.

37 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").

38 See Rule 8.43 for reporting requirements.

monitoring of market activity via automated surveillance techniques to identify unusual activity in both options and the underlyings, as applicable.[39] The Exchange also notes that large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G,[40] 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. 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.[41] In addition, Rule 15c3-1[42] imposes a capital charge on TPHs to the extent of any margin deficiency resulting from the higher margin requirement.

(b) 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.[43] Specifically, the Exchange believes the proposed rule change is consistent with the

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39 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.

40 17 CFR 240.13d-1.

41 See Rule 10.3 for a description of margin requirements.

42 17 CFR 240.15c3-1.

43 15 U.S.C. 78f(b).

Section 6(b)(5)[44] 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 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)[45] 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 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 exchange-traded products ("ETPs") that use options on the ETFs 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

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44 15 U.S.C. 78f(b)(5).

45 Id.

also encourage other liquidity providers to shift liquidity, as well as encourage consumers to shift demand, from OTC markets onto the Exchange, which will enhance the process of price discovery conducted on the Exchange through increased order flow.

In addition, the Exchange believes that the structure of the Underlying ETFs, the considerable market capitalization of the funds and underlying components, and the liquidity of the markets for the applicable options and underlying components 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 the underlying components 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 ETFs (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.[46]

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

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

similar, highly liquid and actively traded ETPs.[47] Furthermore, the Exchange again notes that that the proposed position limits for options on GLD, SLV, LQD and GDX are consistent with existing position limits for options on other ETFs 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 ETFs, further promoting just and equitable principles of trading, the maintenance of a fair and orderly market, and the protection of investors.

Item 4. 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.

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

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.[48] 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 ETFs.

Item 5. <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>

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

Item 6. <u>Extension of Time Period for Commission Action</u>

The Exchange does not consent to an extension of the time period for the Commission action on the proposed rule change specified in Section 19(b)(2) of the Act.[49]

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48 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 ETFs will increase at those exchanges. For example, Nasdaq Options position limits are determined by the position limits established by the Exchange. <u>See</u> Nasdaq Stock Market LLC Rules, Options 9, Sec. 13 (Position Limits).

49 15 U.S.C. 78s(b)(2).

Item 7. <u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)</u>

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) The Exchange requests accelerated approval of Amendment No. 2. Amendment No. 2 does not change the substance of the Initial Rule Filing, as modified by Amendment No. 1, with respect to the purpose of or justification for increasing position limits for options on the Underlying ETFs. Instead, Amendment No. 2 merely: 1) removes two classes from the Initial Rule Filing, as modified by Amendment No. 1, which simply reduces the scope of the proposal from increasing position limits on six products to four products; and 2) provides additional detail and support to the Form 19b-4 regarding the proposed position limit increases for options on GLD and SLV. The Exchange does not believe that Amendment No. 2 makes any material changes to the substance or framework of the proposed rule change as set forth in this Amendment No. 2, and therefore, does not believe that a full notice and comment period is necessary, and thus believes accelerated approval is appropriate.

Item 8. <u>Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission</u>

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

Item 9. <u>Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act</u>

Not applicable.

Item 10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

Item 11. **Exhibits**

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 4. Marked copy of changes to the rule text proposed in an amendment compared against the version of the rule text that was initially filed.

Exhibit 5. Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CBOE-2021-029]

[Insert date]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on [insert date], Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") filed with the Securities and Exchange Commission (the "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. 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, for both trading and hedging purposes, in options on the following exchange-traded funds ("ETFs"): (1) SPDR Gold Shares ("GLD"), (2) iShares Silver Trust ("SLV"), (3) iShares iBoxx $ Investment Grade Corporate Bond ETF ("LQD"), and (4) VanEck Vectors Gold Miners ETF ("GDX", and collectively, with the aforementioned ETFs, the "Underlying ETFs").[3]

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[3] Amendment No. 2 removes the proposal to increase position limits for VXX and UVXY options from the Initial Rule Filing, as modified by Amendment No. 1.

