

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-101740; File No. SR-CboeBZX-2024-121)

November 25, 2024

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to List Options on Certain Bitcoin ETFs

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 21, 2024, Cboe BZX Exchange, Inc. (“Exchange” or “BZX Options”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 BZX Exchange, Inc. (the “Exchange” or “BZX Options”) proposes to amend Rule 19.3. 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://markets.cboe.com/us/equities/regulation/rule\\_filings/bzx/](http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/)), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

The Exchange proposes to amend Rule 19.3 regarding the criteria for underlying securities. Specifically, the Exchange proposes to amend Rule 19.3(i)(4) to allow the Exchange to list and trade options on shares or other securities (“Fund Shares”) that are principally traded on a national securities exchange and are defined as an “NMS stock” under Rule 600 of Regulation NMS and that represent interests the iShares Bitcoin Trust (the “iShares Fund”), the Grayscale Bitcoin Trust (the “Grayscale Fund”), the Grayscale Bitcoin Mini Trust (the “Grayscale Mini Fund”), or the Bitwise Bitcoin ETF (the “Bitwise Fund” and, together with the iShares Fund, the Grayscale Fund, and the Grayscale Mini Fund, the “Bitcoin Funds”).<sup>3</sup> This is a competitive filing based on similar proposals submitted by Nasdaq ISE, LLC (“ISE”) (with respect to the iShares Fund) and NYSE American, LLC (“NYSE American”) (with respect to the Grayscale Fund, the Grayscale Mini Fund, and the Bitwise Fund), which were recently approved by the Securities and Exchange Commission (the “Commission”).<sup>4</sup> Current Rule 19.3(i) provides that, subject to certain other criteria set forth in that Rule, securities deemed appropriate

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<sup>3</sup> See Securities Exchange Act Release No. 99306 (January 10, 2024), 89 FR 3008, 3009 (January 17, 2024) (SR-NYSEArca-2021-90; SR-NYSEArca-2023-44; SR-NYSEArca-2023-58; SR-NASDAQ-2023-016; SR-NASDAQ-2023-019; SR-CboeBZX-2023-028; SR-CboeBZX-2023-038; SR-CboeBZX-2023-040; SR-CboeBZX-2023-042; SRCboeBZX-2023-044; and SR-CboeBZX-2023-072) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, to List and Trade Bitcoin-Based Commodity-Based Trust Shares and Trust Units) (“Bitcoin ETP Approval Order”).

<sup>4</sup> See Securities Exchange Act Release Nos. 101128 (September 20, 2024), 89 FR 78942 (September 26, 2024) (SR-ISE-2024-03) (“ISE Approval”); and 101386 (October 18, 2024), 89 FR 84960 (October 24, 2024) (SR-NYSEAMER-2024-49) (“NYSE American Approval”).

for options trading include Fund Shares that represent certain types of interests,<sup>5</sup> including interests in certain specific trusts that hold financial instruments, money market instruments, precious metals (which are deemed commodities), or Bitcoin (which is deemed a commodity). In addition, Rule 19.3(i)(1) requires that Fund Shares meet the criteria and standards set forth in Rule 19.3(a) and (b)<sup>6</sup> or (2) be available for creation or redemption each business day from or through the issuer in cash or in kind at a price related to net asset value, and the issuer must be obligated to issue Fund Shares in a specified aggregate number even if some or all of the investment assets required to be deposited have not been received by the issuer, subject to the condition that the person obligated to deposit the investments has undertaken to deliver the investment assets as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer, as provided in the respective prospectus.

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<sup>5</sup> See Rule 19.3(i) which permits options trading on Fund Shares that (1) represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities, and that hold portfolios of securities comprising or otherwise based on or representing investments in indexes or portfolios of securities (or that hold securities in one or more other registered investment companies that themselves hold such portfolios of securities) (“Funds”) and/or financial instruments including, but not limited to, stock index futures contracts, options on futures, options on securities and indexes, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the “Financial Instruments”), and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the “Money Market Instruments”) constituting or otherwise based on or representing an investment in an index or portfolio of securities and/or Financial Instruments and Money Market Instruments, or (2) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward 477 contracts and/or options on physical commodities and /or non-U.S. currency (“Commodity Pool ETFs”) or (3) represent interests in a trust or similar entity that holds a specified non-U.S. currency or currencies deposited with the trust or similar entity when aggregated in some specified minimum number may be surrendered to the trust by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust (“Currency Trust Shares”), or (4) represent interests in the SPDR Gold Trust or are issued by the iShares COMEX Gold Trust, iShares Silver Trust, the Fidelity Wise Origin Bitcoin Fund (the “Fidelity Fund”), or the ARK 21Shares Bitcoin ETF (the “Ark 21 Fund”).

<sup>6</sup> Rule 19.3(a) and (b) sets forth the criteria that underlying securities must satisfy for option contracts on those underlying securities to be eligible for listing and trading on the Exchange.

The Bitcoin Funds are Bitcoin-backed commodity exchange-traded funds (“ETFs”) structured as trusts. Similar to any Fund Share currently deemed appropriate for options trading under Rule 19.3(i), the investment objective of each Bitcoin Fund is for its shares to reflect the performance of Bitcoin (less the expenses of the trust’s operations), offering investors an opportunity to gain exposure to Bitcoin without the complexities of Bitcoin delivery. As is the case for Fund Shares currently deemed appropriate for options trading, a Bitcoin Fund’s shares represent units of fractional undivided beneficial interest in the trust, the assets of which consist principally of Bitcoin and are designed to track Bitcoin or the performance of the price of Bitcoin and offer access to the Bitcoin market.<sup>7</sup> The Bitcoin Funds provide investors with cost-efficient alternatives that allow a level of participation in the Bitcoin market through the securities market. The primary substantive difference between Bitcoin Funds and Fund Shares currently deemed appropriate for options trading are that Fund Shares may hold securities, certain financial instruments, and specified precious metals (which are deemed commodities), while Bitcoin Funds hold Bitcoin (which is also deemed a commodity). The Bitcoin Funds are similar to the Fidelity Fund and the Ark 21 Fund, which are already eligible for options trading on the Exchange.<sup>8</sup>

The Exchange’s initial listing standards for Fund Shares on which options may be listed and traded on the Exchange will apply to the Bitcoin Funds. Pursuant to Rule 19.3(a), a security (which includes a Fund Share) on which options may be listed and traded on the Exchange must be registered with the Securities and Exchange Commission (the “Commission”) and be an “NMS stock” as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of

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<sup>7</sup> The trust may include minimal cash.

<sup>8</sup> See Rule 19.3(i); and SR-CboeBZX-2024-118 (filed November 21, 2024).

1934, as amended (the “Act”); and the security shall be characterized by a substantial number of outstanding shares that are widely held and actively traded.. Rule 19.3(i)(1) requires that Fund Shares either (1) meet the criteria and standards set forth in Rule 19.3(a) and (b),<sup>9</sup> or (2) are available for creation or redemption each business day in cash or in kind from the investment company, commodity pool or other entity at a price related to net asset value, and the investment company, commodity pool or other entity is obligated to provide that Fund Shares may be created even if some or all of the securities and/or cash required to be deposited have not been received by the Fund, the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the securities and/or cash as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the Fund, all as described in the Fund’s or unit trust’s prospectus. Each Bitcoin Fund satisfies Rule 19.3(i)(1)(B) as each is subject to this creation and redemption process.

