



SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-102402; File No. SR-NYSEARCA-2025-07)

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend Rules Regarding the Position and Exercise Limits for Options on the Grayscale Bitcoin Trust and to Permit Flexible Exchange Options on the Grayscale Bitcoin Trust

February 11, 2025

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on January 29, 2025, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. On February 7, 2025, the Exchange filed Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend certain rules to increase the position and exercise limits for options on the Grayscale Bitcoin Trust (BTC) (“GBTC”) and to permit Flexible Exchange (“FLEX”) Options on GBTC. The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.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 self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

it received on the proposed rule change. The text of those 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 certain rules to increase the position (and exercise) limits for options on GBTC and to permit GBTC options to trade as FLEX Equity Options (“FLEX GBTC”) as described herein. Specifically, the Exchange proposes to (1) amend Commentary .06(f) to Rule 6.8-O (Position Limits) to increase the position limits for GBTC options from 25,000 contracts to 250,000 contracts; and (2) amend Rules 5.32-O(f)(1) (Terms of FLEX) and 5.36-O(b) (Position Limits) to permit FLEX GBTC options and to aggregate FLEX GBTC positions with non-FLEX GBTC positions.

The Exchange notes that this proposal is competitive as Nasdaq ISE, LLC (“ISE”) recently filed a substantively identical proposal to increase the position and exercise limits for options on the iShares Bitcoin Trust ETF (“IBIT”) from 25,000 to 250,000 contracts and permit trading of FLEX options on IBIT.<sup>4</sup>

Background

GBTC is an ETF that holds bitcoin and is listed on the Exchange.<sup>5</sup> On October 18, 2024, the Commission approved the listing and trading of GBTC options on NYSE American, LLC

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<sup>4</sup> See Securities Exchange Act Release No. 102065 (December 31, 2024) 90 FR 704 (January 6, 2025) (SR-ISE-2024-62) (notice of proposal to modify Options 9, Sections 13 and 15, to increase the IBIT options position and exercise limits from 25,000 to 250,000 contracts) (the “IBIT Proposal”). Although the IBIT Proposal focuses on position limits, ISE proposes to modify its rules in Options 3A, FLEX Options Trading Rules, Section 18, to aggregate “position limits on FLEX Equity Options for [IBIT]” with non-FLEX IBIT options. See id.

<sup>5</sup> NYSE Arca received approval to list and trade Bitcoin-Based Commodity-Based Trust Shares in GBTC pursuant to NYSE Arca Rule 8.201-E(c)(1). See Securities Exchange Act Release No. 99306 (January 10, 2024), 89 FR 3008 (January 17, 2024) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, to list and trade options on, among other ETFs, GBTC) (SR-NYSEARCA-2021-90).

(“NYSE American”).<sup>6</sup> On November 22, 2024, the Exchange obtained rule authority to trade GBTC options.<sup>7</sup> The position (and exercise) limits for GBTC options are 25,000 contracts, as set forth in Rule 6.8-O, Commentary .06(f), the lowest limit available in options.<sup>8</sup>

FLEX Equity Options are not generally subject to position (or exercise) limits.<sup>9</sup> Today, pursuant to Rule 5.32-O(f)(1), GBTC options are not approved for FLEX trading.<sup>10</sup> Therefore, the 25,000-contract limit for GBTC options currently applies solely to non-FLEX GBTC.

Per the Commission “rules regarding position and exercise limits are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options positions.”<sup>11</sup> For this reason, the Commission requires that “position and exercise limits must be sufficient to prevent investors from disrupting the market for the underlying security by acquiring and exercising a number of options contracts disproportionate to the deliverable supply and average trading volume of the underlying security.”<sup>12</sup> Based on its review of the data and analysis provided by NYSE American, the Commission concluded that the proposed 25,000-contract position limit for GBTC options satisfied these objectives.<sup>13</sup> The Exchange adopted the already-approved 25,000-contract limit for GBTC options.<sup>14</sup>

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<sup>6</sup> See Securities Exchange Act Release No. 101386 (October 18, 2024), 89 FR 84960 (October 24, 2024) (SR-NYSEAMER-2024-49) (order approving rules to permit the listing and trading of GBTC options) (the “GBTC Options Approval Order”).

