

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82770; File No. SR-CBOE-2017-057)

February 23, 2018

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to Amend Interpretation and Policy .07 of Exchange Rule 4.11, Position Limits, to Increase the Position Limits for Options on Certain Exchange Traded Products

I. Introduction

On August 15, 2017, Cboe Exchange, Inc. (“Exchange” or “Cboe”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Interpretation and Policy .07 of Exchange Rule 4.11, Position Limits, to increase the position limits for options on the following exchange traded funds (“ETFs”) and exchange traded note (“ETN”): iShares China Large-Cap ETF (“FXI”), iShares MSCI EAFE ETF (“EFA”), iShares MSCI Emerging Markets ETF (“EEM”), iShares Russell 2000 ETF (“IWM”), iShares MSCI Brazil Capped ETF (“EWZ”), iShares 20+ Year Treasury Bond Fund ETF (“TLT”), iPath S&P 500 VIX Short-Term Futures ETN (“VXX”),³ PowerShares QQQ Trust (“QQQQ”), and iShares MSCI Japan ETF (“EWJ”). The proposed rule change was published for comment in the Federal Register on August 31, 2017.⁴ On October 11, 2017, pursuant to Section 19(b)(2) of the Act,⁵ the Commission designated a longer period within which to approve the proposed rule

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ As noted below, the Exchange subsequently amended its proposal to remove the proposed increase in position limits for options on the VXX ETN. See infra note 11.

⁴ See Securities Exchange Act Release No. 81483 (August 25, 2017), 82 FR 41457 (“Notice”).

⁵ 15 U.S.C. 78s(b)(2).

change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁶ The Commission received no comments on the original proposal.

On November 22, 2017, the Exchange submitted Amendment No. 1 to the proposed rule change.⁷ On November 29, 2017, the Commission published notice of Amendment No. 1 and instituted proceedings under Section 19(b)(2)(B) of the Act⁸ to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.⁹ The Commission received one comment letter on the proposed rule change in response to the Order Instituting Proceedings.¹⁰ On February 21, 2018, the Exchange filed Amendment No. 2 to the proposed rule change.¹¹ The Commission is publishing this notice to solicit comment on Amendment No. 2, and is approving the proposed rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis.

⁶ See Securities Exchange Act Release No. 81853, 82 FR 48300 (October 17, 2017). The Commission designated November 29, 2017 as the deadline for the Commission to approve or disapprove, or institute proceedings to determine whether to approve or disapprove, the proposed rule change.

⁷ In Amendment No. 1, the Exchange provided additional justification and analysis in support of the proposal, which is summarized below. The full text of Amendment No. 1 has been placed in the public comment file for SR-CBOE-2017-57 and is available at: <https://www.sec.gov/comments/sr-cboe-2017-057/cboe2017057-2715774-161526.pdf>.

⁸ 15 U.S.C. 78s(b)(2)(B).

⁹ See Securities Exchange Act Release No. 82168, 82 FR 57501 (December 5, 2017) (“Order Instituting Proceedings”).

¹⁰ See Letter to Brent J. Fields, Secretary, Commission, from Ellen Greene, Managing Director, Securities Industry and Financial Markets Association, dated December 19, 2017 (“SIFMA Letter”).

¹¹ In Amendment No. 2, the Exchange revised its proposal to eliminate the proposed increase to position limits for options on VXX. The full text of Amendment No. 2 has been placed in the comment file for SR-CBOE-2017-57 and is available at: <https://www.sec.gov/comments/sr-cboe-2017-057/cboe2017057-3120566-161917.pdf>.

II. Description of the Proposal, as Modified by Amendment Nos. 1 and 2

Currently, position limits for options on ETFs such as those subject to the proposal, as amended,¹² are determined pursuant to Exchange Rule 4.11, and, with certain exceptions, vary by tier according to the number of outstanding shares and past six-month trading volume of the underlying security.¹³ Options in the highest tier – i.e., options that overlie securities with the largest numbers of outstanding shares and trading volume – have a standard option position limit of 250,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market.¹⁴ In addition, Interpretation and Policy .07 of Exchange Rule 4.11 currently sets forth separate position limits for options on certain ETFs, including 500,000 contracts for options on EEM and IWM, and 900,000 contracts for options on QQQQ.