Options on the Bitcoin Funds will be subject to the Exchange’s continued listing standards set forth in Rule 19.4(g) for Fund Shares deemed appropriate for options trading pursuant to Rule 19.3(i). Specifically, 19.4(g) provides that Fund Shares that were initially approved for options trading pursuant to Rule 19.3 will not be deemed to meet the requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Fund Shares if the security ceases to be an NMS stock (see Rule 19.4(b)(4)). Additionally, the Exchange will not open for trading any additional series of option contracts of the class covering Fund Shares in any of the following circumstances: (1)

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<sup>9</sup> Rule 19.3(a) and (b) sets forth the criteria an underlying security must meet for the Exchange to be able to list options on the underlying.

in the case of options covering Fund Shares approved for trading under Rule 19.3(i)(4)(A), in accordance with the terms of Rule 19.4(b)(1), (2) and (3); (2) in the case of options covering Fund Shares approved pursuant to Rule 19.3(i)(4)(B), following the initial 12-month period beginning upon the commencement of trading in the Fund Shares on a national securities exchange and are defined as NMS stock under Rule 600 of Regulation NMS, there were fewer than 50 record and/or beneficial holders of such Fund Shares for 30 consecutive days; (3) the value of the index, non-U.S. currency, portfolio of commodities including commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or Financial Instruments or Money Market Instruments, or portfolio of securities on which the Fund Shares are based is no longer calculated or available; or (4) such other event occurs or condition exists that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

Options on each Bitcoin Fund will be physically settled contracts with American-style exercise.<sup>10</sup> Consistent with current Rule 19.6, which governs the opening of options series on a specific underlying security (including Fund Shares), the Exchange will open at least one expiration month for options on each Bitcoin Fund<sup>11</sup> at the commencement of trading on the

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<sup>10</sup> See Rule 19.2, which provides that the rights and obligations of holders and writers are set forth in the Rules of the Options Clearing Corporation (“OCC”); and Equity Options Product Specifications January 3, 2024), available at [Equity Options Specifications \(cboe.com\)](https://www.cboe.com/equity/options/specifications); see also OCC Rules, Chapters VIII (which governs exercise and assignment) and Chapter IX (which governs the discharge of delivery and payment obligations arising out of the exercise of physically settled stock option contracts).

<sup>11</sup> See Rule 19.6(b). The monthly expirations are subject to certain listing criteria for underlying securities described within Rule 19.3. Monthly listings expire the third Friday of the month. The term “expiration date” (unless separately defined elsewhere in the OCC By-Laws), when used in respect of an option contract (subject to certain exceptions), means the third Friday of the expiration month of such option contract, or if such Friday is a day on which the exchange on which such option is listed is not open for business, the preceding day on which such exchange is open for business. See OCC By-Laws Article I, Section 1. Pursuant to Rule 19.6(c), additional series of options of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the

Exchange and may also list series of options on a Bitcoin Fund for trading on a weekly,<sup>12</sup> monthly,<sup>13</sup> or quarterly<sup>14</sup> basis. The Exchange may also list long-term equity option series (“LEAPS”) that expire from 12 to 39 months from the time they are listed.<sup>15</sup>

Pursuant to Rule 19.6, Interpretation and Policy .01, which governs strike prices of series of options on Fund Shares, the interval of strikes prices for series of options on Bitcoin Funds will be \$1 or greater when the strike price is \$200 or less and \$5 or greater where the strike price is over \$200.<sup>16</sup> Additionally, the Exchange may list series of options pursuant to the \$1 Strike Price Interval Program,<sup>17</sup> the \$0.50 Strike Program,<sup>18</sup> the \$2.50 Strike Price Program,<sup>19</sup> and the \$5 Strike Program.<sup>20</sup> Pursuant to Rule 21.5, where the price of a series of a Bitcoin Fund option is less than \$3.00, the minimum increment will be \$0.05, and where the price is \$3.00 or higher, the minimum increment will be \$0.10.<sup>21</sup> Any and all new series of Bitcoin Fund options that the Exchange lists will be consistent and comply with the expirations, strike prices, and minimum increments set forth in Rules 19.6 and 21.5, as applicable.

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Exchange, in its discretion, may add a new series of options on an individual stock until the close of trading on the business day prior to expiration.

<sup>12</sup> See Rule 19.6, Interpretation and Policy .05.

<sup>13</sup> See Rule 19.6, Interpretation and Policy .08.

<sup>14</sup> See Rule 19.6, Interpretation and Policy .04.

<sup>15</sup> See Rule 19.8.

<sup>16</sup> The Exchange notes that for options listed pursuant to the Short Term Option Series Program, the Monthly Options Series Program, and the Quarterly Options Series Program, Rule 19.6, Interpretations and Policies .05, .08, and .04 specifically sets forth intervals between strike prices on Quarterly Options Series, Short Term Option Series, and Monthly Options Series, respectively.

<sup>17</sup> See Rule 19.6, Interpretation and Policy .02.

<sup>18</sup> See Rule 19.6, Interpretation and Policy .06.

<sup>19</sup> See Rule 19.6, Interpretation and Policy .03.

<sup>20</sup> See Rule 19.6(d)(5).

<sup>21</sup> If options on a Bitcoin Fund are eligible to participate in the Penny Interval Program, the minimum increment will be \$0.01 for series with a price below \$3.00 and \$0.05 for series with a price at or above \$3.00. See 21.5(d) (which describes the requirements for the Penny Interval Program).

Bitcoin Fund options will trade in the same manner as any other Fund Share options on the Exchange. The Exchange Rules that currently apply to the listing and trading of all Fund Share options on the Exchange, including, for example, Rules that govern listing criteria, expirations, exercise prices, minimum increments, margin requirements, customer accounts, and trading halt procedures will apply to the listing and trading of Bitcoin Funds options on the Exchange in the same manner as they apply to other options on all other Fund Shares that are listed and traded on the Exchange, including the precious-metal backed commodity Fund Shares and the Fidelity and Ark 21 Funds already deemed appropriate for options trading on the Exchange pursuant to current already deemed appropriate for options trading on the Exchange pursuant to current Rule 19.3(i).