<sup>7</sup> See Securities Exchange Act Release No. 101713 (November 22, 2024), 89 FR 94839 (November 29, 2024) (SR-NYSEARCA-2024-101) (notice of immediately effective rule change to permit GBTC options trading, based on the already-approved NYSE American rules) (the “Arca GBTC Options Notice”).

<sup>8</sup> See also Rule 6.9-O (Exercise Limits). Pursuant to Rule 6.8-O, Commentary .06(f), the following ETFs are also subject to a 25,000-contract position and exercise limit: the Grayscale Bitcoin Mini Trust BTC (“BTC”) and the Bitwise Bitcoin ETF (“BITB”), options on BTC, BITB, iShares Bitcoin Trust ETF (“IBIT”), Fidelity Wise Origin Bitcoin Fund (“FBTC”), and ARK 21Shares Bitcoin (“ARKB”).

<sup>9</sup> See Rule 5.35-O(b) (subject to the exceptions enumerated in the rule “there shall be no position limits” for FLEX Equity Options).

<sup>10</sup> Pursuant to Rule 5.32-O(f)(1), FLEX trading is also not available for options on BTC, BITB, IBIT, FBTC, and ARKB.

<sup>11</sup> See GBTC Options Approval Order, 89 FR, at 84971.

<sup>12</sup> See *id.*

<sup>13</sup> See *id.*

<sup>14</sup> See Arca GBTC Options Notice, 89 FR, at 94842. See also Rule 6.8-O, Commentary .06(f).

For the reasons discussed below, the Exchange proposes to increase the position (and exercise) limits from 25,000 to 250,000 contracts and to allow FLEX trading of GBTC options and to aggregate non-FLEX and FLEX GBTC positions for purposes of calculating the proposed 250,000-contract limit.<sup>15</sup>

### Increased Position Limits

While NYSE American proposed an aggregated 25,000 contract position limit for GBTC options, it nonetheless believed that evidence existed to support a much higher position limit.<sup>16</sup> Specifically, in approving GBTC trading on NYSE American, the Commission considered and reviewed NYSE American's analysis that the exercisable risk associated with a position limit of 25,000 contracts represented only 0.9% of the outstanding shares of GBTC.<sup>17</sup> The Commission also considered and reviewed NYSE American's arguments that with a 25,000-contracts limit, and 284,570,100 GBTC shares outstanding, 114 market participants would have to simultaneously exercise their positions to place GBTC under stress.<sup>18</sup> Based on the Commission's review of this information and analysis, the Commission concluded that the proposed position and exercise limits of 25,000 contracts were designed to prevent investors from disrupting the market for the underlying security by acquiring and exercising a number of options contracts disproportionate to the deliverable supply and average trading volume of the underlying security, and to prevent the establishment of options positions that can be used or

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<sup>15</sup> See proposed Rules 6.8-O, Commentary .06(f) (removing the limitation that GBTC options be subject to a position limit of 25,000 contracts); Rule 5.32-O(f)(1) (excluding GBTC options from prohibition against FLEX trading); and 5.35-O(b)(iii) (adopting requirement that positions on FLEX and non-FLEX GBTC options be aggregated for purposes of calculating position and exercise limits on GBTC options as set forth in Rules 6.8-O and 6.9-O). Absent the current limit of 25,000 contracts, the position limit for GBTC options will be determined pursuant to Rule 6.8-O, Commentary .06(a)-(e). As discussed herein, GBTC options currently qualify for position (and exercise) limits of 250,000 contracts per Rule 6.8-O, Commentary .06(e)(i).

