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July 12, 2018

Via Electronic Mail (rule-comments@sec.gov)
Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Position Limit for SPY Options (File No. SR-CBOE-2018-042)

Dear Mr. Fields:

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to comment on the above-referenced filing (the "Filing" or the "Cboe Filing") made by Cboe Exchange, Inc. ("Cboe" or "Exchange") with the Securities and Exchange Commission ("SEC" or "Commission"). In the Filing, Cboe proposes to amend Rule 4.11 to amend the position limit for options on SPDR S&P 500 ETF Trust (''SPY'').[2] More specifically, the proposal would establish a position limit of 1,800,000 contracts whereas currently there are no position limits on SPY options. As discussed below, SIFMA recommends that Cboe withdraw the filing and that the current pilot be extended until July 12, 2019. This will allow the Exchange to utilize a data driven approach to determine whether the position limits in SPY remain unlimited, or, if new limits should be established.

SIFMA has historically supported increased position limits, and we submitted a comment letter in support of a recently approved Cboe proposal to increase position limits for several ETFs since the "proposal will lead to a more liquid and competitive market environment for these options that will benefit customers interested in this product."[3] SPY has not been subject to position limits since 2012, when the SEC approved a filing by NYSE Amex LLC to eliminate position limits for SPY options on a pilot basis.[4] In its 2012 filing, NYSE Amex stated that

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[1] SIFMA is them voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $20 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] See Release No. 34-83415 (June 12, 2018), 83 FR 28274 (June 18, 2018).

[3] See Release No. 34-82770 (February 23, 2018), 83 FR 8907 (March 1, 2018).

[4] See Release No. 34-67672 (August 15, 2012), 77 FR 50750 (August 22, 2012).

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"SPY options with no position limit will (1) offer investors another investment option through which they could obtain and hedge significant levels of exposure to the S&P 500 stocks, (2) be available to trade on the Exchange (and presumably all other U.S. options exchanges) electronically, and (3) provide investors with added flexibility through an additional product that, in the Exchange's view, may be better tailored to meet their particular investment, hedging, and trading needs, because, among other things, they are p.m.-settled.."[5] NYSE Amex also noted "the current treatment of SPX index options and SPXPM index options, both of which, like SPY options, are based on the S&P 500, and neither of which is subject to position limits."[6] As such, NYSE Amex stated that, because SPX, SPXPM, and SPY options are ultimately derivative of the same benchmark – the S&P 500 Index – they should be treated equally from a position limit perspective."[7]

The SEC determined that the proposed rule was consistent with the requirements of the Exchange Act and therefore approved the elimination of position limits on SPY options.[8] In doing so, the SEC noted the "gradual, evolutionary approach toward expansion of position 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."[9] The Commission also expressed the belief that "eliminating position limits on the highly liquid SPY options represents the next step of a measured approach to position limits on these options."[10]

In the subsequent years since approval of eliminating position limits on SPY options, NYSE Amex has submitted data recommending an extension of the SPY Position Limit Pilot Program. Annually, NYSE Amex provides data in the form of a Pilot Report that details the "size and different types of strategies employed with respect to positions established as a result of the elimination of position limits in SPY options and also notes whether any programs resulted due to the no limit approach and any other information that may be useful in evaluating the effectiveness of the Pilot."[11] In its 2017 study, which recommended a continuation of the pilot program, the exchange concluded that the "study described above does not reveal that the Pilot resulted in any adverse consequences in terms of increased volatility, changes in open interest, or increases in large bullish or large bearish positions. With respect to volume, the Pilot has potentially proven to be beneficial to those participants who clear in the customer range at OCC, as the increase in SPY customer volume during the Pilot has been greater than the increase in SPX customer volume as compared to the Pre-Pilot period. The Exchange believes that there is ample evidence to support a continuation of the Pilot at this time."[12]

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[5] See 77 FR at 50751.

[6] *Id.*

[7] *Id.*

[8] See 77 FR at 50752.

[9] See 77 FR at 50753.

[10] See 77 FR at 50753.

[11] See 77 FR at 50754.

[12] See Release No. 34-81130 (July 12, 2017), 82 FR 32906 (July 18, 2017).

The recent Cboe filing, which seeks to amend the Exchange Rule 4.11, states that "In lieu of extending the SPY Pilot Program another year, the Exchange proposes to allow the SPY Pilot Program to terminate and to establish position (and exercise) limits of 1,800,000 contracts for options on SPY, with such change becoming operative on July 12, 2018, so that there is no lapse in time between termination of the SPY Pilot Program and the establishment of the new limits. Furthermore, as a result of the termination of the SPY Pilot Program, the Exchange does not believe it is necessary to submit a SPY Pilot Program Report at the end of the SPY Pilot Program. Based on the prior SPY Pilot Program Reports provided to the Commission, the Exchange believes it is appropriate to terminate the SPY Pilot Program and that permanent position (and exercise) limits should be established for SPY."[13]

The Cboe filing lacks an explanation for the establishment of position limits at this point, and the filing does not reconcile the new position limits with Cboe's 2017 filing, which extended the pilot period to July 12, 2018[14]. In the filing, Cboe notes that it is unaware of any problems created by the SPY Pilot Program and does not foresee any as a result of the proposed extension. In extending the SPY Pilot Program, the Exchange states that if CBOE were to propose another extension, permanent approval or termination of the SPY Pilot Program, the Exchange will submit another Pilot Report covering the period since the previous extension, which will be submitted at least 30 days before the end of the proposed extension.[15]

While the CBOE filing outlines why position limits should be the same as the QQQs, at no time does it reference data from six-year pilot period. SIFMA recommends that Cboe withdraw its filing and that the pilot period be extended while the exchanges evaluates data to determine whether the position limits should remain unlimited, or indeed, if position limits should be established for SPY. This approach ensures that whatever decision is reached is based on the underlying data as opposed to the reasoning outlined in the filing which seemingly establishes SPY position limits based on the characteristics of another ETF rather than the merits of the security under review.

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SIFMA greatly appreciates the Commission's consideration of our comments on File No. SR-CBOE-2018-042 and would be pleased to discuss these comments in greater detail with the staff. If you have any questions, please contact Ellen Greene at (212) 313-1287 or egreene@sifma.org.

Sincerely,

Ellen Greene

Ellen Greene
Managing Director

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[13] *See* 83 FR at 28275.

[14] See 82 FR at 32906.

[15] *Id.*

cc: The Honorable Jay Clayton, Chairman, SEC
The Honorable Robert J. Jackson Jr., Commissioner, SEC
The Honorable Hester M. Peirce, Commissioner, SEC
The Honorable Kara M. Stein, Commissioner, SEC

Brett Redfearn, Director, Division of Trading and Markets, SEC
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Edward T. Tilly, Chairman and CEO, Cboe Global Markets