Pursuant to Rules 18.7 and 18.9, the position and exercise limits, respectively, for each Bitcoin Fund option will be 25,000 same side option contracts.<sup>22</sup> In considering the appropriate position and exercise limits for the Bitcoin Funds, the Exchange reviewed the data presented by ISE in its filing (specifically in Exhibit 3 of the filing) with respect to the iShares Fund<sup>23</sup> and by NYSE American in its filing with respect to the Grayscale Fund, the Grayscale Mini Fund, and the Bitwise Fund.<sup>24</sup>

With respect to the iShares Fund, in its filing, ISE considered the iShares Fund market capitalization and average daily volume (“ADV”) against those of other underlying securities, as

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<sup>22</sup> Rule 18.7(a)(1) provides that no Options Member shall make, for any account in which it has any interest or for the account of any Customer, an opening transaction on any exchange if the Options Member has reason to believe that as a result of such transaction the Options Member or its Customer would, acting alone or in concert with others, directly or indirectly, exceed the applicable position limit fixed by Cboe Exchange, Inc. (“Cboe Options”). Cboe Options Rule 8.30, Interpretation and Policy .10 establishes a position limit for the Bitcoin Fund options of 25,000. See SR-CBOE-2024-051.

<sup>23</sup> See ISE Approval; and Letter from Angela Dunn, Nasdaq ISE, LLC, to Vanessa Countryman, Secretary, Commission, dated August 21, 2024) (“ISE Letter”).

<sup>24</sup> See NYSE American Approval.

well as the proposed position limit in relation to other options. In measuring the iShares Fund against other securities, ISE aggregated market capitalization and volume data for securities that have defined position limits utilizing data from The Options Clearing Corporations (“OCC”).<sup>25</sup> This pool of data took into consideration 3,984 options on single stock securities, excluding broad based ETFs.<sup>26</sup> Next, ISE aggregated the data based on market capitalization and ADV and grouped option symbols by position limit utilizing statistical thresholds for ADV and market capitalization that were one standard deviation above the mean for each position limit category (i.e. 25,000, 50,000 to 65,000, 75,000, 100,000 to less than 250,000, 250,000 to 400,000, 450,000 to 1,000,000, and greater than or equal to 1,000,000) (sic).<sup>27</sup> Rule 8.30 sets out position limits for various contracts. For example, on the Exchange, like ISE, a 25,000 contract position limit applies to options with an underlying security that does not meet the requirements for a higher options contract position limit. ISE performed an exercise to demonstrate the iShares Fund position limit relative to other options symbols in terms of market capitalization and ADV. For reference the market capitalization for the iShares Fund was 19,789,068 billion<sup>28</sup> with an ADV, for the preceding three months prior to August 7, 2024, of greater than 26 million shares.<sup>29</sup> By comparison, other options symbols with similar market capitalization and ADV have a position limit in excess of 400,000.<sup>30</sup> Therefore, the proposed 25,000 same side position limit

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<sup>25</sup> The computations are based on OCC data from August 6, 2024. Data displaying zero values in market capitalization or ADV were removed.

<sup>26</sup> The iShares Fund has one asset and therefore is not comparable to a broad based ETF where there are typically multiple components.

<sup>27</sup> See ISE Letter at 10.

<sup>28</sup> ISE acquired this figure as of August 13, 2024. See <https://www.ishares.com/us/products/333011/ishares-bitcoin-trust>. The global supply of Bitcoin grows each day Bitcoin are minted.

<sup>29</sup> See ISE Letter at 10.

<sup>30</sup> See, e.g., iShares® iBoxx® \$ High Yield Corporate Bond ETF (“HYG”) with a market capitalization of 13,859,235,000 billion as of November 4, 2024. See <https://www.ishares.com/us/products/239565/ishares->

for options on the iShares Fund is extremely conservative relative to these options symbols which are a full standard deviation above the mean in comparison.

Second, ISE reviewed the iShares Fund's data relative to the market capitalization of the entire Bitcoin market in terms of exercise risk and availability of deliverables. Utilizing data as of August 3, 2024, there were 19,737,193 Bitcoins in circulation.<sup>31</sup> ISE took a price of \$57,000 that equates to a market capitalization of greater than 1.125 trillion U.S. dollars, and applied that to a position limit of 400,000 for options on the iShares Fund.<sup>32</sup> If a position limit of 400,000 options were considered (the position limit that would be typically assigned based upon data) the exercisable risk would represent only 6.6% of the outstanding shares of the iShares Fund. The 25,000 position limit being sought only represents 0.4% of the outstanding shares of the iShares Fund. Since the iShares Fund has a creation and redemption process managed through the issuer, additionally it can be compared the position limit sought to the total market capitalization of the entire Bitcoin market. In this case, the exercisable risk for options on the iShares Fund would be less than 0.01% of the market capitalization of all outstanding Bitcoin. Assuming a scenario where all options on the iShares Fund's shares were exercised given the proposed 25,000 per same side position limit, this would have a virtually unnoticed impact on the entire Bitcoin market. This analysis demonstrates that the proposed 25,000 per same side position limit is also extremely conservative and more than appropriate for options on the iShares Fund.

Third, ISE reviewed the proposed position limit by comparing it to position limits for derivative products regulated by the Commodity Futures Trading Commission ("CFTC"). While

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[iboxx-high-yield-corporate-bond-etf](#). The Exchange notes that HYG has a position limit of 500,000 contracts.

<sup>31</sup> See ISE Letter at 10.

<sup>32</sup> Id.

the CFTC, through the relevant Designated Contract Markets, only regulates options positions based upon delta equivalents (creating a less stringent standard), ISE examined equivalent bitcoin futures position limits. In particular, ISE looked at the CME Bitcoin futures contract that has a position limit of 2,000 futures.<sup>33</sup> On August 7, 2024, CME Bitcoin futures settled at \$55,000.<sup>34</sup> Taking the position limit of 2,000 futures at a \$5 multiplier equates to \$550 million of notional value for Bitcoin futures. By way of comparison, on August 7, 2024, the iShares Fund settled at \$31.19 per share, which would equate to 17,633,857 shares of the iShares Fund<sup>35</sup> if the CME notional position limit were utilized. Since substantial portions of any distributed options portfolio are likely to be out of the money on expiration, an options position limit equivalent to the CME position limit for Bitcoin futures (considering that all options deltas are  $\leq 1.00$ ) should be a bit higher than the CME implied 176,338 limit.

The Exchange notes, unlike options contracts, CME position limits are calculated on a net futures-equivalent basis by contract and include contracts that aggregate into one or more base contracts according to an aggregation ratio(s).<sup>36</sup> Therefore, if a portfolio includes positions in options on futures, CME would aggregate those positions into the underlying futures contracts in accordance with a table published by CME on a delta equivalent value for the relevant spot

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<sup>33</sup> See CME Rulebook Chapter 350 (description of CME Bitcoin Futures) and Chapter 5, Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices. Each CME Bitcoin futures contract is valued at five Bitcoins as defined by the CME CF Bitcoin Reference Rate (“BRR”). See CME Rule 35001.