<sup>16</sup> See GBTC Options Approval Order, 89 FR, at 84970 (referring to NYSE American's argument that, as of Sept. 30, 2024, GBTC traded 723,758,100 shares in the most recent six months of trading, which would qualify GBTC for a 250,000-contract position limit per NYSE American Rule 904, Commentary .07(a), which is identical to Arca Rule 6.8-O Commentary .06(e)).

<sup>17</sup> See *id.* Data represents figures from FactSet as of August 30, 2024.

<sup>18</sup> *Id.*, 89 FR, at 84971.

might create incentives to manipulate or disrupt the underlying market so as to benefit the options position.<sup>19</sup>

Now that GBTC options have been trading for more than two months, the Exchange proposes to increase the aggregated position (and exercise) limit for GBTC options to 250,000 contracts. GBTC qualifies for this increased limit pursuant to Rule 6.8-O Commentary .06(e), which requires that trading volume for the underlying security in the most recent six months be at least 100,000,000 shares.<sup>20</sup> As of November 25, 2024, the market capitalization for GBTC was \$20,661,316,542<sup>21</sup> with an average daily volume (“ADV”), for the preceding three months prior to November 25, 2024, of 3,829,597 shares. GBTC is well above the requisite minimum of 100,000,000 shares necessary to qualify for the 250,000-contract position limit. Also, as of November 25, 2024, there were 19,787,762 bitcoins in circulation.<sup>22</sup> At a price of \$94,830,<sup>23</sup> that equates to a market capitalization of greater than \$1.876 trillion. If a position limit of 250,000 contracts were considered, the exercisable risk would represent 9.13%<sup>24</sup> of the outstanding shares outstanding of GBTC. Given GBTC’s liquidity, the current 25,000 position limit is extremely conservative.

As noted above, position limits, and exercise limits, are designed to limit the number of options contracts traded on the exchange in an underlying security that an investor, acting alone or in concert with others directly or indirectly, may control. These limits, which are described in Rules 6.8-O and 6.9-O, are intended to address potential manipulative schemes and adverse

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<sup>19</sup> Id.

<sup>20</sup> See Rule 6.8-O Commentary .06(e) (providing at subparagraph (e) that the position limit shall be 250,000 contracts for options: (i) on underlying stock or Exchange-Traded Fund Share that had trading volume of at least 100,000,000 shares during the most recent six-month trading period; or (ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding).

<sup>21</sup> The market capitalization was determined by multiplying a settlement price (\$75.42) by the number of shares outstanding (273,950,100). Data represents figures from FactSet as of November 25, 2024.

<sup>22</sup> See <https://www.coingecko.com/en/coins/bitcoin>.

<sup>23</sup> This is the approximate price of bitcoin from 4:00 p.m. ET on November 25, 2024.

<sup>24</sup> This percentage is arrived at with this equation: (250,000 contract limit \* 100 shares per option / 273,950,100 shares outstanding).

market impacts surrounding the use of options, such as disrupting the market in the security underlying the options. Position and exercise limits must balance concerns regarding mitigating potential manipulation and the cost of inhibiting potential hedging activity that could be used for legitimate economic purposes. To achieve this balance, the Exchange proposes to increase GBTC's position and exercise limits from 25,000 contracts to 250,000 contracts and to apply this aggregated limit to FLEX and non-FLEX GBTC options. The Exchange believes this proposed aggregated limit is appropriate for the reasons set forth below.

First, the Exchange reviewed GBTC's data relative to the market capitalization of the entire bitcoin market in terms of exercise risk and availability of deliverables. As noted above, as of November 25, 2024, there were 19,787,762 bitcoins in circulation.<sup>25</sup> At a price of \$94,830,<sup>26</sup> that equates to a market capitalization of greater than \$1.876 trillion. If an aggregated position limit of 250,000 contracts were considered, the exercisable risk would represent 9.13%<sup>27</sup> of the outstanding shares outstanding of GBTC. Since GBTC has a creation and redemption process managed through the issuer (whereby bitcoin is used to create GBTC shares), the position limit can be compared to the total market capitalization of the entire bitcoin market, and in that case, the exercisable risk for options on GBTC would represent less than 0.10% of all bitcoin outstanding.<sup>28</sup> Assuming a scenario where all options on GBTC shares were exercised, given the proposed 250,000-contract position (and exercise) limit, this would have a virtually unnoticed impact on the entire bitcoin market. This analysis demonstrates that the proposed 250,000 per same side position (and exercise) limit for GBTC options is appropriate given GBTC's liquidity.