In the proposal, as amended, the Exchange proposes to revise Interpretation and Policy .07 to Exchange Rule 4.11 to increase the position limits for options on certain ETFs, as described more fully below. The Exchange states its belief that increasing the position limits for these options will lead to a more liquid and competitive market environment for these options that will benefit customers interested in these products.¹⁵

First, the Exchange proposes to increase the position limits for options on FXI, EFA, EWZ, TLT, and EWJ, each of which fall into the highest standard tier set forth in Rule 4.11. The

¹² See Notice, supra note 4, at 41458, for descriptions provided by the Exchange regarding the composition and design of the underlying securities of each of the options subject to this proposal.

¹³ Pursuant to Exchange Rule 4.12, Interpretation and Policy .02, which provides that the exercise limits for ETF options are equivalent to their position limits, the exercise limits for each of these options would be increased to the level of the new position limits.

¹⁴ To be eligible for this tier, the 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 shares currently outstanding.

¹⁵ See Notice, supra note 4, at 41459.

Exchange proposes to increase the current position limit of 250,000 contracts for options on these securities to 500,000 contracts.¹⁶ In support of this change, the Exchange compares certain trading characteristics of FXI, EFA, EWZ, TLT, and EWJ (the average daily trading volume of the security and of the overlying option), as well as the number of outstanding shares and market capitalization of each of these securities, to the same figures for EEM and IWM, both of which currently have a position limit of 500,000 contracts.¹⁷ Referencing this data, the Exchange maintains that the trading characteristics of FXI, EFA, EWZ, TLT, and EWJ are either similar to that of EEM and IWM or reflect trading activity sufficient to assure that the proposed position limit would continue to address potential manipulation.¹⁸

In addition, the Exchange proposes to increase the position limits for options on EEM and IWM from 500,000 contracts to 1,000,000 contracts.¹⁹ In support of this change, the

¹⁶ In connection with this change, the exercise limits for these options would rise to 500,000 contracts. See supra note 13.

¹⁷ See Notice, supra note 4, at 41459. With respect to trading characteristics, specifically, the Exchange states that the average daily trading volumes of FXI, EFA, EWZ, TLT, and EWJ for the periods analyzed were 15.08 million shares, 19.42 million shares, 17.08 million shares, 8.53 million shares, and 6.06 million shares, respectively. The figures for EEM and IWM were 52.12 million shares and 27.46 million shares. With regard to the overlying options, trading volumes for the first group were 71,944 contracts, 98,844 contracts, 95,152 contracts, 80,476 contracts, and 4,715 contracts, while trading volumes for EEM options and IWM options were 287,357 and 490,070, respectively. The Exchange further states that the total shares outstanding for FXI was 78.6 million, EFA was 1178.4 million, EWZ was 159.4 million, TLT was 60 million, and EWJ was 303.6 million compared to 797.4 million for EEM and 253.1 million for IWM. Finally, the Exchange states that the fund market cap for FXI was \$3,343.6 million, EFA was \$78,870.3 million, EWZ was \$6,023.4 million, TLT was \$7,442.4 million, and EWJ was \$16,625.1 million compared to \$34,926.1 million for EEM and \$35,809.1 million for IWM.

¹⁸ See id. With respect to FXI, EWZ, and TLT, the Exchange acknowledges that these securities are not as actively traded as EEM and IWM, but notes that each is based on a broad basket of underlying securities and maintains that trading of each is sufficiently active so as to alleviate concerns about potential manipulative activity. Id.

¹⁹ In connection with this change, the exercise limits for these options would rise to

Exchange compares the trading characteristics of EEM and IWM to that of QQQQ, which currently has a position limit of 900,000 contracts, and states its belief that, given the respective trading behaviors of EEM and IWM, the proposed position limits would continue to address potential manipulative schemes and adverse market impact on trading in the options and their underlying shares.²⁰

Finally, the Exchange proposes to increase the position limits for options on QQQQ from 900,000 contracts to 1,800,000 contracts.²¹ In support of this change, the Exchange compares the trading and other characteristics of QQQQ to that of the SPDR S&P 500 ETF (“SPY”), which currently has no position limits, and states its belief that the proposed position limit and QQQQ’s trading behavior would continue to address potential manipulative schemes and adverse market impact surrounding the use of options and trading in its underlying shares.²²

1,000,000 contracts. See supra note 13.