<sup>34</sup> See [https://finance.yahoo.com/quote/BTC%3DF/history/?guccounter=1&guce\\_referrer=aHR0cHM6Ly93d3cuZ29vZ2xILmNvbS8&guce\\_referrer\\_sig=AQAAAM7ngaS6ZQS9c2Wzx7JW2IUe- - 1FnLyr8T-Qw4jjkleHyCENfSMIEpPPt2hCzPDeryTVyB78NIwxkwFB5Fuw-jA-YiuSmYJHBriWbV6dYn91VQfzQNT3p0I2RkYLD3HhzXPwu4AP5as-WzHNpEBon4sk5sUZXgkapMrZR--CS](https://finance.yahoo.com/quote/BTC%3DF/history/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xILmNvbS8&guce_referrer_sig=AQAAAM7ngaS6ZQS9c2Wzx7JW2IUe- - 1FnLyr8T-Qw4jjkleHyCENfSMIEpPPt2hCzPDeryTVyB78NIwxkwFB5Fuw-jA-YiuSmYJHBriWbV6dYn91VQfzQNT3p0I2RkYLD3HhzXPwu4AP5as-WzHNpEBon4sk5sUZXgkapMrZR--CS).

<sup>35</sup> See ISE Letter at 11.

<sup>36</sup> See CME Rulebook Chapter 5, Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices.

month, subsequent spot month, single month and all month position limits.<sup>37</sup> If a position exceeds position limits because of an option assignment, CME permits market participants to liquidate the excess position within one business day without being considered in violation of its rules. Additionally, if at the close of trading, a position that includes options exceeds position limits for futures contracts, when evaluated using the delta factors as of that day's close of trading but does not exceed the limits when evaluated using the previous day's delta factors, then the position shall not constitute a position limit violation. Considering CME's position limits on futures for Bitcoin, the Exchange believes that that the proposed same side position limits are more than appropriate for the iShares Fund options.

In analyzing the proposed position limit for options on the iShares Fund, ISE also considered the supply of Bitcoin. Specifically, ISE examined the number of market participants with position limits that would need to exercise in unison to put the underlying asset under stress. In the case of options on the iShares Fund, the proposed 25,000 same side position limit effectively restricts a market participant from holding positions that could be exercised in excess of 2,500,000 shares of the iShares Fund. Utilizing data from August 12, 2024, the iShares Fund had 611,040,000 shares outstanding, therefore 244 market participants would have to simultaneously exercise position limits in order to create a scenario that may put the underlying asset (iShares Fund) under stress.<sup>38</sup> The Exchange notes that historically, from observation only, it appears that no more than five market participants holding position limits in any security have exercised in unison in any option. As unlikely an occurrence as all market participants exercising their position limits in unison would be, if it were to occur, it should be noted that

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<sup>37</sup> Id.

<sup>38</sup> See <https://www.ishares.com/us/products/333011/ishares-bitcoin-trust>.

even such an occurrence would not likely put the iShares Fund under stress as economic incentives, would induce the creation of more shares through the ETF creation and redemption process.

By way of example, given that the current global supply of Bitcoin, the underlying asset of the iShares Fund, is 19,789,068<sup>39</sup> and that each Bitcoin can currently be redeemed for 1,755 shares of the iShares Fund, another 34,729,814,340 shares of the iShares Fund could be created. To exhaust this supply of the iShares Fund, 13,891 market participants would have to simultaneously exercise their position limit. Comparing the iShares Fund to the SPDR Gold Shares (“GLD”) ETF or the iShares Silver Trust (“SLV”) ETF, which have position limits of 250,000 or ten times the proposed position limit for the iShares Fund as well as lower shares outstanding in both products,<sup>40</sup> it is unjustified to mandate a different level of stringency with respect to a position limit for options on the iShares Fund.

With respect to the Grayscale Fund, the Grayscale Mini Fund, and the Bitwise Fund, the Exchange reviewed the data presented by NYSE American in its filing. NYSE American aggregated market capitalization, volume, and shares outstanding data of the Bitcoin Funds and compared that data to those of other ETFs, and compared the proposed position limit of the Bitcoin Funds to the position limits of the options overlying those other ETFs. The Exchange reviewed NYSE American’s data that demonstrated that each of these three Bitcoin Funds would easily qualify for the 250,000-contract position limit available to other ETFs and ETPs pursuant

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<sup>39</sup> This figure was acquired as of August 13, 2024. See <https://www.ishares.com/us/products/333011/ishares-bitcoin-trust>. The global supply of Bitcoin grows each day Bitcoin are minted.

<sup>40</sup> As of August 13, 2024, GLD had 294,000,000 shares outstanding and SLV had 510,200,000 shares outstanding. See <https://www.ssga.com/us/en/intermediary/etfs/funds/spdr-gold-shares-gld> and <https://www.ishares.com/us/products/239855/ishares-silver-trust-fund>.

to the criterion in Rule 8.30, Interpretation and Policy .02, which requires the most recent six-month trading volume of the underlying security to be at least 100,000,000 shares.<sup>41</sup>

<b>Bitcoin Fund</b>	<b>Total Volume (shares) (as of September 30, 2024)</b>
Grayscale Fund	723,758,100
Grayscale Mini Fund	335,492,930
Bitwise Fund	263,965,870

Based on this trading volume,<sup>42</sup> each Bitcoin Fund exceeded the requisite 100,000,000 shares necessary to qualify for the 250,000-contract position and exercise limits. By comparison, the underlying of other options with six-month trading volume less than the volumes in the table above are eligible for position and exercise limits of at least 250,000.<sup>43</sup>

Second, with respect to the outstanding shares of these three Bitcoin Funds, the Exchange reviewed NYSE American's data regarding the outstanding shares of each of these Bitcoin Funds. NYSE American performed an exercise to demonstrate that if a market participant held the maximum number of contracts possible pursuant to the proposed position and exercise limits (25,000 contracts), the equivalent shares represented by the proposed position and exercise limits

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<sup>41</sup> Rule 8.30, Interpretation and Policy .02(e) states that to be eligible for the 250,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 100,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 75,000,000 shares and the underlying security must have at least 300,000,000 currently outstanding.

<sup>42</sup> See FactSet, 9/30/2024, <https://www.factset.com/data-attribution>. Bitwise Fund shares began trading on July 31, 2024, and therefore the data in the above table has only two months of trading data available.

<sup>43</sup> See <https://www.theocc.com/Market-Data/Market-Data-Reports/Series-and-Trading-Data/Series-Search> (including the following symbols that have a position limit of 250,000: GLD, IAU, SLV, SIVR, SGOL).

(2,500,000 shares) would represent the following approximate percentage of outstanding shares as of August 30, 2024:

<b>Bitcoin Fund</b>	<b>Proposed Position/Exercise Limits in Equivalent Shares</b>	<b>Outstanding Shares</b>	<b>Percentage of Outstanding Shares</b>
Grayscale Fund	2,500,000	284,570,100	0.9%
Grayscale Mini Fund	2,500,000	366,950,100	0.7%
Bitwise Fund	2,500,000	68,690,000	3.6%

As this table demonstrates, if a market participant held the maximum permissible options positions in one of the Bitcoin Fund options and exercised all of them at the same time, that market participant would control a small percentage of the outstanding shares of the underlying Bitcoin Fund. For example, as noted above, a position limit of 25,000 same side contracts effectively restricts a market participant from holding positions that could result in the receipt of no more than 2,500,000 shares of the applicable Bitcoin Fund (if that market participant exercised all its options). NYSE American used the number of shares outstanding for each Bitcoin Fund as of August 30, 2024, and calculated the approximate number of market participants that could hold the maximum of 25,000 same side positions in each Bitcoin Fund that would equate to the number of shares outstanding of that Bitcoin Fund:

<b>Bitcoin Fund</b>	<b>Outstanding Shares</b>	<b>Number of Market Participants with 25,000 Same Side Positions</b>

Grayscale Fund	284,570,100	114
Grayscale Mini Fund	366,950,100	147
Bitwise Fund	68,690,000	27

This means if 114 market participants had 25,000 same side positions in options on the Grayscale Fund, each of them would have to simultaneously exercise all of those options to create a scenario that may put the underlying security under stress. Similarly, this means if 147 market participants had 25,000 same side positions in options on the Grayscale Mini Fund, each of them would have to simultaneously exercise all of those options to create a scenario that may put the underlying security under stress. Finally, this means if 27 market participants had 25,000 same side positions in options on the Bitwise Fund, each of them would have to simultaneously exercise all of those options to create a scenario that may put the underlying security under stress. The Exchange believes it is highly unlikely for this to occur; however, even if such event did occur, the Exchange would not expect any of the Bitcoin Fund to be under stress because such an event would merely induce the creation of more shares through the trust's creation and redemption process.

NYSE American also performed an exercise to compare the size of the proposed position limit to the market capitalization of the Bitcoin market given that the issuer of each of these three Bitcoin Funds may create and redeem shares that represent an interest in Bitcoin. NYSE American took the global supply of Bitcoin, which was 19,747,066, and the price of one Bitcoin, which was approximately \$59,108.23, as of August 30, 2024, which equates to a market capitalization of approximately \$1.167 trillion.<sup>44</sup> Consider the proposed position and exercise

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<sup>44</sup> See <https://www.blockchain.com/explorer/charts/total-bitcoins>.

limit of 25,000 option contracts for each Bitcoin Fund option. A position and exercise limit of 25,000 same side contracts effectively restricts a market participant from holding positions that could result in the receipt of no more than 2,500,000 shares of the Grayscale Fund, the Grayscale Mini Fund, or the Bitwise Fund, as applicable (if that market participant exercised all its options). NYSE American considered the share price of each Bitcoin Fund on August 30, 2024 and calculated the value of 2,500,000 shares of the Bitcoin Fund at that price, and the approximate percentage of that value of the size of the Bitcoin market:

<b>Bitcoin Fund</b>	<b>Share Price (\$)</b>	<b>Value of 2,500,000 Shares</b>	<b>Percentage of Bitcoin Market</b>
Grayscale Fund	46.75	116,875,000	0.010%
Grayscale Mini Fund	5.20	13,000,000	0.001%
Bitwise Fund	31.95	79,875,000	0.007%

Therefore, if a market participant with the maximum 25,000 same side contracts in options on the Grayscale Fund, the Grayscale Mini Fund, or the Bitwise Fund exercised all positions at one time, such an event would have no practical impact on the Bitcoin market.

The Exchange also reviewed NYSE American's data regarding the market capitalization of each of these three Bitcoin Funds relative to the market capitalization of the entire Bitcoin market, as of August 30, 2024<sup>45</sup>:

	<b>Bitcoin/Shares Outstanding</b>	<b>Market Value (\$)</b>	<b>% of Total Bitcoin Market</b>

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<sup>45</sup> See id.

Total Bitcoin Market	19,747,066	1,167,214,096,788	100
Grayscale Fund	284,570,100	13,443,091,524	1.15
Grayscale Mini Fund	366,950,100	1,930,157,526	0.17
Bitwise Fund	68,690,000	2,221,640,670	0.19

As this data gathered by NYSE American demonstrates, none of these three Bitcoin Funds represent more than 1.2% of the global supply of Bitcoin (19,747, 066). Based on the \$46.75 price of a Grayscale Fund share on August 30, 2024, a market participant could have redeemed one Bitcoin for approximately 1,264 Grayscale Fund shares. Another 24,967,146,455 Grayscale Fund shares could be created before the supply of Bitcoin was exhausted. As a result, 9,987 market participants would have to simultaneously exercise 25,000 same side positions in Grayscale Fund options receive shares of the Grayscale Fund holding the entire global supply of Bitcoin. Similarly, based on the \$5.20 price of a Grayscale Mini Fund share on August 30, 2024, a market participant could have redeemed one Bitcoin for approximately 11,367 Grayscale Mini Fund shares. Another 224,464,249,382 Grayscale Mini Fund shares could be created before the supply of Bitcoin was exhausted. As a result, 89,786 market participants would have to simultaneously exercise 25,000 same side positions in Grayscale Mini Fund options to receive shares of Grayscale Mini Fund holding the entire global supply of Bitcoin. Similarly, based on the \$31.95 price of a Bitwise Fund share on August 30, 2024, a market participant could have redeemed one Bitcoin for approximately 1,850 Bitwise Fund shares. Another 36,532,522,591 Bitwise Fund shares could be created before the supply of Bitcoin was exhausted. As a result,

14,613 market participants would have to simultaneously exercise 25,000 same side positions in Bitwise Fund options to receive shares of Bitwise Fund holding the entire global supply of Bitcoin.

As ISE did with respect to the iShares Fund, NYSE American compared the proposed position limits to the position limit of CME Bitcoin futures, which as noted above is 2,000 futures. On August 28, 2024, CME Aug 24 Bitcoin Futures settled at \$58,950. A position of 2,000 CME Bitcoin futures, therefore, would have a notional value of \$589,500,000. The following table shows the share price of each Bitcoin Fund on August 28, 2024, and the approximate number of option contracts that equates to that notional value:

<b>Bitcoin Fund</b>	<b>Share Price (\$)</b>	<b>Number of Option Contracts</b>
Grayscale Fund	46.94	125,585
Grayscale Mini Fund	5.23	1,127,151
Bitwise Fund	32.08	183,759

The approximate number of option contracts for each Bitcoin Fund that equate to the notional value of CME Bitcoin futures is significantly higher than the proposed limit of 25,000 options contract for each Bitcoin Fund option. As noted above, the fact that many options ultimately expire out-of-the-money and thus are not exercised for shares of the underlying, while the delta of a Bitcoin Future is 1, further demonstrates how conservative the proposed limits of 25,000 options contracts are for the Bitcoin Fund options.