Next, the Exchange reviewed the proposed position limit by comparing it to position limits for derivative products regulated by the Commodity Futures Trading Commission

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<sup>25</sup> See <https://www.coingecko.com/en/coins/bitcoin>.

<sup>26</sup> This is the approximate price of bitcoin from 4:00pm ET on November 25, 2024.

<sup>27</sup> This percentage is arrived at with this equation:  $(250,000 \text{ contract limit} * 100 \text{ shares per option} / 273,950,100 \text{ shares outstanding})$ .

<sup>28</sup> This number was arrived at with this calculation:  $((250,000 \text{ limit} * 100 \text{ shares per option} * \$75.42 \text{ settle}) / (19,787,762 \text{ BTC outstanding} * \$94,830 \text{ BTC price}))$ .

("CFTC"). While the CFTC, through the relevant Designated Contract Markets, only regulates options positions based upon delta equivalents (creating a less stringent standard), the Exchange examined equivalent bitcoin futures position limits. In particular, the Exchange looked to the CME bitcoin futures contract<sup>29</sup> that has a position limit of 8,000 futures. On October 22, 2024, CME bitcoin futures settled at \$94,945.<sup>30</sup> On October 22, 2024, GBTC settled at \$53.64, which would equate to greater than 17,700,410 shares of GBTC if the CME notional position limit was utilized.<sup>31</sup> Since substantial portions of any distributed options portfolio is likely to be out of the money on expiration, an options position limit equivalent to the CME position limit for bitcoin futures (considering that all options deltas are  $\leq 1.00$ ) should be a bit higher than the CME implied 175,578 limit. Of note, unlike options contracts, CME position limits are calculated on a net futures-equivalent basis by contract and include contracts that aggregate into one or more base contracts according to an aggregation ratio(s).<sup>32</sup> Therefore, if a portfolio includes positions in options on futures, CME would aggregate those positions into the underlying futures contracts in accordance with a table published by CME on a delta equivalent value for the relevant spot month, subsequent spot month, single month and all month position limits.<sup>33</sup> If a position exceeds position limits because of an option assignment, CME permits market participants to liquidate the excess position within one business day without being considered in violation of its rules. Additionally, if at the close of trading, a position that includes options exceeds position limits for futures contracts, when evaluated using the delta factors as of that day's close of trading but does not exceed the limits when evaluated using the previous day's delta factors, then the position shall not constitute a position limit violation. Based on this analysis, the Exchange believes that

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<sup>29</sup> CME Bitcoin Futures are described in Chapter 350 of CME's Rulebook.

<sup>30</sup> See the Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5 of CME's Rulebook.

<sup>31</sup> 2,000 futures at a 5-bitcoin multiplier (per the contract specifications) equates to \$949,450,000 (2000 contracts \* 5 BTC per contract \* \$94,945 price of November BTC future) of notional value.

<sup>32</sup> See <https://www.cmegroup.com/education/courses/market-regulation/position-limits/position-limits-aggregation-of-contracts-and-table.htm>.

<sup>33</sup> Id.

the proposed 250,000 contracts for position and exercise limits on GBTC options is appropriate.