²⁰ See Notice, supra note 4, at 41458-59. Specifically, the Exchange states that the average daily trading volumes for EEM and IWM, respectively, were 52.12 million shares and 27.46 million shares, compared to 26.25 million shares for QQQQ. With regard to the overlying options, the average daily volumes for EEM and IWM options were 287,357 contracts and 490,070 contracts, respectively, as compared to 579,404 for QQQQ. The Exchange further states that the total shares outstanding for EEM were 797.4 million and for IWM were 253.1 million compared to 351.6 million for QQQQ. Finally, the Exchange states that the fund market cap for EEM was \$34,926.1 million and IWM was \$35,809.1 million compared to \$50,359.7 million for QQQQ.

²¹ In connection with this change, the exercise limits for these options would rise to 1.8 million contracts. See supra note 13.

²² See Notice, supra note 4, at 41458. Specifically, the Exchange states that the average daily trading volume for QQQQ was 26.25 million shares compared to 64.63 million shares for SPY, while the average daily volume for options contracts overlying QQQQ was 579,404, as compared to 2,575,153 for SPY. The Exchange further states that the total shares outstanding for QQQQ were 351.6 million compared to 976.23 million for SPY. Finally, the Exchange states that the fund market cap for QQQQ was \$50,359.7 million compared to \$240,540 million for SPY.

The Commission notes that the lack of position limits for SPY is currently subject to a pilot program. See Securities Exchange Act Release Nos. 67937 (September 27, 2012), 77 FR 60489 (October 3, 2012) (SR-CBOE-2012-091) (eliminating position and exercise

The Exchange states that the current position limits for the options subject to the proposal have inhibited the ability of Market Makers to make markets on the Exchange.²³ Specifically, the Exchange avers, the proposal is designed to encourage Market Makers to shift liquidity from over-the-counter markets onto the Exchange, which, it believes, will enhance the process of price discovery conducted on the Exchange through increased order flow.²⁴ The proposal will also benefit institutional investors, retail traders, and public customers, the Exchange maintains, by providing them with a more effective trading and hedging vehicle.²⁵

With regard to the concerns that position limits generally are meant to address, the Exchange represents that “the structure of the [ETFs] subject to this proposal and the considerable liquidity of the market for options on those [ETFs] diminishes the opportunity to manipulate [these] product[s] and disrupt the underlying market[s] that a lower position limit may protect against.”²⁶ In Amendment No. 1, the Exchange elaborates further and describes at length: (i) the creation and redemption process for ETFs (and a similar process for the ETN that was originally subject to the proposal²⁷); (ii) the arbitrage activity that ensues when such

limits for SPY options on a pilot basis); and 81017 (June 26, 2017), 82 FR 29960 (June 30, 2017) (SR-CBOE-2017-050) (extending the SPY pilot program to July 12, 2018).

²³ See Notice, supra note 4, at 41460. See also Amendment No. 1, in which the Exchange states that it submitted the proposal at the request of market participants whose on-exchange activity has been “hindered by existing position limits, causing them to be unable to provide additional liquidity not just on the Exchange, but also on other options exchanges on which they participate.”

²⁴ See Notice, supra note 4, at 41460. See also Amendment No. 1, in which the Exchange reiterates its understanding that certain market participants are opting to execute trades involving large numbers of options contracts in the symbols subject to the proposal in the over-the-counter market, and argues that these large trades do not contribute to the price discovery process performed on a lit market.

²⁵ See Notice, supra note 4, at 41460.

²⁶ See id.