Though the demand for these options appears to have increased, position limits for options on the Underlying ETFs 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 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 ETFs, ETF components,[4] as well as the highly liquid markets for each, reduces the concerns for potential market manipulation and/or disruption in the

For the reasons set forth in the Initial Rule Filing, as modified by Amendment No. 1, the Exchange continues to believe that the overall trading characteristics and historical volume, as well as detailed support demonstrating the need and benefits of increasing position limits for VXX and UVXY options, justify an increase in position limits for options on VXX and UVXY. Also, in light of removing the proposal to increase position limits for VXX (which is an ETN as opposed to an ETF), Amendment No. 2 removes references to and in connection with ETNs and updates the term "Underlying ETPs" to "Underlying ETFs".

4 Amendment No. 2 makes a clarifying change that updates references to and language in connection with underlying ETF components throughout the Initial Rule Filing, as modified by Amendment No 1, to account for the underlying securities that comprise GDX and LQD and the underlying assets that comprise GLD and SLV.

underlying markets upon increasing position limits, while the rising demand for trading options on the Underlying ETFs 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 equity security (which includes ETFs) over the past six months. Pursuant to 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 GLD, SLV, LQD and GDX 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 specific equity options (including options on specific ETFs).[5] 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 and GDX .[6] The table below represents the current, and

5 Adjusted option series, in which one option contract in the series represents the delivery of other than 100 shares of the underlying security as a result of a corporate action by the issuer of the security underlying such option series, do not impact the notional value of the underlying security represented by those options. When an underlying security undergoes a corporate action resulting in adjusted series, the Exchange lists new standard option series across all appropriate expiration months the day after the existing series are adjusted. The adjusted series are generally actively traded for a short period of time following adjustment, but orders to open options positions in the underlying security are almost exclusively placed in the new standard option series contracts.

6 By virtue of 8.42.02, which is not being amended by this filing, the exercise limits

proposed, position limits for options on the ETFs subject to this proposal:

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

The Exchange notes that the proposed position limit for options on GLD, 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 ETFs qualify for either 1) the initial listing criteria set forth in Rule 4.3.06(c) for ETFs holding non-U.S. component securities, or 2) the 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 3) the continued listing criteria in Rule 4.4 (for ETFs)[7]. 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

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for GLD, SLV, LQD and GDX options would be similarly increased.

7 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.

any of the Underlying ETFs.[8]

Composition and Growth Analysis for Underlying ETFs

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.[9] The 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. To support the proposed position limit increases, the Exchange considered the liquidity of the Underlying ETFs, the value of the Underlying ETFs, their components and the relevant marketplace, the share and option volume for the Underlying ETFs, and, where applicable, the availability or comparison of economically equivalent products to options on the Underlying ETFs.

The Exchange has collected the following trading statistics regarding shares of and options on the Underlying ETFs and the values of the Underlying ETFs and their components:

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8 See Rule 4.3.06(c).

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

Product	ADV[10] (ETF shares) (millions)	ADV (option contracts)	Shares Outstanding (millions)[11]	Fund Market Cap (USD) (millions)[12]	Share Value[13] (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)

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

Product	ADV (ETF shares) (millions)	ADV (option contracts)	Shares Outstanding (millions)	Fund Market Cap (USD) (millions)	Share Value (USD)	Current Position Limits
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

10 Average daily volume (ADV) data for ETF 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 ETF shares and ETF options, and indexes herein this proposal are for all of calendar year 2020, unless otherwise indicated

11 Shares Outstanding and Net Asset Values ("NAV"), as well as for the comparative ETFs presented below, are as of April 5, 2021 for all ETFs.

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

13 <u>See</u> <u>supra</u> note 11.