Finally, the Exchange analyzed a position and exercise limit of 250,000 for GBTC against other options on commodity ETFs, namely SPDR Gold Shares (“GLD”) and iShares Silver Trust (“SLV”).<sup>34</sup> GLD has a float of 306.1 million shares<sup>35</sup> and a position limit of 250,000 contract. SLV has a float of 520.7 million shares<sup>36</sup> and a position limit of 250,000 contracts. As previously noted, position and exercise limits are designed to limit the number of options contracts traded on the exchange in an underlying security that an investor, acting alone or in concert with others directly or indirectly, may control. A position limit exercise in GLD would represent 8.17% of the float of GLD; and a position limit exercise in SLV would represent 4.8% of the float of SLV. In comparison, a 250,000-contract position limit in GBTC would represent 9.13% of the float of GBTC. The proposed 250,000 GBTC options position and exercise limit is comparable with the standard applied to GLD and SLV and is therefore appropriate. The Exchange believes that GBTC options has demonstrated that it has more than sufficient liquidity to garner an increased position and exercise limit of 250,000 contracts. The Exchange believes that any concerns related to manipulation and protection of investors are mollified by the significant liquidity provision in GBTC.

The Exchange believes that increasing the position (and exercise) limits for GBTC options would lead to a more liquid and competitive market environment for GBTC options, which will benefit customers that trade these options. Further, the reporting requirement for such options would remain unchanged. Thus, the Exchange will still require that each member that maintains positions in GBTC 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 includes, but would not be limited to, the options positions, whether such positions are hedged and, if so, a

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<sup>34</sup> GLD and SLV each hold one asset in trust similar to GBTC.

<sup>35</sup> See <https://www.ssga.com/us/en/intermediary/etfs/spdr-gold-shares-gld>.

<sup>36</sup> See <https://www.ishares.com/us/products/239855/ishares-silver-trust-fund>.

description of the hedge(s). Market Makers would continue to be exempt from this reporting requirement, however, the Exchange may access Market Maker position information.<sup>37</sup>

Moreover, the Exchange's requirement that members file reports with the Exchange for any customer who held aggregate large long or short positions on the same side of the market of 200 or more option contracts of any single class for the previous day will remain at this level.<sup>38</sup>

The Exchange also has no reason to believe that the growth in trading volume in GBTC options will not continue. Rather, the Exchange expects continued options volume growth in GBTC as opportunities for investors to participate in the options markets increase and evolve. The Exchange believes that the current position and exercise limits in GBTC options are restrictive and will hamper the listed options markets from being able to compete fairly and effectively with the over-the-counter ("OTC") markets. OTC transactions occur through bilateral agreements, the terms of which are not publicly disclosed to the marketplace. As such, OTC transactions do not contribute to the price discovery process on a public exchange or other lit markets. The Exchange believes that without the proposed changes to position and exercise limits for GBTC options, market participants will find the 25,000- contract position limit an impediment to their business and investment objectives as well as an impediment to efficient pricing. As a result, market participants may find the less transparent OTC markets a more attractive alternative to achieve their investment and hedging objectives, leading to a retreat from the listed options markets, where trades are subject to reporting requirements and daily surveillance.

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<sup>37</sup> The Options Clearing Corporation ("OCC") through the Large option Position Reporting ("LOPR") system acts as a centralized service provider for OTP Holder compliance with position reporting requirements by collecting data from each OTP Holder or OTP Firm, consolidating the information, and ultimately providing detailed listings of each TPH's report to the Exchange, as well as Financial Industry Regulatory Authority, Inc. ("FINRA"), acting as its agent pursuant to a regulatory services agreement ("RSA").

<sup>38</sup> See Rule 6.6-O. Reporting of Options Positions.

The Exchange believes that the existing surveillance procedures and reporting requirements at the Exchange are capable of properly identifying disruptive and/or manipulative trading activity. The Exchange also represents that it has adequate surveillances in place to detect potential manipulation, as well as reviews in place to identify continued compliance with the Exchange's listing standards. These procedures monitor market activity to identify unusual activity in both options and the underlying equities.