The Exchange notes, again, unlike options contracts, CME position limits are calculated on a net futures-equivalent basis by contract and include contracts that aggregate into one or more base

contracts according to an aggregation ratio(s).<sup>46</sup> Therefore, if a portfolio includes positions in options on futures, CME would aggregate those positions into the underlying futures contracts in accordance with a table published by CME on a delta equivalent value for the relevant spot month, subsequent spot month, single month and all month position limits.<sup>47</sup> If a position exceeds position limits because of an option assignment, CME permits market participants to liquidate the excess position within one business day without being considered in violation of its rules. Additionally, if at the close of trading, a position that includes options exceeds position limits for futures contracts, when evaluated using the delta factors as of that day's close of trading but does not exceed the limits when evaluated using the previous day's delta factors, then the position shall not constitute a position limit violation. Considering CME's position limits on futures for Bitcoin, the Exchange believes that the proposed same side position limits are more than appropriate for the Grayscale Fund, Grayscale Mini Fund, and Bitwise Fund options. While the supply of Bitcoin is limited to 21,000,000, it is believed that it will take more than 100 years to fully mine the remaining Bitcoin.<sup>48</sup> The Exchange notes that Bitcoin is a viable economic alternative to traditional assets. The price of goods denominated by Bitcoin has actually declined. This dynamic not only makes a fixed supply desirable, but a necessary condition of the value added by this asset in the broader economy. Unlike the Bitcoin Funds, the number of shares that corporations may issue is limited. However, like corporations, which authorize additional shares, repurchase shares, or split their shares, the Bitcoin Funds may create, redeem, or split shares in response to demand. Given the significant unlikelihood of any of

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<sup>46</sup> See CME Rulebook Chapter 5, Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices.

<sup>47</sup> Id.

<sup>48</sup> See <https://www.blockchain.com/explorer/assets/btc> (citing 21 million as the "total supply" of bitcoin).

events described above ever occurring, the Exchange does not believe options on the Bitcoin Funds should be subject to position and exercise limits even lower than those proposed (which are already equal to the lowest available limit for equity options in the industry) to protect the supply of Bitcoin.

Importantly, because the supply of Bitcoin is much larger than the available supply of most securities and the proposed 25,000 contract position limit is so conservative, the Exchange believes that evaluating the available supply of Bitcoin in establishing a position limit for options on each of the Bitcoin Funds would demonstrate that the proposed limit is safe for investors and the market.<sup>49</sup> Each Bitcoin Fund represents less than 2% of the entire Bitcoin supply. When comparing the market capitalization of bitcoin against the largest securities, Bitcoin would rank 7th among those securities.<sup>50</sup> Further, the Exchange believes that its proposal to list options on the Bitcoin Funds each with a position limit of 25,000 on the same side is a conservative position limit that does not lend itself to manipulation in the market given the ample market capitalization and liquidity in each Bitcoin Fund. If we look to the liquidity statistics of similar instruments and their concomitant position limits, we are able to extrapolate a reasonable standard for arriving at a position limit for a new product. In this case we can look to GLD, SLV, and the ProShares Bitcoin Strategy ETF. These products have volume statistics and “float” statistics, which gauge liquidity, which are in line, yet slightly lower than the Bitcoin Funds. All three of these reference products have position limits of 250,000 contracts. These reference products are remarkably similar in nature to the Bitcoin Funds; they are exchange-traded products (“ETPs”) holding one asset in a trust.

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<sup>49</sup> A supply consideration would likely be valuable for an option symbol that had far less liquidity than the Trust.

<sup>50</sup> See <https://companiesmarketcap.com/usa/largest-companies-in-the-usa-by-market-cap/>.

The Exchange believes the available supply of Bitcoin is not relevant to the determination of position and exercise limits for options overlying the Bitcoin Funds.<sup>51</sup> Position and exercise limits are not a tool that should be used to address a potential limited supply of the underlying of an underlying. Position and exercise limits do not limit the total number of options that may be held, but rather they limit the number of positions a single customer may hold or exercise at one time.<sup>52</sup> “Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of options contracts that a member or customer could hold or exercise.”<sup>53</sup> Position and exercise limit rules are intended “to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In particular, position and exercise limits are designed to minimize the potential for mini-manipulations and for corners or squeezes of the underlying market. In addition, such limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes.”<sup>54</sup>

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<sup>51</sup> The Exchange is unaware of any proposed rule change related to position and exercise limits for any equity option (including commodity ETF options) for which the Commission required consideration of whether the available supply of an underlying (whether it be a corporate stock or an ETF) or the contents of an ETF (commodity or otherwise) should be considered when an exchange proposed to establish those limits. See, e.g., Securities Exchange Act Release No. 57894 (May 30, 2008), 73 FR 32061 (June 5, 2008) (SR-CBOE-2005-11) (approval order in which the Commission stated that the “listing and trading of Gold Trust Options will be subject to the exchanges’ rules pertaining to position and exercise limits and margin”). The Exchange notes when the Commission approved this filing, the position limits in Rule 8.30 were the same as they are today. For reference, the current position and exercise limits for options on SPDR Gold Shares ETF (“GLD”) and options on iShares Silver Trust (“SLV”) are 250,000 contracts, or 10 times that proposed position and exercise limit for the Bitcoin Fund options.

<sup>52</sup> For example, suppose an option has a position limit of 25,000 option contracts and there are a total of 10 investors trading that option. If all 10 investors max out their positions, that would result in 250,000 option contracts outstanding at that time. However, suppose 10 more investors decide to begin trading that option and also max out their positions. This would result in 500,000 option contracts outstanding at that time. An increase in the number of investors could cause an increase in outstanding options even if position limits remain unchanged.

<sup>53</sup> See Securities Exchange Act Release No. 39489 (December 24, 1997), 63 FR 276 (January 5, 1998) (SR-CBOE-1997-11).

<sup>54</sup> See id.

The Exchange notes that a Registration Statement on Form S-1 was filed with the Commission for each Bitcoin Fund, each of which described the supply of Bitcoin as being limited to 21,000,000 (of which approximately 90% had already been mined), and that the limit would be reached around the year 2140.<sup>55</sup> Each Registration Statement permits an unlimited number of shares of the applicable Bitcoin Fund to be created. Further, the Commission approved proposed rule changes that permitted the listing and trading of shares of each Bitcoin Fund, which approval did not comment on the sufficient supply of Bitcoin or address whether there was a risk that permitting an unlimited number of shares for a Bitcoin Fund would impact the supply of Bitcoin.<sup>56</sup> Therefore, the Exchange believes the Commission had ample time and opportunity to consider whether the supply of Bitcoin was sufficient to permit the creation of unlimited Bitcoin Fund shares, and does not believe considering this supply with respect to the establishment of position and exercise limits is appropriate given its lack of relevance to the purpose of position and exercise limits. However, given the significant size of the Bitcoin supply, the proposed positions limits are more than sufficient to protect investors and the market. All of the above information demonstrates that the proposed position and exercise limits for the Bitcoin Fund options are more than reasonable and appropriate. The trading volume, ADV, and outstanding shares of each Bitcoin Fund demonstrate that these funds are actively traded and widely held, and proposed position and exercise limits are well below those of other ETFs with similar market characteristics. The proposed position and exercise limits are the lowest position

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<sup>55</sup> See iShares Fund Form S-1 Registration Statement, at p. 25, [bit20230608\\_s1.htm](https://www.sec.gov/Archives/edgar/data/1588489/000119312517013693/d157414ds1.htm); Grayscale Fund Form S-1 Registration Statement, at p. 17, <https://www.sec.gov/Archives/edgar/data/1588489/000119312517013693/d157414ds1.htm>; Grayscale Mini Fund, Form S-1 Registration Statement, at p. 21, <https://www.sec.gov/Archives/edgar/data/2015034/000119312524065444/d785023ds1.htm>; and Bitwise Amendment No 2. to S-1, at p. 47, [https://www.sec.gov/Archives/edgar/data/1763415/000199937123000735/bitwise-s1a\\_120423.htm](https://www.sec.gov/Archives/edgar/data/1763415/000199937123000735/bitwise-s1a_120423.htm).