²⁷ With regard to the ETN option originally included in the proposal – VXX – the Exchange

instruments are overpriced or are trading at a discount to the securities on which they are based and which, the Exchange maintains, helps to keep the instrument's price in line with the value of its underlying portfolio; and (iii) how these processes, in the Exchange's view, serve to mitigate the potential price impact of the ETF shares (or the ETN that was originally subject to the proposal) that might otherwise result from increased position limits.²⁸

In addition, in Amendment No. 1 the Exchange states that (i) some of the subject ETFs (and the ETN that was originally subject to the proposal) are based on broad-based indices that underlie cash-settled options that are economically equivalent to the relevant ETF and have no position limits; and (ii) others are based on broad-based indices that underlie cash-settled options with position limits reflecting a notional value that is larger than the current position limit for their ETF analogue.²⁹ According to the Exchange, if certain position limits are appropriate for the options overlying the same index or an analogue to the basket of securities that the ETF tracks, then those same economically equivalent position limits should be appropriate for the option overlying the ETF.³⁰ The Exchange believes that options on QQQ, IWM, EEM, and EFA meet the criterion of economic equivalence to cash-settled options.³¹ For the other ETFs in the

acknowledged that there is no direct analogue to ETF "creation," but observed that the ETN issuer may sell additional VXX shares from its inventory. Regardless of whether VXX shares are redeemed or new VXX shares are issued, the Exchange stated, an issuer may transact in VIX futures in order to hedge its exposure, resulting in an arbitrage process similar to the one that exists for ETFs, as described above, thereby helping to keep an ETN's price in line with the value of its underlying index. See Amendment No. 1.

²⁸ See id.

²⁹ See id.

³⁰ See id.

³¹ See id. The Exchange similarly included VXX in this discussion, but subsequently withdrew the increase in position limits for options on VXX from the proposal in Amendment No. 2, as previously noted. See supra note 11.

proposal where this does not apply (because there is currently no index analogue approved for options trading), the Exchange argues that, based on the liquidity, breadth, and depth of the underlying market, the index referenced by the ETF would be considered a broad-based index under the Exchange's rules.³² The Exchange also cites data in support of its argument that the market capitalization of the underlying index or reference asset of each of the ETFs (and the ETN that was originally subject to the proposal) is large enough to absorb any price movements that may be caused by an oversized trade, and thus justifies increasing position limits for the options on these products.³³

As noted, in Amendment No. 2, the Exchange withdrew options on VXX from the subject of the proposal, stating that, "doing so will allow the Exchange to provide the Commission with additional support for increasing the options on the VXX's position limits, which it expects to do through a separate proposed rule change to be submitted at a later date."³⁴ Accordingly, this Order does not address position limits on options on VXX.

The Exchange also refers to other provisions in its rules, noting, for example, that the options reporting requirements of Exchange Rule 4.13 would continue to be applicable to the options subject to the proposal.³⁵ As set forth in Exchange Rule 4.13(a), each Trading Permit Holder ("TPH") must report to the Exchange certain information in relation to any customer who, acting alone, or in concert with others, on the previous business day maintained aggregate long or short positions on the same side of the market of 200 or more contracts in any single

³² See Amendment No. 1.

³³ See id.

³⁴ See Amendment No. 2.

³⁵ See Notice, supra note 4, at 41460.

class of option contracts dealt in on the Exchange.³⁶ Further, Exchange Rule 4.13(b) requires each TPH (other than an Exchange market-maker or Designated Primary Market-Maker)³⁷ that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market, on behalf of its own account or for the account of a customer, to report to the Exchange information as to whether such positions are hedged, and provide documentation as to how such contracts are hedged.³⁸

The Exchange also represents that the existing surveillance procedures and reporting requirements at the Exchange, other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity.³⁹ According to the Exchange, its surveillance procedures utilize daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.⁴⁰ In addition, the Exchange states that its surveillance procedures have been effective for the surveillance of trading in the options subject to this proposal, and will continue to be employed.⁴¹

The Exchange also argues that the current financial requirements imposed by the

³⁶ The report must include, for each such class of options, the number of option contracts comprising each such position and, in the case of short positions, whether covered or uncovered. See Exchange Rule 4.13(a).

³⁷ According to the Exchange, market-makers (including Designated Primary Market-Makers) are exempt from the referenced reporting requirement because market-maker information can be accessed through the Exchange's market surveillance systems. See Notice, supra note 4, at 41459.

³⁸ According to the Exchange, this information would include, but would not be limited to, the option position, whether such position is hedged and, if so, a description of the hedge, and the collateral used to carry the position, if applicable. See id.

³⁹ See id.

⁴⁰ See id.

⁴¹ See id. at 41459 n.23.

