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For further details with respect to this action, see the application for license amendment dated February 8, 2018.

Attorney for licensee: Jeffrie J. Keenan, PSEG Nuclear LLC–N21, P.O. Box 236, Hancocks Bridge, NJ 08038.

NRC Branch Chief: James G. Danna.

Dated at Rockville, Maryland, on February 26, 2018.

For the Nuclear Regulatory Commission.

James G. Danna,

Chief, Plant Licensing Branch I, Division of Operating Reactor Licensing, Office of Nuclear Reactor Regulation.

[FR Doc. 2018–04182 Filed 2–28–18; 8:45 am]

BILLING CODE 7590–01–P

POSTAL REGULATORY COMMISSION

[Docket Nos. CP2018–171; MC2018–126 and CP2018–172]

New Postal Products

AGENCY: Postal Regulatory Commission.

ACTION: Notice.

SUMMARY: The Commission is noticing a recent Postal Service filing for the Commission’s consideration concerning negotiated service agreements. This notice informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* March 5, 2018.

ADDRESSES: Submit comments electronically via the Commission’s Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: David A. Trissell, General Counsel, at 202–789–6820.

SUPPLEMENTARY INFORMATION:

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- I. Introduction
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I. Introduction

The Commission gives notice that the Postal Service filed request(s) for the Commission to consider matters related to negotiated service agreement(s). The

request(s) may propose the addition or removal of a negotiated service agreement from the market dominant or the competitive product list, or the modification of an existing product currently appearing on the market dominant or the competitive product list.

Section II identifies the docket number(s) associated with each Postal Service request, the title of each Postal Service request, the request’s acceptance date, and the authority cited by the Postal Service for each request. For each request, the Commission appoints an officer of the Commission to represent the interests of the general public in the proceeding, pursuant to 39 U.S.C. 505 (Public Representative). Section II also establishes comment deadline(s) pertaining to each request.

The public portions of the Postal Service’s request(s) can be accessed via the Commission’s website (<http://www.prc.gov>). Non-public portions of the Postal Service’s request(s), if any, can be accessed through compliance with the requirements of 39 CFR 3007.40.

The Commission invites comments on whether the Postal Service’s request(s) in the captioned docket(s) are consistent with the policies of title 39. For request(s) that the Postal Service states concern market dominant product(s), applicable statutory and regulatory requirements include 39 U.S.C. 3622, 39 U.S.C. 3642, 39 CFR part 3010, and 39 CFR part 3020, subpart B. For request(s) that the Postal Service states concern competitive product(s), applicable statutory and regulatory requirements include 39 U.S.C. 3632, 39 U.S.C. 3633, 39 U.S.C. 3642, 39 CFR part 3015, and 39 CFR part 3020, subpart B. Comment deadline(s) for each request appear in section II.

II. Docketed Proceeding(s)

1. *Docket No(s):* CP2018–171; *Filing Title:* Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 9 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal; *Filing Acceptance Date:* February 23, 2018; *Filing Authority:* 39 CFR 3015.5; *Public Representative:* Timothy J. Schwuchow; *Comments Due:* March 5, 2018.

2. *Docket No(s):* MC2018–126 and CP2018–172; *Filing Title:* USPS Request to Add Priority Mail Contract 422 to Competitive Product List and Notice of Filing Materials Under Seal; *Filing Acceptance Date:* February 23, 2018; *Filing Authority:* 39 U.S.C. 3642 and 39 CFR 3020.30 *et seq.*; *Public*

Representative: Timothy J. Schwuchow; *Comments Due:* March 5, 2018.

This Notice will be published in the **Federal Register**.

Stacy L. Ruble,

Secretary.

[FR Doc. 2018–04168 Filed 2–28–18; 8:45 am]

BILLING CODE 7710–FW–P

POSTAL SERVICE

Product Change—Priority Mail Negotiated Service Agreement

AGENCY: Postal Service™.

ACTION: Notice.

SUMMARY: The Postal Service gives notice of filing a request with the Postal Regulatory Commission to add a domestic shipping services contract to the list of Negotiated Service Agreements in the Mail Classification Schedule’s Competitive Products List.

DATES: *Date of required notice:* March 1, 2018.

FOR FURTHER INFORMATION CONTACT:

Elizabeth A. Reed, 202–268–3179.