<sup>56</sup> See Bitcoin ETP Approval Order.

and exercise limits available for equity options in the industry, are extremely conservative, and are more than appropriate given each Bitcoin Fund’s market capitalization and ADV.

Today, the Exchange has an adequate surveillance program in place for options. The Exchange intends to apply those same program procedures to options on the Bitcoin Funds that it applies to the Exchange’s other options products.<sup>57</sup> The Exchange’s market surveillance staff would have access to the surveillances conducted by Cboe BYX Exchange, Inc., Cboe EDGA Exchange, Inc., and Cboe EDGX Exchange, Inc., in addition to the Exchange’s equity market,<sup>58</sup> with respect to the Bitcoin Funds and would review activity in the underlying Bitcoin Funds when conducting surveillances for market abuse or manipulation in the options on the Bitcoin Funds. Additionally, the Exchange is a member of the Intermarket Surveillance Group (“ISG”) under the Intermarket Surveillance Group Agreement. ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets. In addition to obtaining information from its affiliated markets, the Exchange would be able to obtain information regarding trading in shares of the Bitcoin Funds from their primary listing markets and from other markets that trades shares of the Bitcoin Funds through ISG. In addition, the Exchange has a Regulatory Services Agreement with the Financial Industry Regulatory Authority (“FINRA”) for certain market surveillance, investigation and examinations functions. Pursuant to a multi-party 17d-2 joint plan, all options exchanges allocate amongst themselves and FINRA responsibilities to conduct certain options-related market surveillance that are common to rules of all options exchanges.<sup>59</sup>

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<sup>57</sup> The surveillance program includes surveillance patterns for price and volume movements as well as patterns for potential manipulation (e.g., spoofing and marking the close).

<sup>58</sup> Cboe BYX Exchange, Inc., Cboe EDGA Exchange, Inc., and Cboe EDGX Exchange, Inc. are affiliated markets of the Exchange.

<sup>59</sup> Section 19(g)(1) of the Act, among other things, requires every self-regulatory organization (“SRO”) registered as a national securities exchange or national securities association to comply with the Act, the

The underlying shares of spot bitcoin exchange-traded products (“ETPs”), including the Bitcoin Funds, are also subject to safeguards related to addressing market abuse and manipulation. As the Commission stated in its order approving proposals of several exchanges to list and trade shares of spot bitcoin-based ETPs, “[e]ach Exchange has a comprehensive surveillance-sharing agreement with the CME via their common membership in the Intermarket Surveillance Group. This facilitates the sharing of information that is available to the CME through its surveillance of its markets, including its surveillance of the CME bitcoin futures market.<sup>60</sup> The Exchange states that, given the consistently high correlation between the CME Bitcoin futures market and the spot bitcoin market, as confirmed by the Commission through robust correlation analysis, the Commission was able to conclude that such surveillance sharing agreements could reasonably be “expected to assist in surveilling for fraudulent and manipulative acts and practices in the specific context of the [Bitcoin ETPs].”<sup>61</sup> In light of surveillance measures related to both options and futures as well as the underlying Bitcoin Funds,<sup>62</sup> the

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rules and regulations thereunder, and the SRO’s own rules, and, absent reasonable justification or excuse, enforce compliance by its members and persons associated with its members. See 15 U.S.C. 78q(d)(1) and 17 CFR 240.17d-2. Section 17(d)(1) of the Act allows the Commission to relieve an SRO of certain responsibilities with respect to members of the SRO who are also members of another SRO (“common members”). Specifically, Section 17(d)(1) allows the Commission to relieve an SRO of its responsibilities to: (i) receive regulatory reports from such members; (ii) examine such members for compliance with the Act and the rules and regulations thereunder, and the rules of the SRO; or (iii) carry out other specified regulatory responsibilities with respect to such members.

<sup>60</sup> See Bitcoin ETP Approval Order.

<sup>61</sup> See Bitcoin ETP Approval Order, 89 FR at 3010-11.

<sup>62</sup> See Securities Exchange Act Release Nos. 99290 (January 8, 2024), 89 FR 2338, 2343, 2347 - 2348 (January 12, 2024) (SR-CboeBZX-2023-044) Notice of Filing of Amendment No. 3 to a Proposed Rule Change to List and Trade Shares of the Fidelity Wise Origin Bitcoin Fund Under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares); and 99288 (January 8, 2024), 89 FR 2387, 2392, 2399 - 2400 (January 12, 2024) (SR-CboeBZX-2023-028) (Notice of Filing of Amendment No. 5 to a Proposed Rule Change To List and Trade Shares of the ARK 21Shares Bitcoin ETF Under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares). See also Securities Exchange Act Release No. 99306 (January 10, 2024), 89 FR 3008, 3009 (January 17, 2024) (SR-NYSEArca-2021-90; SR-NYSEArca-2023-44; SR-NYSEArca-2023-58; SR-NASDAQ-2023-016; SR-NASDAQ-2023-019; SR-CboeBZX-2023-028; SR-CboeBZX-2023-038; SR-CboeBZX-2023-040; SR-CboeBZX-2023-042; SRCboeBZX-2023-044; and SR-CboeBZX-2023-072) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, to

Exchange believes that existing surveillance procedures are designed to deter and detect possible manipulative behavior which might potentially arise from listing and trading the proposed options on the Bitcoin Funds. Further, the Exchange will implement any new surveillance procedures it deems necessary to effectively monitor the trading of options on Bitcoin ETPs. The Exchange has also analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that may result from the introduction of options on Bitcoin Funds up to the number of expirations currently permissible under the Rules. Because the proposal is limited to two classes, the Exchange believes any additional traffic that may be generated from the introduction of Bitcoin Fund options will be manageable.

The Exchange believes that offering options on Bitcoin Funds will benefit investors by providing them with an additional, relatively lower cost investing tool to gain exposure to the price of Bitcoin and hedging vehicle to meet their investment needs in connection with Bitcoin-related products and positions. The Exchange expects investors will transact in options on Bitcoin Funds in the unregulated over-the-counter (“OTC”) options market,<sup>63</sup> but may prefer to trade such options in a listed environment to receive the benefits of trading listing options, including (1) enhanced efficiency in initiating and closing out positions; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of all listed options. The Exchange believes that listing Bitcoin Fund options may cause investors to bring this liquidity to the Exchange, would increase market transparency and

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List and Trade Bitcoin-Based Commodity-Based Trust Shares and Trust Units) (“Bitcoin ETP Approval Order”).