ETFs and in their overlying options, the larger market capitalizations for each of the Underlying ETFs, and the overall market landscape relevant to each of the Underlying ETFs support the proposal to increase the position limits for each option class. Given the robust liquidity in and value of the Underlying ETFs and their components, 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.[14] GLD offers investors an innovative, relatively cost efficient and secure way to access the gold market, without the 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).[15] The Exchange has observed that the ADV in GLD shares has increased from approximately 8.7 million

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

15 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.

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 500,000 contracts, the Exchange notes that the ADV for GLD options (257,700 option contracts) are more, or just as, liquid as that of the ADV for options on EWZ (139,300 option contracts), TLT (111,800 option contracts), EWJ (15,500 option contracts) and HYG (261,600 option contracts), each ETF of which already has a position limit of 500,000 contracts. Additionally, the ADV for GLD shares (12.3 million shares) is more liquid than that of the ADV for shares of TLT (11.5 million shares) and EWJ (8.2 million shares). Also, as indicated in the table above, GLD's market capitalization (approximately $70.2 billion) is higher than all four of the sample ETFs, which currently have a position limit of 500,000 contracts. In addition to this, the Exchange notes that the NAV of GLD is higher than that of the NAV of the four sample ETFs, which is indicative that the total value of its underlying components is generally higher. The Exchange believes that GLD's share and option volume, its market capitalization, and the comparatively high value of its underlying components (as indicated by its NAV, and as discussed in further detail below) 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.[16] SLV, too, has experienced a significant increase in ADV 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.[17] 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 for SLV options. The Exchange believes that SLV 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

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16 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.

17 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.

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 250,000 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.

Also, as detailed above, while the Exchange believes that the ADV share and option volume for and overall value of GLD and SLV, particularly as compared across other ETF options with position limits currently set at 500,000 contracts, are large enough to absorb potential price movements caused by a large trade in GLD and SLV, the Exchange also recognizes that the spot metal markets underlying SLV and GLD differ from the equities markets underlying EWZ, EWJ, TLT and HYG. However, the Exchange does not believe that a position limit increase for options on GLD and SLV will have any adverse impact on the underlying spot gold or silver market.[18]

The Exchange reviewed the amount and value of the gold and silver reserves estimated to be held across the globe[19] compared with the amount and value of open interest in SLV and GLD options. Currently, the world's reserves hold approximately 1.7 billion troy ounces of gold (a value of approximately \$3 trillion) and 16.1 billion troy ounces of silver (a value of approximately \$398.7 billion).[20] GLD options have experienced an average daily open interest in 2021[21] of approximately 3 million contracts, which equates to approximately 302.5 million GLD shares[22] (an average daily total NAV[23] of approximately \$60 billion). SLV options have experienced an average daily open interest of approximately 6.3 million contracts, which equates to approximately 628.3 million SLV shares[24] (an average daily total NAV[25] of approximately \$15 billion). Hypothetically, even if every open GLD and SLV option contract was exercised at once to receive delivery of the underlying shares and all such underlying shares were redeemed with the issuer for the respective underlying physical

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18 Amendment No. 2 adds additional support for increasing position limits for options on GLD and SLV by providing data and analysis regarding the sufficient size and capacity of the related spot metals markets to absorb a potential increase in demand of GLD and SLV options and delivery of the underlying.

19 See National Minerals Information Center, Gold Statistics and Information, Mineral Commodity Summaries, Gold (January 2021) available at https://pubs.usgs.gov/periodicals/mcs2021/mcs2021-gold.pdf; and Silver Statistics and Information, Mineral Commodity Summaries, Silver (January 2021) available at https://pubs.usgs.gov/periodicals/mcs2021/mcs2021-silver.pdf.