SUPPLEMENTARY INFORMATION: The United States Postal Service® hereby gives notice that, pursuant to 39 U.S.C. 3642 and 3632(b)(3), on February 23, 2018, it filed with the Postal Regulatory Commission a *USPS Request to Add Priority Mail Contract 422 to Competitive Product List*. Documents are available at www.prc.gov, Docket Nos. MC2018–126, CP2018–172.

Elizabeth A. Reed,

Attorney, Corporate and Postal Business Law.

[FR Doc. 2018–04120 Filed 2–28–18; 8:45 am]

BILLING CODE 7710–12–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–82770; File No. SR–CBOE–2017–057]

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

February 23, 2018.

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 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.

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 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 Exchange compares the trading characteristics of

¹⁵ See Notice, *supra* note 4, at 41459.

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

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).

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>.

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.

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

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 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 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

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 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 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.

³² See Amendment No. 1.

³³ See *id.*

³⁴ See Amendment No. 2.

³⁵ See Notice, *supra* note 4, at 41460.

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 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 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,

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.

⁴² See *id.* at 41459.

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 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 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

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).

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.*

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.

⁴⁹ See SIFMA Letter at 1–2.

⁵⁰ See *id.* at 2.

⁵¹ See *id.*

⁵² See *id.*

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 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.

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 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 email 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 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 (<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 March 22, 2018.

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

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 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.*

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.

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.

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.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82769; File No. SR-CboeEDGX-2018-006]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend EDGX Rule 21.1(c) To Further Align the Exchange's Rules With That of Cboe BZX Exchange, Inc. as They Relate to the Equity Options Platform

February 23, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 13, 2018, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule

19b-4(f)(6)(iii) thereunder,⁴ which renders it effective upon filing with the Commission. 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

The Exchange filed a proposal to amend Exchange Rule 21.1(c) to further align the Exchange's rules with the Rule 21.1(c) of Cboe BZX Exchange, Inc. ("BZX Options"), an options platform affiliated with the Exchange.

(additions are *italicized*; deletions are [bracketed])

* * * * *

Rules of Cboe EDGX Exchange, Inc.

* * * * *

Rule 21.1. Definitions

The following definitions apply to Chapter XXI for the trading of options listed on EDGX Options.

(a)–(b) (No change).

(c) The term "Order" shall mean a single order submitted to the System by a User and shall include both Attributable and Non-Attributable Orders, as defined below. The System shall treat all Orders as *Non-Attributable* Orders unless a User has entered instructions to treat such Orders as [Non-]Attributable Orders.

(1)–(2) (No change).

(d)–(i) (No change).

* * * * *

The text of the proposed rule change is available at the Exchange's website at www.markets.cboe.com, at the principal office of the Exchange, 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 Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to amend Exchange Rule 21.1(c) to further align the Exchange's rules with the Rule 21.1(c) of Cboe BZX Exchange, Inc. ("BZX Options"), an options platform affiliated with the Exchange.

Pursuant to EDGX Options Rule 21.1(c) the default treatment on EDGX Options is that an order is an Attributable Order unless a User directs otherwise. This is the opposite of BZX Options, which provides that the default treatment is that an order is a Non-Attributable Order unless a User directs otherwise. In order to align the Exchange's rules with BZX Options rules the Exchange seeks to amend EDGX Options Rule 21.1(c) to provide that an order is a Non-Attributable Order unless a User directs otherwise.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁵ in general, and furthers the objectives of Section 6(b)(5) of the Act⁶ in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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.

The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission. The Exchange notes that the proposed rule text is based on BZX Options Rule 21.1(c). The proposed rule change is intended to further align BZX Options Rule 21.1(c) with the rules of BZX Options in order to provide consistent functionality across the Exchange and its affiliate. More consistent functionality between the Exchange and BZX Options will reduce complexity and may help to avoid potential confusion by Users of the Exchange that are also participants on BZX Options. As such, the proposed rule change will foster cooperation and coordination with persons engaged in facilitating transactions in securities and will remove impediments to and perfect the mechanism of a free and open market and national market system.

⁶⁷ 15 U.S.C. 78s(b)(2).

⁶⁸ 15 U.S.C. 78s(b)(2).

⁶⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).