<sup>63</sup> The Exchange understands from customers that investors have historically transacted in options on Fund Shares in the OTC options market if such options were not available for trading in a listed environment.

enhance the process of price discovery conducted on the Exchange through increased order flow. The Fund Shares that hold financial instruments, money market instruments, or precious metal commodities on which the Exchange may already list and trade options are trusts structured in substantially the same manner as Bitcoin Funds and essentially offer the same objectives and benefits to investors, just with respect to different assets. The Exchange notes that it has not identified any issues with the continued listing and trading of any Fund Share options, including Fund Shares that hold commodities (i.e., precious metals) that it currently lists and trades on the Exchange.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>64</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>65</sup> 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)<sup>66</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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<sup>64</sup> 15 U.S.C. 78f(b).

<sup>65</sup> 15 U.S.C. 78f(b)(5).

<sup>66</sup> Id.

In particular, the Exchange believes that the proposal to list and trade options on the Bitcoin Funds will remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors because offering options on the Bitcoin Funds will provide investors with an opportunity to realize the benefits of utilizing options on a Bitcoin Fund, including cost efficiencies and increased hedging strategies. The Exchange believes that offering options on a competitively priced ETF based on spot Bitcoin will benefit investors by providing them with an additional, relatively lower-cost risk management tool, allowing them to manage, more easily, their positions and associated risks in their portfolios in connection with exposure to spot Bitcoin. Today, the Exchange lists options on other commodity (including Bitcoin) ETFs structured as a trust, which essentially offer the same objectives and benefits to investors, and for which the Exchange has not identified any issues with the continued listing and trading of options on those ETFs.

The Exchange also believes the proposal to permit options on the Bitcoin Funds will remove impediments to and perfect the mechanism of a free and open market and a national market system, because options on the Bitcoin Funds will comply with current Exchange Rules. Options on the Bitcoin Funds must satisfy the initial listing standards and continued listing standards currently in the Rules, applicable to options on all ETFs, including options on other commodity ETFs already deemed appropriate for options trading on the Exchange pursuant to Rule 19.3(i). Additionally, as demonstrated above, the Bitcoin Funds are characterized by a substantial number of shares that are widely held and actively traded. Further, Rules that currently govern the listing and trading of options on ETFs, including permissible expirations, strike prices, minimum increments, position and exercise limits (as proposed herein), and margin requirements, will govern the listing and trading of options on the Bitcoin Funds.

The proposed position and exercise limits for options on each of the Bitcoin Funds is 25,000 contracts. These position and exercise limits are the lowest position and exercise limits available in the options industry, are extremely conservative and more than appropriate given Bitcoin Fund's market capitalization, ADV, and high number of outstanding shares. The proposed position limit, and exercise limit, is consistent with the Act as it addresses concerns related to manipulation and protection of investors because, as demonstrated above, the position limit (and exercise limit) is extremely conservative and more than appropriate given the Bitcoin Funds are actively traded. In support of the proposed position and exercise limits for options on the Bitcoin Funds are 25,000 contracts, the Exchange is citing the in depth analysis each of ISE and NYSE American did in their respective filings. As noted above, in the ISE and NYSE American Approvals, each of ISE and NYSE American considered the: (1) applicable Bitcoin Fund's market capitalization and ADV, and proposed position limit in relation to other securities; (2) market capitalization of the entire Bitcoin market in terms of exercise risk and availability of deliverables; (3) proposed position limit by comparing it to position limits for derivative products regulated by the CFTC; and (4) supply of Bitcoin. Based on the Exchange's review of these analyses, the Exchange believes that the setting position and exercise limits for options on each of the Bitcoin Funds is 25,000 contracts is more than appropriate. The proposed position and exercise limits reasonably and appropriately balance the liquidity provisioning in the market against the prevention of manipulation. The Exchange believes these proposed limits are effectively designed to prevent an individual customer or entity from establishing options

positions that could be used to manipulate the market of the underlying as well as the Bitcoin market.<sup>67</sup>

The Exchange represents that it has the necessary systems capacity to support the new Bitcoin Fund options. As discussed above, the Exchange believes that its existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from listing and trading Fund Share options, including Bitcoin Fund options.

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 that 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 as the Bitcoin Fund options will be equally available to all market participants who wish to trade such options and will trade generally in the same manner as other options. The Rules that currently apply to the listing and trading of all Fund Share options on the Exchange, including, for example, Rules that govern listing criteria, expirations, exercise prices, minimum increments, margin requirements, customer accounts, and trading halt procedures will apply to the listing and trading of Bitcoin Funds options on the Exchange in the same manner as they apply to other options on all other Fund Shares that are listed and traded on the Exchange. Also, and as stated above, the Exchange already lists options on other commodity-based Fund Shares (including Bitcoin-based).<sup>68</sup> Further, the Bitcoin Funds would need to satisfy the maintenance listing

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<sup>67</sup> See Securities Exchange Act Release No. 39489 (December 24, 1997), 63 FR 276 (January 5, 1998) (SR-CBOE-1997-11).

<sup>68</sup> See Rule 19.3(i)(4)

standards set forth in the Exchange Rules in the same manner as any other Fund Share for the Exchange to continue listing options on them.

The Exchange does not believe that the proposal to list and trade options on Bitcoin Funds will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the extent that the advent of Bitcoin Fund options trading on the Exchange may make the Exchange a more attractive marketplace to market participants at other exchanges, such market participants are free to elect to become market participants on the Exchange. The Commission recently approved rule filings of other exchanges to permit the listing and trading of options on the Bitcoin Funds.<sup>69</sup> The Exchange notes that listing and trading Bitcoin Fund options on the Exchange will subject such options to transparent exchange-based rules as well as price discovery and liquidity, as opposed to alternatively trading such options in the OTC market.

The Exchange believes that the proposed rule change may relieve any burden on, or otherwise promote, competition, as it is designed to increase competition for order flow on the Exchange in a manner that is beneficial to investors by providing them with a lower-cost option to hedge their investment portfolios. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues that offer similar products. Ultimately, the Exchange believes that offering Bitcoin Fund options for trading on the Exchange will promote competition by providing investors with an additional, relatively low-cost means to hedge their portfolios and meet their investment needs in connection with Bitcoin prices and Bitcoin-related products and positions on a listed options exchange.

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

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<sup>69</sup> See ISE Approval and NYSE American Approval.

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

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>70</sup> and Rule 19b-4(f)(6) thereunder.<sup>71</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>72</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission previously approved the listing of options on the Bitcoin Funds.<sup>73</sup> The Exchange has provided information regarding the underlying Bitcoin Funds, including, among other things, information regarding trading volume, the number of beneficial holders, and the market capitalization of the Bitcoin Funds. The proposal also establishes position and exercise limits for options on the Bitcoin Funds and provides information regarding the surveillance

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<sup>70</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>71</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission waives this requirement.

<sup>72</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>73</sup> See supra note 4.

procedures that will apply to options on the Bitcoin Funds. The Commission believes that waiver of the operative delay could benefit investors by providing an additional venue for trading Bitcoin Fund options. Therefore, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.<sup>74</sup>

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-CboeBZX-2024-121 on the subject line.

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<sup>74</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-CboeBZX-2024-121. 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 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-CboeBZX-2024-121 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>75</sup>

**Vanessa A. Countryman,**

*Secretary.*

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<sup>75</sup> 17 CFR 200.30-3(a)(12), (59).