20 One metric ton equals 32,150.7 troy ounces.

21 Year-to-date daily average open interest through September 2021.

22 One GLD/SLV option contract equals 100 GLD/SLV shares.

23 Year-to-date daily average GLD share NAV through September 2021 is \$168.47.

24 See supra note 22.

25 Year-to-date daily average GLD share NAV through September 2021 is \$23.84.

metal, by taking the average daily total NAV of the ETF shares equivalent to the average daily open interest in GLD and SLV options over the spot price of gold ($1736.04) and silver ($24.80),[26] the Exchange estimates that redemption of all of the ETF shares (equivalent to the average daily open interest in GLD and SLV options) would correspond to delivery of approximately 29.4 million troy ounces of gold and 603.9 million troy ounces of silver – that is, only approximately 1.7% and 3.8% of the total respective metal reserves. The Exchange understands that market participants by and large use GLD and SLV options to hold a leveraged position in the market, taking a view of market performance over a defined period of time, or use such options to hedge or reduce the risk exposure of their portfolios, as described above. As such, most positions in GLD and SLV options are not intended to be exercised to receive delivery of the underlying shares, but instead, are closed out or rolled. The Exchange believes that, given the typical use cases for GLD and SLV options, an increase in the position limits for GLD and SLV options would cause a de minimis increase, if any, in delivery or in creations and redemptions of shares in the underlying ETFs. The Exchange additionally notes that the total global mined silver output is forecasted to grow by approximately 8% from 2020 through 2021 to a total output of approximately 848.5 million troy ounces (approximately $19.1 billion in value).[27] The total global mined gold output as of June 2021 was 104.4 million troy ounces (approximately $183.6 billion in value).[28] As a result

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26 Spot prices as of October 3, 2021.

27 See The Silver Institute, World Silver Survey (April 2021) available at https://www.silverinstitute.org/wp-content/uploads/2021/04/World-Silver-Survey-2021.pdf.

28 See World Gold Council, Data, Demand and Supply, Gold mine production (June 16, 2021) available at https://www.gold.org/goldhub/data/historical-mine-production.

of the above-described review of the average daily open options interest compared to the world's metal reserves, as well as the global mined gold and silver output, coupled with the understanding that the principal use cases for taking positions in the GLD and SLV options markets do not involve taking delivery of the underlying, the Exchange believes that the current supply of spot gold and silver is more than adequate to meet a potential increase in demand and delivery of GLD's and SLV's underlying metals components as a result of position limit increases for options on GLD and SLV.

The Exchange also reviewed the gold and silver futures markets, the volume and value of which the Exchange believes indicate sufficient size and liquidity in the underlying markets to absorb potential price movements and large- sized trades as a result of position limit increases for options on GLD and SLV. The Exchange notes that gold futures currently have a value of approximately $93.2 billion in open interest and have experienced an ADV of approximately 264,000 contracts (equivalent to approximately 264 million GLD contracts) in 2021 to date.[29] Also, gold futures are currently subject to a position limit of 6,000 contracts, which is notionally equivalent to 6,000,000 GLD contracts. Additionally, the Exchange understands that its Market-Makers use both GLD and gold futures to hedge their GLD options positions, which the Exchange believes provides for a balance across the gold-related marketplaces, mitigating potential concern that either the underlying or the futures market might experience additional pressure as a result of an increase in activity in the GLD options space. Likewise, the Exchange notes that silver futures currently have a value of approximately $25.7 billion in open interest, have experienced an ADV of approximately

[29] Year-to-date ADV through May 2021.

93,000 contracts (equivalent to approximately 465 million SLV contracts) in 2021 to date,[30] and are currently subject to a position limit of 3,000 contracts, which is notionally equivalent to 15,000,000 SLV contracts. The Exchange believes the robust volume in and value of the gold and silver futures markets indicates that the underlying markets are sufficiently large and liquid enough to absorb potential price movements and large- sized trades as a result of position limit increases for options on GLD and SLV.

