SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of 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 Certain ETFs


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),

and Rule 19b–4 thereunder, notice is hereby given that on August 15, 2017, Chicago Board Options Exchange, Incorporated (the "Exchange") filed with the Securities and Exchange Commission (the "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

The purpose of this filing is 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 notes ("ETNs"): iShares China Large-Cap ETF ("FXI"), iShares MSCI Emerging Markets ETF ("EEM"), iShares Russell 2000 ETF ("IWM"), iShares MSCI EAFE ETF ("EFA"), iShares MSCI Brazil Capped ETF ("EWZ"), iShares 20+ Year Treasury Bond Fund ETF ("TLT"), iPath S&P 500 VIX Short-Term Futures ETN ("VXX"), PowerShares QQQ Trust ("QQQ") and iShares MSCI Japan Index (sic) ("EWJ").

The text of the proposed rule change is also available on the Exchange’s Web site (http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), 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 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

Position limits are designed to address potential manipulative schemes and adverse market impact surrounding the use of options, such as disrupting the market in the security underlying the options. The potential manipulative schemes and adverse market impact are balanced against the potential of setting the limits so low as to discourage market participation in the options market. Position limits for options on ETFs and ETNs, such as those subject to this proposal, are determined pursuant to Exchange Rule 4.11, and vary according to the number of outstanding shares and the trading volume of the underlying stocks, ETFs, or ETNs over the past six months. Pursuant to Exchange Rule 4.11, the largest in capitalization and the most frequently traded stocks, ETFs, and ETNs have an option position limit of 250,000 contracts (with adjustments for splits, re-capitalizations, etc.) on the same side of the market. Options on FXI, EFA, EWZ, TLT, VXX, and EWJ are currently subject to the standard position limit of 250,000 contracts as set forth in Exchange Rule 4.11. Interpretation and Policy .07 of Exchange Rule 4.11 sets forth separate position limits for options on specific ETNs and ETFs as follows:

• Options on EEM are 500,000 contracts;
• Options on IWM are 500,000 contracts; and
• Options on QQQQ are 900,000 contracts.

The purpose of this proposal is to amend Interpretation and Policy .07 to Exchange Rule 4.11 to double the position and exercise limits for FXI, EEM, IWM, EFA, EWZ, TLT, VXX, QQQQ, and EWJ. As such, options on FXI, EFA, EWZ, TLT, VXX, and EWJ would no longer be subject to the standard position limits set forth under Exchange Rule 4.11. Accordingly, Interpretation and Policy .07 to Exchange Rule 4.11 would be amended to set forth that the position limits for option on FXI, EFA, EWZ, TLT, VXX, and EWJ would be 500,000 contracts. These position limits equal the current position limits for option on IWM and EMM and are similar to the current position limit for options on QQQQ set forth in Interpretation and Policy .07 to Exchange Rule 4.11. Interpretation and Policy .07 to Exchange Rule 4.11 would be further amended to increase the position limits for the remaining options subject to this proposal as follows:

• The position limits for options on EEM would be increased from 500,000 contracts to 1,000,000 contracts;
• The position limits on options on IWM would be increased from 500,000 contracts to 1,000,000 contracts; and
• The position limits on options on QQQQ would be increased from 900,000 contracts to 1,800,000 contracts.