Exchange and by the Commission adequately address concerns that a TPH or its customer may try to maintain an inordinately large unhedged position in the options subject to this proposal.⁴² Current margin and risk-based haircut methodologies, the Exchange states, 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.⁴³ In addition, the Exchange notes that the Commission's net capital rule, Rule 15c3-1 under the Act,⁴⁴ imposes a capital charge on TPHs to the extent of any margin deficiency resulting from the higher margin requirement.⁴⁵

III. Comment Received in Response to Order Instituting Proceedings

As noted above, the Commission published an Order Instituting Proceedings to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.⁴⁶ In the Order Instituting Proceedings, the Commission sought comment on the sufficiency and merit of the Exchange's statements in support of the proposal, as modified by Amendment No. 1, including, in particular, whether the position and exercise limit for each option as proposed could impact markets adversely.⁴⁷

The Commission received one comment letter in response to the Order Instituting Proceedings.⁴⁸ The commenter expressed support for the proposal, as then modified by

⁴² See id. at 41459.

⁴³ See id. at 41459-60.

⁴⁴ 17 CFR 240.15c3-1.

⁴⁵ See Notice, supra note 4, at 41460.

⁴⁶ See Order Instituting Proceedings, supra note 9.

⁴⁷ See id. at 57504.

⁴⁸ See supra note 10.

Amendment No. 1.⁴⁹ The commenter stated that the markets underlying the ETFs subject to the proposal (and the ETN that was originally subject to the proposal), as modified by Amendment No. 1, are sufficiently large to justify an increase in position limits for the associated options.⁵⁰ The commenter further stated that the creation and redemption process for the underlying products will absorb price volatility caused by large trades in the underlying ETFs (or the ETN that was originally subject to the proposal).⁵¹ The commenter also noted that the proposed increases in position limits may encourage existing trading activity in the over-the-counter markets to move to the Exchange.⁵² The commenter added that even if it were assumed that the options positions established following a position limit increase represented only new market entrants (and not a migration of pre-existing over-the-counter positions), a position limit increase alone would not necessarily result in added volatility in the underlying instruments.⁵³

IV. Discussion and Commission Findings

The Commission finds that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁵⁴ In particular, the Commission finds that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with Section 6(b)(5) of the Act,⁵⁵ which requires, among other things, that the rules of a national securities

⁴⁹ See SIFMA Letter at 1-2.

⁵⁰ See id. at 2.

⁵¹ See id.

⁵² See id.

⁵³ See id.

⁵⁴ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁵⁵ 15 U.S.C. 78f(b)(5).

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.

Position and exercise limits serve as a regulatory tool designed to address manipulative schemes and adverse market impact surrounding the use of options. Since the inception of standardized options trading, the options exchanges have had rules limiting the aggregate number of options contracts that a member or customer may hold or exercise.⁵⁶ These position and exercise limits are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate the underlying market so as to benefit the options positions.⁵⁷ In particular, position and exercise limits are designed to minimize the potential for mini-manipulations and for corners or squeezes of the underlying market.⁵⁸ In addition, such limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid classes.⁵⁹

Over the years, the Commission has taken a gradual, evolutionary approach toward expansion of position and exercise limits for option products overlying certain ETFs where there is considerable liquidity in both the underlying cash markets and the options markets, and, in the case of certain broad-based index options, toward elimination of such limits altogether.⁶⁰ The

⁵⁶ See, e.g., Securities Exchange Act Release No. 45236 (January 4, 2002), 67 FR 1378 (January 10, 2002) (SR-Amex-2001-42).

⁵⁷ See, e.g., Securities Exchange Act Release No. 47346 (February 11, 2003), 68 FR 8316 (February 20, 2003) (SR-CBOE-2002-26).

⁵⁸ See id.

⁵⁹ See id.

⁶⁰ The Commission's incremental approach to approving changes in position and exercise limits for option products overlying certain ETFs is well-established. See, e.g., Securities

Commission has been careful to balance two competing concerns when considering proposals by self-regulatory organizations to change position and exercise limits. The Commission has recognized that the limits can be useful to prevent investors from disrupting the market in securities underlying the options.⁶¹ At the same time, the Commission has determined that limits should not be established in a manner that will unnecessarily discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market.⁶²

After careful consideration of the proposal, as modified by Amendment Nos. 1 and 2, and the comment received, the Commission believes that it is reasonable for the Exchange to increase the position and exercise limits for options on FXI, EFA, EWZ, TLT, and EWJ to 500,000 contracts, for options on EEM and IWM to 1,000,000 contracts, and for options on QQQQ to 1,800,000 contracts. As noted above, the markets for standardized options on these securities and for the underlying products themselves have substantial trading volume and liquidity. The Commission believes that this liquidity would reduce the possibility of manipulating these products and the disruption in the underlying markets that lower position limits may protect against.