Additionally, the Exchange reviewed the volume-weighted average of the absolute value[31] of deltas for GLD and SLV options trades over approximately the last two years (from March 2019 through June 2021). Essentially, the delta compares the relationship between the change in the price of an underlying and of an option. Absolute delta value ranges from 0 to 1. The lower the absolute delta value, the less the option price is sensitive to changes in the price of the underlying (i.e., delta exposure). Conversely, the higher the absolute delta value, the more the option price will change given a change in the underlying price. The Exchange believes that volume-weighted average delta over time is indicative as to whether an underlying market is large enough to absorb increased activity in the related options markets. That is, the more delta exposure per trade, the more options exposure there is that necessitates a hedge trade in the underlying, which may, in turn, potentially increase the impact on the underlying markets. Review of the volume-weighted average delta in connection with GLD and SLV options over the last two years showed that the average absolute delta per trade for GLD options trades was approximately 0.34 and for SLV options trades was approximately

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30 See id.

31 Put deltas are always negative, therefore, absolute value is used to view the average delta across calls and puts.

0.28. The Exchange notes that both averages indicate relatively minimal amounts of average delta exposure and, thus, minimal amounts of GLD and SLV options exposure need to be hedged, on average. As a result, the Exchange believes that increases in GLD and SLV options trading would have minimal impact on the ability of the underlying metals markets to absorb any additional volume related to increased position limits and hedging activity.

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.[32] 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),

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32 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).

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 contracts. In addition to this, the Exchange notes that, although there are currently no options listed for trading on the IBOXIG Index, the components[33] 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.[34] The Exchange 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

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33 Investment grade corporate bonds.

34 See supra note 32.

performance of companies involved in the gold mining industry.[35] 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 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. The Exchange particularly notes that many of the Brazil-based gold mining constituents included in GDX are also included in EWZ, which tracks the investment results of an index composed of Brazilian equities, and that the Exchange has not identified any issues with the continued listing and trading of EWZ options or any adverse market impact on EWZ in connection with the current 500,000 position limit in place for EWZ options. 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

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

$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.

Creation and Redemption for ETFs

The Exchange believes that the creation and redemption process for the ETFs subject to this proposal 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 ("AP") (generally a market maker or other large financial institution) to acquire the underlying components the ETF is to hold. For instance, when an ETF is designed to track the performance of an index, the AP 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 AP 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. The creation and redemption processes for the Underlying ETFs creates a direct link to the underlying 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 options on the Underlying ETFs.

The Exchange understands that the ETF creation and redemption processes seek to keep an ETF's share price trading in line with the product'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, an ETF's share price might rise above the value of its underlying components. When this happens, the AP or issuer believes the ETF may now be overpriced, so it may buy shares of the component securities or assets and then sell ETF shares in the open market. This may drive the ETF's share price back toward the underlying net asset value. Likewise, if an ETF share price starts trading at a discount to the component securities or assets it holds, the AP or issuer can buy shares of the ETF and redeem them for the underlying components. Buying undervalued ETF shares may drive the share price of an 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 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 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[36] (including Designated Primary Market-Makers ("DPMs"))[37] would continue to be exempt from this reporting requirement, however, the Exchange may access Market-Maker position information.[38] 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.[39]

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 continued compliance with the Exchange's listing standards. These procedures utilize daily

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36 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.

37 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.

38 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").

39 See Rule 8.43 for reporting requirements.

monitoring of market activity via automated surveillance techniques to identify unusual activity in both options and the underlyings, as applicable.[40] The Exchange also notes that large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G,[41] 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. 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.[42] In addition, Rule 15c3-1[43] 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.[44] Specifically, the Exchange believes the proposed rule change is consistent with the

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40 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.

41 17 CFR 240.13d-1.

42 See Rule 10.3 for a description of margin requirements.

43 17 CFR 240.15c3-1.

44 15 U.S.C. 78f(b).

Section 6(b)(5)[45] 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 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)[46] 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 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 exchange-traded products ("ETPs") that use options on the ETFs 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

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[45] 15 U.S.C. 78f(b)(5).

[46] Id.

also encourage other liquidity providers to shift liquidity, as well as encourage consumers to shift demand, from OTC markets onto the Exchange, which will enhance the process of price discovery conducted on the Exchange through increased order flow.