In support of this proposal, the Exchange represents that the above listed ETFs and ETNs qualify for either: (i) The initial listing criteria set forth in Exchange Rule 5.3.06(C) for ETFs holding non-U.S. component securities; or (ii) for ETFs and ETNs listed pursuant to generic listing standards for series of portfolio depository receipts and index fund shares based on...
tracks the performance of the MSCI Brazil 25/50 Index, which is composed of shares of large and mid-size companies in Brazil.\(^12\) TLT tracks the performance of ICE U.S. Treasury 20+ Year Bond Index, which is composed of long-term U.S. Treasury bonds.\(^13\) VXX tracks the performance of S&P 500 VIX Short-Term Futures Index Total Return. “The Index is designed to provide access to equity market volatility through CBOE Volatility Index futures. The Index offers exposure to a daily rolling long position in the first and second month VIX futures contracts and reflects market participants’ views of the future direction of the VIX index at the time of expiration of the VIX futures contracts comprising the Index.”\(^14\) QQQQ tracks the performance of the Nasdaq-100 Index, which is composed of 100 of the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market LLC (“Nasdaq”).\(^15\) EWJ tracks the MSCI Japan Index, which tracks the performance of large and mid-sized companies in Japan.\(^16\) CBOE represents that more than 50% of the weight of the securities held by the options subject to this proposal are also subject to a CSA.\(^17\) Additionally, the component securities of the MSCI Emerging Markets Index on which EEM is based for which the primary market is in any one country that is not subject to a CSA do not represent 20% or more of the weight of the MSCI Emerging Markets Index.\(^18\) Finally, the component securities of the MSCI Emerging Markets Index on which EEM is based for which the primary market is in any two countries that are not subject to CSAs do not represent 33% of the total market cap of the component securities included in the index.

ETFs and ETNs that are subject to trading in the U.S. may also trade on exchanges in other countries.

In support of its proposal to increase the position limits for QQQQ to 1,800,000 contracts, the Exchange compared the trading characteristics of QQQQ to that of the SPDR S&P 500 ETF (“SPY”), which has no position limits. As shown in the above table, the average daily trading volume through August 14, 2017 for QQQQ was 26.25 million shares compared to 64.63 million shares for SPY. The total shares outstanding for QQQQ are 351.6 million compared to 976.23 million for SPY. The fund market cap for QQQQ is $50,359.7 million compared to $240,540 million for SPY. SPY is one of the most actively traded ETFs and is, therefore, subject to no position limits. QQQQ is also very actively traded, and while not to the level of SPY, should be subject to the proposed higher position limits based on its trading characteristics when compared to SPY.

The proposed position limit coupled with 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 options.

In support of its proposal to increase the position limits for EEM and IWM from 500,000 contracts to 1,000,000 contracts, the Exchange compared the trading characteristics of EEM and IWM to that of QQQQ, which currently has a position limit of 900,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for EEM was 52.12 million shares


\(^{17}\) See Exchange Rule 5.3.06(C).\(^{18}\) See Exchange Rule 5.3.06(C)(ii)(b).\(^{19}\) See Exchange Rule 5.3.06(C)(ii)(c).
and IWM was 27.46 million shares compared to 26.25 million shares for QQQQ. The total shares outstanding for EEM are 797.4 million and for IWM are 253.1 million compared to 351.6 million for QQQQ. The fund market cap for EEM is $34,926.1 million and IWM is $35,809.1 million compared to $50,359.7 million for QQQQ. EEM, IWM and QQQQ have similar trading characteristics and subjecting EEM and IWM to the proposed higher position limit would continue to be designed to address potential manipulate schemes that may arise from trading in the options and their underlying securities. These above trading characteristics for QQQQ when compared to EEM and IWM also justify increasing the position limit for QQQQ. QQQQ has a higher options ADV than EEM and IWM, a higher numbers of shares outstanding than IWM and a much higher market cap than EEM and IWM which justify doubling the position limit for QQQQ. Based on these statistics, and as stated above, the proposed position limit coupled with 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 the options.

In support of its proposal to increase the position limits for FXI, EFA, EWZ, TLT, VXX and EWJ from 250,000 contracts to 500,000 contracts, the Exchange compared the trading characteristics of FXI, EFA, EWZ, TLT, VXX and EWJ to that of EEM and IWM, both of which currently have a position limit of 500,000 contracts. As shown in the above table, the average daily trading volume through July 31, 2017 for FXI is 15.08 million shares, EFA is 19.42 million shares, EWZ is 17.08 million shares, TLT is 8.53 million shares, VXX is 55.04 million shares, and EWJ is 6.06 million shares compared to 52.12 million shares for EEM and 27.46 million shares for IWM. The total shares outstanding for FXI is 78.6 million, EFA is 1178.4 million, EWZ is 159.4 million, TLT is 60 million, VXX is 96.7 million, and EWJ is 303.6 million compared to 797.4 million for EEM and 253.1 million for IWM. The fund market cap for FXI is $3,343.6 million, EFA is $78,870.3 million, EWZ is $6,023.4 million, TLT is $7,442.4 million, VXX is $1,085.6 million, and EWJ is $35,809.1 million compared to $34,926.1 million for EEM and $35,809.1 million for IWM.

