

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103338; File No. SR-CBOE-2025-020]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to Eliminate Position and Exercise Limits for Options on the S&P 500 Equal Weight Index and the S&P 500 Scored and Screened Index

June 26, 2025.

I. Introduction

On March 14, 2025, Cboe Exchange, Inc. (“Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”)² and Rule 19b-4 thereunder,³ a proposed rule change to eliminate position and exercise limits for options that overlie the S&P 500 Equal Weight Index (based on both the full value (“SPEQF options”) and one-tenth the value of the index (“SPEQX options”)) and options that overlie the S&P 500 Scored and Screened Index (formerly known as the S&P 500 ESG Index) (“SPESG options”). The proposed rule change was published for comment in the Federal Register on March 31, 2025.⁴ On May 9, 2025, pursuant to Section 19(b)(2)(A)(ii)(I) of the Act,⁵ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ See Securities Exchange Act Release No. 102720 (March 25, 2025), 90 FR 14297 (“Notice”).

⁵ See 15 U.S.C. 78s(b)(2)(A)(ii)(I).

determine whether to disapprove the proposed rule change.⁶ The Commission has not received any comments on the proposal. Pursuant to Section 19(b)(2)(B) of the Act,⁷ the Commission is hereby instituting proceedings to determine whether to approve or disapprove the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange is proposing to eliminate position and exercise limits for standardized and FLEX positions in SPEQF options, SPEQX options, and SPESG options. The current position and exercise limit for standardized positions in each of these three options is 25,000 contracts.⁸ The current position and exercise limit for FLEX positions in each of each of these three options is 200,000 contracts.⁹ Under the proposal, these limits would be eliminated such that standardized and FLEX SPEQF, SPEQX and SPESG options have no position or exercise limits.¹⁰

In support of its proposal, the Exchange states that currently there are no standardized or FLEX position or exercise limits for many other broad-based index options, including options that overlie the S&P 500 Index (SPX and XSP options) and options that overlie the S&P 500 Dividend Index.¹¹ The Exchange also states that the same index components that underlie SPX

⁶ See Securities Exchange Act Release No. 103017, 90 FR 14297 (May 15, 2025). The Commission designated June 29, 2025, as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

⁷ 15 U.S.C. 78s(b)(2)(B).

⁸ See Notice, supra note 4, at 14298.

⁹ Id.

¹⁰ Id.

¹¹ Id.

and XSP options underlie SPEQF and SPEQX options,¹² and that each constituent of the S&P 500 Scored and Screened Index is a constituent of the S&P 500 Index.¹³ Furthermore, the Exchange states that FLEX SPEQF, SPEQX, and SPESG options will be subject to the same reporting requirements triggered for other FLEX options traded on the Exchange.¹⁴

In addition, the Exchange states that SPEQF and SPEQX options provide market participants with alternative tools to manage their risk and diversify their exposure to the stocks comprising the S&P 500 Index by permitting them to gain broad exposure to these stocks using options that would be less impacted by a shift in concentration and market momentum.¹⁵ Because capitalization-weighted indexes such as the S&P 500 Index are more impacted by larger capitalized stocks, options overlying an equal-weighted index (such as the S&P 500 Equal Weight Index) would benefit investors, according to the Exchange, by permitting them to hedge against potential swings in the largest stocks comprising the S&P 500 Index while maintaining the ability to hedge across the entire span of S&P 500 constituent securities.¹⁶ Similarly, the Exchange states, SPESG options provide investors with an alternative tool to manage their risk and diversify their exposure to stocks comprising the S&P 500 Index that meet specified sustainability criteria.¹⁷ According to the Exchange, given the relationship among the S&P 500

¹² Id. The Exchange also states that, as of January 8, 2025, the total market capitalization of the S&P 500 Index was \$49.788 trillion, and the average daily trading volume for its underlying components for the six months preceding January 8, 2025, was 2.7 billion shares. According to the Exchange, this demonstrates that there is substantial liquidity in the components of the S&P 500 Equal Weight Index since its components are the same as the S&P 500 Index. Id. at 14299 n. 8.

¹³ Id. at 14298.

¹⁴ Id.

¹⁵ Id.

¹⁶ Id.

¹⁷ Id.

Equal Weight Index, the S&P 500 Scored and Screened Index, and the S&P 500 Index, market participants' investment and hedging strategies may consist of options overlying any or all of these options.¹⁸ The Exchange believes imposing lower position and exercise position limits on SPEQF, SPEQX, and SPESG options may unnecessarily restrict investors' abilities to use these options to achieve their investment goals.¹⁹ In addition, the Exchange states that it is appropriate for these options to be subject to the same position and exercise limits to provide them with the ability to execute these strategies with sufficient flexibility and in a consistent manner.²⁰

III. Proceedings to Determine Whether to Approve or Disapprove the Proposed Rule Change

The Commission hereby institutes proceedings pursuant to Section 19(b)(2)(B) of the Act²¹ to determine whether the Exchange's proposed rule change should be approved or disapproved. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, the Commission seeks and encourages interested persons to provide additional comment on the proposed rule change to inform the Commission's analysis of whether to approve or disapprove the proposed rule change.