In addition, the Exchange believes that the structure of the Underlying ETFs, the considerable market capitalization of the funds and underlying components, and the liquidity of the markets for the applicable options and underlying components 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 the underlying components 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 ETFs (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.[47]

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

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

similar, highly liquid and actively traded ETPs.[48] Furthermore, the Exchange again notes that that the proposed position limits for options on GLD, SLV, LQD and GDX are consistent with existing position limits for options on other ETFs 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 ETFs, 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.

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

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.[49] 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 ETFs.

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

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49 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 ETFs 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).

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-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, D.C. 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; the Commission does not edit personal identifying information from 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.[50]

Secretary

[50] 17 CFR 200.30-3(a)(12).

EXHIBIT 4

Additions set forth in the proposed rule text of original SR-CBOE-2021-029, as amended by Amendment No. 1, are underlined. Deletions being made pursuant to Amendment No. 2 to SR-CBOE-2021-029 are struck-through.

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Rules of Cboe Exchange, Inc.

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Rule 8.30. Position Limits

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Interpretations and Policies

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.07 *Interests in Registered Investment Companies*. The position limits under this Rule 8.30 applicable to options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open- end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Rule 4.3.06 shall be the same as the position limits applicable to equity options under Rule this 8.30 and Interpretations and Policies thereunder; except that the position limits under this Rule 8.30 applicable to option contracts on the securities listed in the below chart are as follows:

Security Underlying Option	**Position Limit**
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depositary Receipts Trust (SPY)	3,600,000 contracts
The iShares Russell 2000 ETF (IWM)	1,000,000 contracts
The PowerShares QQQ Trust (QQQ)	1,800,000 contracts
The iShares MSCI Emerging Markets ETF (EEM)	1,000,000 contracts
iShares China Large-Cap ETF ("FXI")	1,000,000 contracts
iShares MSCI EAFE ETF ("EFA")	1,000,000 contracts
SPDR Gold Shares ("GLD")	500,000 contracts
iShares MSCI Brazil Capped ETF ("EWZ")	500,000 contracts

iShares 20+ Year Treasury Bond Fund ETF ("TLT")	500,000 contracts
iShares MSCI Japan ETF ("EWJ")	500,000 contracts
iShares iBoxx High Yield Corporate Bond Fund ("HYG")	500,000 contracts
iShares iBoxx $ Investment Grade Corporate Bond ETF ("LQD")	500,000 contracts
iShares Silver Trust ("SLV")	500,000 contracts
~~iPath S&P 500 VIX Short-Term Futures ETN ("VXX")~~	~~500,000 contracts~~
~~ProShares Ultra VIX Short-Term Futures ETF ("UVXY")~~	~~500,000 contracts~~
Financial Select Sector SPDR Fund ("XLF")	500,000 contracts
VanEck Vectors Gold Miners ETF ("GDX")	500,000 contracts

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EXHIBIT 5

(additions are <u>underlined</u>; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

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Rule 8.30. Position Limits

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Interpretations and Policies

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iShares China Large-Cap ETF ("FXI")	1,000,000 contracts
iShares MSCI EAFE ETF ("EFA")	1,000,000 contracts
<u>SPDR Gold Shares ("GLD")</u>	<u>500,000 contracts</u>
iShares MSCI Brazil Capped ETF ("EWZ")	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF ("TLT")	500,000 contracts

iShares MSCI Japan ETF (“EWJ”)	500,000 contracts
iShares iBoxx High Yield Corporate Bond Fund (“HYG”)	500,000 contracts
iShares iBoxx $ Investment Grade Corporate Bond ETF (“LQD”)	500,000 contracts
iShares Silver Trust (“SLV”)	500,000 contracts
Financial Select Sector SPDR Fund (“XLF”)	500,000 contracts
VanEck Vectors Gold Miners ETF (“GDX”)	500,000 contracts

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