#### FLEX GBTC Options

The Exchange also proposes to permit FLEX GBTC options, which would be subject to aggregated position (and exercise) limits of 250,000 contracts on all GBTC options (*i.e.*, FLEX and non-FLEX). This proposed aggregated limit effectively restricts a market participant from holding positions that could result in the receipt of more than 25,000,000 shares (if that market participant exercised all its GBTC options).

The share creation and redemption process is designed to ensure that an ETF's price closely tracks the value of its underlying asset. For example, if a market participant exercised a long call position for 25,000 contracts and purchased 2,500,000 shares of GBTC and this purchase resulted in the value of GBTC shares to trade at a premium to the value of the (underlying) bitcoin held by GBTC, the Exchange believes that other market participants would attempt to arbitrage this price difference by selling short GBTC shares while concurrently purchasing bitcoin. Those market participants (arbitrageurs) would then deliver cash to GBTC and receive shares of GBTC, which would be used to close out any previously established short position in GBTC. Thus, this creation and redemptions process would significantly reduce the potential risk of price dislocation between the value of GBTC shares and the value of bitcoin holdings.

The Exchange understands that FLEX Options on ETFs are currently traded in the OTC market by a variety of market participants, e.g., hedge funds, proprietary trading firms, and pension funds, to name a few. The Exchange believes there is room for significant growth if a

comparable product were introduced for trading on a regulated market. The Exchange expects that users of these OTC products would be among the primary users of FLEX GBTC options. The Exchange also believes that the trading of FLEX GBTC options would allow these same market participants to better manage the risk associated with the volatility of GBTC (the underlying ETF) positions given the enhanced liquidity that an exchange-traded product would bring. Additionally, the Exchange believes that FLEX GBTC options traded on the Exchange would have three important advantages over the contracts that are traded in the OTC market. First, because of greater standardization of contract terms, exchange-traded contracts should develop more liquidity. Second, counter-party credit risk would be mitigated by the fact that the contracts are issued and guaranteed by OCC. Finally, the price discovery and dissemination provided by the Exchange and its members would lead to more transparent markets. The Exchange believes that its ability to offer FLEX GBTC options would aid it in competing with the OTC market and at the same time expand the universe of products available to interested market participants. The Exchange believes that an exchange-traded alternative may provide a useful risk management and trading vehicle for market participants and their customers.

The Exchange has analyzed its capacity and represents that it and The Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle the additional traffic associated with the listing of FLEX GBTC options. The Exchange believes any additional traffic that would be generated from the trading of FLEX GBTC options would be manageable. The Exchange believes OTP Holders will not have a capacity issue as a result of this proposed rule change. The Exchange also represents that it does not believe this proposed rule change will cause fragmentation of liquidity. The Exchange will monitor the trading volume associated with the additional options series listed as a result of this proposed rule change and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange’s automated systems.

The Exchange represents that the same surveillance procedures applicable to the Exchange's other options products listed and traded on the Exchange, including non-FLEX GBTC options, will apply to FLEX GBTC options, and that it has the necessary systems capacity to support such options. FLEX options products (and their respective symbols) are integrated into the Exchange's existing surveillance system architecture and are thus subject to the relevant surveillance processes. The Exchange's market surveillance staff (including staff of FINRA who perform surveillance and investigative work on behalf of the Exchange pursuant to a regulatory services agreement) conducts surveillances with respect to GBTC (the underlying ETF) and, as appropriate, would review activity in GBTC when conducting surveillances for market abuse or manipulation in the FLEX GBTC options.<sup>39</sup> The Exchange does not believe that allowing FLEX GBTC options would render the marketplace for non-FLEX GBTC options, or equity options in general, more susceptible to manipulative practices.