Pursuant to Section 19(b)(2)(B) of the Act,²² the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of, and input from commenters with respect to, the consistency of

¹⁸ Id.

¹⁹ Id.

²⁰ Id.

²¹ 15 U.S.C. 78s(b)(2)(B).

²² Id.

the proposed rule change with the Act and, in particular, Section 6(b)(5) of the Act,²³ which requires that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Under the Commission’s Rules of Practice, the “burden to demonstrate that a proposed rule change is consistent with the [Act] and the rules and regulations issued thereunder . . . is on the self-regulatory organization that proposed the rule change.”²⁴ The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,²⁵ and any failure of a self-regulatory organization to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Act and the applicable rules and regulations.²⁶

Position and exercise limits serve as a regulatory tool designed to address manipulative schemes and adverse market impact surrounding the use of options.²⁷ As discussed above,

²³ 15 U.S.C. 78f(b)(5).

²⁴ Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

²⁵ Id.

²⁶ Id.

²⁷ See, e.g., Securities Exchange Act Release No. 68086 (October 23, 2012), 77 FR 65600 (October 29, 2012) (SR-CBOE-2012-066).

currently, the position and exercise limit for standardized positions in SPEQF, SPEQX, and SPESG options is 25,000 contracts and for FLEX positions in each of these products is 200,000 contracts.²⁸ The Exchange's proposed elimination of these limits would permit market participants to significantly increase the size of unidirectional, unhedged positions in these products, and raises the potential for adverse market impacts and manipulative schemes. Against this backdrop, the proposal does not provide an adequate basis at this time for the Commission to conclude that the proposed elimination of position and exercise limits for standardized or FLEX positions in these products would be consistent with the Act.

Broadly, the Exchange does not adequately address how the potential risks posed by trading in standardized and FLEX SPEQF, SPEQX or SPESG options without position or exercise limits would be mitigated. More specifically, the S&P 500 Index underlying SPX and XSP options is capitalization-weighted whereas the S&P 500 Equal Weight Index underlying SPEQF and SPEQX is equal-weighted. While the Exchange states that the components underlying these two indexes are the same and substantially liquid, the Exchange does not address the potential risks of adverse market impact or manipulation that could be presented by the equal weighting of the underlying index components for SPEQF and SPEQX options if the Commission were to approve trading in such options without position or exercise limits. Likewise, while each constituent of the S&P 500 Scored and Screened Index is a constituent of the S&P 500 Index, the S&P 500 Index has additional components that are not components of the S&P 500 Scored and Screened Index. In other words, the S&P 500 Scored and Screened

²⁸ See Notice, supra note 4, at 14298.

Index components are a subset of the S&P 500 Index components. The Exchange does not address the potential risks of adverse market impact or manipulation that could be presented by the smaller number of underlying index components for SPESG options if the Commission were to approve trading in such options without position or exercise limits. The Exchange also does not demonstrate that there is sufficient liquidity in the components of the S&P 500 Scored and Screened Index to support SPESG options trading without position or exercise limits, or that the current limits applicable to SPESG options inhibit market participants' ability to establish positions in these options consistent with their trading and hedging strategies.

Accordingly, the Commission is instituting proceedings to allow for additional consideration and comment on the issues raised herein, including as to whether the proposal is consistent with the Act.²⁹

IV. Commission's Solicitation of Comments

The Commission requests written views, data, and arguments with respect to the concerns identified above as well as any other relevant concerns. Such comments should be submitted by [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Rebuttal comments should be submitted by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation

²⁹ See 15 U.S.C. 78f(b)(5) and (8).

of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4, any request for an opportunity to make an oral presentation.³⁰

The Commission asks that commenters address the sufficiency and merit of the Exchange's statements in support of the proposal, in addition to any other comments they may wish to submit about the proposed rule change.

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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-CBOE-2025-020 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-2025-020. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post

³⁰ 15 U.S.C. 78s(b)(2). Section 19(b)(2) of the Act grants the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by an SRO. See Securities Acts Amendments of 1975, Report of the Senate Committee on Banking, Housing and Urban Affairs to Accompany S. 249, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright

protection. All submissions should refer to file number SR-CBOE-2025-020 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Rebuttal comments should be submitted by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³¹

Sherry R. Haywood,

Assistant Secretary.

³¹ 17 CFR 200.30-3(a)(57).