Market participants’ trading activity has been adversely impacted by the current position limits for FXI, EFA, EWZ, TLT, VXX, and EWJ and such limits have caused options trading in these symbols to move from exchanges to the over-the-counter market. The above trading characteristics of FXI, EFA, EWZ, TLT, VXX and EWJ is either similar to that of EEM and IWM or sufficiently active enough so that the proposed limit would continue to address potential manipulative that may arise. Specifically, VXX has an average daily trading volume similar to EEM and higher than IWM. VXX has an options volume higher than EEM, more shares outstanding than IWM and a larger fund market cap than both EEM and IWM. EFA has far more shares outstanding and a larger fund market cap than EEM, IWM, and QQQQ. EWJ has a more shares outstanding than IWM and only slightly less shares outstanding than QQQQ.

On the other hand, while FXI, EWZ, and TLT do not exceed EEM, IWM or QQQQ is any of the specified areas, they are all actively trading so that market participant’s trading activity has been impacted by them being restricted by the current position limits. The Exchange believes that the trading activity and these securities being based on a broad basket of underlying securities alleviates any potential manipulative activity that may arise. In addition, as discussed in more detail below, the Exchange’s 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.

The Exchange believes that increasing the position limits for the options subject to this proposal would lead to a more liquid and competitive market environment for these options, which will benefit customers interested in this product. Under the proposal, the reporting requirement for the above options would be unchanged. Thus, the Exchange would still require that each Trading Permit Holder (“TPH”) or TPH organization that maintains a position in the options on the same side of the market, for its own account or for the account of a customer, report certain information to the Exchange. This information would include, but would not be limited to, the options’ position, whether such position is hedged and, if so, a description of the hedge, and the collateral used to carry the position, if applicable. Exchange Market-Makers20 (including Designated Primary Market-Makers)21 would continue to be exempt from this reporting requirement, as Market-Maker information can be accessed through the Exchange’s market surveillance systems. In addition, the general reporting requirement for customer accounts that maintain an aggregate position of 200 or more options contracts would remain at this level for the options subject to this proposal.22

The Exchange believes 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. In addition, routine oversight inspections of the Exchange’s regulatory programs by the Commission have not uncovered any material inconsistencies or shortcomings in the manner in which the Exchange’s market surveillance is conducted. These procedures utilize daily monitoring of market movements via automated surveillance techniques to identify unusual activity in both options and underlying stocks.23

Furthermore, large stock holdings must be disclosed to the Commission by way of Schedules 13D or 13G.24 The positions for options subject to this proposal are part of any reportable positions and, thus, cannot be legally hidden. Moreover, the Exchange’s requirement that TPHs file reports with the Exchange for any customer who held aggregate large long or short positions of any single class for the previous day will continue to serve as an important part of the Exchange’s surveillance efforts.

The Exchange believes 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 un-hedged position in the options subject to this proposal. Current margin and risk-based haircut methodologies 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

21 A Designated Primary Market-Maker “is TPH organization that is approved by the Exchange to function in allocated securities as a Market-Maker (as defined in Rule 8.1) and subject to the obligations under Rule 8.85 or as otherwise provided under the rules of the Exchange.” See Exchange Rule 8.80(a).
22 See Exchange Rule 4.13 for reporting requirements.
23 These procedures have been effective for the surveillance of trading the options subject to this proposal and will continue to be employed.
customer.\textsuperscript{25} In addition, Rule 15c3–1\textsuperscript{26} imposes a capital charge on TPHs to the extent of any margin deficiency resulting from the higher margin requirement.