Exchange Act Release Nos. 67672 (August 15, 2012), 77 FR 50750, 50752 & n.42 (August 22, 2012) (SR-NYSEAmex-2012-29) (approving proposed rule change to eliminate position limits for SPY options on a pilot basis); 64695 (June 17, 2011), 76 FR 36942, 36943 & n.19 (June 23, 2011) (SR-Phlx-2011-58) (approving increase of SPY options position limit to 900,000 contracts).

⁶¹ See Securities Exchange Act Release No. 39489 (December 24, 1997), 63 FR 276 (January 5, 1998) (SR-CBOE-97-11).

⁶² See id.

The Commission also has considered the creation and redemption process for the ETFs subject to the modified proposal; the existence of an issuer arbitrage mechanism that helps keep the ETF's price in line with the value of its underlying portfolio when overpriced or trading at a discount to the securities on which it is based; and how these processes serve to mitigate the potential price impact of the ETF shares that might otherwise result from increased position limits.⁶³

In addition, as discussed above, the Exchange believes that current margin and net capital requirements serve to limit the size of positions maintained by any one account.⁶⁴ The Commission agrees that these financial requirements should help to address concerns that a member or its customer may try to maintain an inordinately large unhedged position in the options subject to this proposal and will help to reduce risks if such a position is established.

The Commission further agrees with the Exchange that the reporting requirements imposed by Exchange Rule 4.13,⁶⁵ as well as the Exchange's surveillance procedures, together with those of other exchanges and clearing firms,⁶⁶ should help protect against potential manipulation. The Commission expects that the Exchange will continue to monitor trading in the options subject to this proposal for the purpose of discovering and sanctioning manipulative acts and practices, and to reassess the position and exercise limits, if and when appropriate, in light of its findings.

In sum, given the measure of liquidity for the options subject to this proposal and the underlying products, the creation and redemption process and issuer arbitrage mechanisms that

⁶³ See supra notes 27-28 and accompanying text.

⁶⁴ See supra notes 42-45 and accompanying text.

⁶⁵ See supra notes 35-38 and accompanying text.

⁶⁶ See supra notes 39-41 and accompanying text.

exist relating to the underlying instruments, the margin and capital requirements cited above, the Exchange's options reporting requirements, and the Exchange's surveillance procedures and agreements with other markets, the Commission believes that increasing the position and exercise limits for FXI, EFA, EWZ, TLT, and EWJ options to 500,000 contracts, EEM and IWM options to 1,000,000 contracts, and QQQQ options to 1,800,000 contracts is consistent with the Act.

V. Solicitation of Comments on Amendment No. 2 to the Proposed Rule Change

Interested persons are invited to submit written data, views, and arguments concerning whether Amendment No. 2 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-2017-057 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-2017-057. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications

relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2017-057, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

VI. Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2

The Commission finds good cause to approve the proposed rule change, as modified by Amendment Nos. 1 and 2, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 2 in the Federal Register. As discussed above, in Amendment No. 2, the Exchange revised its proposal to eliminate the proposed increase to position limits for options on VXX. The Commission notes that Amendment No. 2 does not otherwise modify the proposed rule change, as modified by Amendment No. 1, which was subject to a full notice-and-comment period. Rather, Amendment No. 2 serves to narrow the scope of the original proposal by maintaining the existing position limit of 250,000 contracts for options on VXX. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,⁶⁷ to approve the proposed rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis.

⁶⁷ 15 U.S.C. 78s(b)(2).

VII. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁶⁸ that the proposed rule change, as modified by Amendment Nos. 1 and 2 (SR-CBOE-2017-057), be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁶⁹

Robert W. Errett
Deputy Secretary

⁶⁸ 15 U.S.C. 78s(b)(2).

⁶⁹ 17 CFR 200.30-3(a)(12).