The Exchange represents that its existing trading surveillances are adequate to monitor the trading in GBTC and subsequent trading of FLEX GBTC options on the Exchange. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement. ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets. For surveillance purposes, the Exchange would therefore have access to information regarding trading activity in the pertinent underlying securities. In addition, and as referenced above, the Exchange has a regulatory services agreement with FINRA, pursuant to which FINRA conducts certain surveillances on behalf of the Exchange. Further, pursuant to a multi-party 17d-2 joint plan, all options exchanges allocate regulatory responsibilities to FINRA to conduct certain options-related market surveillances.<sup>40</sup> The Exchange will implement any additional surveillance

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<sup>39</sup> See *supra* note 7, GBTC Option Approval Order, 89 FR at 84966-68 (regarding surveillance procedures applicable to GBTC and other funds that hold bitcoin).

<sup>40</sup> Section 19(g)(1) of the Act, among other things, requires every SRO registered as a national securities exchange or national securities association to comply with the Act, the rules and regulations thereunder, and the SRO's own rules, and, absent reasonable justification or excuse, enforce compliance by its members

procedures it deems necessary to effectively monitor the trading of GBTC options.

The proposed rule change is designed to allow investors seeking to trade options on GBTC to utilize FLEX GBTC options. The Exchange believes that offering innovative products flows to the benefit of the investing public. A robust and competitive market requires that exchanges respond to member's evolving needs by constantly improving their offerings. Such efforts would be stymied if exchanges were prohibited from offering innovative products such as the proposed FLEX GBTC options. The Exchange believes that introducing FLEX GBTC options would further broaden the base of investors that use FLEX Options (and options on GBTC in general) to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options. The proposed rule change is also designed to encourage market makers to shift liquidity from the OTC market on the Exchange, which, it believes, will enhance the process of price discovery conducted on the Exchange through increased order flow.

### Implementation

The Exchange will announce the implementation date by Trader Update within sixty (60) days of the rule approval.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),<sup>41</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>42</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect

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

<sup>41</sup> 15 U.S.C. 78f(b).

<sup>42</sup> 15 U.S.C. 78f(b)(5).

the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

#### Increased Position Limits

The Exchange believes increasing the aggregated position (and exercise limits) for GBTC options from 25,000 contracts to 250,000 contracts will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because it will provide market participants with the ability to more effectively execute their trading and hedging activities. Also, increasing the aggregated position (and exercise) limits for GBTC options may allow Market Makers to maintain their liquidity in these options in amounts commensurate with the continued demand in GBTC options. The proposed higher position and exercise limit may also encourage other liquidity providers to continue to trade on the Exchange rather than shift their volume to OTC markets, which will enhance the process of price discovery conducted on the Exchange through increased order flow. The Exchange notes that a higher position and exercise limit would further allow institutional investors to utilize GBTC options for prudent risk management purposes.

The Exchange analyzed several data points that supported the appropriateness of the proposed aggregated 250,000-contract position (and exercise) limit on GBTC options. As noted above, a comparison of GBTC's market capitalization to the bitcoin market in terms of exercise risk and availability of deliverables revealed that the exercisable risk of the proposed 250,000-contract limit represented 9.13% of the GBTC outstanding. Further, since GBTC has a creation and redemption process managed through the issuer (whereby bitcoin is used to create GBTC shares), the proposed position limit as compared to the market capitalization of the bitcoin market, indicated that the exercisable risk for GBTC options represented less than 0.10% of all bitcoin outstanding. Moreover, a comparison of the proposed GBTC position limit to the (actual) position limits for equivalent bitcoin futures revealed that the proposed 250,000-contracts limit is appropriate. Finally, the Exchange's comparison of the proposed position limit against current

position limits on commodity-based ETFs, namely GLD and SLV revealed a position limit exercise in GLD represents 8.17% of its float and a position limit exercise in SLV represents 4.8% of its float. By comparison, a 250,000-contract position limit in GBTC options would represent 9.13% of the GBTC float. As noted above, although, the proposed 250,000-contract limit on GBTC options is not as conservative as the standard applied to GLD and SLV, it is comparable and is therefore appropriate.