2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.\textsuperscript{27} In particular, the proposal is consistent with Section 6(b)(5) of the Act\textsuperscript{28} because it is 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 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 current position limits for the options subject to this proposal have inhibited the ability of Market Makers to make markets on the Exchange. Specifically, the proposal is designed to encourage Market Makers to shift liquidity from over the counter markets onto the Exchange, which will enhance the process of price discovery conducted on the Exchange through increased order flow. The proposal will also benefit institutional investors as well as retail traders, and public customers, by providing them with a more effective trading and hedging vehicle. In addition, the Exchange believes that the structure of the ETFs and ETNs subject to this proposal and the considerable liquidity of the market for options on those ETFs and ETNs diminishes the opportunity to manipulate this product and disrupt the underlying market that a lower position limit may protect against.

Increased position limits for select actively traded options, such as that proposed herein, is not novel and has been previously approved by the Commission. For example, the Commission has previously approved, on a pilot basis, eliminating position limits for options on...\textsuperscript{29} Additionally, the Commission has approved similar proposed rule changes to increase position limits for options on highly liquid, actively-traded ETFs,\textsuperscript{30} including a proposal to permanently eliminate the position and exercise limits for options overlaying the S&P 500 Index, S&P 100 Index, Dow Jones Industrial Average, and Nasdaq 100 Index.\textsuperscript{31} In approving the permanent elimination of position and exercise limits, the Commission relied heavily upon the Exchange’s surveillance capabilities, the Commission expressed trust in the enhanced surveillance and reporting safeguards that the Exchange took in order to detect and deter possible manipulative behavior which might arise from eliminating position and exercise limits.\textsuperscript{32} Furthermore, as described more fully above, options on other ETFs a have the position limits proposed herein with similar trading characteristics and trading volumes than similar to the ETFs and ETNs subject to the proposed rule change.

Lastly, the Commission expressed the belief that removing position and exercise limits may bring additional depth and liquidity without increasing concerns regarding intermarket manipulation or disruption of the options or the underlying securities.\textsuperscript{33} The Exchange’s enhanced surveillance and reporting safeguards continue to be designed to deter and detect possible manipulative behavior which might arise from eliminating position and exercise limits.

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 not necessary or appropriate in furtherance of the purposes of the Act. On the contrary, the Exchange believes the proposal promotes competition because it will enable other exchanges which refer to the Exchange’s rules concerning position limits to attract additional order flow from the over-the-counter market to exchanges, who would in turn compete amongst each other for those orders.\textsuperscript{34} The Exchange believes that the proposed rule change will result in additional opportunities to achieve the investment and trading objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. By order approve or disapprove such proposed rule change, or
B. institute proceedings to determine whether the proposed rule change should be disapproved.

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 (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

\textsuperscript{25} See Exchange Rule 12.3 for a description of margin requirements.

\textsuperscript{26} 17 CFR 240.15c3–1.

\textsuperscript{27} 15 U.S.C. 78f(b).

\textsuperscript{28} 15 U.S.C. 78f(b)(5).


\textsuperscript{33} See NDX Approval at 62149.

\textsuperscript{34} For example, Nasdaq position limits are determined by the position limits established by the Exchange. See Nasdaq Rule Sec. 7 (Position Limits).
comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (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 Web site 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; the Commission does not edit personal identifying information from 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 September 21, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.35

Eduardo A.Aleman, Assistant Secretary.

[FR Doc. 2017–18446 Filed 8–30–17; 8:45 am]
BILLING CODE 8011–01–P

DEPARTMENT OF STATE
[Public Notice 10105]
Industry Advisory Group: Notice of Charter Renewal

The Department of State has approved the renewal of the charter for the Bureau of Overseas Buildings Operations’ (OBO) Industry Advisory Group for an additional two-year period. The group’s annual meeting is held in the Harry S Truman Building at the U.S. Department of State, located at 2201 C Street NW., Washington, DC. Each meeting is devoted to an exchange of ideas between OBO’s senior management and the group members on issues relating to property management; site acquisition; project planning; design and engineering; construction; facility maintenance; and building operations. The meetings are open to the public and are subject to advance registration and provision of required security information. Procedures for registration are included with each meeting announcement, no later than fifteen business days before each meeting.

OBO’s mission is to provide safe, secure and functional facilities that represent American values and the best in American architecture, engineering, technology, sustainability, art, culture, and construction execution. For further information, please contact Christine Foushee at 312–353–1242 or FousheeCT@state.gov.

William Moser,
Director, Acting, Overseas Buildings Operations, Department of State.

For further information, please contact Christine Foushee at 312–353–1242 or FousheeCT@state.gov.

SURFACE TRANSPORTATION BOARD
[Docket No. AB 303 (Sub-No. 48X)]

Wisconsin Central Ltd.—Discontinuance of Service Exemption—in Waupaca County, Wis

Wisconsin Central Ltd. (WCL) has filed a verified notice of exemption under 49 CFR pt. 1152 subpart F—Exempt Abandoments and Discontinuances of Service to discontinue service over approximately 10.3 miles of rail line extending from milepost 40.0 in New London, Wis. to milepost 50.3 in Manawa, Wis., Waupaca County, Wis. (the Line). The Line traverses United States Postal Service Zip Code 54949 and 54961.

WCL has certified that: (1) No local traffic has moved over the Line for at least two years; (2) no overhead traffic on the Line needs to be rerouted; (3) no formal complaint filed by a user of a rail service on the Line (or by a state or local government entity acting on behalf of such user) regarding cessation of service over the Line is pending either with the Surface Transportation Board (Board) or with any U.S. District Court or has been decided in favor of a complainant within the two-year period; and (4) the requirements at 49 CFR 1105.12 (newspaper publication) and 49 CFR 1152.50(d)(1)(notice to governmental agencies) have been met.

As a condition to this exemption, any employee adversely affected by the discontinuance of service shall be protected under Oregon Short Line Railroad—Abandonment Portion Goshen Branch Between Firth & Ammon, in Bingham & Bonneville Counties, Idaho, 360 I.C.C. 91 (1979). To address whether this condition adequately protects affected employees, a petition for partial revocation under 49 U.S.C. 10502(d) must be filed.

Provided no formal expression of intent to file an offer of financial assistance (OFA) to subsidize continued rail service has been received, this exemption will be effective September 30, 2017, unless stayed pending reconsideration. Petitions to stay that do not involve environmental issues and formal expressions of intent to file an OFA to subsidize continued rail service under 49 CFR 1152.27(c)(2),1 must be filed by September 8, 2017.2 Petitions for reconsideration must be filed by September 30, 2017, with the Surface Transportation Board, 395 E Street SW., Washington, DC 20423–0001.

A copy of any petition filed with Board should be sent to WCL’s representative, Audrey L. Brodrick, Fletcher & Sippell LLC, 29 North Wacker Drive, Suite 920, Chicago, IL 60606.

If the verified notice contains false or misleading information, the exemption is void ab initio.

Board decisions and notices are available on our Web site at “WWW.STB.GOV.”


By the Board, Rachel D. Campbell, Director, Office of Proceedings.

Marline Simeon,
Clearance Clerk.

[FR Doc. 2017–18483 Filed 8–30–17; 8:45 am]
BILLING CODE 4915–01–P

SURFACE TRANSPORTATION BOARD
[Docket No. AB 1244X]

Columbia & Cowlitz Railway, LLC—Abandonment Exemption—in Cowlitz County, Wash

Columbia & Cowlitz Railway, LLC (CLC), has filed a verified notice of exemption under 49 CFR pt. 1152 subpart F—Exempt Abandonments to abandon an approximately 7-mile rail line between milepost 1.5 at Longview and milepost 8.5 at Ostrander Junction, Idaho.

1 Each OFA must be accompanied by the filing fee, which currently is set at $1,700. See 49 CFR 1002.2(f)(25). Effective on September 1, 2017, the fee will increase to $1,800. See Regulations Governing Fees for Servs. Performed in Connection with Licensing & Related Servs.—2017 Update, EP 542 (Sub-No. 25) [STB served July 28, 2017].

2 Because this is a discontinuance proceeding and not an abandonment, trail use/rail banking and public use conditions are not appropriate. Because there will be an environmental review during abandonment, this discontinuance does not require environmental review.