#### FLEX GBTC Options

The Exchange believes that the proposal to permit FLEX GBTC options would remove impediments to and perfect the mechanism of a free and open market. The Exchange believes that offering FLEX GBTC options will benefit investors by providing them with an additional, relatively lower cost investing tool to gain exposure to the price of bitcoin and provide a hedging vehicle to meet their investment needs in connection with a bitcoin-related product. Moreover, the proposal would broaden the base of investors that use FLEX Options to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options. By trading a product in an exchange-traded environment (that is currently being used in the OTC market), the Exchange would be able to compete more effectively with the OTC market. The Exchange believes the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that it would lead to the migration of options currently trading in the OTC market to trading to the Exchange. Also, any migration to the Exchange from the OTC market would result in increased market transparency and enhance the process of price discovery conducted on the Exchange through increased order flow. The Exchange also believes that offering FLEX GBTC options may open up the market for options on GBTC to more retail investors.

Additionally, the Exchange believes the proposed rule change is designed to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest because FLEX GBTC options

are designed to create greater trading and hedging opportunities and flexibility. The proposed rule change should also result in enhanced efficiency in initiating and closing out positions and heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX GBTC options. Further, the proposed rule change would result in increased competition by permitting the Exchange to offer products that are currently used in the OTC market.

The Exchange believes that offering innovative products flows to the benefit of the investing public. A robust and competitive market requires that exchanges respond to member's evolving needs by constantly improving their offerings. Such efforts would be stymied if exchanges were prohibited from offering innovative products such as the proposed FLEX GBTC options. The Exchange does not believe that allowing FLEX GBTC options would render the marketplace for equity options more susceptible to manipulative practices.

Finally, the Exchange represents that it has an adequate surveillance program in place to detect manipulative trading in FLEX GBTC options. Regarding the proposed FLEX GBTC options, the Exchange would use the same surveillance procedures currently utilized for FLEX Options listed on the Exchange (as well as for non-FLEX GBTC options). For surveillance purposes, the Exchange would have access to information regarding trading activity in GBTC (the underlying ETF).<sup>43</sup> In light of surveillance measures related to both options and GBTC (the underlying ETF), the Exchange believes that existing surveillance procedures are designed to deter and detect possible manipulative behavior which might potentially arise from listing and trading the proposed FLEX GBTC options.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Increased Position Limits. The Exchange believes that its proposal to increase the

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<sup>43</sup> See supra note 7, GBTC Options Approval Order, 89 FR at 84966-68 (regarding surveillance procedures applicable to GBTC and other funds that hold bitcoin).

aggregated position limit for GBTC options will not burden intra-market competition because the increased limit would be available to all similarly-situated market participants and would provide additional opportunities for market participants to continue to efficiently achieve their investment and trading objectives for equity options on the Exchange. The proposed rule change will not impose any burden on inter-market competition as the proposal is not competitive in nature. The Exchange expects that all option exchanges will adopt substantively similar proposals for adopting the additional position limit tiers, such that the Exchange's proposal would benefit competition. For these reasons, 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.

FLEX GBTC Options. The Exchange believes that the proposal to permit FLEX GBTC options will not impose any burden on intra-market competition as all market participants can opt to utilize this product or not. The proposed rule change is designed to allow investors seeking option exposure to bitcoin to trade FLEX GBTC options. Moreover, the Exchange believes that the proposal to permit FLEX GBTC options would broaden the base of investors that use FLEX Options to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options. The Exchange believes that the proposed FLEX GBTC options will not impose any burden on inter-market competition but will instead encourage competition by increasing the variety of options products available for trading on the Exchange, which products will provide a valuable tool for investors to manage risk. Should this proposal be approved, competing options exchanges will be free to offer products like the proposed FLEX GBTC options.

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

No written comments were solicited or received with respect to the proposed rule change.

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 self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-NYSEARCA-2025-07 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-NYSEARCA-2025-07. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be

available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-NYSEARCA-2025-07 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>44</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>44</sup> 17 CFR 200.30-3(a)(12).